



**CRE's public consultation
concerning the new tariffs for
the use of gas transmission
networks of GRTgaz and TIGF
(ATRT6) and the new tariffs
for the use of regulated LNG
terminals (ATTM5)**

Enagás comments

NON-CONFIDENTIAL RESPONSE

25th March 2016



1 Introduction

1. Enagás welcomes CRE's opportunity to contribute to the public consultation on new tariffs for the use of gas transmission networks of GRTgaz and TIGF, and the new tariffs for the use of regulated LNG terminals.
2. Enagás participation in the consultation is motivated by the concerns of the company that some measures under consultation, related to transmission tariffs, may have a relevant impact on the Spanish system.
3. Enagás response to this consultation is **not confidential and not anonymous**.

2 Questions

Question 1. Do you believe that the CRE has correctly understood the major issues affecting natural gas transmission tariffs between now and 2020?

4. The analyses made in sections I. and II.B.2. present a picture of large investments completed, with demand remaining stable or decreasing, relevant RAB increases, and increased TPA tariffs as a result.
5. The analyses do not, however, offer an in depth view of the impact of each investment on the overall result.
6. In particular, investments specifically made to increase capacity between France and Spain have had a neutral or positive, and not negative, impact on Third-Party Access tariffs in France.
7. Unlike most of investments related either to REPEX or internal reinforcements, the **investments related to increase capacity between France and Spain have been subject to an economic test that guaranteed that most of the investments were to be recovered through existing TPA tariffs**, even when temporary incentives for investment were taken into account. On top of that, **the portion of capacity left for short term has been highly demanded in the case of capacity from North to South (France-Spain), being this capacity the one with the highest tariff**.
8. Capacities newly created have been, so far, profitable, without the need to increase unit tariffs already in place. By any measure, **the extra capacity created between France and Spain has not resulted in higher infrastructure costs to be passed on to consumers**.



Question 2. Do you have any comments on the programme of work and schedule proposed by the CRE for the ATRT6 tariffs?

Question 3. Are you in favour of continuing the calendar used for ATRT5 i.e. revising the transmission tariffs on 1 April of each year, accompanied by information concerning the changes in the tariffs at the interconnection points over the whole ATRT6 tariff period?

Question 4. Are you in favour of an annual rise in the ATRT6 tariffs on 1 April, and a one-off increase when the single marketplace is created, under the conditions proposed by the CRE?

9. Given that the decision to be adopted at the end of 2016 for tariffs from April 2017, will be adjusted at the end of 2017 to include a one-off price movement on 1 November 2018, **it might be worth exploring the option of having by Autumn 2018 a system fully in line with the Tariff Network Code (TAR NC)** which will potentially be published in January 2017.
10. It would be advisable that European regulators collaborated to ensure a fair degree of harmonisation on the calendar to put in place the TAR NC, and to update annual tariffs simultaneously. 1st October seems to be the most appropriate date.

Question 5. What is your opinion of the ATRT5 tariff? Are you in favour of the CRE's preliminary orientations for the regulatory framework for the ATRT6 period?

Question 6. According to you, does the non-renewal of the 300 basis points bonus for the period ATRT6 seem appropriate?

11. **There is no reason to eliminate the possibility of granting financial incentives to certain investments, if such investments cannot be triggered without incentives, and the investments are properly justified** (e.g. the market is willing to pay for the investment taking into account the incentive, or a CBA justifies it).
12. As commented before, in the case of certain investments, granting such incentives has not resulted in higher TPA tariffs: a case-by-case analysis must therefore be made.
13. The overall picture presented by CRE means that few investments will qualify for such incentives, but not that they won't be necessary and justified for selected investments.
14. **Eliminating the possibility of granting 300 basis point bonus to specific projects on a case-by-case basis, if the measure was not replaced by other incentives, would go against Art. 13 of [Regulation 347/2013](#), and against [ACER Recommendation No. 03/2014](#), of 27 June 2014, on Incentives for Projects of Common Interest and on a Common Methodology for Risk Evaluation, leaving CRE without tools to address risks borne by the promoters of PCIs.**



15. CRE already took this Recommendation into account in its "[Délibération de la Commission de régulation de l'énergie du 1er octobre 2014](#) portant communication sur les conditions d'application de mesures incitatives aux projets d'intérêt commun", which established and published the general principles for the evaluation of risks borne by the promoters of PCIs, eligible for incentives.

Question 19. Are you in favour of equalising the GRTgaz and TIGF tariffs, under the conditions proposed by the CRE?

16. The question is somehow misleading. As a general comment, **Enagás considers that tariffs in France, as well as in all EU members, should be the result of the application of a methodology (single methodology per balancing zone), taking into account costs and expected flows, and not the result of ad hoc decisions on cost allocation applied on top of existing tariff levels.**

Question 21 Are you in favour of maintaining the TSOs' revenue stable between the main network entries and exits?

17. The last known version of the **draft TAR NC states that "The relevant parameters for the capacity weighted distance reference price methodology shall include [...] the 50/50 entry-exit split [...]"**
18. In some sections of the proposal, CRE justifies certain proposals based on the capacity weighted distance reference price methodology. Consistently, **CRE should follow this principle.**
19. The **draft TAR NC is clearly not referring to having an equal weighted average level of entry and exit tariffs, but to the total revenue gathered from entries and exits.**

Question 22 Are you in favour of the CRE's proposed approach to reflect the transit costs to Italy and Spain?

20. As stated above, tariffs should be the result of the application of a methodology, taking into account costs and expected flows, and not the result of ad hoc decisions on cost allocation applied on top of existing tariff levels.
21. The explicit criteria proposed by the CRE that "transit tariffs (Dunkirk-Pirineos and Dunkirk-Oltingue flows) should not change significantly as a result of setting up a single marketplace" denotes that either (1) there is no methodology as such, and *ad hoc* decisions on top of existing TPA tariffs are being made, or (2) the methodology incorporates a restriction to maintain certain tariff levels, that may discriminate between national consumption points and IPs.
22. As a general consideration, **if a non-discriminatory methodology is applied, the exit tariff at VIP Pirineos should not significantly differ from the exit tariff from the high-pressure transmission network in the Southern part of France.**



23. The reference made to the capacity weighted distance reference price methodology as regards the "transit" issue is misleading, since a particular interpretation of the TAR NC is being made, which does not take into account the overall requisites of the methodology.
24. In particular, is **incorrect to make reference to "transit tariffs (Dunkirk-Pirineos and Dunkirk-Oltingue flows)" in a meshed entry-exit network where there are no dedicated infrastructures for transit**, regardless the fact that some shippers may be effectively transiting gas from an entry to an exit. While transits may occur, transit tariffs cannot be implemented. **There is no basis in the French system to apply the "asset cost split" referred to in Art. 9 of the draft TAR NC.**
25. Last, a static assumption on flows is being adopted, ignoring market dynamics: gas during the whole regulatory period will always flow from North to South in France at current levels. However, many market analysts consider that a LNG glut is to take place, which could significantly alter flows within the period.¹
26. **CRE's simulations**, incorporating the restriction that "transit tariffs (Dunkirk-Pirineos and Dunkirk-Oltingue flows) should not change significantly as a result of setting up a single marketplace", which does not affect Dunkirk-Oltingue given that Oltingue is situated in GRTgaz Nord area, **consistently result in an increase of the exit tariff from France (TIGF) to Spain of around 40%** (the exit charge for France to Spain is increased a minimum of 37% and a maximum of 42%).

¹ CRE has already disregarded in previous occasions gas price scenarios that were plausible, in the context of the adoption of relevant decisions.

In the [response to CRE's public consultation in March 2014](#) on the creation of a single marketplace in France in 2018, Enagás noted that the solution proposed (and finally chosen) for the unification of the balancing zones in France (i.e. Val de Saône + Gascogne-Midi) was not entirely equivalent to the previous one (i.e. Val de Saône + ERIDAN) from the point of view of the French market, since TSOs (GRTgaz and TIGF) analysis emphasized that the solution was not valid for a reversal of the LNG market and a South-North issue. Enagás primary concern was that the solution proposed in the public consultation was not neutral to the Iberian market, since by disregarding such scenario, it undermined the possibilities of ever creating new interconnection capacity between the Iberian Peninsula and France.

As a matter of fact, the LNG market, even before Australia and USA have started to export new LNG volumes, and before Japan has reactivated a large part of its nuclear power capacity, has already changed dramatically in less than two years.

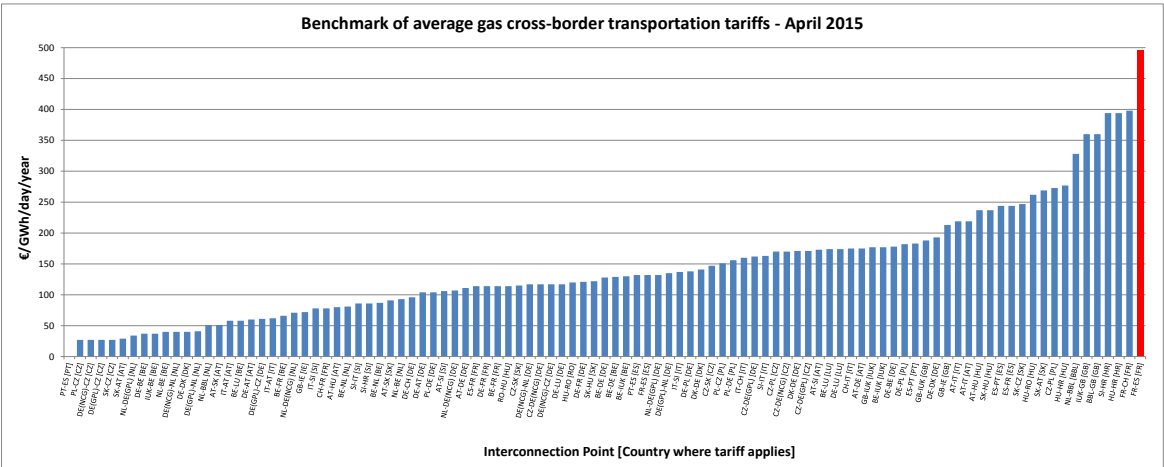


Preliminary simulation by CRE on potential tariffs for ATRT6

	2016	1		2		3		4	
	€/MWh/1/an	€/MWh/1/an	%	€/MWh/1/an	%	€/MWh/1/an	%	€/MWh/1/an	%
Entrée PIR (Dunkerque, Taisnières, Oberkailbach, Pirineos)	114	118	3%	136	19%	114	0%	114	0%
PIR Oltingue (sortie)	399	395	-1%	377	-5%	399	0%	399	0%
PIR Pirineos (sortie)	497	701	41%	683	37%	705	42%	705	42%
PITTM (Dunkerque, Fos, Montoir)	108	111	3%	128	19%	108	0%	108	0%
PITS entrées (en moyenne)	9	10	3%	11	19%	9	0%	9	0%
PITS sorties (en moyenne)	21	22	3%	25	19%	22	5%	28	32%
Liaison Nord-Sud	208	-	-100%	-	-100%	-	-100%	-	-100%
Sortie réseau principal	100	103	3%	119	19%	105	5%	132	32%
Transport réseau régional (ex : TCR GRTgaz)	72	81	12%	72	0%	81	12%	72	0%
% recettes réseau principal	50%	50%		56%		50%		55%	
% recettes réseau régional	50%	50%		44%		50%		45%	
% recettes entrées	35%	35%		37%		34%		30%	
% recettes sorties	65%	65%		63%		66%		70%	

Source: CRE

27. According to [ACER/CEER Annual Monitoring report](#), the exit tariff from France (TIGF) to Spain is already the highest in Europe between any two EU members, even including Switzerland, excluding the tariff between Romania and Hungary which seems to incorporate upstream transmission costs. The exit tariff from France (GRTgaz) to Switzerland is the following one.



Source: ACER/CEER

28. The above information suggests that the application of a new methodology, taking into account costs and expected flows, and not *ad hoc* decisions on cost allocation applied on top of existing tariff levels, could hardly result in an increase of 40% of the exit tariff from France to Spain, unless underlying costs in France were much higher than in the rest of the EU.

Question 23. Are you in favour of allocating part of the costs for creating the single marketplace to the transmission network entry points or just on the exit of upstream network points?

29. The 50:50 entry-exit split regarded in the current version of the capacity weighted distance reference price methodology should apply.



Question 36 Avez-vous d'autres remarques ou suggestions d'évolutions concernant le futur tarif ATRT6 ?

30. CRE recently published, after launching this consultation on ATRT6 and ATTM5, the "[Délibération de la Commission de régulation de l'énergie du 10 mars 2016](#) portant avis sur le projet d'ordonnance modifiant les modalités d'accès des tiers aux stockages souterrains de gaz", supporting the regulation of underground storages in France.
31. CRE has already expressed a [positive opinion in April 2015](#), in response to the [public consultation launched by the Direction Générale de l'Énergie et du Climat \(DGECE\) in March 2015](#).
32. It effectively entails a cross-subsidy between underground storage and transmission: any positive or negative difference between the allowed revenues of underground storages, and the amounts recovered from shippers through TPA tariffs to underground storages, will be passed on to transmission tariffs through a new term.
33. Given that the reason of regulating storages in France is their lack of profitability in a negotiated regime, combined with their desirability in terms of security of supply, the expectation is that underground storage costs will be borne by transmission tariffs.
34. **Enagás is concerned that the newly-created cross-subsidy between underground storage and transmission will contribute to increase tariffs at VIP Pirineos.**