26 July 2012

Public consultation by the French Energy Regulation Commission on the commercialization of transmission capacity on the link between GRTgaz's North and South link and at the GRTgaz/TIGF interface

1. Background and purpose

The current rules for the sale of transmission capacity on the link between GRTgaz's North and South zones, as well as at the interface between GRTgaz and TIGF were defined by a deliberation by the French Energy Regulation Commission (CRE) on 7 July 2011[1]. In 2010 and 2011, extensive concertation work and public consultation was carried out to prepare these rules, which led to the sale of this capacity based on an "improved" pro rata mechanism. The implementation of these rules in 2010 and 2011 was satisfactory.

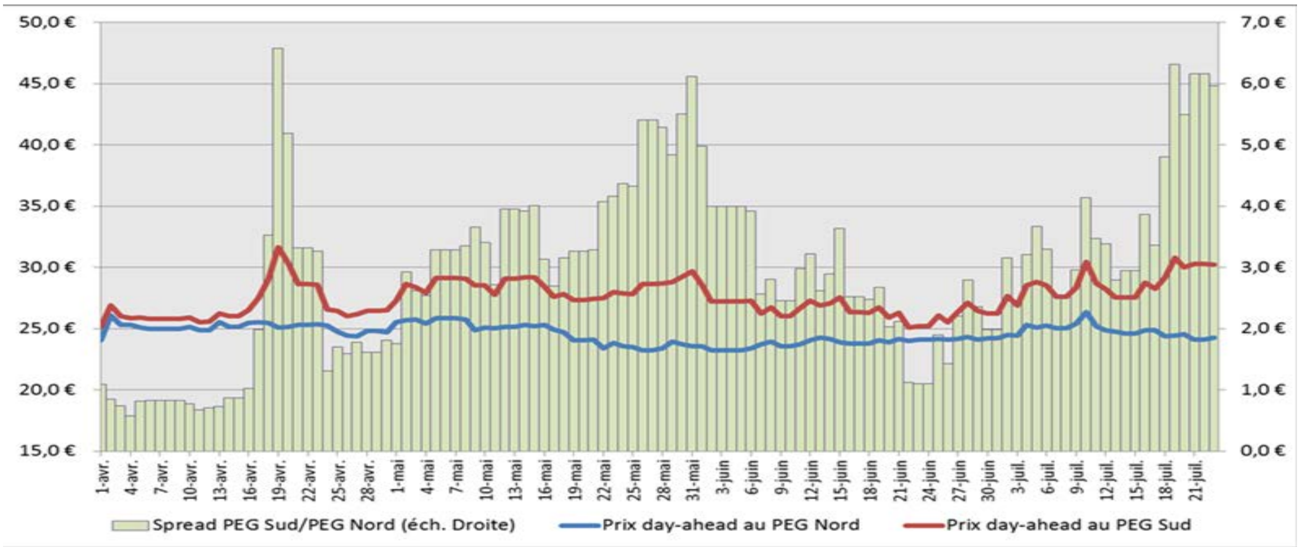
Firm and interruptible capacity will be available from 1 April 2013 on the link between GRTgaz's North and South zones and at the interface between GRTgaz and TIGF for annual and pluriannual durations. Following the schedule planned, this capacity will be sold in September 2012.

In addition, on 19 April 2011, CRE approved[2] GRTgaz's launch of a market coupling experiment between the North and South zones of its network. This experiment started on 1 July 2011, with the daily provision of 10 GWh/d of firm capacity, followed by 14.5 GWh/d since 1 April 2012.

The market conditions in the south of France have tightened considerably over the past few months. Since the end of 2011, there has been a drop in LNG import and an increase in exports from France to Spain. Flows on the North-South link increased by 30% in the first five months of 2012 compared to the same period in 2011. Since 1 June 2012, the use rate for available capacity available on the North to South link has stood at 99%. This situation has led to very high price differences between GRTgaz's North title transfer point (PEG) and its South PEG: the North/South difference went from an average €0.6/MWh to €2.7/MWh between the first and second quarter of 2012 and on several occasions reached levels higher than €6.0/MWh (see graph below).

[1] Deliberation of 7 July 2011 deciding on the rules for the sale of transmission capacity on the link between GRTgaz's North and South balancing zones and at the interface between GRTgaz and TIGF from 1 April 2012.

[2] Deliberation of 19 April 2011 deciding on GRTgaz's proposal to test a market coupling mechanism on its transmission network.



Source: EOD PWX

In this context[3], CRE considers that it is necessary to obtain market players' opinion on GRTgaz's proposals[4]:

- to continue the market coupling mechanism beyond 1 April 2013;
- to adapt the rules for the sale of capacity on the link in the North to South direction;
- to implement a new service for the coordinated sale of monthly capacity associating entry capacity at the Fos LNG terminal transmission interface point (PITTM) and on GRTgaz's South to North link.

These proposals were discussed within the "capacity allocation" group of Concertation gaz.

Following this consultation, CRE will carry out a deliberation on GRTgaz's proposals. The sale of capacity available from 1 April 2013 on GRTgaz's North/South link and at the GRTgaz/TIGF interface will take place in October 2012.

Interested parties are invited to submit their contributions by 7 September 2012 at the latest:

2. Allocation of interruptible capacity to market coupling from 1 April 2013

2.1. GRTgaz's proposal

Given the congestion on the North to South link, GRTgaz proposes to devote 30 GWh/d of interruptible capacity on the link in both directions instead of 14.5 GWh/d of firm capacity to the market coupling mechanism from 1 April 2013.

This 30 GWh/d would be deducted from the pluriannual interruptible capacity to be sold[5] from 1 April 2013. They would be made firm each day in the same proportions as for traditional interruptible capacity.

2.2. CRE's analysis

Within the framework of Concertation Gaz, the players were favourable to continuing the market coupling mechanism beyond 1 April 2013. Several changes were made to this mechanism implemented in July 2011, enabling it to operate under a wide range of market conditions (North–South price differences). It may favour liquidity at the South PEG and contribute to aligning prices between

[3] Capacity subscription on the link and the use rate have decreased since the commissioning of the Fos Cavaou terminal.
[4] Proposals forwarded to CRE on 6 July 2012, included in the Annex to this document.
[5] Of a total 122.9 GWh/d of pluriannual interruptible capacity from 1 April 2013.

GRTgaz's North and South zones. CRE considers at this stage that the market coupling mechanism must be continued after 1 April 2013.

Given the high use of the GRTgaz North/GRTgaz South link, CRE believes that it is preferable not to reduce the volume of annual firm capacity. It therefore agrees, at this stage, with GRTgaz's proposal to give priority to fuelling this mechanism with interruptible capacity by pre-empting 30 GWh/d of pluriannual interruptible capacity in both directions.

However, the allocation of interruptible capacity to market coupling instead of firm capacity means that this mechanism would not be implemented certain days during the year.

Powernext therefore proposes to allocate 5 GWh/d of firm capacity to the market coupling mechanism in order to ensure its daily availability. Powernext considers that the regular availability of the mechanism is key to its appeal. It adds that the price tensions in the South zone increase when interruptible capacity is not made firm to a large extent on the link; it is precisely under these conditions that the coupling mechanism may not be available in the event that it is exclusively operated on interruptible capacity.

Q1. Are you in favour of the continuation of the coupling system beyond 1 April 2013? What volume of interruptible capacity is most appropriate in your opinion?

Q2. Do you think that the allocation of a minimum of 5 GWh/d of firm capacity is required for making market coupling appealing?

3. Sale of capacity on the North-South link and on the GRTgaz/TIGF interface starting on 1 April 2013

3.1. Transmission system operators' proposals

GRTgaz's proposal concerns the sale of capacity on the link in the North to South direction. GRTgaz and TIGF propose to not modify the rules for the sale of capacity at the interface between their two networks. They propose that for the North-South link and the GRTgaz South/TIGF interface, the sale schedules should both be brought to October 2012.

3.1.1. Sale of annual capacity available on the North to South link from 1 April 2013

In accordance with the current tariff for the use of the transmission network, GRTgaz sells 20% of technical capacity on the North to South link for a period of one year, i.e.:

- 46 GWh/d of annual firm capacity;
- 44 GWh/d of annual interruptible capacity.

GRTgaz proposes to maintain the current sale rules. It is an "improved" pro rata in a two-phase open season each proposing 50% of capacity (see GRTgaz's proposal in the Annex to this document).

3.1.2. Sale of pluriannual capacity available from 1 April 2013

CRE's deliberation of 7 July 2011 on the sale of capacity on the link from 1 April 2012 limited the sale of capacity up to 31 March 2015 at the latest, given the prospects for merging the gas transfer points[6] aimed in particular at merging GRTgaz's North and South zones by 2015 or earlier based on contractual tools. Building on this measure, GRTgaz proposes to limit the sale of pluriannual capacity to a two-year period from 1 April 2013.

If 30 GWh/d of pluriannual interruptible capacity was to be allocated for continuing the market coupling mechanism, the volumes sold in the North to South direction from 1 April 2013 would be as follows:

- 52.8 GWh/d of firm capacity for a period of two years;
- 92.9 GWh/d of interruptible capacity for a period of two years.

[6] See CRE's deliberation of 19 July 2012 defining the course of action for the development of gas market places in France.

GRTgaz proposes applying the same sale rules as for annual capacity. Only the guaranteed allocation level would be adjusted to stand at 0.75 GWh/d.

3.2. CRE's preliminary analysis

3.2.1. Non-sale of link and interface capacity after 1 April 2015

Given the course of action retained in the deliberation of 19 July 2012, CRE is in favour of limiting the sale of capacity on GRTgaz's North-South link and at the GRTgaz/TIGF interface to a maximum period of two years.

3.2.2. *Extension of the guaranteed allocation mechanism for two years*

At this stage, CRE agrees with GRTgaz's proposal to extend the principle of an open season on a pro rata basis in two phases with the implementation of the "guaranteed allocation" option for two-year capacity sales. This mechanism, used for the sale of annual capacity, produced satisfactory results. Moreover, it would be appropriate to harmonise the sale methods for firm and interruptible capacity.

In addition, CRE considers, at present, that the level of capacity guaranteed for the sale of capacity for a two-year period must not exceed 0.75 GWh/d. The fact is that this option aims to give shippers with limited needs more visibility into their allocations. Cumulating one-year and two-year products may lead, for 2013 to a "guaranteed" allocation reaching a maximum of 2.25 GWh/d of firm capacity compared to 1.5 GWh/d previously. An initial analysis shows that this level constitutes an acceptable balance between the expectations of shippers with limited needs and other players.

Q3. Are you in favour of maintaining the "guaranteed allocation" mechanism at 1.5 GWh/d for the sale of annual capacity?

Q4. Are you in favour of extending this mechanism to the sale of capacity for a two-year period at a volume of 0.75 GWh/d?

3.2.3. Sale of capacity available at the GRTgaz South - TIGF interface from 1 April 2013

The annual capacity available from 1 April 2013 at the GRTgaz South – TIGF interface considering existing rules are :

- 0 GWh/d of firm capacity in the GRTgaz South to TIGF direction;
- 64 GWh/d of firm capacity in the TIGF to GRTgaz South direction.

The two-year annual capacity available from 1 April 2013 at the GRTgaz South – TIGF interface considering existing rules are:

- 31 GWh/d of firm capacity in the GRTgaz South to TIGF direction;
- 16 GWh/d of firm capacity in the TIGF to GRTgaz South direction.

According to the study conducted by KEMA on the conditions for merging GRTgaz's North and South PEGs, the conversion of firm capacity into interruptible capacity at the GRTgaz South to TIGF interface is one possible way of limiting congestion on the North to South link.

If all or part of the firm capacity proposed for sale was to remain unsold at the end of the current booking window, and provided that additional analyses confirm that it could reduce market tension in the South zone, CRE presently considers that it may be appropriate to convert the spare capacity into interruptible capacity.

Q5: What do you think of the possibility of converting spare firm capacity into interruptible capacity at the GRTgaz South - TIGF interface from 1 April 2013?

4. Service for the “coordinated” sale of monthly capacity at the Fos LNG terminal transmission interface (PITTM) and on the South to North link

4.1. GRTgaz’s proposal

On 27 April 2012, GRTgaz presented to the Concertation gaz “capacity allocation” working group, a project for the coordinated sale of monthly capacity at the Fos PITTM with the option of subscribing associated capacity allocation on the South to North link between the GRTgaz zones.

This new service aims to facilitate access to the North PEG from the Fos Cavaou and Fos Tonkin terminals for shippers wishing to unload spot or banded service cargo at one of those two terminals. Since liquidity is mainly concentrated in the North PEG, shippers most often wish to transfer the gas unloaded at Fos via the South link towards the North.

GRTgaz proposes implementing a procedure for the coordinated sale of capacity leading to the subscription of monthly capacity on the South to North link from the first day of a carrier’s send-out in banded or spot service, without this date necessarily being the 1st day of a calendar month.

GRTgaz would be able to allocate monthly capacity on the South to North link up to three working days before the first day of send-out. The capacity would be billed according to the current monthly tariff, i.e. $1/8^{th}$ of the corresponding annual tariff.

4.2. CRE’s preliminary analysis

GRTgaz’s proposal may improve the appeal of the Fos Tonkin and Fos Cavaou terminals. At this stage, CRE agrees with this proposal.

Q6. Are you in favour of the implementation of the coordinated sale of capacity at the Fos PITTM and on the South to North link under the conditions proposed by GRTgaz?

Q7. Do you have any other comments on the topics addressed in this public consultation?

Questions:

Q1. Are you in favour of the continuation of the coupling system beyond 1 April 2013? What volume of interruptible capacity is most appropriate in your opinion?

Q2. Do you think that the allocation of a minimum of 5 GWh/d of firm capacity is required for making market coupling appealing?

Q3. Are you in favour of maintaining the “guaranteed allocation” mechanism at 1.5 GWh/d for the sale of annual capacity?

Q4. Are you in favour of extending this mechanism to the sale of capacity for a two-year period at a volume of 0.75 GWh/d?

Q5: What do you think of the possibility of converting spare firm capacity into interruptible capacity at the GRTgaz South - TIGF interface from 1 April 2013?

Q6. Are you in favour of the implementation of the coordinated sale of capacity at the Fos PITTM and on the South to North link under the conditions proposed by GRTgaz?

Q7. Do you have any other comments on the topics addressed in this public consultation?

CRE invites all interested parties to submit their contributions by 7 September 2012 at the latest:

- by email to the following address: dirgaz.cp1@cre.fr;

- by contributing directly on CRE’s website (www.cre.fr) in the section “Documents/Public consultations";

- by post: 15 rue Pasquier - F-75379 Paris Cedex 08 – France;

- by contacting the Gas Infrastructure and Networks Department: + 33.1.44.50.41.44

Please state clearly whether you wish for your contribution to remain confidential.