

Deliberation of the French Energy Regulatory Commission dated 7 May 2014 setting out guidelines for the creation of a single marketplace in France by 2018

Present: Philippe DE LADOUCKETTE, Chairman, Olivier CHALLAN BELVAL, Catherine EDWIGE and Michel THIOILLIERE commissioners.

This deliberation is part of the roadmap towards a single gas marketplace in France defined by CRE in 2012.

It sets out guidelines on the creation of a single marketplace in France by 2018 and interim measures until 2018.

Creation of a single title transfer point (PEG) in France by 2018

CRE adopts the investment configuration associating the Val de Saône and Gascogne-Midi projects for the creation of a single marketplace in France by 2018. It highlights the need to fast-track administrative procedures, without which the creation of a single marketplace may be delayed by at least one year.

In view of the creation of a South-North corridor, CRE requests GRTgaz to pursue the Eridan project in order to obtain ministerial authorisation as soon as possible. This project of European interest will require funding from sources other than French customers.

Interim measures until 2018

At this stage, CRE does not adopt the early merger of the North and South zones, since this could create significant additional costs for the French gas system, especially without legislative and regulatory measures aimed at ensuring the importation of LNG in the south of France by the suppliers..

For the time being, CRE gives preference to measures aimed at optimising the use of the North-South link by engaging all gas infrastructure:

- extension of the additional firm capacity service (JTS¹);
- improvement of North-South interruptible capacity availability;
- purchase of services to have gas located in the south-east in the event of congestion;
- drop in short-term capacity tariffs at the North-South link;
- strengthening of GRTgaz's regulatory incentive on the JTS.

CRE may also, if market conditions so warrant, decide to implement market mechanisms aimed at reducing gas flows towards Spain.

¹ Joint Transport Storage: Capacity at the North-South link available thanks to the joint optimisation of GRTgaz's system and Storengy's storage facilities, sold by GRTgaz on a day-ahead basis.

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I. Background

1. Previous work and regulatory context

Since 1 January 2009, the French gas market is composed of three marketplaces known as *Points d'échange de gaz* (title transfer points – PEGs): the PEG Nord and PEG Sud in GRTgaz's system and the TIGF PEG in TIGF's system.

From 2009, CRE undertook to reduce the number of marketplaces in France in order to improve the functioning of wholesale and retail gas markets for end customers.

In 2009 and 2010, GRTgaz and CRE carried out a study which concluded that there was no structural congestion between their two systems. The creation of a common marketplace in the south of France was postponed nevertheless, since CRE considered that further consultation was necessary.

In 2011, CRE approved the Eridan project which had been included in GRTgaz's ten-year plan. It requested GRTgaz to conduct a study on the technical and economic feasibility of the merger of the North and South zones of its system without additional investments. This study, carried out by KEMA, concluded that the cost of the contractual mechanisms which would have to be set up would be unpredictable and potentially quite high.

In the first half of 2012, CRE consulted widely on the future of the French gas market. At the end of this consultation, it defined the roadmap towards the creation of a single marketplace in France (deliberations dated 19 July 2012² and 13 December 2012³):

- 1 April 2013: merger of the Nord H and Nord B balancing zones;
- 1 April 2015: creation of a single PEG for the GRTgaz south and TIGF balancing zones;
- 2018 by the latest: goal to create a single marketplace in France, following the doubling of the Bourgogne pipeline ("Val de Saône" project). The roadmap specified that the final investment decision concerning this project had to be made by GRTgaz by mid-2014, subject to the results of the cost-benefit analysis to be conducted by CRE and studies related to the project to be carried out by GRTGaz.

The present deliberation is part of this roadmap. It presents CRE's guidelines concerning the creation of a single marketplace in France by 2018 and the investments required for that purpose, based in particular, on the cost-benefit analysis conducted by CRE and studies carried out by GRTgaz and TIGF.

2. Market conditions in the south of France

A large portion of needs in the south of France is supplied by liquefied natural gas (LNG) imported via LNG terminals located in the Fos-sur-Mer zone.

The significant increase in Asian demand, linked in particular to the aftermath of the Fukushima accident, led to an increase in LNG prices in global markets. LNG players, producers and importers, therefore redirect LNG shipments towards these higher-paid markets, to the detriment of European markets.

This situation led to an increase in the cost of supply of the south of France, which resulted in price spreads between the PEG Nord and PEG Sud since 2012. In winter 2013-2014, these price spreads increased considerably, exceeding €10/MWh for several weeks in December 2013 and January 2014.

These price conditions in the south negatively affect the competitiveness of industrial customers, in particular, gas-intensive customers. They could also compromise the opening up of markets to other client segments and create difficulties ahead of the abolition of regulated tariffs for the sale of gas for companies consuming over 30,000 kWh of gas per year and for regional authorities.

² CRE's deliberation dated 19 July 2012 defining policy guidelines for the development of gas marketplaces in France

³ CRE's deliberation dated 13 December 2012 deciding on the tariffs for the use of natural gas transmission networks

3. Cost-benefit analysis necessary for the creation of a single marketplace

CRE commissioned the Pöyry firm to perform a cost/benefit analysis of the investments necessary for the creation of a single marketplace in France by 2018 based on entry/exit capacity decided at the time.

The firm conducted this analysis between July and November 2013. It interviewed a large number of market players (shippers, customer and supplier associations, infrastructure operators, producers, public organisations, etc.). It regularly presented the intermediate results obtained within the framework of Concertation Gaz.

4. Public consultation

On the basis of the results of the cost-benefit analysis, CRE conducted a public consultation on the creation of a single marketplace by 2018, from 18 February to 21 March 2014. It was comprised of two main parts:

- the creation of a single marketplace in France by 2018;
- the measures that could be implemented during the transitional period.

Fifty-two contributions were received including:

- 22 from industrial companies (19), 6 of which were identical to that of UNIDEN, or associations of industrial companies (3);
- 15 from shippers (13) and shippers' associations (2);
- 11 from infrastructure operators, including 2 European operators (Spanish and Portuguese);
- 1 from the Spanish regulatory authority (CNMC);
- 3 from associations (AFG, Uprigaz, Association du port de Marseille).

The non-confidential responses will be published on CRE's website along with this deliberation.

II. Creation of a single marketplace in France

1. Proposal submitted for public consultation

For its analysis, the Pöyry firm used three market scenarios in which Europe and France had varying levels of attractiveness for LNG. These three market scenarios were analysed taking into account different configurations of investment in the French gas transmission systems: only the Eridan project, only the Val de Saône project and a configuration associating both of those projects.

During the analysis, Pöyry identified a new investment configuration, associating the Val de Saône and Gascogne-Midi projects, which would remove most of the congestion in GRTgaz's system in the North to South direction. Pöyry's analysis shows that this investment configuration has the best cost-benefit ratio for the merger of the North and South zones. In addition to the gains for the French market, Pöyry's analysis concluded that the investments would bring added value for the Iberian Peninsula's gas market.

CRE considered that the reservations expressed by certain market players concerning the methodology adopted in Pöyry's study do not call into question the general conclusions of the analysis. Moreover, CRE observed that the results would have been improved if the analysis had taken into account the price spreads between the North and South last winter.

On the basis of these elements, CRE proposed the creation of a single marketplace by 2018 at the latest with the Val de Saône and Gascogne-Midi investments.

2. Summary of the public consultation

Creation of a single PEG by 2018 based on investments

All contributors are in favour of the proposal to create a single PEG by 2018, stressing the need to quickly make the investments and fast-track administrative procedures.

Industrial customers consider that the real gains related to a single PEG will be higher than those presented in Pöyry's analysis, because the analysis did not include price situations as observed during winter 2013-2014, or the gains that would be made in terms of competitiveness for industrial companies in the south of France.

The vast majority of the other contributors consider that the gains provided by a single PEG will be higher than the cost of the necessary investments as Pöyry's analysis shows. Other market players expressed methodological reservations which do not call into question their positive assessment of the value of a single PEG for France.

Choice of the investment configuration associating the Val de Saône and Gascogne-Midi projects

A vast majority of contributors are in favour of the investment configuration combining the Val de Saône and Gascogne-Midi projects. Most of them observed that it is the least expensive configuration enabling the creation of a single PEG in France. They stress the need to control the infrastructure costs which will have to be borne by French gas customers in the coming years, in a context of major uncertainty as to the development of gas demand in France and Europe. Some contributors wish for CRE, given the aim of controlling costs, to announce the abandonment of the Eridan project.

Several contributors consider, as the Pöyry analysis shows, that the creation of a single PEG in France would be beneficial for the Spanish market by giving it direct access to a liquid marketplace with a price close to those of north-western Europe. Therefore, they wish for the Spanish market to bear a portion of the investment costs, either through a direct contribution or an increase in the tariff at the interconnection between France and Spain.

On the contrary, several infrastructure operators in the south of Europe regret the decision to move forward with the Gascogne-Midi project, considering the reasoning behind this decision insufficient. They believe that the Val de Saône and Eridan investment configuration should have been studied more thoroughly by the Pöyry firm. In the event of a massive return of LNG in Europe, this is the only configuration that would create the South to North capacity required to complete the South-North corridor in western Europe as envisaged in the Trans-European Energy Networks regulation.

TIGF stated in its contribution that the Gascogne-Midi project could serve to create South to North capacity.

3. CRE's analysis

a) A single PEG and decongestion of the North to South link

The Pöyry analysis and the TSOs conclude that the configuration associating the Gascogne-Midi and Val de Saône projects will serve to meet the objective of merging the North and South zones under the best economic conditions. This configuration provides a widely positive net present value (NPV) for France in two of the three gas market scenarios. It improves French and Iberian market integration and delivers a positive NPV at European level.

The creation of a single PEG, due to the geographical location of the French market, which is at the interface between the Iberian Peninsula and the rest of the European market, is a major step towards achieving the European gas market. It would reduce constraints on gas exchanges between the south and north and would offer a large market zone which would contribute to converging wholesale prices between Spain and Portugal and marketplaces in the north of Europe.

The market situation during winter 2013-2014 further strengthens the conclusions of Pöyry's analysis on the economic value of this project.

In addition, the technical analysis carried out jointly by GRTgaz and TIGF shows that the configuration associating the Val de Saône and Gascogne-Midi projects will make it possible to address LNG supply shortages in the south during winter and possibly during cold peaks. Some congestion may nevertheless remain, in particular during summer when storage facilities are filled.

Contributors to the public consultation almost unanimously support the creation of a single PEG in France based on the Val de Saône and Gascogne-Midi projects.

Therefore, CRE maintains its decision to create a single marketplace in France by 2018 on the basis of the Val de Saône and Gascogne-Midi investment configuration.

CRE will audit the costs, timeframes and technical decisions of the Val de Saône and Gascogne-Midi projects. Following that audit, it will define the parameters of the incentive regulation on costs, and if necessary, on the timeframes applicable to these projects. The conditions defined in the ATRT5 tariff for the Val de Saône project (in particular the granting of the 3% premium for 10 years) will also apply to the Gascogne-Midi project, for infrastructure located on TIGF's and GRTgaz's systems.

b) Provisional timetable for the Val de Saône project

During its interview on 24 April 2014, GRTgaz stated to CRE that, due to the lengthening of certain administrative procedures, the Val de Saône project could only be completed at the end of 2019 at the earliest. Since GRTgaz had initially planned to organise a local consultation, the decision to carry out a public discussion in 2013 lengthened the duration of studies by four months. In addition, amendments to the French Environmental Code and the Forest Code lengthened the ministerial authorisation procedure by six months and required GRTgaz to obtain clearing authorisation (procedure lasting approximately eight months) prior to the ministerial authorisation.

GRTgaz officially drew the public authorities' attention to this delay of about one year. It requested that inter-ministerial coordination be engaged in order to reduce the timeframes for administrative procedures.

The creation of a single marketplace in France will have to be postponed to the end of 2019 at the earliest if the administrative procedures applicable to the Val de Saône project cannot be fast-tracked. This would have consequences on the competitiveness of industrial companies in the south of France and on the proper functioning of the French gas market.

For the benefit of natural gas customers, CRE can only support GRTgaz's approach requesting that the duration of administrative procedures for the Val de Saône project be shortened.

c) Development of the North-South corridor in western Europe

CRE also noted the position of certain infrastructure operators or market players, in particular from the Iberian Peninsula, which did not support the choice of the Gascogne-Midi project. These players fear that the Eridan project will be delayed or abandoned. They consider that this project is essential for the development of the North-South axis in western Europe in the South to North direction.

CRE reiterates that it is absolutely in favour of the development of the North-South corridor in western Europe, which is part of the priorities identified by the European Union.

The development scenario associating the Val de Saône and Gascogne-Midi projects is part of the effort to strengthen this corridor at a much lower cost than the Eridan project, in a context in which it is necessary to control infrastructure costs. Moreover, the current tension in the LNG market highlights a very clear preference of market players present in Spain for operation of capacity in the North-South direction. Although the interconnection is bi-directional, flows at the border were systematically in the France to Spain direction, even when prices were very high in the south of France.

With regard to the Val de Saône project, which is included in the list of projects of common interest published by the European Commission on 14 October 2013, GRTgaz has filed a request for cross-border cost allocation between France and Spain. In their joint decision, CRE and the Spanish regulatory authority, *Comisión Nacional de los Mercados y la Competencia* (CNMC), underlined the benefit for the Iberian Peninsula to be directly connected to a marketplace the size of the PEG France. More generally, CRE and CNMC concluded that the creation of the PEG France would be in line with the target model and would benefit the whole European market. The cross-border benefit of the Val de Saône project was recognised by CRE and CNMC in a joint decision adopted by CRE on 10 April 2014 and by CNMC on 25 April 2014. Therefore, GRTgaz may take part in the call for proposals which will be launched by the European Commission in summer 2014, with a view to obtaining grants for works. This European financial assistance will serve to reduce the tariff impact for French customers, which appears to be justified since they are not the only beneficiaries of the project.

The Eridan project

The Eridan project, approved by CRE in its deliberation of 19 April 2011, will create 120 GWh/d of

additional firm entry capacity in the south of France. An additional investment of €450 M (Arc lyonnais pipeline project under study) would be necessary to create more South to North capacity. In addition, the export of gas from the new entry points in the south of France to Germany and Belgium would require the harmonisation of gas odourisation practices on the transmission systems.

The Eridan project is necessary for the implementation of any future project leading to a major increase of firm entry capacity in the South zone from Spain or the Fos LNG terminals.

With this aim to develop the North-South corridor in western Europe, CRE considers that the timeframe for the completion of the Eridan project will be determined by two types of needs:

- the development of firm entry capacity in the South zone from Spain or the Fos LNG terminals (launch of the MidCat project based on an open season, construction of the Fos Faster terminal or development of Fos Cavaou capacity);
- the diversification of gas supply sources for the European Union, by strengthening the LNG supply possibilities of western Europe in particular from the south of France and the Iberian Peninsula.

In both cases, Eridan is included in the European corridor project and will benefit not only the French market but also France's neighbouring countries (Spain, Portugal, Germany and Belgium) and more widely, Europe as a whole. CRE therefore considers that the funding of this project should not be borne only by French customers but also by neighbouring countries, the European Union and the project leaders.

In conclusion, CRE requests GRTgaz to pursue the Eridan project in order to obtain ministerial authorisation as soon as possible. For that purpose, CRE intends to approve the additional budget of €9 M, which will be added to the €29 M already spent on this project. Pursuant to the tariff rules in force, CRE plans to apply a return on the sums engaged for fixed assets under construction.

The Arc lyonnais project

GRTgaz was authorised by CRE to launch preliminary studies for the Arc lyonnais project and to carry out the public discussion on this project together with that of the Val de Saône project. €3.2 M have been engaged to date for this project, in line with the budget authorised by CRE. CRE accepts GRTgaz's request to suspend studies on this project, pending visibility into the timetable for the completion of projects that will enable this infrastructure to be launched. Pursuant to the tariff rules in force, CRE plans to apply a return on the sums engaged for fixed assets under construction.

III. Interim measures until 2018

1. Summary of CRE's public consultation

Since the investments necessary for the creation of a single marketplace in France cannot be operational before the end of 2018, CRE described several interim measures in its public consultation.

a) Early merger of GRTgaz's North and South zones prior to decongestion investments

Measures presented in the public consultation

In its public consultation, CRE presented a measure enabling the creation of a single marketplace in France before the implementation of investments to decongest the North-South link.

Under the current market conditions, the North-South link is not sufficient for transmitting all the gas needed in the south. GRTgaz and TIGF would therefore be forced, in order to balance the system in the event of an early merger of the North and South zones, to organise tenders to ensure deliveries of gas located in the south of France.

In its public consultation, CRE indicated that the LNG to be purchased and the cost of these purchases in the global LNG market would possibly be very high. It considered that only a regulatory obligation for delivery of LNG in the terminals in the South of France could, by reducing the cost of gas necessary for physical balancing of the zone, make this mechanism a possibility. In that regard, it reiterated that such an obligation was not within its powers but within those of the administrative authority.

Summary of answers

Industrial customers were almost unanimously in favour of the early merger of GRTgaz's North and South zones, which would completely eliminate price spreads between these two balancing zones. In order to limit its cost for the French market, industrial customers would like it to be based on a regulatory obligation to provide LNG.

The other contributors were almost unanimously opposed to an early merger. They shared CRE's point of view as to the potentially very high cost of such a measure for the French market. They are opposed to a regulatory obligation to provide LNG, which would go against the efficient functioning of the market and have negative effects on the attractiveness of the French market. Several contributors warned against the adverse effects that the disappearance of all gas price signals would generate in the south of France. Lastly, several contributors consider that an obligation to provide LNG would not be legally founded.

The TSOs are opposed to an early merger which would be based on massive LNG purchases. They have stated that they are not organised and do not have the competences to purchase such high volumes of LNG. They stress the operational difficulties with which they will be faced to ensure balancing of the gas transmission system, due in particular to the limited flexibility of the LNG supply chain.

b) Sale of additional North to South capacity based on contractual mechanisms

Measures presented in the public consultation

In its public consultation, CRE presented a mechanism to sell additional North to South capacity using calls for tenders launched by the TSOs for flow commitments in the South to North direction. With that approach, the North and South zones would be maintained until 2018.

CRE considered that the cost of such a measure would be lower than that of an early merger, but that its effect on the price of gas in the South zone is difficult to predict.

Summary of answers

Industrial customers are in favour of the creation of additional capacity through contractual means, even though they would prefer an early merger. They consider that this additional capacity would have to be sold by reserving a portion at the regulated tariff for gas-intensive customers.

The great majority of the other contributors are opposed to such a mechanism because of its potentially high cost and its limited and uncertain effect. Several of them consider that the creation of additional capacity might not have any effect on gas prices in the south, because market players

would adapt their behaviour. They consider that the fundamental physical characteristics of the supply of the South zone cannot be significantly modified by the simple purchase of services from GRTgaz and TIGF.

The TSOs do not support these measures which are ineffective in their opinion.

c) Management of south-east congestion

Measures presented in the public consultation

At the end of 2013, congestion in the south-east of the system led GRTgaz to considerably limit availability of North-South interruptible capacity. In order to avoid a recurrence of these situations, CRE presented several measures aimed at limiting the risk of south-east congestion:

- the launch by GRTgaz of calls for tenders for the purchase of gas located in the south-east of its system;
- increase in GRTgaz's buffer stock in Storengy's storage facilities;
- interruption of the ship reloading service at the Fos Cavaou terminal if there is a risk of congestion in the south east;
- sale in the conditional form of firm capacity left unsold after a first capacity sale at the France-Spain interconnection. This conditional capacity would be interrupted if there is a risk of congestion in the south-east.

Summary of answers

Most players are in favour of the purchase by GRTgaz of gas located in the south-east in case of congestion in its system. Some of those players propose the implementation of a mechanism similar to the electricity balancing mechanism which would allow shippers to propose all of their flexibility to the TSO in a given zone (interruptibility, storage flexibility, LNG terminals, etc.).

Most players, including storage operators and industrial customers, are in favour of increased use of storage by the TSOs if it will limit congestion and enhance the availability of North-South capacity.

Almost all players that expressed their opinion on the interruption of the LNG reloading service at the Fos Cavaou terminal are opposed to this measure. It would jeopardise the attractiveness of French LNG terminals and would reduce unloading of cargo, which would defeat the purpose.

Industrial customers and some of the shippers are in favour of transforming firm capacity left unsold at the interconnection with Spain into conditional capacity. More widely, many contributors are in favour of any measure that would reduce the flow of gas to Spain. They consider that these flows contribute significantly to market tension in the south of France and that they enable certain market players to engage in profitable arbitrage in the Iberian Peninsula in the LNG market. One contributor proposed the re-purchase of capacity or gas at the Spanish border.

Some contributors, in particular Iberian Peninsula market players, are opposed to this measure which could distort the market and would go against the objective of creating an internal natural gas market. They reiterate that interconnection capacity at the France-Spain border was developed following open seasons and that that capacity is firm.

d) Other measures proposed by the contributors to the public consultation

In their answers to the public consultation, some market players proposed other measures to improve the situation in the south of France:

- negative entry tariff at the Fos PITTM (transmission-LNG terminal interface point), proportional to the LNG volumes delivered above a minimum delivery level;
- a mechanism such as the "regulated access to historic nuclear power" (ARENH) for LNG delivered in the south of France under long-term contracts taken into account in the formula for regulated sale tariffs;
- enhancement of GRTgaz's incentive regulation for additional capacity at the North-South link.

2. CRE's analysis

a) Early merger of GRTgaz's North and South zones

CRE notes the position of industrial customers, which unanimously support an early merger. It shares their point of view on the advantages of a single price in France for the competitiveness of industrial sites in the south of France.

CRE considers, as the majority of market players that answered the public consultation, that an early merger could potentially be very expensive. Indeed, without the zones being merged, a large portion of the gas present in the south comes naturally due to the balancing obligations of the different players. By removing these balancing obligations in the south, the zone merger would enable LNG players to freely divert LNG cargo destined for the south of France to more profitable markets. GRTgaz would then have to turn to the markets to purchase the gas missing in the south.

Any regulatory measure making the arrival of all or a portion of the gas missing in the south mandatory would reduce the volume of gas to be purchased by GRTgaz and therefore the cost of the early merger of the North and South zones.

Therefore, CRE considers that an early merger can only be envisaged if it is accompanied by the introduction of a regulatory obligation to bring LNG to the south, which is not within CRE's powers. This analysis is shared by a vast majority of contributors.

CRE notes in particular that the TSOs warn against the financial and operational risks that such a measure would pose for the French gas system.

During its interview on 16 April 2014, the Directorate-General for Energy and Climate stated that the introduction of a regulatory obligation to bring LNG to the south was not envisaged at the time by the public authorities.

b) Sale of additional North to South capacity based on contractual mechanisms

Most of the market players are not in favour of this measure, along with GRTgaz and TIGF.

CRE is mostly in agreement with the analyses made in the answers to the public consultation. It is in fact likely that, if there are entry nomination commitments from Fos or the Spanish interconnection, the market players will adapt their wholesale market interventions and ultimately the physical balance of the South zone will not be modified. There will thus be very little or no effect on the supply-demand balance in the South zone.

The only positive effect would therefore be the stimulation of the North-South primary capacity market. Moreover, this benefit appears to be compromised given that 28 shippers obtained capacity during the annual auctions held in March 2014.

In addition, GRTgaz and TIGF stated during their interview on 24 April 2014, that they were working on measures to further increase the use of the North-South link by enhancing cooperation between the gas infrastructure operators in the south of France.

At this stage, CRE therefore considers it desirable for GRTgaz and TIGF to concentrate on the physical optimisation of gas infrastructure, which will create additional North-South capacity or convert North-South interruptible capacity into firm capacity (see section III-2-e below).

c) Management of south-east congestion

The purchase of a service providing gas located in the south-east in case of a congestion problem internal to a zone is a relatively simple measure to put in place and is preferable to the large-scale interruption of North-South interruptible capacity. Such a measure is extensively used by RTE for the electricity system and is explicitly set out in the European balancing network code.

Therefore, CRE requests GRTgaz and TIGF to study and present within Concertation Gaz a mechanism to purchase gas located in the south-east that will be operational for winter 2014-2015. The rules envisaged shall be submitted to CRE for approval.

CRE also requests GRTgaz to look into the possibility of building up a stock of gas in the south to reduce south-east congestion.

At this stage, CRE is not in favour of the conditional sale of capacity remaining after a first offer to Spain. This measure would go against market integration within the European market.

However, CRE considers that the reduction of gas flows towards Spain will ease the market situation in the south of France at certain times of the year. It is therefore in favour of market measures (re-purchase of capacity or flow engagements) being studied by GRTgaz and TIGF, in coordination with the Spanish TSO. These market measures must be able to be implemented from winter 2014-2015 if market conditions so justify.

In order to ensure financial neutrality of the different measures for the TSOs, CRE plans to include the corresponding additional costs for GRTgaz and TIGF in the expenses to be covered by the transmission tariffs.

Lastly, since the LNG terminals are in competition with each other in Europe, CRE considers that the prohibition or restriction of reloading at Fos Cavaou would jeopardise the attractiveness of French LNG terminals by decreasing their commercial offer. This measure could also lead to a drop in LNG send-out from Fos.

d) Other measures proposed by the contributors to the public consultation

- Drop in the tariff at the Fos PITTM

The drop in the tariff at the Fos PITTM aims to encourage shippers to bring LNG to the South zone by granting them a discount above a certain quantity of regasified LNG. Such a measure would fall within the framework of the transmission tariff.

This drop could in no way offset the differential between the price of LNG in Asia and the price of the PEG Sud. Therefore, the effect on the volumes unloaded in the south is uncertain, as is the effect on prices at the PEG Sud.

Moreover, it must be ensured that such a measure is not discriminatory.

Nevertheless, CRE considers that this measure could be studied within the framework of Concertation Gaz.

- Implementation of a mechanism similar to ARENH

As for the ARENH mechanism which exists for the electricity system, this measure would need a legislative provision which does not fall within CRE's scope of powers.

In addition, such a mechanism would not be based on physical assets, but on contracts signed with foreign counterparties.

e) Measures aimed at increasing effective North to South capacity

Measures proposed by GRTgaz and TIGF

The measures aimed at increasing the use of the North-South link are less expensive and simpler to implement than those requiring calls for tender, both from a legal and operational point of view. They fall within the TSOs' missions and have a well-identified legal framework. Moreover, they have the advantage of not distorting market prices.

i. Increase in the availability of North-South capacity

GRTgaz and TIGF intend to change the rules for flow allocation between the two physical interconnection points between their two networks, Cruzy and Castillon. They are also working to make backhaul flows possible at the Cruzy interconnection point using the current infrastructure.

The TSOs consider that these measures could enable the conversion of an average additional 30 GWh/d of interruptible North-South capacity into firm capacity during the winter season.

ii. Extension of the JTS service

In addition, GRTgaz and TIGF are studying the extension of the principles of the JTS service with Elengy, Fosmax LNG and TIGF as well as Storengy.

This measure would improve shippers' visibility by enabling the offer of additional firm North-South JTS capacity, with a longer, perhaps monthly timeframe. In that regard, the TSOs note that it may be necessary to have an additional volume of gas stored.

CRE considers that the implementation of these measures, whose cost is low compared to that of calls for tender, will further increase the use of the North-South link. It considers that these measures must

therefore be studied by the two TSOs in coordination with the other storage operators and LNG terminals. CRE intends to include the corresponding additional costs, if justified, in the expenses to be covered by the ATRT5 tariff.

Regulatory measures

i. Drop in the short-term North-South capacity tariff

The goal of this measure is to favour North to South flows when the price spread between the PEG Sud and the PEG Nord is low. If this spread is lower than the capacity tariff, it is not in the shipper's interest to purchase short-term capacity (day ahead or intraday). Under these conditions, the use of the link capacity would not be maximised.

The ATRT5 tariff specifies that the regulated tariff for monthly and daily capacity products is higher than that for annual products (a coefficient of 1.5 for an equivalent duration). CRE plans to reduce the coefficient to 1 for monthly products and daily products at the North-South link.

ii. Enhancement of GRTgaz's incentive regulation for additional firm capacity at the North-South link

The ATRT5 tariff makes provisions for incentive regulation concerning the quantity of capacity made available to the market under the JTS service by GRTgaz. The financial incentive is currently set at €0.2/MWh above 3 TWh per year. CRE intends to introduce an additional threshold above which the incentive will be increased. For example, above 5 TWh per year, the incentive might be increased to €0.4/MWh.

f) Summary of CRE's analysis

CRE cannot, given the current state of the gas market, adopt the early merger of the North and South zones, since this could create significant additional costs for the French gas system, especially without legislative and regulatory measures aimed at ensuring the importation of LNG in the south of France by the suppliers. CRE reiterates that it decided, in a deliberation dated 17 October 2013⁴, to reserve a portion of North-South capacity at the regulated tariff for gas-intensive customers. Therefore, for a large part of their consumption (55% on average), these customers will have access, for the next four years, to gas at a price close to that of the PEG Nord.

At this stage, CRE gives preference to the implementation of measures aimed at increasing the use of the North-South link, which are much less expensive and fall within the powers of the TSOs and the regulatory authority:

- extension of the additional capacity service (JTS) by way of operational agreements between GRTgaz and TIGF, Fosmax LNG and Elengy;
- improvement of North-South interruptible capacity availability through optimum coordination between GRTgaz and TIGF;
- purchase of services to provide gas located in the south-east in the event of congestion;
- drop in the short-term capacity tariff at the North-South link;
- strengthening of GRTgaz's regulatory incentive on the JTS.

CRE may also, if market conditions warrant it, request GRTgaz and TIGF to implement, within a short timeframe, market mechanisms aimed at reducing gas flows towards Spain.

Lastly, CRE will continue to closely monitor price formation in the wholesale market in the south.

⁴ CRE's deliberation dated 17 October 2013 deciding on the rules for the sale of transmission capacity at the link between the GRTgaz North and South zones, at the interface between GRTgaz and TIGF and at interconnections with Spain

IV. CRE's guidelines

1. *Creation of a single marketplace in France by 2018*

CRE confirms the creation of a single PEG based on the investment configuration associating the Val de Saône and Gascogne-Midi projects by 2018, subject to the completion of works by that time. Therefore, it requests GRTgaz and TIGF to prepare investment decisions concerning these two projects and to include them as approved projects in their ten-year development plans.

CRE requests TIGF to propose the Gascogne-Midi project during the next selection phase organised by the European Commission to obtain the status of "project of common interest".

CRE requests GRTgaz to pursue the Eridan project in order to obtain ministerial authorisation.

2. *Interim measures until 2018*

CRE intends to adopt an amending tariff decision in which it will include the following points:

- reduction from 1.5 to 1 of the coefficient for the monthly and daily capacity tariffs at the North-South link from 1 October 2014;
- increase in the financial incentive for capacity proposed within the framework of the JTS, for example to €0.4/MWh above 5 TWh per year, to be applied from 2014.

In order to limit the rate of interruption of interruptible North-South capacity, CRE requests GRTgaz to submit to it before 30 June 2014, after consultation, proposals concerning:

- a mechanism enabling the purchase of a service to have gas located in south-east France to be implemented before winter 2014-2015;
- the building up of a stock of gas in the south to reduce south-east congestion for winter 2014-2015;

CRE requests GRTgaz to submit to it before 30 June 2014, the terms and conditions for decreasing the tariff at the Fos PITTM for deliveries of LNG volumes above a certain threshold.

CRE requests TIGF and GRTgaz to submit to it before 30 June 2014, after consultation, proposals concerning:

- the maximisation of availability of the North-South link based on the modification of their interconnection agreement or any other provision;
- the creation of additional North-South firm capacity, based on agreements with adjacent infrastructure operators or any other provision;
- market mechanisms to reduce gas flows to Spain, which will have to be implemented, if market conditions so justify, for winter 2014-2015.

Paris, 7 May 2014

For the Energy Regulatory Commission,

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Chairman