

Summary of the public consultation on the rules for the sale of transmission capacities at the link between the GRTgaz North and South balancing zones and at the interconnection between GRTgaz and TIGF as from 1 April 2011

From 4 to 18 June 2010, the French Energy Regulatory (Commission de Régulation de l'Énergie – CRE) organised a public consultation on the rules for the sale of transmission capacities at the link between the GRTgaz North and South balancing zones and at the interconnection between GRTgaz and TIGF as from 1 April 2011.

27 contributions were addressed to CRE:

- 11 from shippers or shippers' associations ;
- 12 from industrial customers¹ or industrial customers' associations of which:
 - 6 replies are similar ;
 - 4 replies are completely identical ;
 - 2 other different replies ;
- 3 from gas infrastructure operators ;
- 1 from an association.

Given that there were similar or identical contributions from certain participants, very similar replies have been grouped together. Consequently, the following analysis is based only on 19 replies.

¹ In the breakdown of replies which follows, similar or identical contributions count as one.

Question 1:

Are you in favour of the proposal to not include the “needs-based” allocation principle in the allocation rules?

18 participants answered this question: 2 gas infrastructure operators, 11 shippers or shippers' associations, 2 industrial customer groups and 2 industrial customers and 1 association.

❖ **Gas infrastructure operators**

GRTgaz considers that a needs-based allocation method does not enable, because its very principle, to satisfactorily meet the objective to increase liquidity in marketplaces, because of the de facto exclusion of shippers identified as not having supply requirements in the south of France. Furthermore, it shares the opinion of certain players on the disadvantages of a needs-based method (complexity of setting model parameters, the sensitivity of the method, lack of visibility). GRTgaz wishes for preference to be given to other allocation methods.

One gas infrastructure operator does not want a needs-based system to be retained because of shippers' lack of visibility, the complexity of implementation and limited reliability of calculations.

❖ **Shippers or shippers' associations**

Almost all shippers are not in favour of the proposal to retain the “needs-based” method in the allocation rules. They highlight in particular, the lack of visibility with regard to capacity allocations which such a method would generate, the complexity of its implementation, its discriminatory nature towards shippers with no customer portfolios in the south of France, its incompatibility with the allocation methods recommended at the European level and its potential to stop the development of marketplace liquidity.

However, one shipper considers that that method would contribute to effectively reducing the consequences of the existing capacity shortage at the link between the GRTgaz North to South balancing zones. In its opinion, storage capacity allocations, which were conducted along this same principle, functioned well. Lastly, the arguments raised during consultation against the application of such a method are not justified.

❖ **Industrial customer groups or industrial customers**

All industrial customer groups or industrial customers are in favour of studies being pursued on the needs-based allocation method. While recognising the implementation difficulties, certain customers consider that they could be overcome, and that method would promote the development of competition in the south of France by rebalancing capacity allocations at the North-South link among shippers based on their requirements in the south of France.

2 industrial customer groups and 1 industrial customer wish for all of the capacities already allocated at the North-South link to be re-evaluated and integrated into the “needs-based” allocation method.



❖ Associations

1 association is not in favour of implementing a needs-based allocation method. It considers that, even though that method initially seems to make sense, it has several disadvantages, among which, a complex implementation and the de facto exclusion of shippers with no customer portfolios in the South zone, limiting the competition which new players may bring.

On the needs-based allocation method:

Almost all shippers (except for one) as well as the two infrastructure operators are against this method. As regards industrial customers, the majority of them consider that this method would only be effective if all of the capacities at the link were allocated in this fashion.

Question 2:

Are you in favour of the continuation of work with a view to introducing an auction mechanism for annual capacity sold on the GRTgaz North to South link in April 2012?

17 participants answered this question: 1 gas infrastructure operator, 11 shippers or shippers' associations, 2 industrial customer groups and 2 industrial customers and 1 association.

❖ **Gas infrastructure operators**

GRTgaz supports the continuation of work on the auction allocation method. It believes that the first discussions conducted on the subject which had led to the identification of the different elements of an auction allocation (type of auction, reserve price, price fixing, potential inflation of the capacity price, etc.) should be furthered. GRTgaz underlines the importance of defining a mechanism to correct any differences likely to appear between the effective income and the authorised revenue of the transmission system operator during the establishment of CRE's future tariff proposal.

❖ **Shippers or shippers' associations**

Almost all shippers are in favour of continuing work on the auction method. Most contributions highlighted European guidelines which stated that the auction allocation mechanism was the standard method for medium-term capacity, and the need to launch a consultation to define the parameters of an auction mechanism to control a certain number of risks identified during preliminary work. Furthermore, some participants believe that an auction allocation method is likely to be beneficial for the functioning of the market in terms of relevant price signals concerning capacity value, transparency and non-discrimination as well as visibility for the capacity volumes allocated.

5 participants are explicitly in favour of introducing auctions in April 2012.

1 shipper while being in favour of the continuation of work on the auction method, believes that that method could not be applied to the South zone presently. It believes that discussions on the issue of auctions should be global and part of a European implementation of auctions at interconnections. Moreover, it considers that auctioning only part of access capacities in the south of France would distort competition and amplify inflationary risks for new players.

However, 1 shipper is not in favour of the continuation of work on the auction method, considering that it would probably increase selling costs in the south of France for suppliers which have supplies in the north.

❖ **Industrial customer groups or industrial customers**

All industrial customer groups and industrial customers are not in favour of introducing auctions in April 2012. They believe that that method presents intrinsic risks (inflation of capacity price, market power, etc.) which, given the current supply conditions in the south of France, would be detrimental to the development of competition and would lead to the increase in suppliers' offers to customers with sites in the south. 1 industrial customer group and 1 industrial customer believe that it is too early to envisage auctioning of capacities at the North-South link as from 1 April 2012 before the commissioning of new capacities (OS France/Spain 2013) which would provide new gas flows in the south of the territory.



❖ Associations

1 association is in favour of the continuation of work on the auction method in the light of European guidelines on the matter. It underlines the importance of correctly identifying the potential impacts of such a method, which, while bringing a certain number of advantages (economic signal, transparency and non-discrimination, absence of volume risk, etc.) should be accompanied by corrective mechanisms to limit the risks (inflation of capacity prices, abuse of market power, etc.).

On the continuation of work with a view to introducing an auction mechanism for annual capacity sold at the GRTgaz North to South link in April 2012:

A majority of participants are in favour of the continuation of this discussion. The industrial customers and two shippers are against the introduction of auctions as from April 2012. Some of them consider that it would be advisable to wait for the arrival of Spanish gas (2013) before envisaging the introduction of this mechanism. GRTgaz is also quite reserved.

Question 3:

Are you in favour of the application of the rules proposed by GRTgaz concerning the sale of annual capacity and in particular, the two equal phases of sales coupled with the guaranteed allocation option limited to 2 GWh/d? Are you in favour of maintaining the maximum guaranteed allocation level at 1.5 GWh/d?

17 participants answered this question: 1 gas infrastructure operator, 11 shippers or shippers' associations, 2 industrial customer groups and 2 industrial customers and 1 association.

All participants, some by default, are in favour of the implementation of a pro rata allocation for the sale of annual capacities (firm and interruptible) as from 1 April 2011. The differences in positions mainly concern the method's detailed application conditions.

❖ Gas infrastructure operators

Within the framework of its sale procedure proposal addressed to CRE, GRTgaz states that it is in favour of the implementation of a pro rata allocation method coupled with a "guaranteed allocation" option in two phases of equal capacities such as that used during its last sale period in 2009. It proposes setting the maximum guaranteed allocation at 2 GWh/d compared to 1.5 GWh/d in 2009.

❖ Shippers or shippers' associations

6 of the 11 shippers are in favour of the implementation of a pro rata allocation coupled with the "guaranteed allocation" option.


4 of these 6 shippers are in favour of maintaining two allocation phases, each with 50% of annual capacities put up for sale as proposed by GRTgaz. However, they wish for the maximum guaranteed allocation level to be maintained at 1.5 GWh/d (2009 level) or lowered to enable shippers with limited requirements to have a higher guaranteed level out of the final capacities allocated, given that if more than 11 shippers request 2 GWh/d, a pro rata would be applied. If that were the case, no capacity would be allocated to shippers which did not use the guaranteed allocation option during the first phase.

2 shippers are in favour of the GRTgaz proposal setting the maximum guaranteed allocation level at 2 GWh/d, considering that a pro rata is not very likely.

5 shippers are not in favour of the GRTgaz proposal and wish for the implementation of a pro rata method with allocation of annual capacities in successive rounds. In their opinion, that method would make it possible to break from the "guaranteed allocation" option, for which the setting of the level might be difficult. In that instance, certain shippers wish for only one allocation phase to be organised without any distinction being made among shippers, and others, on the other hand, wish for the principle of two phases to be maintained. It should be noted that 2 shippers stated that if a pro rata allocation associated with the "guaranteed allocation" option was maintained, one of them would like the maximum guaranteed level to be maintained at 1.5 GWh/d and at 1 GWh/d for the other.

❖ Industrial customer groups or industrial customers

All industrial customer groups and industrial customers are in favour of the implementation of a pro rata allocation coupled with a "guaranteed allocation" option in two phases as proposed by GRTgaz.



1 industrial customer group as well as 2 industrial customers agree with increasing the guaranteed allocation level compared to the 2009 level as well as with increasing the share of capacities put up for sale during the first phase (up to 75%). In their opinion, that would contribute to increasing the interest of shippers supplying end customers in guaranteed allocation.

Among them, 2 industrial customers are in favour of the GRTgaz proposal setting the guaranteed allocation level at 2 GWh/d.

1 industrial customer group would like the level to be increased to 2.5 GWh/d.

1 industrial customer group is in favour of maintaining the selling rules used in 2009 which, in its opinion functioned well. This involves two allocation phases of equal capacities as well a guaranteed allocation level of 1.5 GWh/d.

❖ Associations

1 association is in favour of the implementation of a pro rata allocation coupled with the “guaranteed allocation” option in two phases as proposed by GRTgaz. It wishes for the maximum guaranteed allocation level to be brought to 1.2 GWh/d so as to avoid excessive reduction of the capacities available for structurally deficient shippers with a large customer portfolio.

On the continuation of the sale of annual capacities with two equal phases of sales coupled with the guaranteed allocation option and on the ceiling to be retained (2 GWh/d or 1.5 GWh/d):

A large majority of participants are in favour of maintaining this sale method. Differences in opinions are expressed on the implementation conditions, in particular, the guaranteed allocation level and the share of capacities for each phase.

A balance is struck for an allocation in two equal phases (50/50) and a guaranteed allocation level of 1.5 GWh/d.

Question 4:

Are you in favour of the application of the rules proposed by GRTgaz concerning the sale of multiyear capacity?

16 participants answered this question: 1 gas infrastructure operator, 11 shippers or shippers' associations, 1 industrial customer group and 2 industrial customers and 1 association.

❖ Gas infrastructure operators

Within the framework of its sale procedure proposal addressed to CRE, GRTgaz agrees to the pro rata sale of multiyear capacities (firm and interruptible) in successive rounds, each for at least 5 GWh/d during a single phase open to all shippers. Each maturity period proposed of 4, 3 and 2 years is sold separately in this order.

❖ Shippers or shippers' associations

All shippers are in favour of a pro rata sale of multiyear capacity in successive rounds.

Of the 11 replies received, 7 shippers are in favour of the conditions proposed by GRTgaz, i.e. a single phase in successive rounds, each for at least 5 GWh/d. The main arguments put forward are as follows: the introduction of several rounds would increase the visibility of shippers; the organisation of a single phase open to all shippers would improve the participation of new players.

4 shippers support the principle of selling multiyear capacities in successive rounds, while proposing changes to the conditions proposed by GRTgaz. 1 shipper wishes for the single phase to be reserved to shippers supplying end customers, and for any unsold capacity to then be proposed to all shippers.

Another shipper proposes limiting the requests of each shipper during the allocation rounds to 50% of the volume offered during a given round because it felt that the method proposed by GRTgaz would potentially lead to the allocation of very small quantities during each round.

A third shipper suggests organising two allocation phases with a first phase reserved to shippers supplying end customers. The fourth shipper wishes for multiyear capacities starting as of 1 November 2011 to be sold for 5 months, then reintegrated into capacities sold as of 1 April each year so as to not fragment the offer at the North-South link.

❖ Industrial customer groups or industrial customers

1 industrial customer is in favour of the GRTgaz proposal for the sale of multiyear capacities. However, one group of industrial customers and one industrial customer is not in favour of the GRTgaz proposal. It wishes for the sale of multiyear capacities to be organised under the same conditions as annual capacities, i.e. a pro rata with a guaranteed allocation option in two allocation phases to favour shippers supplying end customers.



❖ **Associations**

1 association agreed with the terms for the sale of multiyear capacities proposed by GRTgaz, considering that the procedure increased shippers' visibility.

On the sale of multiyear capacities:

A great majority of participants are in favour of the pro rata sale of multiyear capacities in successive rounds as proposed by GRTgaz.

Question 5:

Are you in favour of the publication of information between rounds in order to improve visibility?

16 participants answered this question: 1 gas infrastructure operator, 11 shippers or shippers' associations, 1 industrial customer group and 2 industrial customers and 1 association.

❖ **Gas infrastructure operators**

Within the framework of its sale procedure proposal addressed to CRE, GRTgaz is in favour of the publication of information between rounds (number of participants and the total volume of requests for the preceding round) in order to improve shippers' visibility.

❖ **Shippers or shippers' associations**

All shippers are in favour of the publication of information between allocation rounds as proposed by GRTgaz. However, 3 shippers wish for the number of participants to be communicated before each sale, considering that that was the moment when shippers were most uncertain.

❖ **Industrial customer groups or industrial customers**

1 industrial customer is in favour of the publication of information between allocation rounds as proposed by GRTgaz.

1 industrial customer is in favour of the publication of the number of participants as early as the first round or the first allocation phase. 1 industrial customer group is indifferent to the publication of information, stating that it would in no way be beneficial to participants once each shipper requested the maximum amount during each round.

❖ **Associations**

1 association is in favour of the publication of information between allocation rounds as proposed by GRTgaz, being of the opinion that it would improve visibility.

On the publication of information between rounds in order to improve visibility:

All participants are in favour of the GRTgaz proposal to publish information between rounds. Some of them believe that the number of participants should be communicated prior to each sale.



Question 6:

Are you in favour of maintaining the current rules for the sale of capacity at the South to North link between GRTgaz zones and at the interconnection between TIGF and GRTgaz?

17 participants answered this question: 2 gas infrastructure operators, 11 shippers or shippers' associations, 1 industrial customer group and 2 industrial customers and 1 association.

Most contributions highlight the fact that the South to North link and the interconnection between TIGF and GRTgaz are not congested and that the current selling rules do not raise any specific difficulties.

All participants are in favour of maintaining the current rules for the sale of capacity at the South to North link between GRTgaz zones and at the interconnection between TIGF and GRTgaz.



Question 7:

Are you in favour of the timetable for sales proposed by GRTgaz for the North to South link?

15 participants answered this question: 1 gas infrastructure operator, 11 shippers or shippers' associations, 2 industrial customer groups and 1 association.

All participants, with the exception of the industrial customers, are in favour of the sales timetable proposed by GRTgaz.

The 2 industrial customer groups considered that the timetable is too late in relation to the call for tenders for the renewal of supply contracts which are generally launched during the calendar year.

1 association wishes for the entire process to be initiated during the first fortnight of September.



Question 8:

Are you in favour of maintaining the current timetables for the sale of transmission capacity at the South to North link and at the GRTgaz-TIGF interconnection point?

14 participants answered this question: 2 gas infrastructure operators, 11 shippers or shippers' associations and 1 association.

All participants are in favour of maintaining the timetables for the sale of capacities at the South to North link and at the GRTgaz-TIGF interconnection point.

1 association wishes for the entire process to be initiated during the first fortnight of September.



Question 9:

Do you have any other comments on the sale procedure proposed by GRTgaz?

10 participants answered this question: 1 gas infrastructure operator, 4 shippers or shippers' associations, 2 industrial customer groups and 2 industrial customers and 1 association.

❖ **Gas infrastructure operators**

1 gas infrastructure operator requests the implementation of a mechanism equivalent to that proposed within the framework of the new France-Belgium gas interconnection project and that customers which use the Montoir de Bretagne terminal also enjoy conditional capacities within the framework of the rules for the sale of transmission capacities between GRTgaz's North zone and South zone.

❖ **Shippers or shippers' associations**

1 shipper commends the efforts made by Concertation gaz to improve the terms for capacity allocations at the North to South link. It wishes for the same efforts to be undertaken to study the terms which would eventually lead to the merging of the North and South zones. It recalls that visibility should be provided by the regulator on the prospect of merging the North and South zones to enable the different shippers to forecast and best organise supply logistics in the south of France.


Another shipper highlights that complex rules or rules specific to the French market are an obstacle to the development of that market. It wishes for a discussion to be launched as part of the Concertation system on the definition of a limited number of capacity products (the current format diluting offer), the distribution of volumes among the different products, and the definition of a target method for capacity allocation at the North-South link.

A third shipper requests that the allocation rules, once published, be clear and understandable by all shippers. Furthermore, it wishes for shippers to be involved as early as possible in discussions concerning any structure changes of balancing zones in France in order to best control associated regulatory risks.

A fourth contributor insists that a technical and economic model of interconnected French networks be made available to all players so as to improve their visibility of projected capacity and to enable them to check whether reinforcement schemas implemented are optimised. It stresses the importance of continuing Concertation work on the auction method which should eventually be implemented, while considering the pro rata method adapted during a transition phase.

❖ **Industrial customer groups or industrial customers**

1 industrial customer group regrets the importance given to the proposal of an auction method for 2012 whereas work has been quite basic at that stage. It recalls that work on the other methods have been more thorough and represent a much better work base, including because of "eurocompatibility" considerations which are not brought into conflict as long as competition conditions in the south zone are not met.



Another participant stresses the fact that its company's industrial sites are subject to strong international competition and do their best, as a result, to maintain their competitiveness.

A third participant point out that auctions neither meet the expectations of consumers, nor those of shippers. Moreover, the problems raised underline once again the expectations concerning the merging of the different zones.

A fourth participant recalls its desire for requirements to be taken into account in the North-South capacity allocation procedure as well as its refusal of the auction system. Lastly, it highlights the importance of quickly merging the zones.

❖ **Associations**

1 association states that one of its members has underscored its preference for the needs-based allocation method, without maintaining the guaranteed allocation and with priority given to players which have end customers in the south zone.