



**Public consultation N° 2019-006 of 27 March 2019 relating to the structure of the next tariff for the use of the natural gas transmission networks of GRTgaz and Teréga**

Enagás comments  
NON-CONFIDENTIAL RESPONSE

**30<sup>th</sup> April 2019**



## 1. General remarks

1. Enagás welcomes CRE's new opportunity to contribute to the public consultation on new tariffs for the use of gas transmission networks of GRTgaz and Teréga.
2. Enagás participation in the second consultation on the tariff framework for next period is motivated by the measures related to transmission tariffs, which may have a relevant impact on the Spanish system.
3. As expressed by Enagás in previous ATRT6 public consultations,<sup>1</sup> 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.
4. The methodology applied for ATRT7 should not be restricted by the current level of tariffs in ATRT6.
5. As explained in the relevant questions the combination of arbitrarily attributing distances to transits together with the entry-exit split proposed (which allocates more costs to exits) penalises certain exit points, in particular VIP Pirineos.

---

<sup>1</sup> CRE, "[Consultation publique de la CRE relative aux prochains tarifs d'utilisation des réseaux de transport de gaz de GRTgaz et TIGF et aux prochains tarifs d'utilisation des terminaux méthaniers régulés](#)". February 2016

CRE, "[Consultation publique de la CRE du 27 juillet 2016 sur le prochain tarif d'utilisation des réseaux de transport de gaz naturel de GRTgaz et TIGF](#)". July 2016

## 2. Questions

**Question 1. Do you agree with CRE's conclusion regarding the dimensions of the French natural gas transmission networks and the caution necessary with the launch of new investment projects?**

1. By 1st November 2018 the single market zone in France (TRF) was created, this merger was done through a combination of investments plus market mechanisms, which amounted up to 840 M€. According to the CRE the solution adopted does not allow to create a single entry-exit zone without restrictions, under certain circumstances flows from North to South are restricted.
2. VIP Pirineos is the most challenged point from the whole French system, with a direct impact on price differentials. France have identified "congested fronts" and have limited the maximum quantity that can pass through each of the congested fronts. Taking into account that gas flows from North to South, under all congestion "fronts" identified VIP Pirineos is affected.

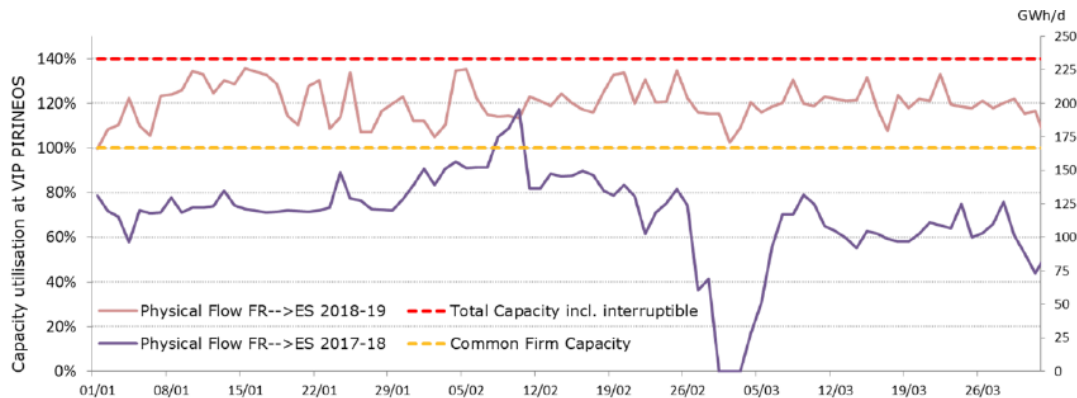


3. Due to the tools approved by CRE to solve the internal congestions, the auctioning of firm day-ahead capacity at VIP Pirineos is cancelled in case of congestion. This capacity was deliberately reserved in the Open Seasons to facilitate access to the market to shippers, fostering trading and competition. Thus, the firmness and availability of the capacity should not be challenged.
4. Besides, the implementation of the single market zone in France has provoked a structural change in capacity utilization at VIP Pirineos, which several times a year was underutilized due to the unavailability of gas in Southern France. In particular, in the 1st Nov 2018 – 31st Mar 2019 period:
  - There has been an increase of the use of the interconnection in the FR=>ES direction. Compared to the 1<sup>st</sup> Nov 2017 – 31<sup>st</sup> Mar 2018 period, it is observed that the average use has increased from 68% to 111%, measured as physical flow over common firm capacity at VIP

Pirineos. This usage is even higher since 1<sup>st</sup> January 2019, at 120% on average.

- The physical flow has exceeded 100% of firm capacity for 102 days, compared to 3 days in the previous period.
- This is because, given that firm capacity in France has been booked at a level higher than 98% and the conditions within France allowed to offer interruptible capacity at VIP Pirineos (no restrictions at the "congested fronts"), Teréga has offered 60 GWh/d of interruptible capacity every single day, and part of this capacity has been booked 119 days, including all single days from December 27<sup>th</sup> to 31<sup>st</sup> March. In the same period of the previous gas year interruptible capacity was offered only 3 days and booked twice.

**Physical flow and capacity at VIP PIRINEOS 1<sup>st</sup> Nov 18–31<sup>st</sup> Mar 19 vs 1<sup>st</sup> Nov 17–31<sup>st</sup> Mar 18**



- The increase of booked of capacity at VIP Pirineos in the FR→ES direction has meant that capacity at the annual auction for yearly products and the yearly auction for the winter quarters was allocated at a premium over the reserve price.
5. The offer of interruptible capacity the whole winter suggests that the interruptibility restrictions may have been overestimated and therefore its firmness could be reassessed. Consequently, STEP's degree of firmness may have also been underestimated.
  6. In summary, the implementation of TRF has moved the internal congestion from the middle of France to VIP Pirineos, as would be expected. This has had a clear reflection in capacity demand.
  7. Thus, Enagás considers premature to make the following statement: "CRE considers that the dimensions of the French transmission network are currently sufficient". The functioning of the French gas system and its impact on neighbouring countries should be reassessed after one since the start-up of the single market zone.

**Question 2. Are you in favour of maintaining the current April to April timetable, with the exception of the tariffs applicable to the PIRs which would change as at 1 October each year?**

8. Enagás has no particular view on this topic, both options (maintaining the current April to April timetable with the exception of the tariffs applicable to the IPs or changing the timetable from October to October to all points) are compatible with the TAR NC.

**Question 3. Are you in favour of maintaining the classification of networks, main and regional, as envisaged by CRE?**

9. Yes.

**Question 4. Are you in favour of maintaining the classification of storage compensation as envisaged by CRE?**

10. As long as a compensation is approved, Enagás is in favour of allocating costs only to domestic customers. Enagás does not have any view on the compensation itself.

**Question 5. Are you in favour of maintaining the pricing principle (capacity-based pricing, based on an entry-exit model) and equalisation principle currently in effect in the ATRT6 tariff?**

11. Enagás would like raised some concerns about the following statements made by CRE in this section

*"The ATRT6 tariff already meets most of the requirements of the Tariff network code, although that code had not yet entered into effect at the time of its elaboration."*

*"CRE ensured that the tariffs reflect the costs generated by the transit and domestic consumption activities, as specified by the Tariff network code (see 2.1.3.6. of the present consultation)"*

12. Enagás considers that the reference price methodology of the ATRT6 is not fully in line with the TAR NC. CRE proposed an explicit criterion with the purpose of aligning the costs of the two transit routes France-Spain and France-Italy ("aligner les coûts des deux routes de transit France-Espagne et France-Italie"), maintaining the overall transit cost constant over the ATRT6 period. Although finally the total cost of the route was slightly decreased, this denoted that either (1) there was no methodology as such, and ad hoc decisions on top of existing TPA tariffs were being made, or (2) the methodology incorporated a restriction to maintain certain tariff levels that may discriminate between national consumption points and IPs.

*"CRE conducted analyses to ensure that the costs borne by the different user categories did not cause any discrimination or cross-subsidisation. CRE therefore compared unit costs of domestic routes and transit routes."*



13. CRE did not perform for the ATRT6 the cost allocation assessment included in article 5 of the TAR NC and the "methodology adopted" was discriminatory and created cross-subsidies among users.

- Flows exiting at VIP Pirineos are not necessarily originated in Dunkerque and, in fact, due to the restrictions that CRE claims that remain in mid-France, it is physically impossible that all of them are originated in Northern France. E.g. significant volumes are necessarily served from Fos LNG terminals. It is incorrect to calculate a unit cost per km based on the concept that gas exported to Spain is imported to France through points in the North.
- The exit tariff at VIP Pirineos was much higher than the domestic tariff in the South.

*"the tariff decisions published by CRE already comply with the level of transparency imposed by the Tariff network code."*

14. Enagás does not share CRE's opinion. In fact, Enagás proposed CRE to extend ATRT5 one year and exploring the option of having by autumn 2018 a system fully in line with the TAR NC.<sup>2</sup>

15. Find below a non-exhaustive list of missing points as regards the transparency requirements of the TAR NC:

- As mentioned above, CRE did not perform the cost allocation assessment required by article 5 of the TAR NC.
- The intra-system/cross-system split was not even mentioned.
- CRE did not provide a proper comparison of the results of the methodology proposed against the counterfactual capacity weighted distance (CWD) methodology. The comparison provided is theoretical and does not allow to compare the results between the 2 methodologies (the proposed and the CWD). CRE should calculate and provide in the consultation the tariff levels in each point of the network with the application of the CWD as required by article 26(1)(a)(iii),(v) and (vi).
- The arguments given in Annex 1 for not applying the CWD are weak and not substantiated by evidence. CRE simply states: "The CWD reference price calculation method described in the Tariff network code therefore cannot be applied as is to the French transmission network without the risk of creating major cross-subsidisation between user categories"

**Question 6. Are you in favour of globally maintaining the current entry/exit distribution method?**

<sup>2</sup> Enagás' response to 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).

16. No, due to the distance arbitrarily attributed to transits, the 34/66 split proposed by CRE in section 2.1.3.5 penalises certain exit points, in particular VIP Pirineos.
17. Moreover, CRE is considering increasing the allocation to exits at the end of the period. According to CRE many capacity contracts will come to an end during the ATRT7, this situation will impact entry points more than exit points. However, CRE proposed to palliate this situation by socialising the loss of revenues at entry points among all entry and exits (not domestic), which de facto changes the entry-exit split up to 30/70, allocating even more costs to cross-system exits.
18. The proposed deviation from the TAR NC recommended split is not well substantiated:
  - On one hand, CRE seems to excuse its decision based on what has been done by other regulators: *"Several other European regulators that have already implemented their tariffs for accessing the gas network within the framework of the Tariff network code have deviated from this indicative distribution method to take into account the configuration of their networks."*
  - And on the other hand, CRE argues that *because of the presence in France of major storage capacity ensuring that the winter peak is covered, capacity booked by shippers at entry points in the French transmission networks is significantly less than exit capacity booked. CRE therefore considers that a split other than 50%/50% is justified given the particular configuration of the French network.*

If transits existed they would have a very similar capacity bookings at entry and exits, thus, the proposal would be contradictory with the nature of transits and should only be applied to national consumption.

<b>Question 7. Are you in favour of the pricing principles envisaged by CRE for the main network?</b>
---

19. No.
20. Enagás disagrees with the methodology proposed by CRE as it distinguishes between transit and domestic consumers. It is incorrect to make reference to transit routes or transit systems in a system like the French one that have limited export flows (in comparison with the entry flow), there are no dedicated infrastructures for transit, and even contractually many of the exports are not transits. This approach is discriminatory, clearly prejudice exit flows to Spain and it is not in line with article 8 of the TAR NC.
21. Leaving aside Enagás' opinion against the distinction between transit and domestic consumers in the French network, it is discriminatory to use different flow scenarios for domestic and transit. Instead of establishing an objective flow model, CRE proposed to:
  - One flow pattern that assumes that 100% of the gas that arrives at VIP Pirineos comes from Dunkerque, pipeline distance: 1,072 km, and



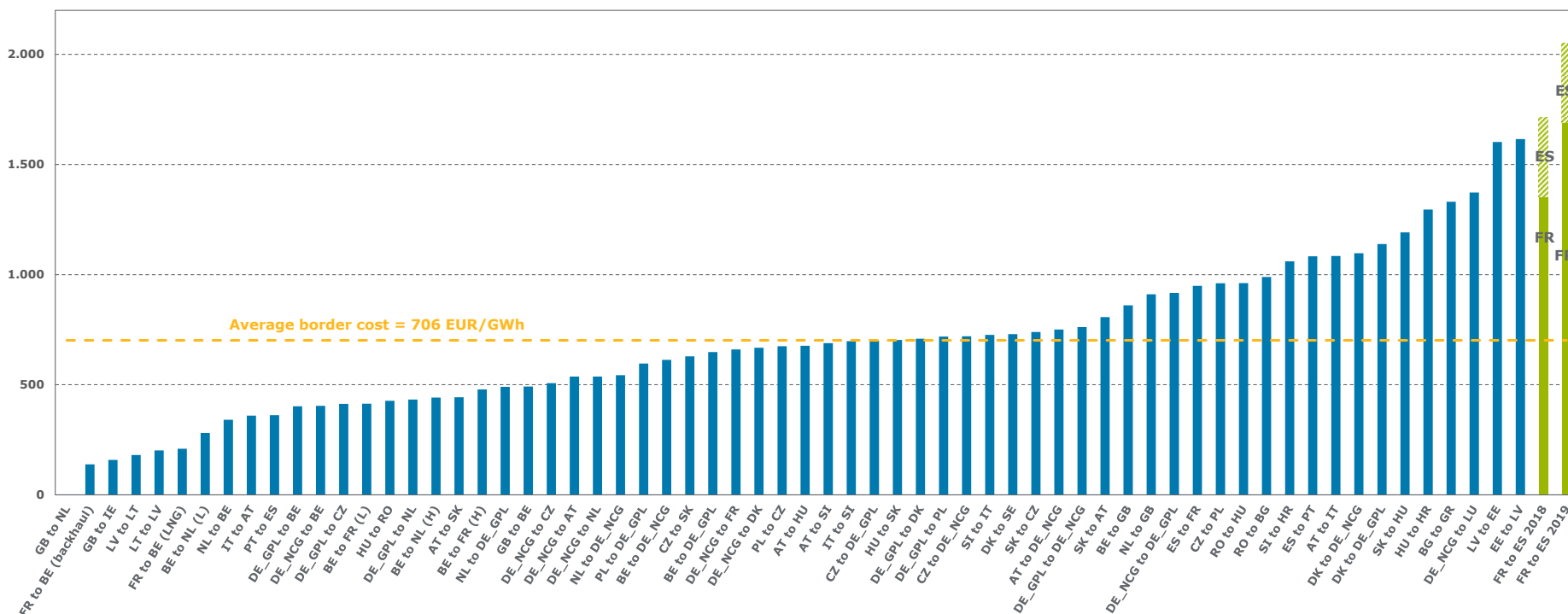
- Two flow patterns that assume that the gas for national consumption in South of France comes from the closest point (Fos terminals), average pipeline distance: 280 km
22. CRE does not provide the flow scenarios under which circumstances might occur, which is not in line with the publication requirements of article 26(1)(a)(i) of the TAR NC (e.g. the quantity and the direction of the gas flow for entry and exit points and associated assumptions, such as demand and supply scenarios for the gas flow under peak conditions).
23. It is not clear the meaning behind of "economically relevant" (page 19) for linking VIP Pirineos and Oltingue to Dunkerque. It seems that the clustering of points is due to a tailor-made decision. VIP Pirineos and Oltingue are linked to Dunkerque, the furthest exit point, without providing substantiated arguments. Enagás does not understand why in this case is "economically relevant" to link VIP Pirineos and Oltingue and not doing the same for domestic consumers.
24. Besides, the decision of considering different distances for domestic customers and transit has direct impact on the exit tariffs: cross-border exit tariffs are significantly higher than the domestic exit tariffs.
25. This situation together with the lack of enough interconnection capacity hampers a proper integration of the Iberian gas market with the rest of Europe.
26. Exit tariff at VIP Pirineos is by far the highest in Europe: 2,052.23 €/GWh. It can be argued that cost the cost driver from fixing tariffs in France is distance and France is one of the largest country in Europe, gas travels many kilometres across the country. However, this argument can be easily refuted:
- As previously mentioned, Flows exiting at VIP Pirineos are not necessarily originated in Dunkerque.
  - There are other countries in Europe where gas travels long distances.

Observing figure 1:

- The closest IP tariffs to the IP tariff from France to Spain are related to new cross border interconnections which are not yet close to full depreciation (Estonia - Latvia).
- The exit tariff from France to Spain alone is more expensive than any of the aggregated IP tariffs (exit+entry) in Europe.



**Figure 1:** Simulation of the cost of flowing 1 GWh daily through EU internal borders in EUR (Jan 2018 data, FR data from 2018 and 2019)



Source: ACER MMR 2018 and self-made<sup>3</sup>

<sup>3</sup>[https://acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Publication/ACER%20Market%20Monitoring%20Report%202017%20-%20Gas%20Wholesale%20Markets%20Volume.pdf](https://acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202017%20-%20Gas%20Wholesale%20Markets%20Volume.pdf)

27. The methodology proposed by CRE does not comply with the principle of article 6(3) which states that the same methodology shall be applied to all entry and exit points in a given entry-exit system. CRE's methodology proposes to set lower entry tariffs from LNG terminals arguing that LNG terminals supply more consumption consumption points. At Dunkerque there are two different tariffs one for the entry by pipeline and another to the entry from LNG, although the distance between this two physical points is negligible.

**Question 9. Are you in favour of maintaining the tariff discounts envisaged by CRE for interruptible capacity?**

28. The discount of the interruptible capacity products should reflect the probability of interruption. In the consultation document, the probability of interruption for VIP Pirineos is 11.6% and CRE has set the discount at 25% with providing any data on how it has been calculated. More transparency should be given as regards the calculation of the discounts for interruptible capacity products, the parameters included in article 16 of the TAR NC should be provided in the consultation document.
29. Since 1<sup>st</sup> November 2018 to 31<sup>st</sup> March 2019 (151 days) the interruptible capacity at VIP Pirineos has never been interrupted. CRE should make the underlying data for calculation available, together with a reassessment of the probability of interruption.

**Question 11. Are you in favour of CRE's proposal to pass on the drop in network entry and exit bookings equivalently to all upstream network tariffs?**

30. No.
31. Enagás believes that the principle applied by CRE that "*unit costs (in €/km/d/year) of transit and domestic consumption must remain identical*" is misleading because the distance for transits has been overestimated, and should have been calculated applying non-discriminatory principles.
32. CRE indicates that the termination of long-term contracts will mainly affect entry points, which will have to increase their tariffs by 30%; if this is the case, domestic users, according to CRE, will have to mainly bear these costs, which seems to be unacceptable. For this reason CRE proposed a "deficit transfer principle through an equivalent increase in all the tariffs of the main network".
33. This measure, again, transfers costs from the upstream network to the VIP Pirineos, even if according to CRE, *the drop in bookings at Pirineos would be, according to Teréga, partially offset by new shorter-term bookings.*
34. Please see also answer to question 6.
35. CRE must reconsider this proposal.

**Question 23. Do you consider, like CRE, that an extension of the scope of storage compensation to customers connected to the transmission network can be envisaged only with an interruptibility mechanism enabling partial or full exemption from the storage compensation?**

36. Enagás understands that the proposed mechanism does not constitute a cross-subsidy as long as it has been objectively determined that such costs correspond to security of supply (SoS), and consumers benefitting from SoS are paying for it.
37. Given that the reason of regulating storages in France is mainly their desirability in terms of security of supply, the compensation term should be borne by domestic users and not by users of the IPs. I.e. only the consumers benefitting from such security of supply should pay for it.
38. However, Enagás recommends complementing the regulatory analysis with the possible impact of the measures on adjacent systems. The deviation of storage volumes from other Member States to France, due to charging access fees well below the total cost of storage, could negatively impact the economic viability of adjacent operators in other Member States.

**Question 24. Are you in favour of the sending of an economic signal to biomethane producers concerning the location of facilities, in order to prioritise facilities causing the least constraints in the network?**

39. No. For the time being, the injection of biomethane into the network is a national issue; thus, the cost of the incentives should not be borne by adjacent systems.
40. France should ensure the interoperability between the different GOs schemes applied by different issuing bodies and for different energy carriers (e.g. hydrogen, biomethane, synthetic gas, renewable electricity, etc.), always according to the recast Renewable Energy Directive (RED II).
41. Once this has been ensured, it can be reconsidered the decision to share the cost among all the network users.