



DELIBERATION NO. 2017-284

Deliberation by the French Energy Regulatory Commission of 21 December 2017 approving GRTgaz's investment programme for 2018

Present: Jean-François CARENCO, Chairman, Christine CHAUVET, Hélène GASSIN, Jean-Laurent LASTELLE and Jean-Pierre SOTURA, commissioners.

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

1. BACKGROUND

Pursuant to the provisions of Article L.134-3 and of L.431-6-II of the French Energy Code, gas transmission system operators (TSOs) must submit their annual investment programmes to the Regulatory Commission of Energy (CRE) for approval. Within this framework, the CRE *“ensures that the investments required for the proper development of the networks, and for transparent and non-discriminatory access to them are made”*.

With regard to the investment programme for the year 2017:

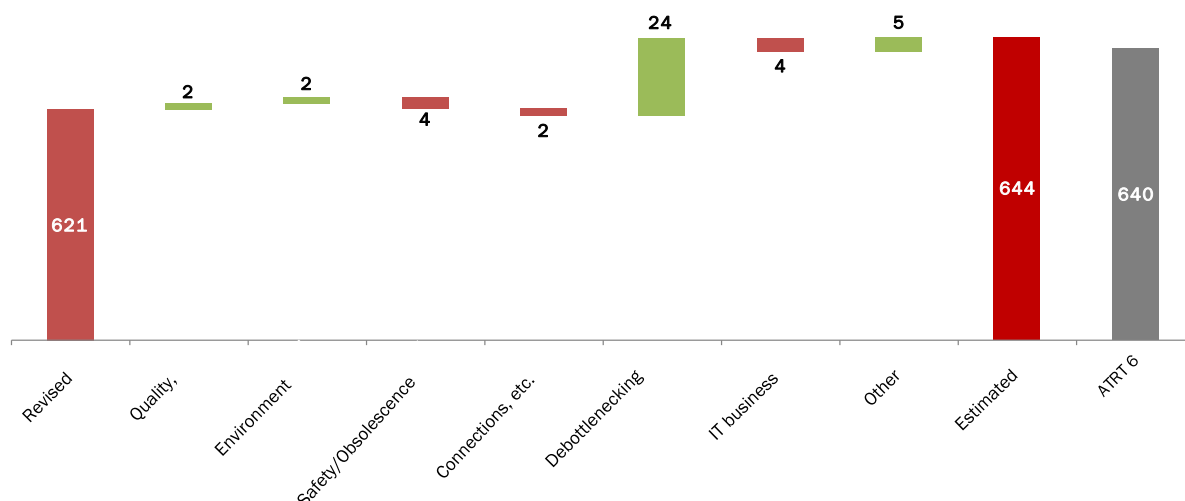
- In the deliberation of 15 December 2016, CRE approved GRTgaz's investment programme for 2017 and requested the operator to present, for mid-2017, an annual report of its investment programme.
- In the deliberation of 13 July 2017, the CRE approved the update of GRTgaz's 2017 investment programme.

GRTgaz submit to CRE its investment programme for 2018 and was heard on 14 December 2017.

2. CRE OBSERVATIONS ON THE 2017 INVESTMENT PROGRAMME

By deliberation of 15 December 2016, CRE approved the revised GRTgaz's 2017 investment programme. This amounted to € 640 M. On 13 July 2017, GRTgaz presented its amended investment programme reduced by 3 % (€621 M).

At the end of 2017, GRTgaz presented an investment programme estimated at €644, +4% compared to the revised programme in mid-2017.



The main difference comes from the expenditures of the main network development. GRTgaz has anticipated expenditures on the Val de Saône project for € 19 M.

3. MAIN ELEMENTS OF GRTGAZ'S INVESTMENT PROGRAMME FOR THE YEAR 2018

For the year 2018, GRTgaz presents an investment programme of € 576 M. This budget is in line with the trajectory of investment expenditure adopted under the ATRT6 tariff which amounted to € 574 million.

The breakdown by investment purpose for the year 2018 is as follows:

M€	2018 forecast
Public service obligations of supplying, quality	51
Environment	15
Safety/obsolescence	190
Connections, etc.	41
Fluidity	188
IT business	37
Other	54
Total	576

3.1 Fluidity investments of the main network

Expenses related to the main network's fluidity projects amounted to € 188 M.

The vast majority of these expenditures result from the investments needed to create the single marketplace, namely the Val de Saône project (€ 177 M in 2018).

Investment expenditure related to the capacity creation project at PIR Oltingue is estimated at € 3 M.

3.2 Expenditures related to regulatory obligations

The majority of expenses related to regulatory obligations concern the safety and obsolescence of networks. In 2018, they represent € 190 M. These amounts are mainly related to the renewal of facilities on the network, including pipelines.

Expenditure related to GRTgaz's public service obligations (continuity of transmission and gas quality) amounted to € 51 M. This amount appears to be a sharp increase compared to previous years (€ 38 M in 2017), particularly in connection with the launch of the conversion of L-gas zone into H-gas (€ 28 M) and with the progress of the project to reinforce the South Brittany area (€ 8 M).

Environmental expenditures amounted to € 15 M. These expenses are notably justified by the work on the Bégude compressor station, as well as by the first expenses related to the TENORE project (see section 4.4).

3.3 Expenditures related to connections

Connection investments amounted to € 41 M, +28% compared to 2017. They are linked, for € 24 M, to the development of biomethane injection projects and compressed natural gas (CNG) stations for vehicles, to the Power to gas Jupiter 1000 pilot, but also to the first expected benefits of the GRTgaz natural gas use promotion programme.

Capital expenditure related to third-party services, which amounted to € 17 M in the 2018 programme, was down € 2 M compared to the 2017 exit point, and notably related to developments related to the “Grand Paris” project as well as the displacement of works.

3.4 Other investment expenditure

The forecast investments in business information systems (Supply and Industrial System) and in the support functions (information systems for support functions, real estate, vehicles) of GRTgaz are estimated at € 91 M. In particular, they take into account the IS development expenses related to the creation of the single marketplace and the implementation of real-time metering.

4. CRE ANALYSIS

4.1 2018 Investment Programme

CRE notes that GRTgaz's planned expenditures for 2018 cover all identified needs. The projects progress according to the schedules indicated, with cost at completion in line with the projected budgets indicated.

Project	Date of approval deliberation	Date of the deliberation setting the target budget	Initial budget	Target budget	Termination cost	Date of commissioning
Val de Saône	7 May 2014	30 October 2014	€727 M	€650 M	€696 M	2018
Gascogne-Midi	07 May 2014	30 October 2014	€22 M	€21 M	€22 M	2018
Creation of 100 GWh/d reaching up to 200 GWh/d of entry capacity at Oltingue	17 December 2014	Not concerned	€12 M	Not concerned	€17 M	2018
Project for conversion of zone B into H gas – Pilot part	15 December 2016	15 December 2016	€42 M	42 M€	€42 M	2018-2020

Vindecy compression	21 December 2017	In progress	€67.6 M	Being audited	€67.6 M	2020
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Project	Date of approval deliberation	Initial budget	Termination cost	Date of commissioning
Jupiter 1000	17 December 2014	€10 M	€11 M	End of 2018
Biomethane reverse pilote	21 December 2017	€6 M	€6 M	2019
TENORE project	21 December 2017	€8 M	€8 M	2020

GRTgaz shows expenses consistent with the launch of new projects.

In particular, GRTgaz plans the connection of two pilot distribution/transmission units for biométhane reverse flows. These two projects were planned in the ATRT6 trajectory and relate to an amount of € 5.1 M in 2018 (for an overall budget of € 6 M).

4.2 Capacity building project towards Germany

With regard to the project to create firm backhaul capacity towards Germany, GRTgaz is studying two solutions based on investments:

- The decentralised odorisation project is the subject of two pilot projects in the north of France in coordination with GRDF. GRTgaz estimates, with experience feedback based on the first tests, that the project would have a cost higher than that estimated before the experiment in 2012 (more than € 600 M)
- The easing of Germany's position regarding the acceptable residual sulphur content on its network allows GRTgaz to study a centralised deodorisation project which consists of the installation of a deodorisation station on the GRTgaz network. The operator estimates at this stage the cost of this project under € 200 M according to the scenario envisaged. GRTgaz requests the approval of the additional technical studies for € 1.7 M.

With regard to the decentralised odorisation project, the studies show that the cost of the project would be much higher than that envisaged before the installation of the two pilots. This project lost its PCI status when the third list of projects was published on 23 November 2017, in the absence of monetised profits. Consequently, CRE asks GRTgaz not to follow up the deployment of decentralised odorisation.

With regard to the deodorisation project, CRE approves the € 1.7 M expenditure to ensure the technical and economic feasibility of such a device.

4.3 Reconstruction project of the Vindecy compressor station

GRTgaz sent CRE a request for approval for the Vindecy compressor station reconstruction project and the renovation of the interconnection grid for a budget of € 67.6 M. As a result, it is subject to the cost-control incentive mechanism provided by the ATRT6 tariff (which applies to any project with a budget of more than € 20 M).

The Vindecy station was built in 1959 with 5 motor-compressors of 1 MW each and 1 emergency turbocharger of 0.8 MW added in 1976. It is located in the heart of the network, strongly used and essential in the context of the merger of North-South zones.

The emergency turbocharger is now at the end of its useful life and out of service, thus reducing the overall availability of the site. The motor-compressors are the last compressors of this type operated by GRTgaz, which implies a difficulty to keep them in operation, due to lack of spare parts, and to keep the technical competence in-house.

In addition, the interconnection linked to the site is ageing and GRTgaz's industrial safety standards are no longer respected.

The solution chosen by GRTgaz under the advisability and feasibility studies concerns the construction of two new 5 MW compressors, including one backup, as well as the renovation of the interconnection grid.

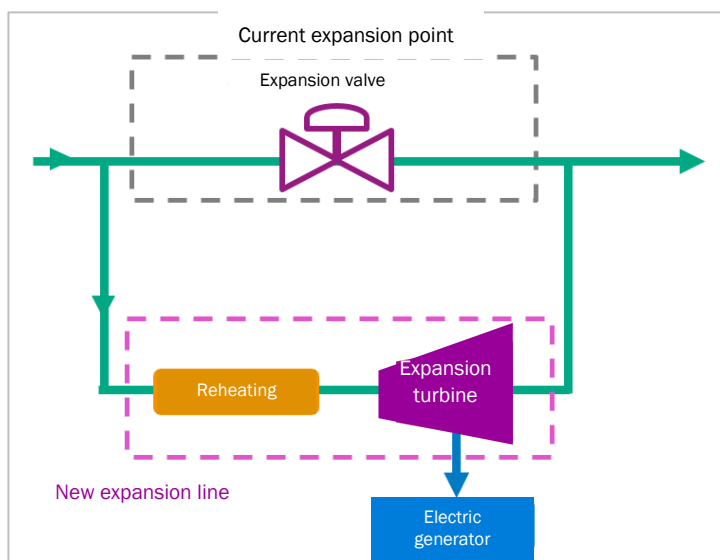
GRTgaz is planning a final investment decision in early 2018 to allow commissioning of the new facilities during the second half of 2020.

At the end of 2017, CRE commissioned an external firm to conduct an audit of the project's projected budget transmitted by the operator. Since the audit was not finalised at the date of this deliberation, CRE plans to set the target budget for the project in early 2018. Nevertheless, the first conclusions of the audit show that the project is technically justified.

CRE approves the reconstruction of the Vindecy compressor station.

4.4 TENORE project

GRTgaz presented to the CRE a project for the recovery of expansion energy for the production of electricity for a budget estimated at this stage of € 8M for the pilot. This project consists in recovering the expansion energy through a turbine which feeds an electric generator.



GRTgaz has identified a site in Villiers le Bel where the operator plans to build a pilot project, near the Enedis network allowing the resale of electricity and close to a heat network necessary to heat the gas after expansion. The installation would consist of an expansion turbine, a cogeneration unit, gas connections, connection to the heat network and water/water and gas/water heat exchangers.

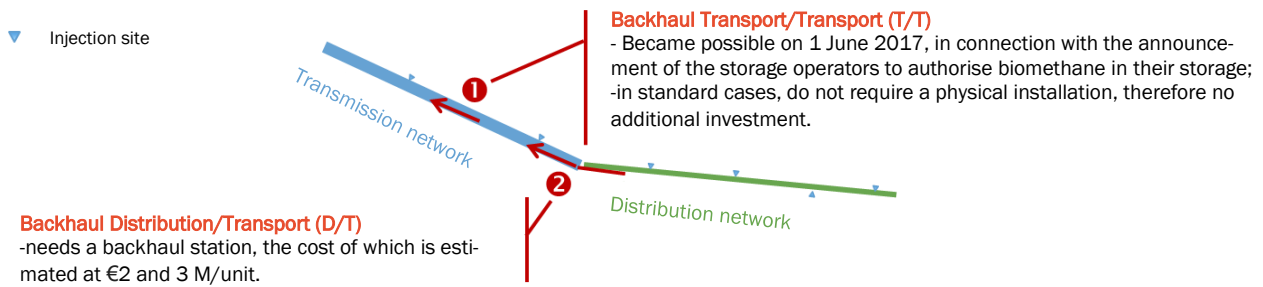
CRE is in favour of this experiment as it aims to reduce the energy consumption of the TSO. The pilot project will be in operation for 15 years. Feedback from the first months of operation of this pilot project will validate the expected performance and consolidate the operator's engineering skills.

CRE notes that GRTgaz's electricity production is compatible with the independence obligations imposed by the French Energy Code and the Gas Directive. Nevertheless, as part of the TENORE project, GRTgaz plans to sell the surplus energy produced. As the sale of electricity is a competitive activity, this activity, if it were to continue and develop beyond the initial period required for feedback, has a duration of 18 months from the commissioning of the installation, should be the subject of an accounting unbundling.

CRE approves the launch of the TENORE project, planned with a budget of € 8M.

4.5 Distribution/transport backhaul projects

In particular, GRTgaz plans the connection of two pilot distribution/transmission units for biométhane reverse flows. These two installations, within the framework of the West Grid Synergy project, will be built in Pontivy (Finistère) and Pouzauges (Vendée) where GRDF has identified significant potential for the development of biomethane injections.



GRTgaz is seeking the approval of two Distribution/Transport pilot projects for a budget of € 6 M and commissioning in 2019. CRE is in favour of the development of these two pilot projects, for the purposes of testing the different configurations of the network as part of the development of biomethane injection sites. These projects, coordinated with GRDF, will provide feedback on this mechanism. CRE approves the launch of these projects

CRE considers that the launching of the other identified projects cannot take place before the definition of a framework setting the triggering and financing rules for these projects. In addition, a more global reflection should be launched in parallel by the TSOs and DSOs to evaluate the economic relevance of the backhaul compared to the possible alternatives and thus to determine a methodology for evaluating and optimising the needs of reverse installations.

CRE approves the implementation of two pilot units for biomethane reverse from the distribution network to the transport network under the West Grid Synergy project, planned with a budget of € 6 M.

5. DECISION OF THE CRE

1. Pursuant to the provisions of Article L.134-3 and L.431-6-II of the French Energy Code, the CRE approves the investment programme for the year 2018 submitted to it by GRTgaz. It is divided as follows:

€M	2018 forecast
Public service obligations of supplying, quality	51
Environment	15
Safety/obsolescence	190
Connections, etc.	41
Fluidity	188
IT business	37
Other	54
Total	576

2. In addition, CRE approves:
 - a. a budget of €1.7 M to ensure the technical and economic feasibility of a deodorisation device. Thereon, CRE asks GRTgaz not to follow up the deployment of decentralised odourisation.
 - b. the renovation project of the Vindecy compressor station, the target budget of which will be set at the beginning of 2018;
 - c. the launch of the TENORE pilot project for a budget of €8 M;
 - d. the installation of two biomethane reverse pilot projects from the distribution network to the transport network (West Grid Synergy) for a budget of €6 M;
3. CRE considers that the launching of the other backhaul projects cannot take place before the definition of a framework setting the triggering and financing rules for these projects. In addition, a more global reflection should be launched in parallel by the TSOs and DSOs to evaluate the economic relevance of the backhaul compared to the possible alternatives and thus to determine a methodology for evaluating and optimising the needs of reverse installations.
4. The approval of the investment programme does not prejudge the tariff treatment of these expenses.
5. Any modification of the investment programme must be submitted to CRE for approval.
6. CRE requests GRTgaz to submit an interim implementation report on this decision before July 2018, including a progress report on the main projects undertaken.
7. This deliberation will be published on the website of the CRE and notified to GRTgaz. It will also be sent to the Minister of State, Minister for the ecological and inclusive transition and the Minister for the Economy and Finance.

Deliberated in Paris on 21 December 2017.
For the French Energy Regulatory Commission,
The Chairman,

Jean-François CARENCO