

## REPONSE de CONFINDUSTRIA

Business Association, representing the manufacturing, construction, energy, transportation, ITC, tourism and services industries in Italy

### A LA CONSULTATION PUBLIQUE N°2019-006 DU 27 MARS 2019 RELATIVE À LA STRUCTURE DU PROCHAIN TARIF D'UTILISATION DES RÉSEAUX DE TRANSPORT DE GAZ NATUREL DE GRTGAZ ET TERECA

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#### General considerations

Confindustria disagree with the cost allocation methodology proposed by CRE for the main following reasons, which are further detailed in our answers to the questions of the consultation document:

- CRE proposes to adopt a cost allocation methodology where distance is the main driver to calculate tariffs. However, distance is calculated by selecting a point-to-point approach and with a different approach between cross-border and domestic exit points, thus impacting significantly the final tariffs applicable for these points which result very high for cross-border users:
  - Distance for domestic exit points is calculated point-to-point for each exit point from its **closest** entry point;
  - Distance for cross-border exit points is calculated point-to-point from the same entry point Dunkerque, which is actually one of the **furthest** entry points for both cross-border exit points Oltingue and Pirineos;

CRE provides an assessment showing that the “unitary cost per km” for “domestic” and for “transit” users are the same but, considering how the relevant distances are calculated, we believe that this assessment is not reliable because: i) it does not compare similar parameters for the two categories of users; ii) in an entry-exit system with the presence of an increasingly liquid hub, as in France, gas consumed domestically or exported to other markets is exchanged at the hub and might be coming from any of the entry points in the system, thus making not consistent and not reasonable calculating distances point-to-point.

Moreover, the high cross-border exit tariffs resulting from the current methodology and from the proposed methodology represent a barrier to flow gas to neighbouring markets such as Italy and Spain, negatively impacting the integration of gas markets and further worsening the so called *pancaking* effect on the routes to such markets.

- CRE proposes to adopt an entry-exit split different from 50/50 but without a clear justification. In our opinion the tariffs applicable at points which interconnect other EU markets could have significant impacts on the development of the internal EU market. Due to that, the latter should tend to be agreed among the National Regulators of the interconnected Member States and in any case should tend to a proper allocation of the system costs to the different categories of users and to carefully avoiding any barrier to cross-border trade. In this perspective a specific attention should be paid both to promote the attractiveness of the European markets in the context of the international competition, and the security of supply of gas sources
- CRE considers the Capacity Weighted Distance methodology, provided in art. 8 of the European Network Code on Tariffs (NC TAR), not applicable. This is apparently due to the fact that “a single entry point cannot source several exit points, as in France, without creating relevant cross subsidies”. Confindustria notes that NC TAR provides the obligation to perform and publish a comparison of the chosen tariff methodology against the CWD methodology. We consider that the comparison with the CWD methodology (i.e. as described in the NC TAR, with a 50/50 entry-exit split) is a relevant tool for the analysis of cost-reflectivity and for ensuring to be compliant with the transparency and publication requirements of the TAR NC. Such comparison would clarify the differences between the tariffs coming from the proposed methodology and those resulting from the counterfactual methodology (CWD with 50/50), highlighting the degree of cross-subsidisation between domestic and transit users. Moreover, the application of the CWD methodology, or the comparison with the benchmark CWD methodology, has been performed in the consultations already issued by countries with entry-exit systems functioning similarly to the French one (e.g. Belgium, Netherlands, Italy).

Confindustria considers that the CWD methodology provided by the NC TAR would avoid the inconsistencies highlighted above, thanks to the fact that it foresees the calculation of the (capacity weighted) distances for each exit (or entry) point as the average distance from



all entry (or exit) points in the system, thus being a methodology more in line with an entry-exit system with the presence of a liquid hub and favouring cross-border trade and market integration with neighbouring markets.

**Question 1 Partagez-vous le bilan de la CRE sur le dimensionnement des réseaux français de transport de gaz naturel et sur la nécessaire prudence dans le lancement de nouveaux projets d'investissement?**

France has got a well developed and interconnected transportation network. Gas is imported from many different countries, via pipelines or LNG, and is exchanged at the French hub (PEG) to be then either consumed domestically or exported to Italy via Switzerland and to Spain.

In such a well interconnected entry-exit system, the proposed old point-to-point approach to the definition of import/export routes and the way relevant distances are measured in order to calculate the tariffs at cross-border exit points and at the domestic exit points are not reasonable.

The methodology proposed by CRE does not consider the reality of such a system and assumes that exported gas enters the system from one single entry point, Dunkerque (which is actually the **furthest** entry point in the system for Oltingue and Pirineos), while gas consumed domestically enters the system from the **closest** entry point.

This point-to-point logic, whereby gas follows predetermined routes, is contrasting with the logic of an entry-exit system and with the presence of a gas hub, in which gas exported and gas consumed domestically may come from any of the entry points in the system.

Moreover, as CRE proposes the use of different methodologies to calculate the relevant distances for determining tariffs for cross-border and domestic exit points, this brings a significant difference in tariffs between these two types of points: in 2018, the tariffs at Oltingue and Pirineos were respectively already 400% and 600% higher than the domestic exit tariffs. In this respect, CRE provides an assessment showing that the “unitary cost per km” for “domestic” and for “transit” users are the same and therefore there should not be cross-subsidization: but, considering how the relevant distances are calculated (i.e. distance calculated from the closest entry point for domestic exits and from one of the furthest entry



points for cross-border exits), we believe that this assessment is not reliable because it does not compare similar parameters for the two categories of users; as a consequence, the tariff for a domestic exit point next to Oltingue is four times lower than the tariff to transport gas via the exit point Oltingue towards Switzerland.

Given the possible relevance of the France transit for importing gas in Italy, the above inconsistencies in the way tariffs are calculated raise a particular concern as they negatively impact efficient cross-border trades and market integration: along the route connecting the PEG with the Italian hub PSV, with the current tariff levels, the only exit point Oltingue already represents 40% of the total logistic costs.

**Question 2 Etes-vous favorable au maintien du calendrier tarifaire actuel d'avril à avril, à l'exception des termes tarifaires applicables aux PIR qui évolueraient au 1er octobre de chaque année ?**

CRE proposes to have two different tariff years between PIR tariffs (1st of October) and the tariffs applicable to the rest of the points in the system (1st of April).

The proposal presented by CRE would create an additional layer of complexity for the market players active in France. We therefore propose to keep the beginning of the tariff years aligned for all points.

Besides, the timing of the publication of the transportation tariffs should be compliant with the requirement of the TAR NC, which provides (art. 29) that *"the reserve prices applicable until at least the end of the gas year beginning after the annual yearly capacity auction"* shall be published *"before the annual yearly capacity auction"* to be held in July.

In this respect, we highlight also that the CRE consultation procedure does not meet the deadline set by Article 27, §5 of the NC TAR which states that *"the procedure consisting of the final consultation on the reference price methodology [...], the decision by the national regulatory authority [...], the calculation of tariffs on the basis of this decision, and the publication of the tariffs [...] shall be concluded no later than 31 May 2019"*. This means that the transportation tariffs will not be finalised and published before the auctions for the next gas year 2019-2020, which is not compliant with the publication requirements provided by



article 29 of the TAR NC mentioned above and creates significant risk and uncertainty for shippers.

**Question 3 Etes-vous favorable au maintien de la classification des réseaux, principal et régional, envisagée par la CRE ?**

We support the proposal to keep the distinction between principal and regional networks.

**Question 5 Etes-vous favorable au maintien des principes de tarification (tarification à la capacité, selon un modèle entrée-sortie) et de péréquation en vigueur dans le tarif ATRT6 ?**

On this section of the consultation document we do not have specific comments, but we would like to highlight our disagreement about the following statement : *“Le tarif ATRT6 satisfait déjà à la plupart des exigences du code de réseau Tarif, même si ce dernier n’était pas encore en vigueur au moment de son élaboration. [...] les décisions tarifaires publiées par la CRE respectent déjà le niveau de transparence imposé par le code de réseau Tarif”*.

In fact:

- in the answer to question 7 we explain why we deem the CRE proposed methodology not in line with the Reference Price Methodology provided by the TAR NC;
- here we would like to add that CRE considerations about the CWD reference methodology raise concerns regarding the compliance with the transparency and publication requirements of the TAR NC. CRE considers in fact that the CWD reference methodology is not applicable, apparently because “a single entry point cannot source several exit points, as in France, without creating relevant cross subsidies”. This conclusion comes from a theoretical example made by CRE in Annexe 1, which on one side does not represent the functioning of the French gas market and on the other side is not even consistent with the methodology proposed by CRE (which provides a point-to-point approach whereby the entry points used to calculate distances for exit points are not the same, i.e. closest entry point for domestic exit points and Dunkerque for cross-border exit points). Confindustria notes instead that NC TAR provides the obligation to perform and publish a comparison of the chosen tariff methodology against the CWD methodology. We consider that the comparison with the CWD methodology (i.e. as described in the NC TAR, with a 50/50 entry-exit split) is a relevant tool for the analysis of cost-reflectivity and for ensuring to be compliant with the

transparency and publication requirements of the TAR NC. Such comparison would clarify the differences between the tariffs coming from the proposed methodology and those resulting from the counterfactual methodology (CWD with 50/50) whereby the (capacity weighted) distance for each exit (or entry) point (both for transit and domestic) is calculated as an average distance from all the entry (or exit) points in the system, and would thus highlight the degree of cross-subsidisation between domestic and transit users. Moreover, it must be considered that the application of the CWD methodology, or the comparison with the benchmark CWD methodology, has been performed in the consultations already issued by countries with entry-exit systems functioning similarly to the French one (e.g. Belgium, Netherlands, Italy).

**Question 6 Etes-vous favorable à conserver globalement la répartition entrée/sortie actuelle ?**

We believe that the entry/exit split should by default be 50/50. Since the main purpose of Gas UE Legislation has been of encouraging a process of integration between the markets, we believe that this must be reflected in the management of the tariff scheme for the exit points to other EU markets. It is necessary to avoid that the transmission tariffs become barriers to the integration of the European gas market. To overcome this market distortion, the definition of the tariffs at Exit-Entry Points of the interconnected EU markets should tend to be jointly agreed between the regulatory authorities of the member states involved (this solution has been already applied in the electricity sector), and in any case should tend to a proper allocation of the system costs to the different users who benefit from such costs and to careful avoiding any barrier to cross-border trade.

**Question 7 Etes-vous favorable aux principes de tarification envisagés par la CRE pour le réseau principal ?**

Confindustria strongly disagrees with the methodology proposed by CRE.

As already explained in our answer to Q1, we do not believe it is realistic to use a point-to-point approach to calculate distances relevant for tariffs' determination in a well



interconnected entry-exit system, with the presence of an increasingly liquid hub, as it is the case in France.

Moreover, the proposed methodology entails a completely different treatment for the domestic exit points (whose distances are arbitrarily calculated from the closest entry point) and the cross-border exit points (whose distances are arbitrarily linked to Dunkerque, which is the furthest entry points for Oltingue and Pirineos exit points). This appears not to be consistent with the TAR Network Code principles, whereby all entry points physically connected to exit points should be combined together in order to identify the relevant flows and calculate the relevant distance for an exit point.

The proposed methodology significantly impacts the final exit tariffs, which are much higher than the domestic exit tariffs, thus becoming a barrier to cross-border trade and raising particular concerns given the possible relevance of the France transit for importing gas in Italy.

The Capacity Weighted Distance methodology provided by the TAR NC would be better in order to reflect the reality of a well interconnected entry-exit system, with the presence of an increasingly liquid hub, and would avoid the methodological distortions highlighted above.

**Question 9 Etes-vous favorable au maintien des rabais tarifaires envisagés par la CRE pour les capacités interruptibles ?**

The discount to the interruptible products should reflect the risk of interruption of the specific product. CRE states that the risk of interruption has been calculated by the TSOs around 15,3% at Oltingue and 11,6% at Pirineos. Nonetheless, CRE concludes that a 25% discount for interruptible products should apply at these two points, and it is not clear why such 25% is chosen taking into account that the calculated risk of interruption seems to be lower.

**Question 10 Etes-vous favorable à l'apurement du CRCP sur l'ensemble des termes tarifaires ou préférez-vous le maintien d'un apurement sur les seuls termes du réseau aval ?**

**Question 11 Etes-vous favorable à la proposition de la CRE de répercuter la baisse des souscriptions en entrée et en sortie du réseau de manière équivalente sur l'ensemble des termes tarifaires du réseau amont ?**



We do not agree with the proposal by CRE.

It is expected a decrease in capacity bookings in ATRT7 at the cross-border entry points, which entails an overcapacity at the entry points into the French system. The costs related to such overcapacity are anyway ensuring security of supply to the French domestic consumers in case of emergency and/or supply disruptions: therefore, the costs related to such overcapacity should not be charged at the cross-border exit points, otherwise other national systems would pay for the security of supply of the French system.

Instead, CRE proposes that the missing revenues due to the decrease in entry capacity bookings are recovered equally from all the points in the system, with a consequent change of the entry/exit split from 35/65 to 30/70 at the end of ATRT7.

On the contrary, we believe that ATRT7 tariffs should be calculated by taking into account both a pre-determined entry/exit split and the expected capacity bookings separately at the entry and at the exit points, thus avoiding any unfair socialization of the expected missing revenues from lower bookings.

Besides, in order to target tariffs predictability and stability, we suggest to keep the existing system whereby tariffs on the *reseau principal* are only adjusted by inflation during the regulatory period.