

Deliberation of the French Energy Regulation Commission of 23 May 2013 deciding on the rules for the commercialisation by GRTgaz of additional transmission capacities at the link between the North and South zones on an experimental basis

Present at the session: Olivier Challan Belval, H  l  ne Gassin, Jean-Pierre Sotura and Michel Thiolli  re, commissioners.

Having regard to the French Energy Code, and in particular Article L. 134-2,

The purpose of this deliberation is to define the rules for the commercialisation of an experimental transmission capacity product proposed by GRTgaz at the link between the North and South zones, in the North to South direction, from 1 June until 31 October 2013.

1. Background

The high prices for liquefied natural gas (LNG) in the Asian markets lead to tension in the supply of natural gas in the south of France. Supply to the south of France and the Iberian Peninsula depends structurally on LNG imports. Between 2011 and 2012, LNG send-out in the south of France from the Fos-sur-Mer terminals decreased by 25%. At the same time, gas exports from France to Spain increased by 40% due to the substitution in Spain of LNG supplies diverted to Asia by gas imported via pipeline. The drop in LNG deliveries is compensated by an increase in gas imports via pipeline from entry points in the north of France shipped to the south of the territory through the North-South link. This link, physically congested, limits the flow of gas that may pass in transit from the north of France, which leads to significant price differences between the PEG North and PEG South marketplaces.

In its deliberation of 19 July 2012 relating to guidelines for gas marketplace evolutions in France, the French Energy Regulation Commission (CRE) requested GRTgaz to study the measures and contractual tools that would release constraint in the south.

In that context, in April 2013, GRTgaz forwarded to CRE a proposal for the commercialisation of additional firm daily capacity at the North-South link in the North to South direction.

GRTgaz presented its proposal within the framework of Concertation Gaz during the meeting of 26 April 2013. At the end of this meeting, all participants welcomed this proposal, calling for the quick implementation of the initiative in order to benefit from additional capacity at the North to South link from June 2013.

2. Additional capacities commercialised by GRTgaz

2.1. General description

GRTgaz's proposal consists in the creation of up to 15 GWh/d of additional firm daily capacities at the North to South link for the current summer gas season ending 31 October 2013. The availability of this capacities depends on the optimisation of the combined use of the transmission network and certain storage infrastructure operated by Storengy. Congestion at the link between the North and South zones is the result of a physical constraint on the network, which applies in summer to the sum of injections in the S  diane

Littoral storage facility and flows at the North to South link. Only Storengy is likely to supply GRTgaz with the storage service that is indispensable for the creation of additional capacity at the North to South link.

Moreover, the commercialisation of this additional capacity at the North to South link is neutral with regard to the conditions governing the conversion of interruptible capacity into firm capacity at the link.

2.2. Operational functioning

2.2.1. GRTgaz's proposal

To commercialise this additional capacity, GRTgaz will use the injection capacity not used on a given day by shippers at the North-Atlantic transport/storage interface point (PITS).

Under these circumstances, Storengy would provide GRTgaz with a service consisting in:

- injecting gas into the Sédiane Littoral storage group using transmission capacity not used at the exit from the transmission network at the North-Atlantic PITS;
- simultaneously withdrawing the same quantity of gas from the Sédiane Nord storage group (in order to ensure the neutrality of the mechanism for physical balancing in the North zone).

These flows would create a stock of gas in the Sédiane Littoral group, intended for subsequent withdrawal in the reverse direction to the physical flows that are injected into the storage facility in summer. These backhaul capacity flows will reduce, for the given days, the net injections into the Sédiane Littoral and will ultimately create additional firm daily capacity at the North to South link.

The volume stored in the Sédiane Littoral storage facility may reach a working volume of 200 GWh, which would enable the commercialisation of up to 15 GWh/d of additional firm daily capacity. The ability to constitute this stock depends on the existence of injection capacity not used by the users of the Sédiane Littoral storage group.

2.2.2. CRE's analysis

Given the congestion at the North-South link and recurrent tension in gas prices in the south of France, CRE is in favour of the quick implementation of this experimental commercialisation according to the arrangements proposed by GRTgaz.

GRTgaz will publish, on a daily basis, at 1.45 pm D-1, firm additional capacities available for D. Moreover, CRE requests GRTgaz to publish, on a daily basis, at 1.45 pm D-1, a prevision of the additional capacity likely to be commercialised on the next 4 days and to make public the principles guiding the determination of those quantities.

2.3. Principles governing the commercialisation of additional capacity

2.3.1. GRTgaz's proposal

GRTgaz proposes that this additional capacity be commercialised through a market mechanism associated with a reserve price set at a level close to the regulated tariff for daily capacity.

2.3.2. CRE's analysis

CRE considers that the allocation of this short-term capacity based on a market mechanism is economically efficient and would enable optimal allocation of capacity in a context of congestion and significant volatility in day-ahead price differences in the North-South spread. CRE is therefore in favour of the sale of this capacity through a market mechanism and considers that a commercialisation of such a specific capacity through a FCFS mechanism would be inappropriate.

The potential for the daily creation of capacity is directly linked to the quantity of gas stored on a given day in the Sédiane Littoral group, as part of the service provided by Storengy to GRTgaz, and decreases as additional capacity at the link is effectively sold. Therefore, the application of a reserve price would optimise the use of this "stock of capacity" by reserving it primarily for days during which demand for capacity is highest. CRE agrees with the application of a reserve price equal to the current regulated tariff for this capacity which is $1/240^{\text{th}}$ of the regulated annual tariff, i.e. approximately €0.87/MWh.

2.4. Arrangements for the commercialisation of additional capacity

Given the specificities associated with making additional capacity available, this capacity can only be proposed in the form of a day-ahead daily capacity product.

There are two possible methods for commercialising this daily capacity: auctions organised on the GRTgaz *Trans@ctions* platform or through Powernext via a mechanism similar to that in place for market coupling.

2.4.1. Description of GRTgaz's auction mechanism

In compliance with the current ATRT5 tariff, the daily auction mechanism implemented by GRTgaz is proposed on the *Trans@ctions* capacity booking platform from 2:00 p.m. to 3:00 p.m. on D – 1. This mechanism is intended for the commercialisation of daily capacity that has not been sold by 2:00 p.m. the day before for the following day.

Capacity requests are fulfilled in descending order of the prices proposed (which can only be higher or equal to the reserve price) and are billed at the price for the last offer allocated.

2.4.2. Description of the Powernext commercialisation mechanism

The additional capacities created may be commercialised through a mechanism similar to that implemented within the framework of market coupling. This mechanism would consist in the sale by GRTgaz of North-South spread products through the use of a robot intervening in the market operated by Powernext. This phase of commercialisation would take place between 3:30 p.m. and 4:00 p.m.

2.4.3. Feedback from market players on the commercialisation method

Since participants in the Concertation Gaz meeting of 26 April 2013 were unable to express their immediate opinion on the choice between the two methods, some of them subsequently conveyed their position to CRE.

Eight players submitted a response to CRE. Five contributors stated their preference for the commercialisation of this capacity through Powernext, in particular because it takes place at a later time compared to that of the GRTgaz mechanism. These players consider that knowing the rate of conversion of interruptible capacity into firm capacity at the North to South link, published at 3:30 p.m. by GRTgaz would enable them to more clearly assess their capacity need for the following day.

Three contributors are in favour of commercialisation through the GRTgaz auction mechanism. One contributor considered that this capacity must be commercialised directly by GRTgaz in order to enable all of GRTgaz's shippers and not only Powernext clients to access this capacity. Two contributors did not support the commercialisation of this capacity by Powernext, considering that commercialisation by a robot could lead to arbitrage practices, and that the use of an implicit allocation mechanism is not appropriate for the commercialisation of this type of capacity.

2.4.4. CRE's analysis

CRE considers that the final knowledge of the rate of conversion of interruptible capacity into firm capacity at the North-South link must not be the only element to take into account for selecting the mechanism for the commercialisation of additional firm capacity. This rate may be partially anticipated given the information published in particular on the Montoir terminal's send-out schedule and on the rate of capacity reduction following maintenance programmes.

Moreover, the use of the mechanism proposed by Powernext requires thorough knowledge of trading mechanisms, which would therefore limit the variety of shippers likely to access this capacity under satisfactory conditions.

As a result, CRE considers that the auction mechanism organised by GRTgaz must be selected for the commercialisation of this additional capacity.

2.5. Consideration of costs generated by the provision of the service

2.5.1. GRTgaz's proposal

GRTgaz has stated that the provision of this service would generate specific costs:

- operational management costs: preliminary studies, establishment of the contract, daily nominations, management of stocks;
- variable operating costs estimated at €0.58/MWh (additional motive power costs related to marginal compression costs, wear);
- remuneration of the storage service provided by Storengy.

2.5.2. CRE's analysis

In application of the current ATRT5 tariff, any additional energy costs will be covered at 80 % by the income and expense clawback account (CRCP).

CRE considers that the income generated by these sales will cover the costs generated by the provision of the service which could not be taken into account in the costs to be covered by the ATRT5 tariff and which cannot be considered in the calculation of the CRCP.

3. CRE's decision

CRE authorises GRTgaz to commercialise, on an experimental basis, from 1 June to 31 October 2013, additional daily firm capacity at the link between the GRTgaz North zone and the GRTgaz South zone using the commercialisation arrangements defined in this deliberation.

CRE requests GRTgaz to submit to it and to present within the framework of Concertation Gaz, feedback on this mechanism in September 2013.

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

Paris, 23 May 2013

For the French Energy Regulation Commission,
A Commissioner,

Olivier CHALLAN BELVAL