

Public Consultation on tariff principles for the use of gas transport networks

technical consultation notice

Preface

In accordance with French law 2003-8, passed on January 3rd 2003, CRE submitted its proposed tariffs for use of the gas transport network to the French government on July 24th 2003. It specified that this tariff proposal was to apply from January 1st 2004, for a duration of 12 to 18 months.

As the present public consultation is launched, CRE's pricing proposal has not yet been formally approved by the ministers responsible for energy. The corresponding decree is currently being considered by the Council of State, following a favourable decision by the *Conseil de la concurrence* on January 30th 2004.

The three transmission system operators (TSOs) have, however, been applying the tariffs proposed by CRE, on their own initiative, since July 1st 2004.

Since July 2003, fundamental changes have taken place, or are soon to take place, affecting the running of the gas market in France, including:

- The agreement between TOTAL and Gaz de France, outlining the separation of their joint stakes in the Compagnie Française du Méthane and Gaz du Sud Ouest, and leading to a modification in the coverage of their respective transport networks and to the reduction of the number of balancing zones;
- The adoption of "guidelines for good third party access (TPA) practice" at the last forum in Madrid in September 2003, which notably introduced the possibility of daily capacity reservations;
- The opening of the gas market to all professional customers on July 1st 2004.

It is essential that network users are able to take advantage of these favourable changes as soon as possible, as well as the gains in productivity made by the operators.

CRE therefore intends to propose new tariffs for the use of the gas transport networks, to be applicable after the actual settlement of the agreements between TOTAL and Gaz de France.

CRE would like to consult infrastructure operators, shippers, suppliers, end customers and, more generally, all interested parties on this new tariff proposal. As CRE has already held a public consultation on the subject in June 2003, the present notice only deals with elements currently likely to be changed in the new tariff proposal. Interested parties are nevertheless welcome to put forward their remarks and suggestions regarding all elements included in the transport network utilisation tariffs.

1. Main objectives of the new tariff proposal for transport network utilisation:

The main objectives of the new CRE tariff proposal are as follows:

- To simplify the transport network utilisation tariff structure, notably by reducing the number of balancing zones and removing certain tariff terms ;
- To offer additional flexibility to network users, in accordance with the “guidelines for good TPA practice”, adopted during the Madrid Forum in September 2003 ;
- To make technical improvements, mainly as a result of feedback on the provisional tariffs currently in place.

2. General elements regarding changes to transport tariffs

Gaz de France Transport would like transport tariffs to be considered in a medium/long term perspective, in order to improve visibility for all market players. Therefore, Gaz de France Transport has asked CRE to set tariff structure and principles for several years, with the tariff level being adjusted each year if required.

In principle, CRE would like to see a degree of stability, either in tariff structure principles or in the method used to set TSOs regulated income.

However, there is not currently any feedback available on the initial tariffs proposed by CRE. Furthermore, the overall tariff structure is set to undergo major changes in the next tariff proposal.

Therefore, it is too soon to set tariff elements for several years.

CRE is planning to make its next tariff proposal valid for 12 to 18 months.

3. Tariff level for transport network utilisation

CRE does not wish to review the main rules for determining the level of revenue authorised for TSOs, in its next tariff proposal.

The new proposal will take into account, as far as possible, the results of Gaz de France’s unbundled accounts audit, currently produced by CRE staff. The audit of Gaz du Sud-Ouest’s unbundled accounts will only take place in the fourth quarter of 2004.

The new proposal will take into account the mechanical adjustment of capital charges, the impact of changes to the activities covered by each transport network operator, linked notably to the separation of the joint participations between Gaz de France and TOTAL in the Compagnie Française du Méthane and Gaz du Sud-Ouest, and, where applicable, expenditure linked to new programmes regarding gas transport network security. Some new charges directly linked to the acceleration of market opening, identified later than July 2003, may also be taken into account.

To determine unitary gas transport tariff levels, hypotheses have to be made regarding changes in capacity subscriptions by the users of these networks. The TSOs report that shippers tend to optimise their gas movements and therefore reduce their subscriptions on the main network. Given this trend and a hypothetical increase of approximately 2% in annual gas consumption, in 2005 CRE plans to use

a global provisional capacity subscription level equal to that used for 2004, for the main network, and 2% higher for the regional network.

4. Tariff structure for transport network utilisation

4.1 Simplification of the tariff structure for transport network utilisation

- Move from 3 to 2 tariffs for gas transport network utilisation and reduction in the number of balancing zones

The agreement between TOTAL and Gaz de France, signed in November 2003, details the separation of their joint participations in the Compagnie Française du Méthane and Gaz du Sud-Ouest. Following this operation, Gaz de France will own 100% of the Compagnie Française du Méthane and TOTAL will own 100 % of Gaz du Sud-Ouest.

CRE's tariff proposal follows this assumption. It will therefore include two transport network utilisation tariffs: a common tariff for the Gaz de France and Compagnie Française du Méthane networks, and another tariff for the Gaz de Sud-Ouest network.

The Compagnie Française du Méthane's current two balancing zones are not linked to the existence of physical congestion, so CRE's proposal includes plans to remove them:

- The Compagnie Française du Méthane's West zone will be merged with Gaz de France's West zone;
- The Compagnie Française du Méthane's Centre zone will be merged with Gaz de France's South zone.

The integration of the Gaz de France and Compagnie Française du Méthane zones will also lead to mergers between certain exit zones on the main network:

- in the South balancing zone,
 - . Bourgogne CFM, Bourgogne GDF and Chalon will be merged into one Bourgogne exit zone;
 - . Lyonnais CFM and Lyonnais GDF will be merged into one Lyonnais exit zone;
- in the West balancing zone,
 - . Bretagne CFM and Bretagne GDF will be merged into one Bretagne exit zone;
 - . Anjou, Maine GDF and Maine CFM will be merged into one Maine exit zone.

Also, in the East balancing zone, the Seine Est and Langres exit zones will be merged into one Langres exit zone.

Altogether, there will be 42 exit zones included in the common tariff for the Gaz de France and Compagnie Française du Méthane networks. Previously, there were 33 exit zones in the Gaz de France tariff and 15 exit zones in the Compagnie Française du Méthane tariff.

- Clarification of the coverage of the Gaz de France and Gaz du Sud-Ouest transport networks, respectively

The agreement between TOTAL and Gaz de France will also lead to the transfer of transport assets between the two operators, allowing their transport networks to be disentangled:

- The southern part of the Guyenne branch, as far as Castillon-la-Bataille, being transferred from Gaz de France to Gaz du Sud-Ouest;
 - the regional branches Viviez - Aurillac and Rodez - Millau - La Cavalerie being transferred from Gaz de France to Gaz du Sud-Ouest ;
 - Gaz du Sud-Ouest Transport taking transport rights for the Lacq – Larrau pipeline, which will require the creation of a new interconnection point at Larrau, in the Gaz du Sud-Ouest tariff.
- Simplification of the tariff structure for interconnection between the Gaz de France and Gaz du Sud-Ouest networks

The integration of the Gaz de France and Compagnie Française du Méthane networks requires the tariff structure for interconnection with the Gaz du Sud-Ouest network to be adjusted. This interconnection presents a technical difficulty: the Gaz du Sud-Ouest network includes two physical interconnection points with the Gaz de France network (at Cruzy and Castillon-la-Bataille), but these two points are connected to the same balancing zone on the Gaz de France network.

In order to distinguish between these 2 points and ensure a certain continuity with the situation established in the tariff proposed in July 2003, CRE plans to maintain 2 distinct tariff links between the Gaz de France and Gaz du Sud-Ouest networks:

- A tariff link between the Gaz de France West zone and the Gaz du Sud-Ouest network, whose entry point onto the Gaz du Sud-Ouest network would be situated in Castillon-la-bataille, and whose capacity would be equal to a part of the available capacities on the Guyenne branch;
- A tariff link between the Gaz de France South zone and the Gaz du Sud-Ouest network, whose entry point onto the Gaz du Sud-Ouest network would be situated in Cruzy, and whose capacity would be equal to the sum of the total capacity available on the Midi branch in Cruzy and a part of the capacities available on the Guyenne branch.

Each link would get a specific tariff term, calculated so that the transport cost between the Gaz de France North zone and Gaz du Sud Ouest is identical, irrespective of the links used.

The operational management of flows between the Gaz de France and Gaz du Sud-Ouest networks will be defined in an agreement between the two transport operators. This agreement will notably detail remuneration for the utilisation, where necessary, of one transporter's network by the other transporter, and will be subject to CRE approval.

- Merger of Gaz de France Nord B and Nord H balancing zones

The development of competition in the zone supplied with L gas (gas with low calorific value) is not satisfactory at present. CRE would like to simplify access to the L gas network for new entrants, given that the physical situation, i.e. the existence of two gas qualities and two distinct gas networks, will not change in the short term (the end of L gas deliveries from the Groningue field is currently planned for 2019 at the earliest).

In this context, the conversion service from H gas to L gas is marketed by Gaz de France Transport. Gaz de France Transport purchases this conversion service from H gas to L gas to Gaz de France Négoce under a contract which will be subject to CRE's approval.

At this stage, CRE considers it to be an auxiliary service not requiring tariff regulation. It does not therefore intend to include tariffs for this service in its next tariff proposal. CRE will ensure that the tariff proposed by Gaz de France Transport for this service is transparent and non discriminatory.

Finally, the merger between balancing zones Nord B and Nord H will mean the possibility for shippers of joint balancing between the two qualities of gas, within the limit of the conversion service capacities subscribed, and the existence of one single gas exchange point in the North zone (only for exchanges of gas with the same calorific value).

- Removal of the Fixed Term for Delivery (TFL)

The annual fixed delivery term is €3,600 for Gaz de France and €2,000 for Gaz du Sud-Ouest, under the tariffs proposed by CRE in July 2003. This tariff term is designed to take into account the fixed costs generated for the TSO, by delivery point management operations. It did not pose any problems when the market was only opened to large gas consumers.

However, CRE is aware that it is very difficult to estimate this type of fixed cost precisely. Furthermore, the application of a fixed delivery term to all transport-distribution interface points, is likely to form a barrier to deter new suppliers from entering into the market to supply customers via the distribution networks.

CRE therefore plans to remove the fixed delivery terms from its next tariff proposal. The corresponding income would be recovered from the delivery capacity term.

- Removal of the exit quantity term on the main transmission network (TQSP)

CRE also plans to remove the network exit quantity term, in the Gaz de France tariff. This term adds additional complexity to the Gas de France network tariff structure, whilst only representing under 3% of Gaz de France Transport's annual turnover.

This TQSP tariff term currently plays a corrective role in the Gaz de France tariff structure, correcting boundary effects in zones situated immediately next to the Belgian and German borders. A replacement mechanism is to be implemented to reflect the actual transport costs for the sites situated immediately next to these borders, as was done by CRE in its tariff proposal for the utilisation of distribution networks. This mechanism may be based on a tariff reduction applied to the quantities of gas identified between the entry and exit points close by.

The removal of the TQSP will also have the positive effect of harmonising the tariff structure of the two operators, Gaz de France and Gaz du Sud-Ouest.

4.2 Addition of new flexibilities for users of transmission systems

The "guidelines for good TPA practice", adopted from the Madrid Forum in September 2003 (which can be consulted on the website http://europa.eu.int/comm/energy.gas/madrid/7_en.htm), form the basis for a future European ruling, currently being drafted.

CRE's tariff proposal from July 2003 already conforms to the main recommendations of this document. However, certain new clauses are planned, to be applicable from July 1st 2004, at the latest, or July 1st 2005, according to the specific circumstances.

CRE intends to respect the conditions laid out in this document, in its next tariff proposal, in terms of both the tariff content and the methods of calculation used.

- Offering daily capacity subscriptions

In addition to the monthly, annual and multi-year subscriptions included in the previous CRE tariff proposal, TSOs will have to offer daily capacity subscriptions. At this stage, it is expected that the price of a firm daily capacity subscription will be equal to 1/20 of the price of the corresponding monthly subscription.

The following order of priority is planned for the various capacity subscriptions, starting with the highest priority:

- Firm annual subscriptions;
- Interruptible annual subscriptions;
- Firm monthly subscriptions;
- Firm daily subscriptions.

The periods during which shippers will be able to subscribe to the different types of capacity will be defined so as to respect this order of priority.

In order to optimise the use of the transport networks, CRE also plans to ask TSOs to offer interruptible daily subscriptions.

- Possibility of capacity exchange

Also, TSOs will have to authorise shippers to exchange capacities subscribed upstream on the main network, among themselves: entry capacities, link capacities between balancing zones and interconnection capacities with neighbouring networks. This service will be included in the TSOs' basic service.

The other transport capacities do not appear to require exchanges between shippers, as they are attributed to shippers according to the customers served and the storage capacities subscribed.

- Interruptible annual capacity subscriptions

On the main network, CRE plans to implement a tariff for interruptible annual capacity, dependent on the probability of interruption, as recommended in the "guidelines for good TPA practice". Given the large variation, throughout the year, in the firm capacities marketable at certain points on the network, it is suggested that the price of interruptible annual subscriptions should be linked to the number of months during which the capacity concerned could be considered to be firm.

Each entry, link or interconnection point would have a specific tariff coefficient for interruptible annual capacities, to be one of 4 possible values: 30 %, 50 %, 75 % or 90 %.

CRE will ensure that the system remains simple and easily understandable, and that the conditions for interruptibility (technical or meteorological) on the main network are well explained in the offers of third party access to networks.

4.3 Definition and publication of a method for producing entry/exit tariffs which is precise, transparent and reflects costs

- Tariff methodology for the main network

As the tariff should reflect as closely as possible the cost structure and physiognomy of the infrastructures and flows on the main transport network, CRE intends to apply an “entry – exit” pricing methodology which is based on the elementary transmission costs on the main network.

The principle involves globally minimizing the difference between the sum of entry tariffs and exit tariffs, and the real cost of transmission. To do this, a mathematical optimisation method is used, called “least square method of minimization”.

This kind of methodology is already used by many European regulators.

The application of this methodology may lead to a certain redistribution of the exit tariff levels for each exit zone on the main network, leading to an upwards or downwards variation of the delivery costs for shippers, according to the location of the customers served.

Under this method, a mechanism will be used to restrict the average increase in the sum of the entry capacity and the exit capacity terms to 10 % within one balancing zone.

As recommended in the “guidelines for good TPA practice”, CRE will publish the methodology used to calculate the elements of its tariff proposal.

- Tariff methodology for the regional network

CRE’s next tariff proposal will include regional tariff levels (NTR) for all delivery points and Transport Distribution Interface Points (PITD). As with the main network, CRE intends to publish the methodology used to calculate NTRs on the Gaz du Sud-Ouest network.

Until now, Gaz de France has calculated NTRs on the basis of historical investment costs. Extensive work is underway with Gaz de France Transport aimed at introducing a methodology no longer based on historical investment costs, which must be updated when a new investment is done, but on normative costs.

Since the deadline allocated to Gaz de France Transport is too short to calculate all the NTRs in time, CRE will keep the current NTRs for the Gaz de France Transport network, after checking the overall coherence of the hypothesis taken.

- Breakdown of tariff income between the main and regional networks

Each transporter’s income should reflect the structure of costs relating to its infrastructures. The charges to be covered by Gaz de France and Gaz du Sud-Ouest are not currently in line with their respective incomes. In both cases, the income received by the main network is greater than the costs incurred by the main network, whilst the regional network’s income is less than the regional network costs.

CRE plans to adjust income progressively, based on costs, which will involve:

- A relative reduction in tariff terms linked to the main network;
- A relative increase in tariff terms linked to the regional network and delivery terms.

4.4 Miscellaneous elements

- The implementation in late 2004 of the Maine-Normandie branch between Cherré and Ifs will lead to a modification of gas flows in the West of France, which will lead to the creation of an exit zone “Basse Normandie” within the main network in the Gaz de France West balancing zone. The regional tariff level (NTR) for the delivery points and PITD situated in this new exit zone will be adjusted accordingly.
- A new interconnection point will be created on the Gaz du Sud-Ouest network in Biriadou, following the implementation of the Biriadou – Arcangues link (phase 1 of the Euskadour project), planned for October 2005.
- The Morteau, Pontarlier and Gex Transport / Distribution Interface Points are served by a regional transport network linked directly to the Swiss transport network. It is currently impossible for a shipper to supply gas via these PITDs without using the Swiss Gaznat network. This difficulty makes it impossible to use the “entry-exit” tariff system for these PITDs (no access to gas exchange points, no joint balancing...). The integration of these three PITDs into the East or South balancing zones would require the agreements between Gaz de France and the Swiss operator Gaznat to be renegotiated. CRE is currently examining the advantages and disadvantages of such a solution, compared with the existing situation.
- Works on the transport infrastructures lead to capacity reductions which penalise shippers who have subscribed to firm capacities. Gaz de France suggests the use of a system to refund firm capacities not provided. This system would encourage transporters to reduce the number, duration and volume of such interruptions. In exchange, the transporters’ unitary tariffs would be increased by an amount corresponding to a performance target, to be determined.

CRE invites all interested parties to submit their observations and comments on the general principles proposed in the above document. Several example questions are provided below:

General Questions

Question 1: *Are you in favour of a new CRE tariff proposal, taking into account the reduction in the number of balancing zones and the introduction of new flexibilities? If so, what schedule would you prefer?*

Question 2: *Are you in favour of the proposed reduction in the number of balancing zones?*

Question 3: *What do you think of the proposed running of the future North zone? Should the conversion service from H gas to L gas be priced by CRE ?*

Question 4: *What do you think of the tariff structure proposed for the interconnection between the Gaz de France and Gaz du Sud-Ouest networks?*

Question 5: *Are you in favour of the marketing of daily capacity subscriptions, as of 1 January 2005? Do you have any suggestions regarding the characteristics and pricing of firm daily capacity subscriptions? Do you think it would be appropriate for the TSOs to market interruptible daily capacity subscriptions?*

Question 6: *Are you in favour of the process suggested to rebalance the TSOs' income between the main and regional networks?*

Question 7: *Are you in favour of the principle of individual difference limitations between the tariffs currently applicable and the new tariff proposal?*

Question 8: *Are you in favour of the publication of regional tariff levels (NTR) for all sites connected to the transport networks?*

Technical Questions

Question 9: *Are you in favour of the removal of the fixed delivery term in the transport tariffs?*

Question 10: *Are you in favour of the removal of the exit quantity term, in the Gaz de France transport tariff?*

Question 11: *Are you in favour of a proximity tariff for exit points very close to borders, and in what form, given that the corresponding income loss would, according to that hypothesis, be borne by other network users?*

Question 12: *What is your view of the proposed method, depending on the probability of interruption, for the pricing of interruptible annual capacities on the main network?*

Question 13: *What do you think of the incentive system proposed by Gaz de France, to refund subscribed firm capacities not made available, in exchange for an increase in unitary tariffs?*

Question 14: *Do you have any suggestions regarding the tariff for the utilisation of transport networks for PITDs not linked to the national transport network, and supplied directly by a foreign transport network?*

Question 15: *Do you have any criticisms or suggestions regarding any other term in the tariffs proposed by CRE in July 2003?*