



## DELIBERATION N° 2019-175

# Deliberation of the French Energy Regulatory Commission of 11 July 2019 on the mid-year report on the implementation of the GRTgaz's investment programme for 2019

Present: Jean-François Carencu, Chairman, Christine Chauvet, Catherine Edwige and Jean-Laurent Lastelle, Commissioners.

Translated from French : only the French version is authentic

### 1. BACKGROUND

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

With regard to the 2018 investment programme:

- by deliberation of 21 December 2017<sup>1</sup>, CRE approved GRTgaz's investment programme for 2018 in the amount of €576m;
- by deliberation of 11 July 2018<sup>2</sup>, CRE approved GRTgaz' updated 2018 investment programme for an amount of €530m, and asked the operator to submit, for mid-2019, the final report on the implementation of the 2018 investment programme.

With regard to the 2019 investment programme:

- by deliberation of 20 December 2018<sup>3</sup>, CRE approved GRTgaz' 2019 investment programme for an amount of €444m, and asked the operator to submit, for mid-2019, the mid-year report on the implementation of the 2019 investment programme.

On 29 May 2019, GRTgaz submitted to CRE its final report on the implementation of the 2018 investment programme and the amended 2019 investment programme. The operator presented the discrepancies noted between the levels of approved investments and the actual investments made in 2018, on the one hand, and the updated forecasts for 2019, on the other hand.

<sup>1</sup> [CRE deliberation dated 21 December 2017 approving the GRTgaz 2018 investment programme](#)

<sup>2</sup> [CRE deliberation dated 11 July 2018 on the report on the implementation of the 2017 investment programme and approving the amended GRTgaz 2018 investment programme \(in French\)](#)

<sup>3</sup> [CRE deliberation dated 20 December 2018 approving the GRTgaz 2019 investment programme](#)

## 2. MAIN ELEMENTS OF THE REPORT ON THE IMPLEMENTATION OF THE 2018 INVESTMENT PROGRAMME

Investment expenditure approved for 2018 in CRE by deliberation of 21 December 2017 amounted to €576m. As part of the mid-year report on the implementation of the 2018 investment programme, GRTgaz submitted a revised budget of €530m to CRE. Expenditure for 2018 amounted to €520m, a decrease of 1.9% compared with the revised budget.

The breakdown by investment purpose for 2018 is as follows:

€m	Approved 2018	Revised 2018	Actual 2018
Development of the main network	188	160	153
Security/Obsolescence	190	186	192
Public service obligation Transmission and quality	51	41	37
Environment	15	15	11
Connections	41	44	41
Business IS	37	33	31
Other	54	51	54
<b>Total</b>	<b>576</b>	<b>530</b>	<b>520</b>

The variances observed relate to:

- “Development of the main network”, for which expenditure is down by €7m compared with the revised mid-year budget. The difference is mainly due to savings made on the Val-de-Saône project and the postponement in 2019 of the settlement of a supplier dispute in the context of the Hauts-de-France II project;
- “Security/Obsolescence”, for which expenditure is up by €6m compared with the revised mid-year budget. The difference is mainly due to additional expenses on the security, inspection and pipeline rehabilitation programmes, and the treatment of network hot spots;
- “Public Service Obligations Transmission and quality”, for which expenditure is down by €4m compared with the revised mid-year budget. The difference is essentially due to the deferral of spending relating to the zone L conversion project as a result of GRDF’s delay in the conversion of the Doullens sector from October 2018 to April 2019;
- “Environment”, for which expenditure is down by €4m compared with the revised mid-year budget. The difference is mainly due to the deferral to 2019 of expenses concerning work on the Bégude compressor station, following the extension of work on one of the chimneys;
- “Connection”, for which expenditure is down by €3m compared with the revised mid-year budget. The difference is mainly due to the deferral to 2019 of expenses associated with the Jupiter 1000 project, following difficulties encountered in the CO<sub>2</sub> capture process;
- non-infrastructure investments (business IS and other), for which expenditure is up by €1m compared with the revised mid-year budget. The difference is mainly due to an increase in expenses on the IS infrastructure, owing notably to the implementation of the “Cloud strategy” for the GRTgaz IS infrastructures.

## 3. MAIN ELEMENTS OF THE REPORT ON THE IMPLEMENTATION OF THE 2019 INVESTMENT PROGRAMME

Investment expenditure approved for 2019 in the deliberation of 20 December 2018 amounted to €444m. During the mid-year report on the implementation of its investment programme, GRTgaz submitted a revised trajectory of this expenditure to €414m, down 6.7% compared with the approved budget.

The breakdown by investment purpose for 2019 is as follows:

€m	Approved 2019	Revised 2019
Development of the main network	27	19
Security/Obsolescence	208	193
Public service obligation Transmission and quality	36	33
Environment	12	10
Connections	69	65
Business IS	34	33
Other	58	62
<b>Total</b>	<b>444</b>	<b>414</b>

The variances observed relate to:

- “Development of the main network”, for which expenditure is down by €8m compared with the approved budget. The difference mainly comes from savings relating to the Val-de-Saône project and the postponement in 2019 of the settlement of a supplier dispute in the context of the Hauts-de-France II project;
- “Security/Obsolescence”, for which expenditure is down by €15m compared with the approved budget. The difference mainly comes from the deferral of expenses related to the pipeline cathodic protection compliance programme and the deferral of expenses over the following years regarding the renovation of the Vindecy interconnection, coupled with a decrease in costs upon completion;
- “Public service obligation Transmission and quality”, for which expenditure is down by €3m compared with the approved budget. The difference mainly stems from the deferral of expenses on the South Brittany reinforcement project and the deferral of expenses on flow adaptation projects;
- “Connections”, for which expenditure is down by €4m compared with the approved budget. The difference is mainly due to a downward adjustment in the trajectory of the number of sites injecting biomethane into the transmission network, and a decrease in the provision of services to third parties on projects for which the likelihood of completion is not 100%;
- non-infrastructure investments (business IS and other), for which expenditure is up by €4m compared with the approved budget. The difference is mainly due to an increase in costs on completion of the RICE relocation project and the security programme budget.

#### **4. CRE ANALYSIS**

The purpose of this section is to present CRE’s analysis on the main elements of the report on the implementation of the GRTgaz investment programme for 2019.

##### **4.1 Val de Saône and Gascogne-Midi projects**

The Val de Saône project was commissioned on schedule in 2018. The cost on completion of the project is currently estimated at €683m, up 5% compared with the target budget initially set by CRE at €650m. As a reminder, the budget initially presented by GRTgaz was €744m.

The deliberation of 30 October 2014<sup>4</sup> setting the parameters for the incentive regulation applicable to the project provided for an indexation of the portion of the budget allocated to the purchase of steel supplies on the steel index (HRC), which corresponded to a provisional budget of €75m, based on an index of 200. When the tubes were ordered, the HRC index was at 137, which led to a €24m reduction in the target budget. The final target budget used for the application of incentive regulation is thus €626m.

<sup>4</sup> CRE deliberation dated 30 October 2014 concerning the incentive regulation mechanism for the Val de Saône and Gascogne-Midi projects (in French)

The Gascogne-Midi project was commissioned in 2017. Its cost on completion (€23.5m) is higher than the target budget of €21m.

Overall, the budgets presented to date by GRTgaz for these projects differ only marginally from the initial budgets.

## **4.2 Zone L/H-gas conversion project**

An area in the northern part of France, known as “L Zone” (gas with low calorific value), is supplied by gas sourced from the Groningen gas field in the Netherlands. The gradual depletion of the field does not allow for the extension of supply contracts to France beyond their current terms, i.e. after 2029.

In this context, and in accordance with Decree No. 2016-348 of 23 March 2016<sup>5</sup>, GRTgaz and the operators of adjacent infrastructures (Storengy, GRDF and two local distribution companies) proposed on 23 September 2016 to the Ministries for energy, industrial security and the economy, a plan to convert the natural gas networks to enable them to accept high-calorific gas (H-gas).

- Pilot phase 2016-2020:

The conversion plan presented notably provides for a pilot phase over the period 2016-2020. GRTgaz, in conjunction with GRDF, was to begin investing in its network in 2018. Due to the postponement of the conversion in the city of Doullens, there has been a delay in the GRTgaz investments. This has had no impact on the project schedule.

The cost on completion is higher than the target budget of €42m set out in the deliberation on the access tariffs for the GRTgaz and Teréga (ATRT6)<sup>6</sup> transmission networks, at €45m.

- Deployment phase 2021-2028:

Research into the work required as part of the deployment phase is nearing completion. GRTgaz, which has chosen to sequence the conversion from the areas furthest away to those closest to the B-gas entry point in Taisnières, has planned two stages of deployment; the first between 2021 and 2023, and the second between 2024 and 2028.

In a deliberation dated 11 July 2019, CRE set the target budget for this first deployment phase at €30.9m. The schedule and content of this budget have changed since the deliberation of 4 October 2018.

## **4.3 Vindecy Compression Station Renovation Project**

The project, whose initial budget submitted by GRTgaz to CRE amounted to €66m, is subject to incentive regulation on cost control for investment projects covered by the ATRT6 tariff deliberation. CRE deliberation of 15 February 2018<sup>7</sup> set the target budget at €63.1m. At this stage, the cost on completion is in line with the target budget and commissioning is scheduled for mid-2020, in accordance with the initial GRTgaz schedule.

## **4.4 South Brittany Reinforcement Project**

As part of Brittany's electricity pact, the construction of the Landivisiau combined cycle gas plant (CCGT) requires an adaptation to the Brittany gas network, involving the connection of the Landivisiau CCGT on the one hand and the reinforcement of the regional network in southern Brittany on the other.

At the end of 2011, CRE approved the launch of studies totalling €8.0m on the reinforcement of the regional network. In its deliberation of 11 July 2018, CRE approved €1.5m of additional studies.

In its deliberation of 20 December 2018, CRE indicated that the connection would be subject to a target budget corresponding to the amount agreed between GRTgaz and Direct Energie, the operator in charge of the plant that supports the costs in question.

The Landivisiau connection contract was signed by GRTgaz and Direct Energie in March 2019, for an amount of €29.2m. The target budget for the connection is therefore set at €29.2m.

The project to reinforce the regional network in southern Brittany, whose initial budget submitted by GRTgaz amounted to €148.3m, is also subject to incentive regulation. CRE deliberation of 28 November 2018<sup>8</sup> fixed the target budget for the project at €137.8m.

Construction spending will start in mid-2019 to allow for the commissioning of the new artery and carry out the CCGT tests as of 1 November 2021. At this stage, the cost on completion is estimated at €144m by GRTgaz, i.e. 4% above the target budget.

<sup>5</sup>Decree no. 2016-348 of 23 March 2016 on the project to convert the low calorific value natural gas network in the Nord, Pas-de-Calais, Somme, Oise and Aisne departments

<sup>6</sup>CRE deliberation dated 15 December 2016 ruling on the usage tariff for the GRTgaz and Teréga transmission networks

<sup>7</sup>CRE deliberation dated 15 February 2018 on the definition of the target budget of the GRTgaz Vindecy compression station renovation project

<sup>8</sup>CRE deliberation dated 28 November 2018 on the definition of the target budget for the GRTgaz Brittany network adaptation project in view of the connection of the Landivisiau combined cycle gas plant

#### **4.5 Distribution/Transport backhaul projects for biomethane injection**

In its deliberation of 21 December 2017<sup>9</sup>, CRE approved the construction of two pilot facilities as part of the West Grid Synergy project, to be built in Pontivy (Finistère) and Pouzauges (Vendée), with a provisional budget of €6m. Planned spending for 2019 totals €5.4m.

In particular, the deliberation specified that *“the launch of other identified projects must not occur prior to the definition of a framework setting out the rules for the launch and financing of these projects.”*

Article L. 453-9 of the French Energy Code, created by Article 94 of Law no. 2018-938 of 30 October 2018, the so-called “EGalim law”, provides that: *“where a biogas production facility is located close to a natural gas facility site, the operators of the natural gas networks shall make the necessary reinforcements to allow the injection of the biogas produced into the networks, under the conditions and within the limits defined by the decree adopted based on the opinion of the French Energy Regulatory Commission .”*

The texts implementing Article L. 453-9 of the French Energy Code, on which CRE delivered an opinion on 18 April 2019<sup>10</sup>, was published in the *Journal officiel de la République française [Official Journal of the French Republic]* on 29 June 2019. These include:

- Decree no. 2019-665 of 28 June 2019<sup>11</sup>, which defines the conditions and limits to ensure the technical and economic relevance of the investments in the reinforcement of the gas networks required for the injection of biogas into the networks;
- Order of 28 June 2019<sup>12</sup> setting the ceiling for the technical-economic ratio referred to in Articles D. 453 23 and D. 453-24 of the French Energy Code at €4,700/Nm<sup>3</sup>/h.

In the 2019 investment programme submitted to CRE at the end of 2018, GRTgaz requested the approval of three new distribution/transmission backhaul projects, in the areas of Chessy, Soissons and Bourges, for a budget of approximately €3m per project.

CRE has approved studies relating to the construction of two distribution/transmission backhaul projects to allow the injection of biomethane at Chessy and Soissons for a budget of €0.4m. Given the state of progress of the projects and its desire to limit the risk of stranded costs, CRE had asked GRTgaz to submit for approval, where applicable, the expenses associated with the construction phase at Chessy at the same time as the revised investment programme in mid-2019.

In its application for its mid-year revised programme, GRTgaz requested the approval of new distribution/transmission backhaul projects. The expenses claimed for 2019 amount to:

- €1.1m for Chessy for the backhaul construction (equipment purchases). The current estimated cost on completion is €3.9m;
- €0.15m for research at Bourges;
- €0.15m for research at Valois;
- €0.15m for research at Châtillon-sur-Seine;
- €0.15m for research at Châlons-en-Champagne.

The methodology used to approve the investment programmes required for the connection of a biogas production plant is that set out in the aforementioned Decree no. 2019-665 of 28 June 2019.

In accordance with Article D. 453-23 of the French Energy Code, CRE must in particular ensure, when approving the investment programmes concerned, that the technical-economic ratio (I/V criterion) of the reinforcement projects is below the target ceiling set by the aforementioned Decree of 28 June 2019, at €4,700/Nm<sup>3</sup>/h.

In addition, CRE must, by virtue of its competences under Articles L. 134-3 and L. 431-6-II of the French Energy Code, take into account the value of I/V criterion for reinforcement projects when approving the budget for studies relating to the projects submitted to it.

Thus, GRTgaz points out that the implementation of a backhaul will be necessary:

<sup>9</sup> CRE deliberation dated 21 December 2017 approving the GRTgaz 2018 investment programme

<sup>10</sup> CRE deliberation dated 18 April 2019 concerning the draft decree relating to the reinforcement of natural gas transmission and distribution networks required to allow the injection of biogas produced and the draft order defining the rules for the application of Section 6 of Chapter III of Title V of Book IV of the French Energy Code

<sup>11</sup> Decree no. 2019-665 dated 28 June 2019 on the reinforcement of natural gas transmission and distribution networks required for the injection of biogas produced

<sup>12</sup> Order of 28 June 2019 defining the rules for the application of Section 6 of Chapter III of Title V of Book IV of the French Energy Code

- in the summer of 2020 for the area of Chessy: the level of saturation of the mesh would be exceeded with existing projects and with the commissioning in mid-2020 of projects under construction;
- in summer 2021 for the areas of Bourges, Valois, Châtillon-sur-Seine and Châlons-en-Champagne: the level of saturation of the mesh would be exceeded with existing projects and if the registered projects for which connection studies have been carried out were to be completed within the predicted time frames.

In addition, GRTgaz has estimated the average lead times necessary for the completion of a backhaul project:

- 6 to 9 months to define the project, including feasibility studies, field research and basic engineering;
- 15 to 18 months to carry out the project, including 9 to 12 months for administrative procedures (transport authorisations, building permits) and 6 months for construction.

#### **4.5.1 Chessy backhaul**

With regard to the Chessy backhaul, CRE observes firstly that the level of criterion I/V at €2,557/Nm<sup>3</sup>/h is below the ceiling of €4,700/Nm<sup>3</sup>/h and secondly, that the maximum capacities of existing injection sites and those for which completion is expected by summer 2020 would lead to the saturation of the mesh. Thus, the commissioning of the injection site currently under construction requires the construction of a backhaul. Furthermore, CRE is in favour of GRTgaz starting to invest in the backhaul construction.

Consequently, CRE approves the budget for the construction phase, i.e. €1.1m in 2019.

#### **4.5.2 Bourges, Valois, Châlons-en-Champagne and Châtillon-sur-Seine backhauls**

With regard to the Bourges, Valois, Châlons-en-Champagne and Châtillon-sur-Seine backhauls, CRE notes that the levels of I/V criterion are below the limit of €4,700/Nm<sup>3</sup>/h:

- Bourges: €2,545/Nm<sup>3</sup>/h;
- Valois: €3,015/Nm<sup>3</sup>/h;
- Châlons-en-Champagne: €3,093/Nm<sup>3</sup>/h;
- Châtillon-sur-Seine: €2,800/Nm<sup>3</sup>/h.

Furthermore, CRE notes that the maximum capacities of the existing injection sites and those registered for which connection studies have been carried out, if they are completed within the predicted time frames, would lead to the saturation of the mesh.

CRE is in favour of GRTgaz carrying out such studies. Consequently, CRE approves the expenses relating to the study phases of the Bourges, Valois, Châlons-en-Champagne and Châtillon-sur-Seine backhaul projects in the amount of €0.6m (€0.15m per project).

The value of the first I/V is provisional and is likely to change as the projects progress. CRE will thus base its decision to approve the construction of the backhauls on the basis of an updated value. CRE requests that GRTgaz submit for approval, where applicable, the expenses associated with the construction phases of these four backhaul projects at the same time as its 2020 investment programme.

### **4.6 Eridan and Arc Lyonnais projects**

The Eridan and Arc Lyonnais projects were initially part of the investments necessary for the merger of zones and the development of interconnections. They have been on the list of Projects of Common Interest since 2013. In October 2014, GRTgaz obtained a declaration of public utility (DUP) for Eridan, valid for 5 years (October 2019). The costs incurred by GRTgaz and approved by CRE are €37.2m, of which €34m for Eridan and €3.2m for Arc Lyonnais. On 11 April 2019, GRTgaz filed an application to extend the DUP.

Since 2013, the context has changed significantly, notably with CRE's decision of 7 May 2014<sup>13</sup>, following the cost/benefit study conducted by Poÿry in 2014, to apply a less costly investment programme for the merger of zones in France: GRTgaz and Teréga submitted a new investment programme less costly than the programmes including Eridan and Arc Lyonnais (Val de Saône and Gascogne Midi programme).

GRTgaz considers that maintaining the capacity to construct and operate the works (including the extension of the DUP) on the basis of the studies already carried out, updated where necessary, would incur additional costs in the amount of approximately €10m. GRTgaz does not consider it appropriate to incur these new costs and therefore proposes the termination of both projects.

<sup>13</sup> CRE deliberation dated 7 May 2014 providing guidelines for the creation of a single marketplace in France in 2018

11 July 2019

CRE analysis

CRE shares the analysis of GRTgaz and also notes that the stakeholders did not express any need to develop new interconnection capacities or reinforce the networks in France during the various consultation exercises carried out by CRE<sup>14</sup>.

In this context, CRE believes that the Eridan and Arc Lyonnais projects must incur no further costs for users of the gas transmission networks. It is therefore in favour of the closure of the two projects.

---

<sup>14</sup> CRE deliberation dated 27 March 2019 on the examination of the ten-year development plans of GRTgaz and Teréga  
Public consultation no. 2019-003 of 14 February 2019 on the tariff regulation framework applicable to regulatory infrastructure operators in France  
Public consultation no. 2019-006 of 27 March 2019 on the next usage tariff for the GRTgaz and Teréga natural gas transmission networks



**CRE'S DECISION**

In accordance with Articles L. 134-3 and L. 431-6-II of the French Energy Code, gas transmission system operators must submit their annual investment programmes to CRE for approval.

Regarding 2018, CRE notes that the discrepancies between the investments that were actually undertaken and the updated 2018 investment programme are mainly related to postponed work and expenditure, and have no impact on the completion schedules and cost upon completion of these projects. Accordingly, CRE notes that the execution of GRTgaz' investment programme is in line with the approved programme.

€m	Approved 2018	Revised 2018	Actual 2018
Development of the main network	188	160	153
Security/Obsolescence	190	186	192
Public service obligation Transmission and quality	51	41	37
Environment	15	15	11
Connections	41	44	41
Business IS	37	33	31
Other	54	51	54
<b>Total</b>	<b>576</b>	<b>530</b>	<b>520</b>

Regarding 2019, CRE notes that the mid-year report on the implementation of GRTgaz' investment programme is in line with the programme approved at the end of 2018. CRE notes that the 6.7% difference is mainly due to deferred expenses that have no impact on the completion schedules or cost upon completion of these projects. Accordingly, CRE approves for the year 2019 the revised investment budget presented by GRTgaz. This is broken down as follows:

€m	Approved 2019	Revised 2019
Development of the main network	27	19
Security/Obsolescence	208	193
Public service obligation Transmission and quality	36	33
Environment	12	10
Connections	69	65
Business IS	34	33
Other	58	62
<b>Total</b>	<b>444</b>	<b>414</b>

In particular, CRE approves:

- the expenditure relating to the construction phase of the distribution/transmission backhaul project to allow the injection of biomethane on the Chessy area for a budget of €1.1m in 2019;



11 July 2019

- the studies relating to the development of four distribution/transmission backhaul projects to allow the injection of biomethane on the Bourges, Valois, Châlons-en-Champagne and Châtillon-sur-Seine areas for a budget of €0.6m.

In addition, CRE considers that the Eridan and Arc Lyonnais projects must incur no further costs for the gas transmission networks' users. It is therefore in favour of the closure of these projects.

Approval of the investment programme is without prejudice to the tariff treatment of these expenses.

Any changes to the investment programme must be submitted to CRE for approval.

CRE asks GRTgaz to submit, before 30 June 2020, the final report on the implementation of its 2019 investment programme, including a progress report on the main projects undertaken.

This deliberation will be published on CRE website and notified to GRTgaz. It will also be sent to the Minister of State, Minister for the Ecological and Inclusive Transition and to the Minister of Economy and Finance.

**Deliberated in Paris, on 11 July 2019**

**For the French Energy Regulatory Commission**

**The Chairman,**

**Jean-François CARENCO**

**APPENDIX – FOLLOW-UP ON MAJOR PROJECTS**

Project	Date of the approval deliberation	Date of the deliberation setting the target budget	Initial budget	Target budget	Cost upon completion	Implementation date
Val de Saône	7 May 2014	30 October 2014	€727m	€626m	€683m	2018
Gascogne-Midi	7 May 2014	30 October 2014	€22m	€21m	€24m	2018
Zone B H-gas conversion project – Pilot Part	15 December 2016	15 December 2016	€42m	€42m	€45m	2018-2020
Vindecy compression	21 December 2017	15 February 2018	€66m	€63.1m	€63m	2020
South Brittany Reinforcement	20 December 2018	28 November 2018	€148m	€137.8m	€144m	2021
Jupiter 1000	17 December 2014	Not concerned	€10m	Not concerned	€13m	2019 (H2 injection) 2020 (methanation)
Biomethane backhaul – pilots	21 December 2017	Not concerned	€6m	N/A	€6.5m	2019