

CRE 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



EFET Response – 29 August 2014

The European Federation of Energy Traders (EFET) thanks CRE for its consultation of market participants on this important element of gas wholesale market design in France. You will find our detailed answers to the consultation questions below.

Preliminary question: *What is your analysis of the fact that an important fraction of the capacity at the Fos terminals remains unused whereas since April 2014, large amounts of LNG are delivered to some terminals in the North West Europe?*

No EFET comment.

Question 1: *Are you in favour of the TSO's proposal regarding the change in the distribution rules between Cruzy and Castillon? Are you in favour of the marketing of 20 GWh/d in the form of firm monthly North-South capacity and the use of the 20 GWh/d remaining on average to improve the availability of the interruptible North-South capacity?*

EFET is in favour of the TSO's proposal with regard to the change in the distribution rules between Cruzy and Chatillon considering that this proposal will not affect market participants while TSO operations will be improved, with additional firm North-South capacity.

With regard to the conditions for the marketing of the new capacity released, we believe that the complete set of capacity should be commercialised like any primary capacity products, i.e. through CAM auctions on PRISMA.

Question 2: *Are you in favour of the proposal of GRTgaz regarding the continuation of JTS's service this winter? Are you in favour of selling JTS capacities via the PRISMA centre?*

The JTS service has allowed additional gas volumes to be transported from the North to the South of France over the past seasons, thus decreasing the effects of the congestion between

the zones. Considering that the costs of this mechanism remain manageable, EFET would support the continuation of the JTS service.

EFET would also welcome a commercialisation of the capacity released through the JTS on PRISMA. Indeed, most shippers are now used to booking capacity on this platform instead of Trans@ctions, thus leading to a better visibility of the mechanism to market participants.

Question 3: *Are you in favour of the circulating gas system offered by GRTgaz to reduce the magnitude of the variations of the North-South Link interruption? If so, what variant will you prefer?*

Based on CRE's analysis, it appears that the costs associated with this mechanism are unclear. In addition, the impacts of the mechanism on the interruption rate of the North-South capacity have not been assessed by GRTgaz so far.

As a consequence, EFET believes this mechanism should be further evaluated before a decision is taken on a possible implementation.

Question 4: *Do you have other comments about the proposals of GRTgaz and TIGF for the optimisation of the gas infrastructures?*

EFET has no further comments at this stage.

Question 5: *Are you in favour of the principle of a price decrease at the Fos PITTM? Do you share the analysis of CRE which sees the difficulty in finding an efficient implementation? Do you have other solutions to offer?*

Similarly to the circulating gas system covered in Question 3, EFET believes that the proposal to decrease the tariff at the PITTM has been insufficiently worked out in terms of design and that the expected benefits have not been demonstrated yet.

Question 6: *Are you in favour of the system suggested by CRE if a call for bids for flows from Spain to France in the event of significant tension in the south of France? Do you have suggestions regarding the terms of implementation of that system?*

The mechanisms proposed by CRE would be quite unique as they would see TSOs interfere with the market by either buying back capacity from France to Spain (expected to be nominated otherwise) or by activating flow commitments from Spain to France against market flows.

In general principles, EFET does not favour TSOs interference in the market, unless when absolutely needed, such as for Security of Supply reasons, and usually advocates for any TSO action to be after market when possible, in order to limit market interferences and to limit TSOs interventions.

Also the proposed triggering criteria of "significant tension in the south of France" is far too vague and would in fact interfere with normal price signals, thus preventing the market to find alternative solutions on its own.

Both of these mechanisms would also interfere with the market value for storage.

We therefore believe that for such a mechanism to be envisaged, more transparency and market consultation would be required, in particular concerning its perimeter, market impacts and detailed implementation arrangements. Also, additional certainty would be required on the expected benefits and possible detrimental effects of the mechanism.

Independently of any solution envisaged, a number of principles should be kept in mind when designing any new mechanism:

- Its interest/need should be clearly demonstrated and its costs should be minimised. This would also involve a wider study/comparison with all other potential solutions/mechanisms
- Its beneficial effects should be quantified and consulted (as part of the cost / benefits analysis)
- Its potential negative effects on the market should be further analysed and consulted
- Its perimeter should be clearly defined (rules, activation principles, etc.)
- It should have no discriminatory effects (for example a flow commitment would not put all participants on an equal foot if it was based on capacities already purchased)
- It should be put in competition with alternative measures both at the design and activation phases,

So far, EFET does not consider that the proposed mechanisms have been sufficiently studied, detailed and consulted.

Question 7: *Are you in favour of the incentive control of the extra capacity of the North South link offered by the CRE?*

As long as costs are covered in an efficient manner and that the incentive regulation put in place delivers its objectives, EFET would support CRE's proposal.

Question 8: *Are you in favour of a decrease in the regulated tariff of the monthly capacities to the North to South link offered by CRE?*

A decrease in the regulated tariffs for monthly and daily capacity at the North-South Link would marginally help optimising the North-South flows during times of lower tension in the market. The effects of this measure will mainly materialise in the day-ahead market.

Indeed, considering the magnitude of the congestion at the North-South Link and the need for capacity, it is likely that the auctions for monthly capacity will clear at a substantial premium over the regulated tariffs, whether the multiplier in place is 1.5 or 1. In such case, this measure would mainly lead to longer auctions in terms of duration as well as greater premiums to be recovered ex-post. Considering the negative opinion of EFET in the past on the auction redistribution mechanism, the amount redistributed should not be increased.

While CRE should ensure that the position of long-term capacity holders and the competitiveness of long-term capacity remains unaffected by the proposed measure, we would favour a decrease of the premium for daily capacity only as it may marginally increase liquidity and trading opportunities between zones for short-term capacity.

Question 9: *Are you in favour of the extension to the Gascogne-Midi project of the incentive regulation system applicable to the Val de Saône project?*

Considering that the solution retained for the merger investment is the combination of the Val-de-Saône and the Gascogne-Midi projects, it seems reasonable to apply the same incentive scheme to both projects. Therefore, EFET supports CRE's extension proposal.

Question 10: *Are you in favour of the allotment of a premium to encourage TSOs to start up the Val de Saône and Gascogne-Midi projects in 2018? If so, what amount do you think should be applied?*

EFET agrees with the principle of a premium to encourage a start of operations of the projects in 2018.

A proper incentive could prompt TSOs to fully implement the projects and complete the Val de Saône and Gascogne-Midi investments by 2018, especially since TSOs are mainly exposed to the costs and not necessarily to the beneficial effects for the market of such projects. If well designed, such a measure could facilitate the usage of additional, or more efficient, resources, thus with a direct impact on the project planning.

However, considering that there is so far no element on the tariff treatment of these investment, the conditions for the premium to be granted should be made clear and gradual, and the magnitude of the premium should be proportionate to the expected beneficial effects, with a clear link with the actions to be put in place in order to achieve the objective set: while we strongly support a start of operations in 2018, it should not justify a disproportionate rise in investment costs and, consequently of grid tariffs.

CRE should also make its best efforts to influence the Ministry to introduce a quick and streamlined procedure to facilitate the completion of the Val de Saône and Gascogne-Midi investments, in line with the investment simplification procedures proposed in the Energy Transition Law.

Question 11: *Do you have any other comment?*

EFET has no further comments at this stage.