

## **Deliberation of the French Energy Regulatory Commission (Commission de Régulation de l'Énergie – CRE) of 15 October 2009 concerning the rules for allocating link capacity from the GRTgaz North balancing zone to the South balancing zone**

Present: Philippe de Ladoucette, Chairman, Maurice Méda, Vice-Chairman, Eric Dyèvre, Hugues Hourdin, Jean-Paul Aghetti, Emmanuel Rodriguez, Jean-Christophe Le Duigou and Pascal Lorot, Commissioners.

### **1. Background and purpose of this deliberation**

#### **1.1. The link from the GRTgaz North balancing zone to the South balancing zone**

Since 1 January 2009, access to French natural gas transmission networks has been divided into three balancing zones managed by two transmission system operators (TSO), TIGF in the South-West and GRTgaz for the rest of France.

Despite the improvements brought about by this new structure, access to the South of France remains difficult for shippers with no supply from the Fos LNG terminals.

This is because most access capacity to the GRTgaz South balancing zone and to the TIGF balancing zone relies on the North-South link of the GRTgaz balancing zones – with the exception of LNG supply.

The technical transmission capacity on this link breaks down into 230 GWh/d firm capacity and 220 GWh/d interruptible capacity. Twenty per cent of this capacity is marketed on a yearly basis.

The latest allocations to date on this link, calculated on a pro rata basis for periods of 1, 2, 3 and 4 years between 1 April 2009 and 31 March 2013, have resulted in capacity requests that largely exceed available volumes.

In its deliberation of 2 July 2009, which gives guidelines on how to organise access to natural gas transmission networks and on capacities marketed as part of the development of gas interconnections with Spain, CRE suggested that possible changes to capacity allocation rules on the GRTgaz zone North-South link should be considered under the *Concertation Gaz* consultation initiative.

#### **1.2. Purpose of this deliberation**

The purpose of this deliberation is to define the firm and interruptible annual capacity allocation rules for the period from 1 April 2010 to 31 March 2011 on the North-South link of the GRTgaz balancing zones.

The capacity to be marketed over this one-year period is as follows:

- 46 GWh/d firm capacity from GRTgaz North to GRTgaz South,
- 44 GWh/d interruptible capacity from GRTgaz North to GRTgaz South.

## **2. Concertation Gaz work and the GRTgaz proposal**

### **2.1. Consultation work**

The *Concertation Gaz* capacity allocation working group, which is made up of various market players (transmission system operators, shippers and industrial customers), met on 6 July and on 14 and 23 September 2009.

In view of the consultation work required on the subject of structural changes to the market before talks commence on allocation rules and capacity availability dates, the working group had a tight schedule and its discussions were therefore restricted to a small number of meetings. Two different allocation principles emerged from consultation work which the working group members were asked to appraise:

- a "needs-based" allocation principle, whereby each shipper's capacity request is capped based on its forecast consumption in the GRTgaz South and TIGF zones and its supply capacity in these zones;
- a two-round pro rata allocation principle, based on the allocation mechanisms previously implemented for marketing annual capacity, supplemented by a "guaranteed allocation" option designed to curb the allocation uncertainties inherent in the pro rata rule for shippers with limited capacity requirements.

At the end of the proceedings, a large majority of working group members preferred not to apply a "needs-based" allocation rule immediately. They were roughly equally divided between those in favour of the pro rata allocation principle plus the "guaranteed allocation" option and those who favoured a simple pro rata system (status quo).

There was, however, a slight majority in favour of pro rata allocation in association with the "guaranteed allocation" option. GRTgaz therefore suggested to CRE on 24 September that this allocation rule should be applied.

Between 28 September and 5 October 2009, CRE carried out an e-mail consultation campaign concerning the pro rata allocation rule supplemented by the "guaranteed allocation" option.

### **2.2. GRTgaz proposal**

GRTgaz proposed the following allocation rule:

#### **2.2.1. Proposed allocation rules on firm annual capacity for the period from 1 April 2010 to 31 March 2011**

Capacity is marketed in two rounds on the following basis:

- 23 GWh/d proposed for each round,
- each round will be open for 5 days,
- the "affiliated companies" rule applies to all requests.

The rules applicable to each round are set out below:

#### **▪ First round:**

The first round is open to shippers with a licence to supply final customers (industrial customers, household customers or customers with public service obligations) as well as to shippers - or their representatives - that are final customers themselves and have signed a connection contract.

Each shipper can choose between two mutually exclusive options:

- "guaranteed allocation" option: each request is limited to 1.5 GWh/d. Shippers who choose this option waive their right to take part in the second round. In exchange, allocations will be made for all these requests. If, however, the requests from all shippers that have chosen this option add up to more than 23 GWh/d (the limit for this round), then allocations shall be made on a pro rata basis within the 23 GWh/d limit.

- "normal" option: each request is limited to 23 GWh/d and allocations are made to each shipper on a pro rata basis, once the "guaranteed allocation" requests have been met. Shippers choosing the "normal" option are entitled to take part in the second round.

If capacity has not been entirely allocated by the end of the first round (i.e. less than 23 GWh/d allocated), the remainder is made available for the second round. In this event, the remaining volume is made known before the second round. Each participant is informed of first-round allocations before the second round begins.

▪ **Second round:**

The second round is open to all shippers except those that chose the "guaranteed allocation" option in the first round.

Allocations are based on a pro rata principle.  
Each request is limited to 23 GWh/d.

If capacity has not been entirely allocated at the end of the second round (i.e. less than 46 GWh/d allocated overall), the remainder will be put up for sale at the end of the second round on a "first come, first served" basis, as stipulated in the general terms and conditions of the GRTgaz transportation contract.

**2.2.2. Proposed allocation rules on interruptible annual capacity for the period from 1 April 2010 to 31 March 2011**

The rules are the same as those previously applied for marketing annual capacity, namely pro rata allocation in two rounds of 22 GWh/d each. The first round is only open to shippers with a licence to supply final customers (industrial customers, household customers or customers with public service obligations) as well as to shippers - or their representatives - that are final customers themselves and have signed a connection contract.

The second round is open to all shippers.

**3. CRE analysis**

**3.1. CRE consultation**

In addition to the work carried out by the *Concertation Gaz* working group, an e-mail consultation campaign was organised between 28 September and 5 October 2009, during which market players were asked to consider the GRTgaz proposal and express their views on the proposed allocation rule, the limit on the "guaranteed allocation" option and how the consultation process on the subject was handled.

CRE received 18 responses:

- 14 from shippers,
- 3 from industrial customers and Uniden,
- and 1 from TIGF.

Of these 18 responses:

- 6 were in favour of the rule put forward by GRTgaz, on the basis that it gave shippers more visibility, especially newcomers,
- 7 approved the proposal on the whole, but made further suggestions as to the limit on the "guaranteed allocation" option and shippers' access to the different rounds.

In general, these 13 respondents considered that the GRTgaz proposal was the only realistic option given the time constraints. Although the respondents did not wish to see the "needs-based" allocation rule applied for capacity allocation over the period from 1 April 2010 to 31 March 2011, a very large majority expressed a desire for discussions to continue on North-South link capacity allocation methods in order to improve allocation rules for future capacity marketing periods.

- 5 respondents were against the proposal and expressed their preference for a "needs-based" allocation system.

Regarding the consultation process itself:

- 10 respondents were pleased to have been included in the decision-making process in spite of the tight deadline,
- 7 expressed reservations as to the consultation process, regretting the urgency of the meetings and the lack of consensus among players at the end of the process. Some respondents asked for representative bodies to be included in the *Concertation Gaz* system to achieve a better balance among the various categories of player,
- 1 respondent expressed no opinion.

## 3.2. Analysis

### 3.2.1 The North-South link was used to full capacity in 2009

The North-South link was used to 95.8% capacity over the period from 1 January 2009 to 31 August 2009. This proves the effectiveness of the market mechanisms in place since 1 January 2009 (Use-it-or-lose-it or capacity exchange among shippers on the secondary market). The fact that North-South capacity in GRTgaz balancing zones is shared among 21 different suppliers has not prevented its optimum use.

Despite the constraints concerning the physical use of the North-South link, the overall supply balance in the GRTgaz South and TIGF zones meets the demand for replenishing storage capacities in the zone. Storage facilities connected to the GRTgaz South zone and to the TIGF zone were fully replenished during the injection campaign in the summer 2009.

The situation as at 4 October 2009 was as follows: rights to storage capacity at the Salins Sud storage facilities had all been used up, while at the Serene Sud group and TIGF storage facilities, the figure stood at 97% and 98% respectively.

### 3.2.2 Positive trend in market signals

There has been a significant improvement in the opening up of retail markets in the GRTgaz South balancing zone since January 2009. The market share of alternative suppliers in terms of volume is now on a par with that observed in the North balancing zone, having reached almost 17% in June 2009 (Source: Market Watch – CRE).

Furthermore, the difference in the day-ahead price observed between the North and South Gas Exchange Points over the period from 1 January 2009 and 31 August 2009 is around 0.4 EUR/MWh. This is lower than the equivalent firm capacity tariff on the North-South link, which indicates that the daily wholesale market has not incorporated a scarcity premium in the value of daily North-South transmission, which is a good thing. On the other hand, the liquidity of the wholesale market at the South Gas Exchange Point remains limited.

### **3.2.3 Choice of allocation mechanism**

The market players thought the immediate application of a "needs-based" allocation rule was both premature and too complicated.

In addition, such a method will be very affected by the commissioning date of the Fos Cavaou terminal, which is still uncertain. It is therefore impossible to estimate players' needs correctly for the period from April 2010 to March 2011, which means that it does not make sense to adopt a "needs-based" method for annual capacity allocation over this period.

Most players approve the allocation rule proposed by GRTgaz during the consultation for the period from 1 April 2010 to 31 March 2011.

The proposed method is very similar to that adopted a year ago, which worked well, as reflected in the sharp increase observed since the beginning of 2009 in the alternative suppliers' market share and the fact that the price difference between the North and South Gas Exchange Points has remained below the firm link capacity price.

The proposal also appears to improve on the method adopted in 2008, while guaranteeing the smallest players a minimum allocation.

Lastly, most players express their satisfaction with the consultation process, bearing in mind the time constraints imposed by the fact that the first six months of 2009 were spent defining the future overall structure of the French market.

In view of the above, CRE adopts the proposal put forward by GRTgaz. As requested by several market players, the consultation will be continued to define allocation rules for the sale of pluriannual (2, 3 and 4 years) and annual capacity scheduled for next year.

### **4. CRE decision**

The GRTgaz proposal is approved.

Signed in Paris on 15 October 2009

For the Commission de régulation de l'énergie (CRE),

The Chairman

Philippe de Ladoucette