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To:
**Christine CHAUVET**
Energy Regulatory Commission
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30.04.2019

**Subject: STRUCTURE OF THE NEXT TARIFF FOR THE USE OF THE NATURAL GAS TRANSMISSION NETWORKS OF GRTGAZ AND TEREGA**

Dear Sir/Madam,

As you know Shell has been engaged in discussions regarding the French gas transmission system charges over the past months and is now looking forward to an outcome of the process ensuring:

- Full compliance with the EU Tariff Network Code;
- Cost reflectivity;
- Efficient use of infrastructure; and
- Reasonable cost levels for all.

In pursuing these objectives, our intention is to contribute to a well-functioning market with high liquidity and high competition.

In the past we have applauded at the thoroughness and detail of some of your consultation processes, also on matters related to tariffs, however the recent publications in this respect have raised some concerns:

1. We have not fully understood the need to shorten the regulatory period, neither have we found a justification not to respect the deadlines imposed by the EU TAR Network Code;
2. We have struggled to identify the rationale behind some of the assumptions that are supposed to feed into the tariff model, once this is made available;

3. We fear that the choice not to include the regional network in the national entry/exit system may be faced with ACER's negative opinion;
4. We doubt about the effectiveness and appropriateness of some specific innovative proposals on possible future capacity products.

Therefore, we would like to take this opportunity to focus on these fundamental areas leaving to the next consultation rounds comments on other aspects.

1. **We have not fully understood the need to shorten the regulatory period, neither have we found a justification not to respect the deadlines imposed by the EU TAR Network Code**

We observe that the current regulatory period was deemed to last until the end of March 2021, hence no major changes to gas transmission tariffs were expected until that date. The TAR NC does not represent an obstacle for keeping things as they are, in that it simply indicates deadlines for concluding the relevant consultation process and for complying with the transparency requirements, which unfortunately in France they have already been missed or are likely to be missed.

While we appreciate that the CRE accepted at least that current tariff at IPs could not be modified earlier than October 1st, 2020 we regret that this consultation process was not used to bring the French tariff year in line with the tariff year of neighbouring countries. On the contrary, the CRE seem to favour further complicating the picture by introducing two separate tariffs years, respectively for domestic and non-domestic points of the system.

Considering the above, we recommend the CRE to take the necessary time to run a fully compliant consultation process (deadlines aside) and confirm that the new transmission tariffs at all point of the system will only be valid after October 1st, 2020, alternatively after April 1st, 2021 as per current regulatory framework.

Any other solution would most likely increase complexity or create regulatory uncertainty.

2. **We have struggled to identify the rationale behind some of the assumptions that are supposed to feed into the tariff model, once this is made available**

We understand that the CRE considers that it is economically relevant to adopt the Dunkirk PIR as the main entry point for gas transiting through the Pirineos, Oltingue and Alveringem PIRs creating a rigid separation between transit flows and flows to domestic consumers.

While such an assumption could have well worked in the past, it seems to ignore most of the evolutions occurred in the French gas market in the past years. It is our impression that both the changes in the allocation procedure for storage capacity and the merger of the different market zones have in fact allowed the market to move away from such a rigid division and towards a more mixed picture.

Unfortunately, even if the opposite were true, the absence of any thorough justification behind the selected flows simplifications makes it impossible for market players to object or accept.

For the same lack of details and justifications and while in general we would favour a cost split between entry and exit points of the system lighter on the entry side than the one proposed, it is difficult to express a definitive position in this regard.

The situation is made worse by the fact that <u>network users are asked to express their opinion without having access to a tariff model and to the related quantitative input, or at least to the indicative tariffs that would follow CRE's proposals</u>.

Considering the above we reserve to express our opinion during the next consultation round. At the same time, we note and appreciate the attempt made by CRE to limit potential tariffs spikes at entry points that should further reduced capacity booking levels during the regulatory period manifest.

3. **<u>We fear that the choice not to include the regional network in the national entry/exit system may be faced with ACER's negative opinion</u>**

We have noted that the CRE does not intend to introduce any change to the way the regional networks are accounted for and assumes that treating regional networks separately and applying to them a different a tariff methodology will continue to be acceptable.

To this extent we highlight that ACER has been very clear in this regard in at least one other country, i.e. Italy, recommending a merger of the different networks. The risk of not considering experiences in other countries is that a change may be imposed in France without preparation and without having measured well in advance what would be the impact on the relevant overall tariff levels.

In the context of the next consultation round, which hopefully will include the publication of indicative tariffs, <u>we recommend CRE to run scenarios considering the application of the same selected tariff methodology to the national and regional networks combined</u>.

4. **<u>We have doubted about the effectiveness and appropriateness of some specific innovative proposals on possible future capacity products</u>**

We understand that some of the proposals included in the consultation represent an attempt to further reduce the spreads between the French gas market and neighbouring more liquid markets while adding the flexibility available to network users.

While in principle we appreciate the effort, we are particularly concerned about the reshuffling concept whereby a shipper with long term capacity at one entry point would pay for its original capacity adding 10% of those costs if it chooses to move the use of the original capacity elsewhere.

Our opinion is that by doing so the holders of long-term capacity at specific points of the system would be relieved of part of the sunk costs and therefore granted an undue advantage compared to other network users.

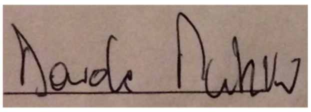
In its mechanics the proposal would also entail a risk of under-recovery as the capacity at the so-called "target" point might otherwise be booked at full price by other shippers. The assumption that this would not be the case is an unnecessary and unjustified anticipation of how the market would behave in determined conditions.

Finally, considered that the mechanism would only be allowed on a monthly, quarterly and yearly basis, we have doubts about its effectiveness in reducing potential spreads.

In reaction to the proposal we therefore believe that if the CRE were concerned about further reducing the spreads with neighbouring countries, it could simply investigate ways to reduce entry tariffs at all entry points of the system.

In the hope and expectation that our comments will be considered, we remain available for a bilateral meeting to further clarify and substantiate our position, should you deem it appropriate. More importantly, we look forward to responding to the next consultation round.

Sincerely,



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