



DELIBERATION NO 2018-258

Deliberation by the French Energy Regulatory Commission of 13 December 2018 deciding on the conditions for access to the zone supplied in low calorific gas ("L gas").

Present: Jean-François CARENCO, Chairman, Catherine EDWIGE, Jean-Laurent LASTELLE and Jean-Pierre SOTURA, commissioners.

Translated from French: only the original is authentic

In accordance with points 1° and 4° of Article L. 134-2 of the French energy code, the French Energy Regulatory Commission (CRE) specifies the rules concerning the missions of natural gas transmission system operators in terms of operation and development of these networks as well as the conditions for the use of natural gas transmission networks.

In accordance with point 4° of Article L. 134-3 of the French energy Code, CRE approves "*the technical and financial rules drafted by the operators for balancing natural gas networks [...]*".

The present deliberation covers the conditions for access to the zone supplied in low calorific gas ("L gas") during the period of conversion to a high calorific gas ("H gas") supply scheduled for completion in 2029.

The zone supplied in L gas ("L zone") has been part of the same market and balancing zone as the zone supplied in H gas ("H zone") since 2013. GRTgaz proposes an H gas to L gas conversion service, so that all shippers may supply customers with L gas as though they were supplying them with H gas. To enable this conversion service, since 2005 Engie has provided GRTgaz with an H gas to L gas swap service. Within the framework of commitments made by Engie in 2009 to the European Commission, this service is guaranteed until the end of 2023 and not beyond.

Within this context, the present deliberation develops the operating conditions of the L zone to enable all shippers to continue to have simple and transparent access to the L gas zone until 2029. These terms will maintain the contractual merging of the L and H zones, extend and adapt the H gas to L gas swap service provided by Engie to GRTgaz, and simplify access to physical L gas infrastructure.

To prepare these developments, CRE ran a public consultation from 25 October to 26 November 2018¹, to present its proposal and receive market participants' opinion. The non-confidential responses to this public consultation are available on CRE's website.

¹ Public consultation No 2018-012 of 25 October 2018 on the terms for accessing the zone supplied in low calorific gas ("L gas")

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1. BACKGROUND

1.1 Current conditions for accessing the zone supplied in L gas

Part of the Hauts-de-France region is currently supplied by low calorific natural gas (hereinafter "L gas"). The 1.3 million customers supplied with L gas consume an average 42 TWh per year, representing approximately 10% of French natural gas consumption. The rest of the French territory is supplied with high calorific gas (hereinafter "H gas").

The H gas and L gas networks are physically separate. For the L gas network, gas comes from the only network interconnection point (PIR), Taisnières B. It is imported mainly from the Groningen gas field in the Netherlands and flows through Belgium. The L gas network also has a storage facility at Gournay, operated by Storengy, as well as physical conversion tools: the Loon-Plage peak H gas to L gas converter and the L gas to H gas adaptors, which belong to GRTgaz.

Given the constraints surrounding access to the L gas network, since 2005 GRTgaz's transmission tariff (called "ATRT tariff") has proposed a contractual H gas to L gas conversion service, which enables shippers not having L gas supply to contractually supply customers connected to the L gas network.

In order to provide this service, on 26 April 2005 GRTgaz signed a contract with Gaz de France (now Engie) covering an H gas to L gas swap service. This contract was approved by CRE within the framework of the decision of 26 January 2012² certifying the GRTgaz company under Articles L. 111-17 and L. 111-18 of the energy code. In accordance with this contract, Engie performs a conversion service which consists in receiving quantities of H gas at a virtual H exchange point and returning quantities of L gas of an equivalent energy content at a virtual L conversion point.

As part of the commitments made by Engie to the European Commission in 2009³, under the COMP/B-1/39.316 procedure opened against it, Engie in particular committed to "*continuing the H gas to L gas swap service provided to GRTgaz under reasonable conditions very identical to the conditions in effect [...] so that it may continue the regulated H gas to L gas conversion service which enables shippers with H gas to exchange it for L gas, in order to supply L gas customers*". This commitment is applicable until 1 October 2023.

The zone supplied in L gas (hereinafter "L zone") was merged contractually with the H zone in 2013. Previously, GRTgaz's H gas to L gas conversion service had to be booked with GRTgaz by each supplier depending on their clients' consumption in the L zone and a portion was billed directly to suppliers, with the other portion being covered by the transmission tariff. Since the merger, shippers are responsible for balancing within a single H gas balancing perimeter. GRTgaz continues to provide the H gas to L gas conversion service to suppliers not having L gas through the H gas to L gas swap service provided by Engie. However, the cost of this service is no longer directly billed to suppliers having clients in the L zone but is fully covered by the transmission tariff. Engie nevertheless is still required to supply L gas to its own customers connected to the L network.

While the physical supply conditions of the zone and the existence of a single source of physical L gas supply could have prevented the possibility for alternative suppliers to supply their clients in the L zone under satisfactory economic conditions, the H gas to L gas, conversion service introduced in 2005 enabled the development of competition very similar to that seen in the rest of the gas network.

1.2 L zone to be gradually converted to H gas between 2018 and 2029

The gradual depletion of the Groningen gas field makes it impossible to envisage L gas supply between the Netherlands and France beyond 2029. In addition, the seismic risks caused by the extraction of L gas from the gas field could lead the Dutch government to reduce L gas production even sooner.

To ensure continuity of supply to customers in the portion of the natural gas transmission network currently supplied by L gas, it is necessary to convert this portion of the network to enable it to receive H gas.

In 2016, the infrastructure operators concerned by this adaptation (GRTgaz for the transmission network, Storengy for the Gournay storage facility, as well as GRDF, departmental and local electricity distributors for the distribution networks (SICAE Somme et Cambrasis and Gazélec) submitted to CRE a draft conversion plan, which was the object of a technical and economic assessment by CRE. On the basis of the results of this assessment, CRE issued a favourable opinion on the conversion plan in its deliberation of 21 March 2018⁴. It specifies a gradual conversion of the entire zone from 2021 until 2029 at the latest.

Within the framework of the conversion of the L gas zone to H gas, it will therefore be necessary to supply L gas to the decreasing number of L gas customers until 2029, with increasingly few L gas infrastructure.

² [Deliberation by the French Energy Regulatory Commission of 26 January 2012 certifying the GRTgaz company](#)

³ Commitments formally proposed by GDF Suez, GRTgaz and Elengy within the framework of the COMP/B-1/39.316 procedure

⁴ [Deliberation by the French Energy Regulatory Commission of 21 March 2018 expressing its opinion on the project to convert the North zone of France from low calorific gas to high calorific gas](#)

1.3 The H gas to L gas swap service may be called into question after 2023

The commitment relating to L gas made by Engie to the European Commission in 2009 is applicable until 1 October 2023. Beyond that date, Engie will no longer have the obligation to provide GRTgaz with the H gas to L gas swap service and intends to no longer propose this service under the current conditions. For several years now, it has in fact contested certain terms of the service.

In the absence of such a service, each shipper would have to directly supply L gas to their customers consuming L gas, which presents the following difficulties:

- for suppliers: a de-merging of the L gas zone, with each supplier then having to balance only within the L gas zone and ensure the physical supply of their own customers in this zone. CRE considers that such complexity would create a great risk of regressing in terms of supply competition;
- for GRTgaz: complex management of the zone, in particular within the framework of conversion and therefore difficulties in managing the evolution of customers supplied in the L zone.

In this context, CRE consulted market participants about a proposal for the technical and financial terms that will enable the current functioning of the L gas zone to be extended beyond 2023.

2. SUMMARY OF RESPONSES TO THE PUBLIC CONSULTATION

Within the framework of the public consultation which took place between 25 October and 26 November 2018, 11 contributions were addressed to CRE:

- 7 from shippers and shipper associations;
- 3 from infrastructure operators;
- 1 from another association.

The responses from the public consultation show that market participants, both shippers and infrastructure operators, are satisfied with the current rules for access to the L gas zone. They highlight that these rules opened competition in the L gas zone and are essential for the proper functioning of the market. For its part, Engie considers that it should also have access to GRTgaz's H gas to L gas conversion service like all alternative suppliers.

Therefore, CRE's proposal aimed at extending the current functioning of the L gas beyond 2023 received all participants' agreement. Nevertheless, several shippers are opposed to the extension as from 1 April 2017 of the scope of the H gas to L gas conversion service to all customers, and even to any extension of this scope before 2023.

3. CHANGE IN THE OPERATING TERMS OF THE L ZONE

3.1 General principles

3.1.1 Scope of L zone consumption covered by the H gas to L gas conversion service

Currently, only alternative suppliers can access the H gas to L gas conversion service proposed by GRTgaz. For its part, Engie must directly supply L gas to its own clients and cannot use the H gas to L gas conversion service. Similarly, suppliers can choose not to use GRTgaz's H gas to L gas conversion service and ship L gas themselves to supply their customers. In reality, this supply mode has been used very little by alternative suppliers.

To simplify the functioning of the zone and meet Engie's request to access GRTgaz's H gas to L gas conversion service, CRE proposed in its public consultation an extension of the scope covered by the H gas to L gas conversion service to all L zone customers. Therefore, the H gas to L gas swap service would become customers' only source of L gas supply in the zone, with Engie, like the other shippers, no longer directly supplying their clients with L gas.

GRTgaz would therefore book the H gas to L gas swap service sizing its need based on all of the zone's L gas consumption in case of extreme weather conditions such as may occur once every 50 years (2% risk scenario), according to evolution projections until the full conversion of the zone to H gas.

The integration of the consumption of Engie's clients within the scope of the swap contract would apply as from the entry into effect of the ATRT6 tariff as at 1 April 2017.

Most contributors to the public consultation are in favour of the extension of the scope of the H gas to L gas conversion service to all L gas customers. However, three shippers are opposed to its implementation as at 1 April 2017 proposed in the public consultation: two shippers consider that this extension in scope should not apply retroactively in the ATRT6 tariff, and one shipper is not in favour of an extension before 2023.

CRE reiterates that the proposal presented in the public consultation meets the following objectives, approved by the shippers that participated in the public consultation:

- to significantly and durably simplify, until full conversion of the zone to H gas, the management of the L gas zone for GRTgaz whose entire end customer portfolio will be physically supplied by an H gas to L gas swap service. Such simplification appears necessary ahead of the conversion of the zone to H gas;
- to open up the possibility of an agreement with Engie beyond 2023 and therefore beyond the end of its commitments to the European Commission, since all shippers, including Engie henceforth, would have access to this service shared in the ATRT tariff;
- to maintain transparent access to customers in the L zone for alternative suppliers, i.e. maintain the merging of the L and H zones.

Nevertheless, the shippers that are against retroactivity put forward, in particular, the following arguments:

- any extra costs incurred by Engie have already been partially covered for its clients in the regulated sale tariffs. Indeed, L gas supply is taken into account in the costs used for calculating the regulated sale tariffs;
- in 2018, Engie made a gain from the L gas storage cost, because of the auctioning of capacity introduced within the framework of storage access reform: Gournay storage capacity was sold at a price of zero, but the price of the service was not revised.

CRE confirms that Engie's L gas supply cost is integrated in the formula for determining the regulated sale tariffs. For the period from 1 April 2017 to 31 December 2018, the costs taken into account in this formula have in fact not taken into account the contractual evolutions envisaged.

CRE therefore adjusted the contractual remuneration, in relation to the proposal presented in the public consultation, for the sum of €12.8 million to take into account the scope of costs, which should have been considered under the regulated sale tariffs for the period from 1 April 2017 to 31 December 2018.

With regard to the L gas storage cost, historically Engie booked L gas storage capacity for the needs of its own L gas portfolio but also to supply peak consumption of alternative suppliers' clients in the L zone. Since the service provided by Engie to GRTgaz is an H gas to L gas swap service, alternative suppliers participated inversely in supplying peak consumption of Engie's customers in the H zone. Therefore, the cost of storage in the L zone for Engie corresponds to the price difference between storage in the L zone and storage in the H zone. This difference has changed only slightly following the reform.

3.1.2 Evolution in the cost of the H gas to L gas swap service

In the public consultation, CRE proposed that the price of the H gas to L gas swap service be maintained at its current level over the duration of Engie's commitments. The contract specifies that the price of the service is currently composed of a capacity charge, set at €161.60/MWh/d/year, and a quantity charge, set at €0.02/MWh.

At the end of Engie's commitments, i.e. as from 2023, the price of the H gas to L gas swap service will be based on an L zone supply that will be optimised between the long-term L gas supply contract held by Engie, and the Gournay storage facility.

In particular, the price will evolve based on the price of Engie's Dutch gas supply contract, the cost of transport to France through Belgium and the cost of storage capacity. This price will therefore depend on a certain number of parameters whose evolution as of now is uncertain.

The contributors to the public consultation are unanimously in favour of these provisions. Several of them highlight the importance of CRE's audit to ensure that the cost of the service adopted in the transmission tariff is optimised. In particular, a shipper stated that the price must take into account the lower storage price since the reform of storage access.

Another shipper requested CRE to introduce incentive regulation aimed at curbing any increase in the price of the service.

The contract governing the H gas to L gas swap service corresponds to the provision of a service to the TSO by the vertically integrated undertaking. GRTgaz will therefore formally consult CRE for its approval of the contract within the framework of its independence requirements resulting from its certification as an Independent Transmission Operator⁵. CRE will ensure that the contract complies with the provisions of Articles L. 111-17 and L. 111-18 of the energy code, and it will make sure, in particular, that the price of the contract reflects the costs borne by Engie to perform the service.

Concerning the incentive to control the price of the service, the evolution of the contract between GRTgaz and Engie provides for risk sharing as concerns price elements, based on each participant's control over those elements. Engie will therefore bear most of the risks related to the change in supply costs, while GRTgaz will bear most of the risks related to the change in infrastructure costs.

⁵ Deliberation by the French Energy Regulatory Commission of 26 January 2012 certifying the GRTgaz company

In order to ensure L gas supply to the zone, CRE proposed in the public consultation that the H gas to L gas swap service cover forecast capacity until the full conversion of the zone to H gas, until 2029. The capacity taken into account will be defined based on the conversion plan, published in the technical and economic assessment of March 2018, and on GRTgaz's forecast annual consumption in the 2% risk scenario.

The principle behind this system is that GRTgaz will also commit in the long term to enable Engie to size its contract as accurately as possible. In that regard, if additional capacity is required, GRTgaz will be able to book it with Engie within the limit of its long-term supply contract.

In response to the public consultation, infrastructure operators specify that conversion of the L zone could follow a different pace compared to the conversion plan presented: the conversion plan of September 2016 proposed by the operators presents an indicative conversion schedule which can change following the feedback on the pilot phase. To date, only the pilot phase, which covers four sectors from 2018 to 2020, has been the object of regulatory decisions. This experimental phase must ensure feasibility of the annual conversion volumes envisaged following this phase, both with regard to methods and procedures as well as availability of resources. There is therefore a risk that the zone's consumption may be different from the forecasts made before the start of the implementation of the conversion plan.

In addition, a shipper specified that it is necessary to ensure that the scope of the service is limited to the gas needed and does not cover all of the volumes of Engie's supply contract, if it is too large.

The new contractual framework for the H gas to L gas swap service presented in the public consultation indeed takes into account only the capacity required for covering the L zone's consumption while leaving GRTgaz a certain level of flexibility if annual consumption differs from initial forecasts, particularly in the event of a change in the zone's conversion plan. Therefore, as for the price, there is risk sharing between GRTgaz and Engie concerning capacity. Since optimised supply is based on a reference scenario for the evolution of L gas consumption as anticipated in the zone's conversion plan and transmitted by GRTgaz to Engie, there is a risk that consumption evolves differently. This risk is shared between Engie and GRTgaz.

3.1.3 Third-party access to L gas infrastructure

In the public consultation, CRE proposed that access to L gas infrastructure (Taisnières B PIR, Gournay storage, Loon-Plage peak H gas to L gas converter and L gas to H gas adapters) remain open to all shippers, transparently and without discrimination.

Shippers that use L gas infrastructure will be required to balance daily in the L zone. Penalties will apply to shippers that do not respect their balancing obligation having short or long positions. GRTgaz proposes the following penalties:

- in the event of a positive balance, lower than the limit S, the shipper will have to pay the price of the firm daily L gas to H gas conversion service multiplied by 5, i.e. €1/MWh (€0.2/day per MWh/d × 5);
- in the event of a negative balance, lower than the limit S, the shipper will have to pay the price of the peak, firm daily H gas to L gas conversion service multiplied by 5, i.e. €3.35/MWh (€161/year per MWh/d/8/30 × 5);
- in the event of a positive or negative balance, exceeding the limit S, the shipper will have to pay a dissuasive price of €30/MWh.

The limits proposed for application as at 1 April 2019 are 5 GWh for a positive balance (long shipper) and 1 GWh for a negative balance (short shipper). These limits could drop as the zone is converted, based on a proposal by GRTgaz which shall have to be presented within the framework of Concertation gaz and submitted to CRE.

In addition, GRTgaz will sell 7.5 GWh/d of day-ahead backhaul capacity at Taisnières B, as from 1 April 2019. This level of booked capacity is limited by the technical minimum at Taisnières B (minimum physical flow necessary for the functioning of the point).

These terms serve to maintain access to shippers that wish to use the L gas infrastructure and in particular the Gournay storage facility, in ensuring that imbalances do not jeopardise the supply of end customers in the L zone. No specific comments about those terms were made by contributors to the public consultation.

3.2 Consequences on the ATRT tariff

In accordance with the terms defined by the present deliberation, all suppliers supplying customers in the L zone, including Engie, have access to the H gas to L gas conversion service. The financial consequence of this evolution on the ATRT6 tariff therefore corresponds to an increase in capacity booked by GRTgaz for the H gas to L gas swap

service. This evolution is taken into account in the tariff update as at 1 April 2019 specified by CRE's deliberation of 13 December 2018⁶, in the calculation of the income and expense clawback account (CRCP).

In the responses to the public consultation, a shipper wished for the cost of the H gas to L gas conversion service to not have an impact on the entry and exit tariffs at the PIR, while another shipper requested that the cost of the H gas to L gas conversion service to be paid only by shippers having L gas customers and not all shippers.

CRE reiterates that the ATRT6 tariff deliberation⁷ sets out the conditions for changing the different tariff components when the GRTgaz and Teréga tariffs are updated annually. The main network charges change based on inflation, and the regional network charges change so as to cover the operators' authorised income. As such, the consideration of the change in the cost of the conversion service in the CRCP will be reflected as at 1 April 2019, by an increase in only the regional network's tariff charges.

Afterwards, the costs of the H gas to L gas swap service which GRTgaz uses will be included in the trajectory of its operating expenses that generally determine the tariff level. They will therefore be borne, as all of the operator's expenses by the different network tariff charges based on the tariff structure that will be adopted by CRE in the future ATRT7 tariff.

⁶ [Deliberation by the French Energy Regulatory Commission of 13 December 2018 deciding on the evolution of the tariff for the use of GRTgaz's and Teréga's natural gas transmission networks as at 1 April 2019](#)

⁷ [Deliberation by the French Energy Regulatory Commission of 15 December 2016 deciding on the tariffs for the use of GRTgaz's and TIGF's natural gas transmission networks](#)

CRE'S DECISION

The present deliberation develops the operating conditions of the L zone to enable all shippers to continue to have simple and transparent access to the L gas zone until 2029. These terms will maintain the contractual merging of the L and H zones, extend and adapt the H gas to L gas swap service provided by Engie to GRTgaz, and simplify access to physical L gas infrastructure.

To prepare these developments, CRE ran a public consultation from 25 October to 26 November 2018, to present its proposal and receive market participants' opinion.

CRE modifies the terms for accessing the zone supplied in L gas, subject to approval, under Articles L. 111-17 and L.111-18 of the energy code, of the amendments to the H gas to L gas swap service contract signed between Engie and GRTgaz and the new H gas to L gas swap service contract as from 1 October 2023. Failing this, the current rules shall continue to apply.

Scope of the H gas to L gas conversion service

As from 1 April 2017, the H gas to L gas conversion service supplies all consumption in the L zone, including that of Engie's clients, and becomes the only means of physically supplying L gas customers. GRTgaz shall book the H gas to L gas swap service sizing its need based on all of the zone's L gas consumption in the 2% risk scenario.

Therefore, the L zone shall remain a part of the single French market, the Trading Region France (TRF). Customers in the L zone can be supplied transparently from the gas exchange point or any other H gas source. Similarly, producers injecting gas into the network from the transport/production interface point (PITP), and biomethane injection sites, present in the L zone, are part of the TRF.

Access to L gas infrastructure

Access to L gas infrastructure (Taisnières B PIR, Gournay storage, Loon-Plage peak H gas to L gas converter and L gas to H gas adapters) shall remain open to all shippers, transparently and without discrimination. Shippers that use L gas infrastructure will be required to balance daily in the L zone. CRE requests GRTgaz to adapt the transmission contract to take into account these developments as from 1 April 2019, incorporating the penalties defined in section 3.1.3.

This deliberation will be published in the *Journal officiel de la République française* and on CRE's website. It shall be transmitted to the minister of state, the minister for the ecological and inclusive transition and the minister for the economy and finance. It will be notified to GRTgaz.

Paris, 13 December 2018

For the Energy Regulatory Commission,

The Chairman,

Jean-François CARENCO