



DELIBERATION NO. 2018-167

Deliberation of the French Energy Regulatory Commission of 19 July 2018 approving Teréga's investment programme for 2018

Present: Jean-François CARENCO, Chairman, Christine CHAUVET, Catherine EDWIGE, Hélène GASSIN and Jean-Laurent LASTELLE, Commissioners.

Translated from French: only the French version is authentic

1. BACKGROUND

Law No. 2017-1839 of 30 December 2017 ceasing the exploration and exploitation of hydrocarbon deposits and attributing various energy and environmental measures, has reformed the access system to natural gas infrastructure, which is now regulated.

Article L. 421-3-1 of the French Energy Code states that " *underground natural gas storage infrastructure facilities that ensure the country's security of supply in the medium and long-term, together with compliance with bilateral agreements on security of supply of natural gas concluded by France with a European Union Member State or a European Free Trade Association member, are provided for in a Multiannual Energy Programme (PPE) referred to in Article L. 141-1. These facilities are maintained in service by the operators.*

Multiannual Energy Programme can cover storage facilities which have been subject to reduced operating licences with capacities that have ceased to be marketed, as well as sites under development."

Article 9 of Decree No. 2016-442 of 27 October 2016 on the PPE¹ states that storage facilities falling within the scope of the regulation currently applies to all facilities in operation, three mothballed facilities and three development projects. In applying the provisions of Article L. 141-3 of the Energy Code, the initial period of the PPE expires in late 2018, when a new PPE will cover two consecutive five-year periods (2019-2023 and 2024-2028).

According to Article L. 421-7-1 of the Energy Code, each natural gas storage operator "establishes an annual investment programme that they submit for approval to the French Energy Regulatory Commission. CRE ensures that the necessary investments are made to effectively develop storage facilities and that access to them is transparent and non-discriminatory."

Teréga is one of three natural gas storage operators in France and runs facilities at Izaute and Lussagnet.

Given the addition of storage facilities to the regulation of 1 January 2018 and work to introduce third party access reforms to underground natural gas storage facilities undertaken by the French Energy Regulatory Commission (CRE) during the first quarter of 2018, the approval of investments by storage operators for 2018 is to be exceptionally made halfway through the year. Teréga was referred to CRE on 30 April 2018 with respect to its 2018 investment programme. The operator was interviewed by the CRE collegial board on Thursday 28 June 2018.

¹ Article 9 of Decree No. 2016-442 of 27 October 2016 on the PPE

2. THE MAIN COMPONENTS OF THE 2018 TERÉGA INVESTMENT PROGRAMME

As part of work on underground natural gas storage infrastructure user tariffs² (ATS1), Teréga presented an investment budget for 2018 worth €72 m. By contrast, the operator's investment programme for the current year, submitted for approval, amounts to €54.4 m, a drop of 24%. The difference mainly stems from the suspension of a project to renew a compressor at the Lussagnet facility, reflecting changes to storage operations during the winter of 2017/2018 (see section 3).

Budget lines (€m)	Teréga 2018 proposal
Development	21.4
- <i>Lussagnet Phase I - Reboiler</i>	4.5
- <i>Lussagnet Phase I - Wells + Slab</i>	14.2
- <i>Others</i>	2.6
Security and upkeep	25.1
- <i>Cushion gas</i>	9.3
- <i>Electricity supply and compressor maintenance</i>	7.1
- <i>Ancillary installations</i>	2.4
- <i>Wells</i>	6.3
General investments	7.9
- <i>Information systems</i>	4.9
- <i>Others</i>	3.0
Total	54.4

2.1 Development projects

Teréga's development budget mainly focuses on the Lussagnet Phase I development project, which features in the 2016-2018 Multiannual Energy Programme. This project consists of raising withdrawal speeds at the facility, from 47.6 MNm³per day in winter 2018/19 to 54 MBNm³per day by winter 2019/2020. The total budget is estimated to be €41.3 m.

Teréga has already incurred part of the expenditure for this project. In late 2016, the operator commissioned a dehydration tower costing €9.0 m. Two parts of the project remain to be completed:

- a reboiler, for a budget of €5.7 m;
- drilling four wells and a slab, planned for 2018 and 2019, for a budget of €26.6 m, including €18.8 m in 2018.

2.2 Security and upkeep

Teréga plans to increase the volume of cushion gas by 40 MNm³per day, for a budget of €9.3 m in 2018. The operator justifies this injection requirement by gas movements recorded during winter 2017/2018. Indeed, due to a high level of subscriptions, this period featured significant throughput, leading to an exceptionally low level of gas in storage and subsequent reduced pressure levels in the storage facility. Injecting additional cushion gas would help raise the pressure and sustain performance levels at the facility.

² Deliberation of 22 March 2018 on the decision concerning user tariffs for Storengy, TIGF and Géométhane underground natural gas storage facilities, as of 2018.



3. CRE'S ANALYSIS

3.1 Development projects

In terms of the Lussagnet Phase I development project, CRE notes that this development project features in the scope set out in the current PPE³. CRE approves the planned expenditure for 2018 for this development project.

3.2 Security and upkeep

CRE notes that in the investment programme on security and upkeep, Teréga has:

- postponed its plans to renew compressors at the Lussagnet facility due to the site's new operating conditions. This also applies to the emergency aid centre at the Izaute facility due to the date regulation came into force and certain land ownership issues;
- planned for the additional injection of cushion gas to maintain the facility's performance levels, especially towards the end of the withdrawal period.

CRE approves this expenditure for 2018.

CRE nevertheless highlights that to ensure security of supply, the PPE has set a target for discharge and usable capacity rates for the entire area of storage facilities regulated by the three storage operators. This situation raises the question of maintaining this level of performance at the least cost for the community. To complete these analyses, from 2019, CRE requires Teréga to supplement all project approval requests to maintain or improve performance (especially the injection of cushion gas) with an alternative investment-free scenario featuring the subsequent effects on performance at the relevant facility.

Furthermore, CRE notes that Teréga has significantly altered the structure of its investment programme compared to that submitted for ATS1 tariff works. In particular, CRE notes that Teréga did not express a need for additional cushion gas to ensure facility performance when this work was carried out. Given the variations recorded between the amounts declared in the investment programme and those presented in the tariff report provided in late 2017, CRE will carry out an audit to ascertain whether this expenditure is appropriate and effective.

³ Article 9 of Decree No. 2016-442 of 27 October 2016 on the PPE

DECISION

- 1- According to Article L. 421-7-1 of the Energy Code, natural gas storage operators must submit their annual investment programmes for approval to the Energy Regulatory Commission (CRE).
- 2- CRE approves Teréga's investment budget for 2018, amounting to €54.4 m.
- 3- This is broken down as follows:

Budget lines (€m)	Approved for 2018
Development	21.4
- <i>Lussagnet Phase I - Reboiler</i>	4.5
- <i>Lussagnet Phase I - Wells + Slab</i>	14.2
- <i>Others</i>	2.6
Security and upkeep	25.1
- <i>Cushion gas</i>	9.3
- <i>Electricity supply and compressor maintenance</i>	7.1
- <i>Ancillary installations</i>	2.4
- <i>Wells</i>	6.3
General investments	7.9
- <i>Information systems</i>	4.9
- <i>Others</i>	3.0
Total	54.4

- 4- From 2019, CRE requires Teréga to supplement all project approval requests to maintain or improve performance with an alternative investment-free scenario, featuring the subsequent effects on performance at the relevant facility.
- 5- In terms of injecting cushion gas, given the variations recorded between the amounts declared in the investment programme and those presented in the tariff report provided in late 2017, CRE will undertake an audit to ascertain whether this expenditure is appropriate and effective.
- 6- The approval of the investment programme does not call into question the tariff treatment of this expenditure.
- 7- Any amendment to the investment programme must be submitted to CRE for approval.
- 8- CRE requires Teréga to provide it with a final implementation report by June 2019 for its 2018 investment programme. This must also include progress reports on the main projects.
- 9- The present deliberation will be published on CRE's website and Teréga will be notified. It will also be sent to the appointed government Minister, the Minister for Ecological and Inclusive Transition and the Minister of Economy and Finance.

Deliberated in Paris on 19 July 2018.
For the Energy Regulatory Commission,

The Chairman,
Jean-François CARENCO

