



# **CRE's public consultation on the changes in ATRT5 tariffs regarding the transitional measures before the setting up of a single PEG and the incentive regulation of the Val de Saône and Gascogne/Midi projects**

**Enagás comments**

29<sup>th</sup> August 2014

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## **1 Introduction**

1. Enagás welcomes CRE's opportunity to contribute to the public consultation on the changes in ATRT5 tariffs regarding the transitional measures before the setting up of a single PEG and the incentive regulation of the Val de Saône and Gascogne/Midi projects.
2. Enagás participation in the consultation is motivated by the concerns of the company that the measures under consultation may have a relevant impact on the Spanish system.
3. Enagás response to this consultation is **not confidential**.

## **2 Executive summary**

4. Enagás is not in favor of the proposed introduction of a mechanism to reduce the flow of natural gas from France to Spain currently resulting from market-based decisions by shippers. The proposal is not justified by a technical problem, but by a market result judged as undesirable by the CRE.
5. Enagás believes that natural gas should freely flow within the European Union to markets where it is more valued. Mechanisms to avoid the occurrence of such flows, which are not aimed at solving a technical problem, but just to prevent gas prices from reflecting market circumstances, would not be justified, and cannot be described as "market mechanisms" (if anything, as "antimarket mechanisms").
6. The company also considers that existing and proposed capacity allocation measures at the North-South link should be analysed and assessed against European regulation, in particular the CAM NC, to ensure that they do not result in any discriminatory effect.
7. As regards possible tariff reductions under study, Enagás believes that entry and exit tariff levels in EU natural gas transmission networks should be the result of the application of a pre-defined tariff methodology, and not discretionary decisions by NRAs to promote the utilization of certain entry or exit points.

### **3 General comments**

#### **2.1. *Comments on the proposed mechanisms to reduce flows from France to Spain***

8. The establishment of mechanisms to align gas prices between Southern and Northern France should not introduce a barrier for the free trade of natural gas within the European Union.
9. Gas flows from France to Spain are essentially reflecting market circumstances (spot gas prices have been higher in Spain than in Southern France for a long time), which in the last couple of years have been very much explained by the situation in the LNG market, as already identified by the CRE in a number of analyses.
10. Restricting physical flows from France to Spain would reduce prices in Southern France at the stake of increasing them in Spain. Moreover, these flows are probably already distorted by a number of measures introduced by CRE that give preference to certain French shippers and/or consumers in the allocation of capacity between Northern and Southern France, preventing more gas to flow from France to Spain in spite of the gas price differential between the two markets.<sup>1</sup>
11. Gas flows from France to Spain are making use of the common technical capacity calculated by operators and sold as firm capacity, most of it under long-term contracts. The remaining part of the firm capacity under short-term contracts corresponds to capacity deliberately left for short-term commercialization in order to foster competition and the efficient usage of the interconnection. This short-term capacity, which have been sold every year due to market demand (with a premium over the reserve price since the introduction of auctions, which is rare at EU IPs and reflects its commercial value), should not be restricted.
12. Enagás believes that natural gas should freely flow within the European Union to markets where it is more valued. Mechanisms to avoid the occurrence of such flows, which are not aimed at solving a technical problem, but just to prevent gas prices from reflecting market circumstances, would not be justified, and cannot be described as "market mechanisms" (if anything, as "antimarket mechanisms").

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<sup>1</sup> Enagás already called in March 2014 for an analysis and assessed against European regulation, in particular the CAM NC, of the potential discriminatory effect of existing and proposed measures to "optimise the utilisation" of the North-South link in France.

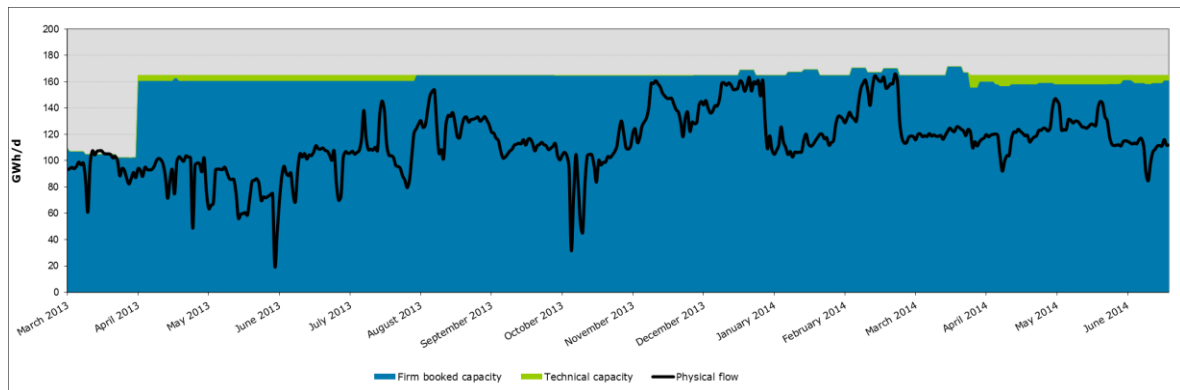
See Enagás: "Public consultation on the creation of a single marketplace in France in 2018. Enagás comments", 21<sup>st</sup> March 2014.

Available at: <http://www.cre.fr/documents/consultations-publiques/creation-d-une-place-de-marche-gaz-unique-en-france-en-2018/consulter-les-reponses-non-confidentielles>

## 2.2. Market situation in Spain and France and capacity at the border

13. Capacity from France to Spain is totally booked and the load factor is certainly high. It has reached 100% a number of times, and arguably these cross-border flows are at times lower than they would be if other capacity allocation measures at the North-South linked had not been introduced.

### *Physical cross-border flows at Larrau (main physical connection)*



14. Cross-border flows between France and Spain are the result of market circumstances, regularly monitored by CRE and reflected on its quarterly reports. There is nothing wrong about the high degree of utilization of the interconnection, and it does not result in any technical problem on the French side; it does, however, result in some price convergence and market integration between Southern France and Spain, which is an objective of European regulation.
15. The figures below, taken from CRE reports,<sup>2</sup> show that:
- PEG North prices are essentially aligned with other EU hubs such as TTF, Zeebrugge or NBP

<sup>2</sup> CRE: "Observatoire des marchés de l'électricité, du gaz et du CO2 1er trimestre 2014". Available at: <http://www.cre.fr/media/fichiers/marches/consulter-l-observatoire-des-marches-de-gros-du-1er-trimestre-2014>

## Evolution des prix en France et en Europe

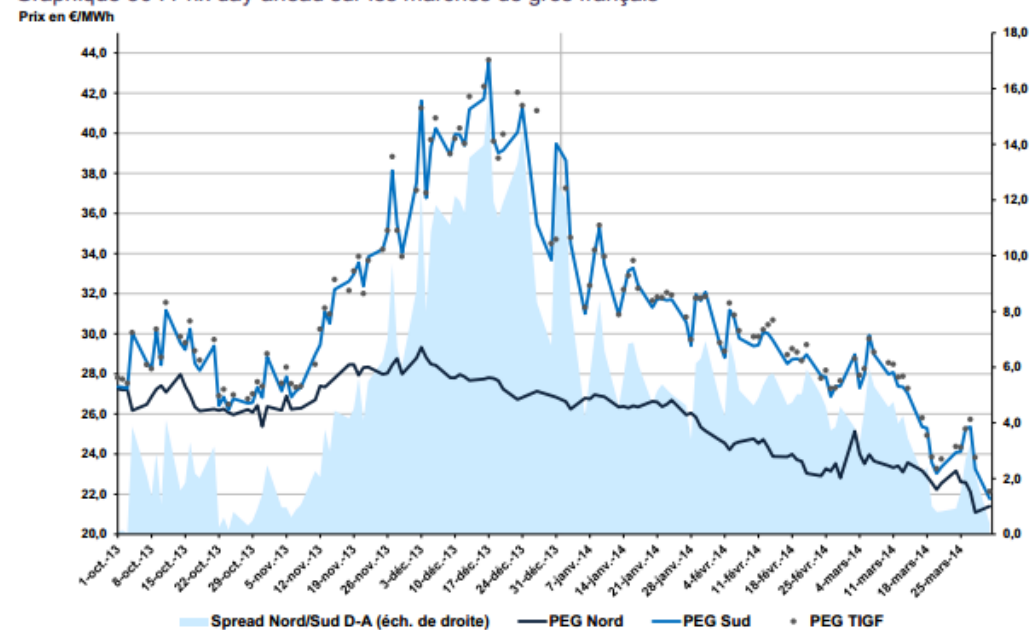
Graphique 29 : Prix day-ahead sur les principaux marchés du gaz en Europe



Source: Powernext EOD ; Heren – Analyse : CRE

- PEG South prices and PEG TIGF prices are frequently higher, reflecting the limited availability of capacity at the North-South link, which does not allow for a full price convergence.

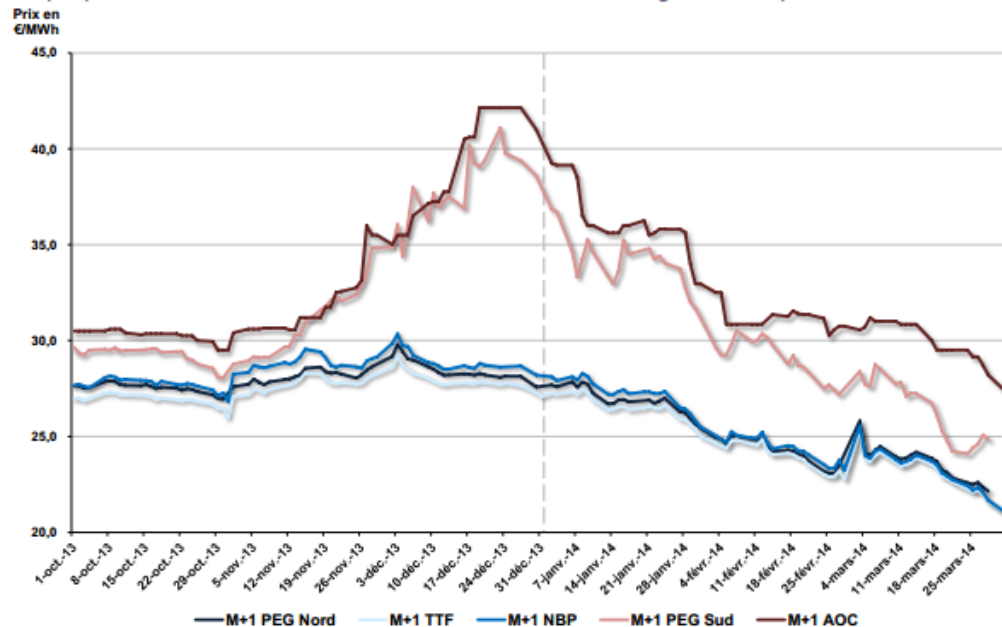
Graphique 30 : Prix day-ahead sur les marchés de gros français



Source: Powernext EOD et Heren pour le PEG TIGF – Analyse : CRE

- Spot prices estimates in Spain (AOC) are significantly higher than the ones at PEG South and PEG TIGF.

Graphique 31 : Prix du contrat *month-ahead* sur les marchés du gaz en Europe



Source: Powermex ; Heren – Analyse : CRE

In spite of this data published by CRE, the utilisation of the capacity between France and Spain is frequently below 100%. If anything, the CRE and CNMC should investigate why this is so.

### 2.3. Enagás view on capacity allocation measures at the North-South link

16. Once again, Enagás would like to reiterate its position towards the introduction of mechanisms to either give priority to a particular group of shippers or consumers, or the coordinated allocation of capacities between entry points (both pipeline and LNG terminals) and internal IPs: there should not be capacities at IPs reserved particular group of shippers or consumers or for specific routes. If the utilization of an entry point wants to be favoured for a justified reason, appropriate and proportionate market mechanisms should be implemented.
17. The coordinated sale of capacity at an entry point with the capacity at the North-South link, or the priority given to certain types of consumers, could be discriminatory towards other entry points which would not have access to a similar coordination with capacity at that IP. Such measures would be detrimental to non-prioritised shippers, amongst them the ones shipping gas from France to Spain. Moreover, it would not be consistent with the underlining principles of the CAM NC.
18. It must be noted that the list of IPs for the expected or possible application of the CAM NC, published by ENTSOG, also includes the North-South link of

GRTgaz. This document has been delivered by ENTSOG on request by ACER and the EC.

19. Hence, existing and proposed capacity allocation measures at the North-South link should be analysed and assessed against European regulation, in particular the CAM NC, to ensure that they do not result in any discriminatory effect. If not consistent with the CAM NC, they should not be in forced after the binding date of implementation of the CAM NC (i.e 1 November 2015).
20. Enagás' position has been previously expressed to CRE during: (1) the public consultation on the commercialization of transmission capacity on the link between GRTgaz's North and South link and the GRTgaz/TIGF interface<sup>3</sup>, (2) the public consultation regarding rules for the sale of transmission capacity at the link between GRTgaz the North and South zones<sup>4</sup>, (3) the public consultation about the allocation of transmission capacity between GRTgaz's North zone, GRTgaz's South zone, TIGF's zone and Spain as from 1 April 2014<sup>5</sup>, (4) in the public consultation on conditions for access to gas transmission networks for gas intensive consumers,<sup>6</sup> (5) in the Public consultation related to the creation of a joint GRTgaz-TIGF marketplace as of 1 April 2015,<sup>7</sup> and (6) in the public consultation on the creation of a single marketplace in France in 2018.<sup>8</sup>
21. Nevertheless, CRE has already adopted a number of measures aimed at "optimising" the capacity offered at the North-South link and of its use.

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<sup>3</sup> CRE: "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". 31 July 2012. Available at:

<http://www.cre.fr/en/documents/public-consultations/commercialization-of-transmission-capacity-on-the-link-between-grtgaz-s-north-and-south-link-and-at-the-grtgaz-tigf-interface/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>

<sup>4</sup> CRE: "Public consultation by the CRE on the commercialization of transmission capacity on the link between GRTgaz's North and South link and the GRTgaz/TIGF interface". 24 October 2012. Available at:

<http://www.cre.fr/documents/consultations-publiques/commercialisation-des-capacites-de-transport-a-la-liaison-entre-les-zones-nord-et-sud-de-grtgaz/consulter-la-note-technique>

<sup>5</sup> CRE: "Public consultation by the French Energy Regulation Commission on the allocation of transmission capacity between GRTgaz's North zone, GRTgaz's South zone, TIGF's zone and Spain as from 1 April 2014". 5 June 2013:

<http://www.cre.fr/en/documents/public-consultations/allocation-of-transmission-capacity-between-grtgaz-s-north-zone-grtgaz-s-south-zone-tigf-s-zone-and-spain-as-from-1-april-2014/download-consultation>

<sup>6</sup> CRE: "Consultation publique de la CRE relative aux conditions d'accès aux réseaux de transport de gaz des consommateurs gazo-intensifs". Available at:

<http://www.cre.fr/documents/consultations-publiques/conditions-d-acces-aux-reseaux-de-transport-de-gaz-des-consommateurs-gazo-intensifs/consulter-la-note-technique>

<sup>7</sup> CRE: "Consultation publique de la Commission de régulation de l'énergie sur la création d'une place de marché commune aux zones GRTgaz Sud et TIGF au 1er avril 2015". Available at:

<http://www.cre.fr/documents/consultations-publiques/peg-commun-grtgaz-tigf-au-1er-avril-2015/consulter-la-note-technique>

<sup>8</sup> CRE: "Consultation publique relative à la création d'une place de marché gaz unique en France en 2018". Available at: <http://www.cre.fr/documents/consultations-publiques/creation-d-une-place-de-marche-gaz-unique-en-france-en-2018/consulter-la-note-technique>



According to the CRE, they contributed to improving the functioning of the market in the south zone, with, in particular, the development of liquidity in the short-term market, and to the development of competition in the retail market. These include:

- Allocation by auction of capacity at the North-South link for the period from 1 Apr 2014 to 30 Sep 2018, "which enables the redistribution to network users of the bottleneck income, and implementation of specific conditions for access to North-South capacity for gas-intensive customers located in the south of France" (deliberation of 17 October 2013<sup>9</sup>);
- Sale of additional firm daily capacity at the North-South link: Joint transport storage (JTS) service resulting from the coordinated use of the transmission systems and Storengy's underground storage facilities (deliberations of 23 May 2013<sup>10</sup> and of 30 October 2013<sup>11</sup>);
- Firming of interruptible capacity at the North-South link: transformation of 40 GWh/d of interruptible capacity into firm capacity at the link in the north to south direction (deliberation of 29 January 2014);
- Transfer of gas in storage between certain storage facilities in the North and South zones proposed by Storengy.
- CRE approved a coordinated allocation of capacities between North-South link and Fos (deliberation 4 October 2012<sup>12</sup>).

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<sup>9</sup> CRE, "Délibération de la CRE du 17 octobre 2013 portant décision relative aux règles de commercialisation des capacités de transport à la liaison entre les zones Nord et Sud de GRTgaz, à l'interface entre GRTgaz et TIGF et aux interconnexions avec l'Espagne". Available at:

<http://www.cre.fr/documents/deliberations/decision/commercialisation-des-capacites/consulter-la-deliberation>

<sup>10</sup> CRE, "Délibération de la CRE du 23 mai 2013 portant décision relative aux règles de commercialisation par GRTgaz de capacités de transport additionnelles à la liaison entre les zones Nord et Sud à titre expérimental". Available at:

<http://www.cre.fr/documents/deliberations/decision/commercialisation-par-grtgaz-de-capacites-de-transport-additionnelles/deliberation-de-la-cre-du-23-mai-2013-portant-decision-relative-aux-regles-de-commercialisation-par-grtgaz-de-capacites-de-transport-additionnelles-a-la-liaison-entre-les-zones-nord-et-sud-a-titre-experimental>

<sup>11</sup> CRE, "Délibération de la CRE du 30 octobre 2013 portant décision relative aux règles de commercialisation par GRTgaz de capacités de transport additionnelles à la liaison entre les zones Nord et Sud à titre expérimental jusqu'au 31 mars 2014". Available at:

<http://www.cre.fr/documents/deliberations/decision/capacites-de-transport4/consulter-la-deliberation>

<sup>12</sup> CRE, "Délibération de la CRE du 4 octobre 2012 portant décision relative aux règles de commercialisation des capacités de transport à la liaison entre les zones Nord et Sud de GRTgaz et à l'interface entre GRTgaz et TIGF". Available at:

<http://www.cre.fr/documents/deliberations/decision/capacites-de-transport2/consulter-la-deliberation>

## 4 **Questions**

### ***I. Mesures transitoires avant la création d'un PEG unique en France***

**Question 1: Etes-vous favorable à la proposition des GRT concernant la modification de la règle de répartition entre Cruzy et Castillon? Etes-vous favorable à la commercialisation de 20 GWh/j sous forme de capacités Nord-Sud fermes mensuelles et à l'utilisation des 20 GWh/j restants en moyenne pour améliorer la disponibilité des capacités interruptibles Nord-Sud?**

**Question 2: Etes-vous favorable à la proposition de GRTgaz concernant la poursuite du service de JTS cet hiver? Etes-vous favorable à une commercialisation des capacités JTS sur la plateforme PRISMA?-**

**Question 3: Etes-vous favorable au système de gaz circulant proposé par GRTgaz pour réduire l'amplitude des variations de l'interruption de la liaison Nord-Sud? Si oui, quelle variante privilégiez-vous?-**

**Question 4: Avez-vous d'autres remarques sur les propositions de GRTgaz et TIGF pour l'optimisation des infrastructures de gaz?**

22. Enagás is concerned by the possible impact on the Spanish system of measures already introduced on allocation of capacity at the North-South link, and of any further measure under study.
23. The company considers that existing and proposed measures should be analysed and assessed against European regulation, in particular the CAM NC, to ensure that they do not result in any discriminatory effect.

**Question 5: Etes-vous favorable au principe d'un rabais tarifaire au PITTM de Fos? Partagez-vous l'analyse de la CRE qui constate la difficulté à trouver une mise en œuvre efficace? Avez-vous d'autres solutions à proposer?**

24. Enagás believes that entry and exit tariff levels in EU natural gas transmission networks should be the result of the application of a pre-defined tariff methodology, and not discretionary decisions by NRAs to promote the utilization of certain entry or exit points.

**Question 6: Etes-vous favorable au dispositif proposé par la CRE d'un appel d'offres d'engagements de flux de l'Espagne vers la France en cas de tension importante dans le sud de la France? Avez-vous des suggestions sur les modalités de mise en œuvre de ce dispositif?**

25. No, Enagás is not in favor of the proposed introduction of a mechanism to reduce the flow of natural gas from France to Spain currently resulting from

market-based decisions by shippers. The proposal is not justified by a technical problem, but by a market result that is judged as undesirable by the CRE.

26. Enagás believes that natural gas should freely flow within the European Union to markets where it is more valued. Mechanisms to avoid the occurrence of such flows, which are not aimed at solving a technical problem, but just to prevent gas prices to reflect market circumstances, would not be justified, and cannot be described as "market mechanisms" (if anything, as "antimarket mechanisms").
27. Enagás position is already explained in the general comments section of this response.

**Question 7: Etes-vous favorable à la régulation incitative sur les capacités additionnelles à la liaison Nord vers Sud proposée par la CRE?**

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**Question 8: Etes-vous favorable à la baisse du tarif régulé des capacités mensuelles à la liaison Nord vers Sud?**

28. Enagás believes that entry and exit tariff levels in EU natural gas transmission networks should be the result of the application of a pre-defined tariff methodology, and not discretionary decisions by NRAs to promote the utilization of certain entry or exit points.

**II. Régulation incitative applicable aux projets Val de Saône et Gascogne-Midi**

**Question 9: Etes-vous favorable à l'extension au projet Gascogne-Midi de la régulation incitative applicable au projet Val de Saône?**

**Question 10: Etes-vous favorable à l'attribution d'une prime pour inciter les GRT à mettre en service les projets Val de Saône et Gascogne-Midi en 2018? Si oui, quel montant vous semblerait devoir être retenu?**

**Question 11 : Avez-vous d'autres remarques?**

29. The CRE, in its decision of 7<sup>th</sup> May 2014,<sup>13</sup> asks TIGF to propose the Gascogne-Midi project as a Project of Common Interest in the next selection phase organized by the European Commission.

<sup>13</sup> CRE: "Délibération de la Commission de régulation de l'énergie du 7 mai 2014 portant orientations relatives à la création d'une place de marché unique en France en 2018",

Available at: <http://www.cre.fr/documents/deliberations/orientation/place-de-marche-unique-en-2018/consulter-la-deliberation>

30. Given that the CRE considers that the unification of French zones in a single one, under any configuration, delivers net benefits to Spain, and given that GRTgaz already asked CRE and CNMC for a decision on Cross-Border Cost Allocation (CBCA) between France and Spain for the Val de Saône project, it is very likely that if the Gascogne/Midi project qualifies as PCI, TIGF will ask CRE and CNMC for a decision on CBCA in the future.
31. Enagás notes that the determination of allowed revenues is a national matter in European countries, while Regulation 347/2013 has introduced European rules on CBCA. This creates a contradictory situation where costs from one Member State can be allocated to another one, but the NRA of the latter does not have a say on the efficiency of the investment and operation costs incurred, or in the adequacy of the allowed revenues framework, of the former.