

DELIBERATION

Deliberation by the French Energy Regulatory Commission of 2 February 2017 deciding on the creation of a virtual interconnection point (VIP) between France and Belgium and the introduction of an offer for substitution of bundled capacity by unbundled capacity

Present: Philippe de LADOUCKETTE, Chairman, Hélène GASSIN and Jean-Pierre SOTURA, commissioners.

Translated from the French: only the original in French is authentic

The present deliberation is based on Article L.134-2, 4° of the French Energy code as well as on Regulation (EU) No 984/2013 of the Commission of 14 October 2013 establishing a network code on capacity allocation mechanisms (CAM code)¹.

It aims to specify the changes in GRTgaz's and TIGF's sale rules for certain capacity products. These changes concern, on the one hand, the creation of a virtual interconnection point (VIP) between France and Belgium and, on the other hand, the introduction of a bundled/unbundled capacity substitution offer.

¹ Network code on capacity allocation mechanisms in gas transmission systems

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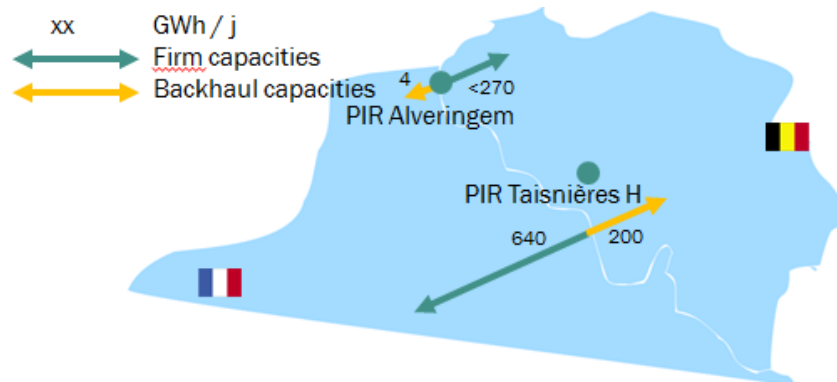
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1. BACKGROUND

1.1 Virtual interconnection point between France and Belgium

The "Artère de Flandres" pipeline, commissioned in November 2015, enables physical transmission of non-odourised gas from France to Belgium. Therefore, since 1 November 2015, firm capacity is sold between France and Belgium in both directions, at the Taisnières H network interconnection point (PIR), where gas can flow physically only from Belgium to France, and at the Alveringem PIR where physical flows are exclusively in the France to Belgium direction. Backhaul capacity is also sold at each of these two PIRs.

The diagram below shows the situation at the France/Belgium interface since 1 November 2015:



Paragraph 9 of Article 19 of the CAM code states that "where two or more interconnection points connect the same two adjacent entry-exit systems, the adjacent transmission system operators concerned shall offer the available capacities at the interconnection points at one virtual interconnection point".

The CAM code defines an interconnection point as "two or more interconnection points which connect the same two adjacent entry-exit systems, integrated together for the purposes of providing a single capacity service".

This type of interconnection point, which must be set up by 1 November 2018 at the latest, can be established only if two conditions are met:

- the total technical capacity at the VIPs "are greater than or equal to the sum of the technical capacity at each of the interconnection points contributing to the virtual interconnection points";
- the VIPs must contribute "to the economic and efficient use of the system".

In its tariff decision of 19 March 2015², CRE requested GRTgaz to "consult Fluxys in order to prepare the creation of a virtual PIR in H gas between France and Belgium". In the first public consultation on the ATRT6 tariff³, CRE investigated stakeholders' interest in the setting up of this VIP. Most actors consider that this development would simplify the system and are therefore favourable.

In 2016, GRTgaz and Fluxys worked together to implement this VIP, enabling them to propose it as from 1 October 2017. The rules envisaged were presented jointly by GRTgaz and Fluxys on 15 November 2016 within the framework of Concertation gas, in the "Capacity allocation" working group.

1.2 Substitution offer

The CAM network code requires TSOs to maximise the bundled capacity proposed at interconnection points. However, certain borders have mismatched subscribed capacity and some shippers have unbundled capacity on one side of the border and not on the other side. In certain cases, technical capacity is different on both sides of the border.

This situation is due to:

- strategic approaches by certain shippers that were able to cancel a portion of their capacity contracts (in particular in Germany and Spain);
- poor anticipation of the CAM network code by certain shippers that continued to book unbundled capacity.

² CRE's deliberation of 19 March 2015 deciding on the change in the tariffs for the use of natural gas transmission networks as at 1 April 2015

³ CRE's public consultation on the following tariffs for the use of GRTgaz and TIGF gas transmission networks and the following tariffs for the use of regulated LNG terminals

In addition, following these de-commitments, some adjacent TSOs reallocated capacity to other points in their networks, particularly in Germany.

For this reason, and under the CAM code, which specifies the maximisation of the bundled capacity proposed, the shippers concerned are able to subscribe only bundled capacity, which does not solve their mismatch issue.

There are also cases of subscription mismatches with identical technical capacity on both sides of an interconnection, for example at the interconnection with Spain. In those cases, the residual unbundled capacity is proposed for sale by the TSO, which enables shippers with mismatched profiles to obtain the capacity needed to re-balance their portfolio.

Article 21§3 of the CAM code⁴, the amendment of which was adopted in comitology on 13 October 2016 and which should apply as from 1 April 2017, states that the TSOs must offer a capacity conversion service for bundled capacity as from 1 January 2018. Therefore, shippers with mismatched capacity subscriptions can access free of charge a service that converts bundled capacity to unbundled capacity for annual, quarterly and monthly products.

The CAM code states that the conversion service must not result in additional charges being applied to network users for the capacity they already hold, apart from a possible auction premium.

A conversion model is expected to be proposed by ENTSOG⁵ by 1 October 2017 at the latest.

1.3 Public consultation

CRE ran a public consultation from 14 December 2016 to 13 January 2017 in order to present its preliminary analyses of these two topics and to gather the opinions of market participants.

10 contributions were addressed to the CRE:

- 7 from shippers;
- 2 from shipper associations;
- 1 from an infrastructure operator.

The non-confidential answers are published on CRE's website⁶.

2. IMPLEMENTATION OF A VIRTUAL INTERCONNECTION POINT BETWEEN FRANCE AND BELGIUM

2.1 Setting up of the VIP and operational arrangements

2.1.1 GRTgaz's proposal

GRTgaz proposes to implement the France-Belgium VIP as from 1 October 2017.

Capacity is currently sold by GRTgaz separately at two points, Taisnières H and Alveringem. GRTgaz proposes to maintain the capacity levels currently sold at the Taisnières H and Alveringem PIRs. Concerning backhaul at Alveringem, GRTgaz has examined the relevance of maintaining a low backhaul capacity level (4 GWh/d). It considers that if the market is interested in this product, it can continue to be proposed.

Capacity sold at the France-Belgium VIP would be of firm and backhaul types. As is the case for the Taisnières H and Alveringem PIRs, the capacity would be sold on the PRISMA⁷ platform, based on the CAM network code schedule. Backhaul capacity would only be sold if all the firm capacity available in the same direction has been allocated or if a premium emerges in the firm product auction. Indeed, if backhaul capacity were to be sold before all firm capacity was sold, this capacity would be interrupted very little and would have the same value as firm capacity for half the price.

⁴ §3 of Article 21 of CAM: "3. As from 1 January 2018, transmission system operators shall offer network users holding mismatched unbundled capacity at one side of an interconnection point a free-of-charge capacity conversion service. Such a capacity conversion service shall apply to annual, quarterly or monthly capacity products for bundled firm capacity at that interconnection point which the network user had to acquire because insufficient unbundled capacity on the other side of the interconnection point was offered by an adjacent transmission system operator. This service shall be offered on a non-discriminatory basis and shall prevent additional charges from being applied to network users for capacity they already hold. In particular, payments for the part of the contracted bundled capacity which network users already hold as mismatched unbundled capacity shall be limited to a possible auction premium. This service shall be based on the conversion model under development by ENTSOG and to be finalised at the latest by 1 October 2017 after consulting stakeholders and the Agency. The implementation may be facilitated by the capacity booking platform(s) referred to in Article 37. The use of this service shall be reported annually to the respective national regulatory authorities."

⁵ European Network of Transmission System Operators for Gas

⁶ <http://www.cre.fr/>

⁷ Platform for the sale of transmission capacity since 1 April 2013 and used by 37 of the 43 European TSOs

To prepare the creation of the VIP, in order to ensure that as from 1 October 2017, there is no backhaul capacity subscribed at the VIP before all of the firm capacity is sold, GRTgaz proposes to sell the following during the March 2017 auctioning of annual products for the years starting from the 2017-2018 gas year:

- backhaul at Alveringem only if all of the firm capacity at Taisnières H is allocated or if there is a premium during the firm product auction;
- backhaul at Taisnières H only if all of the firm capacity at Alveringem is allocated or if there is a premium during the firm product auction.

In addition, GRTgaz proposes to maintain the same functioning for the quarterly auctions of August 2017 for quarterly products as from Q4 2017, and for the monthly auctions for the month of October 2017.

The tariffs in effect upon implementation of the VIP would not be modified. Existing contracts of shippers that have booked capacity at Taisnières H and Alveringem would be executed under identical conditions. Fluxys will consult the market in March concerning the options adopted in Belgium.

2.1.2 Summary of responses to the public consultation

Most of the participants that answered the public consultation were in favour of the implementation of the France-Belgium VIP as at 1 October 2017 under the conditions proposed by GRTgaz. These participants consider that such a development could simplify the French gas system and give more flexibility to shippers.

Concerning the conservation of the sale of the 4 GWh/d of backhaul capacity in the Belgium to France, most participants are also in favour. They consider that although the volume is low, conserving it does not generate any additional costs and it can be useful under certain flow configurations. Some participants consider that it is not likely that this product would be bought in the short term.

2.1.3 CRE's analysis

CRE considers that the implementation of a virtual interconnection point between France and Belgium complies with the CAM network code, which meets market demand and simplifies the offer while ensuring the continuity of existing contracts.

Concerning the conservation of the sale of backhaul capacity in the Belgium to France direction, CRE considers that although all firm capacity is not booked at Taisnières, keeping this product could be useful in certain situations.

CRE is therefore in favour of the implementation of the France-Belgium VIP according to the terms proposed by GRTgaz, while maintaining all of the current capacity.

Therefore, the capacity volumes which would be sold at the VIP are summarised below

Capacity (GWh/d)	Belgium to France	France to Belgium
Firm	640	270 - DKB ⁸
Backhaul	4	200

In addition, the tariffs in effect upon implementation of the VIP shall not be modified⁹. They are reiterated in the table below:

€/MWh/year		Belgium to France	France to Belgium
France Belgium VIP	Firm	102,30	40,32
	Backhaul	50,40	20,46

2.2 Link between netting and UBI

Currently, when all firm capacity available has been booked, the use-it-and-but-it (UBI)¹⁰ capacity offer is open for the purchase of intraday capacity. This offer enables shippers to obtain additional daily capacity in the main

⁸ The firm capacity offer in the France to Belgium direction is 270 GWh/d minus the quantity subscribed at the Dunkirk terminal exit to Belgium. Up until October 2017, 100 GWh/d of firm capacity is subscribed from the north PEG to Belgium and 170 GWh/d from the Dunkirk LNG terminal to Belgium. Beyond that date, no more capacity is subscribed from the north PEG to the Alveringem PIR. Reservations at the terminal to Belgium total 220 GWh/d until 2030.

⁹ Deliberation of the French Energy Regulation Commission of 15 December 2016 deciding on the tariffs for the use of GRTgaz's and TIGF's natural gas transmission networks

¹⁰ GRTgaz's note on the UBI offer



transmission direction during the gas day, by making available to them capacity subscribed but not used by their holders. At each nomination cycle, GRTgaz determines the UBI capacity available at a given point by calculating the difference between the sum of the capacities held and the sum of shippers' nominations at the same point. To obtain the UBI capacity, a shipper nominates beyond his capacity.

In addition, the netting mechanism set up by GRTgaz enables shippers nominating in the reverse direction to release identical capacity quantity in the main direction during work periods. Netting brings no changes to the physical flows in the network but enables shippers to nominate a greater volume in the main direction. This mechanism enables, for example, during work periods, shippers with delivery contracts to honour their commitments, especially for take-or-pay contracts.

Lastly, in the event of maintenance, backhaul is tolerated which enables shippers to nominate free of charge in the reverse direction a firm capacity volume which is interrupted in the main direction, even if the shipper does not hold any backhaul capacity. This mechanism has the same advantages as netting.

2.2.1 GRTgaz's proposal

In the short term, GRTgaz states that is not able to maintain UBI and netting in both directions without some IT developments. It would be necessary to choose between maintaining UBI in both directions, or maintaining netting and UBI in the Belgium to France direction.

GRTgaz proposes to maintain netting and UBI in the Belgium to France direction, since it considers that this solution is the most valuable to the market.

2.2.2 Summary of responses to the public consultation

Participants that answered the public consultation are divided regarding the choice to be made concerning the conservation of UBI in both directions or conserving UBI in only the Belgium to France direction, and in the case of work, the backhaul netting solution.

Certain participants are in favour of GRTgaz's proposal. In their opinion, given that most flows are currently from Belgium to France, UBI in the France to Belgium direction will not be beneficial to the French market. Other participants favour conserving UBI in both directions. Others recalled that contrary to netting, UBI is accessible to all shippers.

One participant wished for capacity subscribed at the Dunkirk terminal to Belgium, but not used, to be made available to shippers via UBI so that gas could be shipped from the north PEG to Belgium.

Lastly, all participants are in favour of conserving UBI and netting. Some participants expressed reservations about the costs associated with such developments.

2.2.3 CRE's analysis

Since conserving all of the current mechanisms is impossible in the short term and given that the current market conditions lead to most flows being in the Belgium to France direction, CRE considers that UBI in the France to Belgium direction would be used very little in the short term. UBI is in fact available only when all firm capacity is booked, which is not the case currently. Therefore, initially only netting and UBI in the Belgium to France direction will be conserved.

However, CRE wishes for all of the existing mechanisms to be conserved in the long term. Therefore, it requests GRTgaz to study and present within the framework of GRTgaz, during 2017, the possibilities concerning the selling of UBI in the France to Belgium direction as well as the associated costs. GRTgaz shall examine in particular, the possibility of integrating in the France-to-Belgium UBI the capacity booked and not used at the Dunkirk terminal towards Belgium.

3. IMPLEMENTATION OF THE CAPACITY SUBSTITUTION SERVICE

3.1 Principle of the service

3.1.1 TSOs' proposals

Ahead of the recommendations of Article 21§3 of the CAM code, as from the new annual auctions in March 2017, in the event of excess capacity in France compared to the other side of the interconnection, GRTgaz and TIGF propose implementing a conversion service: within the framework of this service, shippers that hold unbundled capacity on the French side of the border and which cannot book an equivalent level of unbundled capacity on the other side of this same point, would participate in the PRISMA auctions for the sale of bundled capacity at this point, and would then use the conversion service with which the unbundled capacity in their portfolio for the same period would be replaced by the newly acquired capacity and would be identical to that capacity. Clients would conserve their rights and obligations for the capacity booked previously. The shipper's rights and obligations are therefore extinguished on the French side for the newly acquired capacity, which would therefore not be billed. Only the auction premium would be due.

The TSOs propose applying this measure to all CAM points, in particular the Taisnières H, Obergailbach and Pirineos PIRs where mismatched capacity subscriptions exist. As regards Pirineos, the capacity subscription mismatch is currently managed by the possibility to book unbundled capacity on the Spanish side. The measure would apply for bundled capacity bought for a period of at least one month during the PRISMA auctions. The capacity volume being applied to the conversion mechanism must be less than or equal to the unbundled capacity already booked when the substitution request is made.

3.1.2 Summary of responses to the public consultation

All participants that answered the public consultation are in favour of the implementation of the capacity substitution mechanism. They consider that it can solve subscription mismatch issues and wish for it to be implemented as soon as possible.

While the mechanism is limited to products of a duration higher than or equal to one month, some participants wish for it to also apply to daily and intraday products.

One participant requested to have confirmation that all shippers would have access to this service, including those that act as agents with a right to use the capacity of a third party shipper.

3.1.3 CRE's analysis

CRE considers that the TSOs' proposal complies with Article 2, as amended, of the CAM network and that it responds to a market need.

CRE is not in favour of the extension of this mechanism to daily and intraday products. It reiterates that this substitution mechanism is a service proposed by the TSOs so that shippers may have the opportunity to re-balance their portfolios, in the case where unbundled capacity is not enough at an interconnection point, but must in no way be a mechanism for short-term optimisation. CRE also reiterates that the CAM code provides for the application of this mechanism only for annual, quarterly and monthly products.

Concerning the request by a participant to have access to this service in the event of a transfer of a right of use, CRE restates that the substitution request can only be made for unbundled capacity in a portfolio. Therefore, a participant holding a right to use capacity not in their portfolio cannot access this mechanism. If shipper B holding a right to use the capacity of shipper A wishes to access the substitution mechanism, they must cancel the right-of-use transfer in effect so that shipper A can make a substitution request and then buy the rights of use for the newly bundled capacity.

CRE is in favour of the implementation of this mechanism at the interconnection points to which the CAM network code applies, as from March 2017.

3.2 Framework for application

3.2.1 TSOs' proposals

The TSOs consider that the application of this conversion mechanism in the event of congestion, i.e. when demand is greater than supply, could create market distortion. The auction would in fact be skewed because of the interest of the holder of unbundled capacity wanting to substitute it, since this unbundled capacity represents a stranded cost for this holder. The participant would then be ready to purchase the new capacity at a higher price than the rest of the market, which would artificially increase the auction price. For this reason, GRTgaz and TIGF wish for the mechanism to not be applicable in the event of congestion.

Nevertheless, TIGF proposes to allocate the bundled capacity remaining at the end of the last auction round to the shipper wishing to substitute their unbundled capacity, at the auction price.

To access this conversion mechanism, GRTgaz proposes to give the shipper a deadline of five working days after the auction to make their conversion request with the relevant TSO. TIGF proposes that the shipper wishing to use this mechanism should inform the TSO prior to the auction.

3.2.2 Summary of responses to the public consultation

Most shippers that answered the public consultation do not share the TSOs' and CRE's opinion and consider that the mechanism should apply including in the event of congestion.

They in fact wish for the possibility of solving mismatch problems to also exist when demand is greater than supply during auctions, or when this supply has the most value.

Some participants highlighted that there could not be discrimination against holders of unbundled capacity compared to short-term purchasers.

Concerning the five-day deadline proposed by GRTgaz for the activation of this substitution mechanism, one participant suggested that this deadline be raised to at least ten days, in order to secure the communication and activation of this service for suppliers.

With the exception of GRTgaz, and in the event the substitution mechanism is not applied in cases of congestion, all participants support TIGF's proposal concerning the allocation of the remaining auction capacity, including for GRTgaz.

3.2.3 CRE's analysis

CRE notes that the CAM network code does not expressly require the application of this mechanism in the case of interconnection congestion.

However, CRE considers, given the responses to the public consultation and because CREG intends to maintain this system in the event of premiums, that the TSOs should provide this service including when demand is greater than supply during the auction, as from March 2017. Shippers will be required to pay the auction premium.

Concerning the shipper's deadline for informing the TSO that it wishes to use this mechanism, CRE considers that five days are sufficient. CRE wishes for the deadline of five working days starting from the end of the auctions to apply also for TIGF.

4. CRE'S DECISION

CRE approves GRTgaz's proposal¹¹ as regards the implementation of the France-Belgium VIP, subject to the following changes:

- The conservation of all of the capacity currently sold upon implementation of the VIP: the sentence *"The 4 GWh/d of backhaul capacity sold in the Belgium to France direction shall be proposed to the market if the market expresses a strong interest in this product"* is replaced by *"The 4 GWh/d of backhaul capacity sold in the Belgium to France direction shall be proposed to the market under the same conditions"*.
- GRTgaz's commitment to study and present in Concertation gas in 2017 the possibilities concerning the selling of UBI in the France to Belgium direction, possibly by including capacity not booked at the Dunkirk terminal towards Belgium.

CRE approves GRTgaz's proposal¹² as regards the capacity substitution mechanism, subject to the following change:

- The application of the mechanism including in the event of congestion: the sentence *"The measure shall apply only if the point is not congested (i.e. demand lower than supply: no premium), so as to not skew the result of auctions (if demand was in fact greater than supply because of a substitution demand, the capacity price would be artificially higher, since this capacity would be made available to the market again at the following auction)."* is replaced by *"the measure shall apply including when demand is greater than supply. If the mechanism is applied for an auction closing with a premium, the auction premium is billed to the shipper concerned"*.

CRE approves TIGF's proposal¹³ as regards the capacity substitution mechanism, subject to the following change:

- The possibility for a shipper to make a substitution demand up to five working days after the auction: the sentence *"the shipper's substitution demand shall be made prior to the auction of the bundled product concerned"* is replaced by *"the shipper's substitution demand shall be made up to five working days after the auction of the bundled product concerned"*.
- The application of the mechanism including in the event of congestion: the sentence *"The substitution mechanism only applies if the point is not congested, therefore when demand in the first auction round is lower than supply and no auction premium is generated"* is replaced by *"The measure shall apply including when demand is greater than supply. If the mechanism is applied for an auction closing with a premium, the auction premium is billed to the shipper concerned"*.
- The part entitled "Allocation of the balance" is deleted.

This deliberation will be published in the *Journal officiel de la République française*.

Signed in Paris, 2 February 2017,
On behalf of the Energy Regulatory Commission,
Chairman,

Philippe de LADOUCKETTE

¹¹ GRTgaz's for the France Belgium VIP

¹² [GRTgaz's proposal for the substitution measure](#)

¹³ [TIGF's proposal for the substitution measure](#)