

Public consultation

29 March 2012

Public consultation on the creation of a single North balancing zone for H-gas and B-gas on the GRTgaz network

The purpose of this public consultation is to gather market players' comments on the course of action envisaged by the French Energy Regulation Commission (CRE) regarding the arrangements for merging GRTgaz's North H and North B balancing perimeters.

Following this consultation, CRE will deliberate on the arrangements for creating a single North balancing zone for H-gas and B-gas on GRTgaz's network.

Interested parties are invited to answer the questions in this document by **23 April 2012 at the latest**.

1. Background

GRTgaz's network for low calorific gas (B-gas) supplies a consumer area located in the North of France with approximately 50 TWh¹ per year. This network is separate from the network for high calorific gas (H-gas). Most B-gas needs are covered partly by flows from Taisnières B, a point at which B-gas is imported into France from the Groningue field in the Netherlands, and partly by the B-gas storage site in Gournay (Gournay B) operated by Storengy. New entrant suppliers' access to B-gas is restricted because of the uniqueness of the resource and the low availability of B-gas transmission capacity in upstream networks.

In order to provide all active suppliers in France with access to B-gas, GRTgaz's transmission network provides for two conversion services (base and peak) from H-gas into B-gas to supply end consumers on the B-gas network. The base service (main service) is a firm service provided by GRTgaz through a H-gas to B-gas swap contract subscribed with GDF Suez, which itself has a long-term B-gas supply contract. According to the tariff in force (ATRT4), the price for this service only covers approximately 50% of its costs, the rest being pooled in GRTgaz's other tariff charges.

The balancing perimeters are currently separate in GRTgaz's H and B networks. However, the balancing rules enable shippers to merge their imbalances on the H and B perimeters so far as their subscribed base conversion capacities permit.

This mechanism has effectively opened up the B-gas network to competition in similar proportions to those observed in the H-gas network.

During the public consultation on the tariffs and conditions of access to natural gas transmission networks carried out by CRE in July 2010, a large majority of market players requested that access to the B network continue to be simplified by merging the H and B balancing perimeters in the North zone. The simplification of the contract structure of transmission networks is fundamental in enhancing the attractiveness and liquidity of the French natural gas market. Therefore, the creation of a unified North zone with a single balancing system disregarding differences in physical quality of H- and B-gases will strengthen the liquidity and attractiveness of the North Title Transfer Point (PEG) by increasing the zone's annual consumption by 5 Gm³. In this context, in January 2011, *Concertation Gaz* requested GRTgaz to perform a feasibility study on the contractual merger of the H and B balancing perimeters by 2013. In February 2012, GRTgaz submitted to CRE the study report on this merger.

On the basis of the work conducted in 2011, CRE envisages merging, as from 1 April 2013, the H and B balancing perimeters in the North zone and creating a single North PEG. However, even though these balancing perimeters will be merged contractually, the physical networks will remain separate. This modification therefore requires the implementation of measures to ensure that B-gas infrastructure continues to be used in order to balance the B-gas network.

2. Course of action with regard to the merging of the H and B balancing perimeters

2.1. General principles

The creation of a single North balancing zone for H- and B-gas envisaged by CRE would involve three major changes for users of the GRTgaz network:

- the imbalances of active shippers on the H network and/or the B network in the North zone will be calculated on the scale of a single balancing perimeter;
- the North B PEG will be eliminated leaving only one PEG for the unified North zone;
- GRTgaz will still provide the H to B base conversion service but shippers will no longer be charged for this service. However, GRTgaz must still continue to use a swap service involving H-gas and B-gas in order to balance the B-gas network. The cost of this service will be fully pooled in the GRTgaz tariff, which will entail, all other things being equal, an increase by approximately 0.5% of GRTgaz's other tariff charges.

Q1. Are you in favour of the principles proposed above for the merging of the H and B balancing perimeters in GRTgaz's North zone?

¹ 47 TWh in 2011

2.2. Operational arrangements

GRTgaz will continue to sell capacity enabling the B-gas network infrastructure to be used (Taisnières B interconnection, interface with Storengy's Gournay B storage facility, peak physical conversion services from H-gas to B-gas and B-gas to H-gas). These services will remain accessible to all shippers based on their subscriptions, except for the physical conversion service from B-gas to H-gas which will only be accessible to shippers importing their own B-gas, that is, those with capacity at Taisnières B. The tariff and operational conditions for access to this capacity will be, all other things equal, identical to those in force.

For shippers, the contractual balancing rules for the merged North zone will be identical to those that apply to each of GRTgaz's balancing zones, regardless of the gas quality.

To ensure physical balancing of the B network, GRTgaz will use the H-gas for B-gas swap service. Each day, GRTgaz will establish for the following day, a forecast of the consumption of all end consumers connected to the B-gas network. On the basis of this forecast and shipper nominations for B-gas network infrastructure, GRTgaz will determine the physical B-gas needs and assign the quantities of H-gas to be swapped for B-gas. The shipper providing the H-gas for B-gas swap service will be obligated to continue to provide the quantity of B-gas needed to cover the needs of its clients connected to the B-gas network.

2.2.1. Incentives to ensure physical balancing of the B-gas network

As the H and B networks will remain physically separate, GRTgaz must continue to ensure physical balancing of each of these networks separately. It is therefore important that shippers with capacity in the B-gas network infrastructure use this capacity to supply their clients connected to the B-gas network.

Two measures are envisaged to encourage shippers to subscribe and nominate capacity in the B-gas network infrastructure under conditions that do not jeopardise the physical balance of the B network.

- GRTgaz will bill any shipper retroactively for a B-gas into H-gas contractual conversion service if it emits onto the B network a quantity of B-gas that is higher than the total consumption of its clients connected to the B network. The tariff for this serviced billed according to quantity will be roughly €1/MWh. A tolerance should be applied in the limits of shipper's standard errors. Contractual conversion service will not apply to shippers providing an H-gas for B-gas swap service since they will be structurally injecting more gas into the B network than their clients consume;
- GRTgaz can, if the physical balance of the B network requires it, oblige shippers that have capacity in the physical infrastructure of the B network to increase or decrease their nominations, while maintaining their general balancing obligation on the combined H and B perimeter. The previously described billing of €1/MWh won't apply if the B-gas quantity is due to a re-nomination claimed by GRTgaz.

These measures may be strengthened or complemented if feedback reveals such a need.

Q2. Are you in favour of the measures proposed to ensure the use of the B network infrastructures for the purpose of the balancing of the B network?

2.2.2. Arrangements applicable to the H-gas for B-gas swap service

Given the access constraints regarding B-gas, the use of a swap service involving H-gas and B-gas is currently needed to ensure the development of competition in the B-gas network. In that regard, GRTgaz has a swap contract with GDF Suez which itself has a B-gas supply contract.

As part of the commitments taken vis-à-vis the European Commission within the framework of the COMP/B-1/39.316 procedure, GDF Suez undertook to "*continue, under close to identical conditions to the existing ones, with the swap involving H-gas and B-gas supplied to GRTgaz so that the latter can ensure the continuation of the regulated conversion service from H-gas into B-gas, which enables shippers with H-gas to swap it for B-gas in order to supply clients with B-gas.*" This commitment applies until 1 October 2024 at the latest.

Maintaining the swap service currently provided by GDF Suez as laid down in the commitments mentioned is needed in the short run. GRTgaz will have to conduct work so that one or several providers of a swap service involving H-gas and B-gas may be selected through a competitive tendering procedure by 2015.

Q3. Are you in favour of selecting one or more swap service providers through the organisation of a competitive tendering procedure following the schedule proposed?

Q4. Do you have any other comments?

3. Summary of questions

Q1. Are you in favour of the principles proposed above for the merging of the H and B balancing perimeters in GRTgaz's North zone?

Q2. Are you in favour of the measures proposed to ensure the use of the B network infrastructures for the purpose of the balancing of the B network?

Q3. Are you in favour of selecting one or more swap service providers through the organisation of a competitive tendering procedure following the schedule proposed?

Q4. Do you have any other comments?

CRE invites all interested parties to submit their contributions, by **23 April 2012 at the latest**:

- on CRE's website, in the section "*Consultations publiques* (Public Consultations)", using the function "*Contribuer* (Contribute)" (possibility to submit an electronic document);
- by email, to the following address: dirgaz.cp1@cre.fr
- By post to: 15, rue Pasquier - 75379 Paris Cedex 08 – France;
- by meeting with the Commission services, by contacting the Gas Infrastructure and Networks Department (telephone no.: 01.44.50.41.44).

Interested parties must specify, **where appropriate, the confidential nature of their answers.**

Without explicit mention by the responder of the confidential nature of his/her contribution, the contribution may be published following the consultation.