CRE and CNMC Common decision concerning the gas interconnection between Spain and France, project of common interest (PCI) No 5.5.1 as in Annex 7 of Regulation (EU) No 347/2013 (STEP PROJECT)

The National Regulatory Authorities (NRAs) of Spain and France, the Comisión Nacional de los Mercados y la Competencia (CNMC) and the Commission de Régulation de l'Energie (CRE), following their joint assessment of the investment request submitted by the concerned transmission system operators in Spain and in France, Enagás and Teréga respectively, have achieved a coordinated decision under Article 12 of Regulation (EU) No 347/2013, on the STEP interconnection project.

The parties emphasize that:

The achievement of the internal European gas market is a priority of European Energy policy. Competition, sustainability and security of supply are explicit objectives of Regulation 347/2013 on guidelines for trans-European energy infrastructure. A liquid and well-connected gas market in South-West Europe (SWE) is essential in order to achieve competitive and aligned gas prices, delivering a reliable framework to the benefit of our domestic and industrial consumers.

Interconnections are a key tool to achieve internal market objectives. The Iberian Peninsula is one of the regions, which due to its geographical position has a relatively limited level of interconnection with the rest of the European market. Increasing gas and electricity interconnection capacity between Spain and France has been the subject of much work in recent years, in particular through the strengthening of the gas transmission capacity commissioned in Larrau and Briatou in 2013 and 2015 respectively, the commissioning of the Baixas-Santa María Llogaia electricity link in 2017, and the agreement of the French and Spanish regulatory authorities on the cross-border cross-allocation decision of the Gulf of Biscay electricity interconnection in 2018. The national regulatory authorities of France and Spain call for a continuation of efforts towards further integration of electricity and gas markets in SWE.

The objectives of market and network integration pursued by the national regulatory authorities must take into consideration the European objectives on energy policy, with a special regard to the European strategy to reduce greenhouse gas emissions.

In this context, the parties agree that the above Project of Common Interest, in the current configuration and capacities, as presented by the Transport System Operators, fails to comply with market needs and lacks sufficient maturity to be considered for CBCA according to Article 12 (3) of Regulation (EU) No 347/2013, due to the following reasons:

1. **TSOs have failed to submit a project that will offer firm interconnection capacity.**

   All new capacity provided by this project between France and Spain is defined as interruptible. Therefore, the capacity offered by this project cannot be contracted on a firm basis by the market. This is a determining negative factor when assessing the viability of the infrastructure in the long term, its contribution to achieving competitive and stable prices to the benefit of our domestic and industrial consumers.

2. **The market has shown no commercial interest for new capacity in the interconnection, as shown by the following market tests:**

   - Non-binding market tests according with Regulation 2017/459 (CAM NC)
   - Specific market test developed by STEP promoters in March 2018
   - Two EC consultations through the former platform “Your voice in Europe” within the context of the second and third PCI list.
   - Analysis performed during the development of the TYNDP 2017 and the 2017 PCI selection process
   - Two Open Seasons developed by ENAGAS, GRTgaz and Terega in 2009 and 2010 to assess network users binding commitments for new interconnection.

3. **The current gas interconnection capacity between France and Spain is not congested.**

   Current capacity at existing interconnection is not fully contracted. The non-contracted capacity is almost all interruptible, demonstrating, once again, the lack of attractiveness of non-firm capacity to the market.

4. **The cost of the project is high when compared with European standards**

   The cost of the project, measured in terms of unit investment costs, is high for South-West European consumers when compared with European standards and ACER’s estimates. Unit investment costs of Barbaira-Spanish border (project-based evaluations due to its specific characteristic and terrain) differ considerably from the cost on the Spanish side.

5. **The project does not guarantee price coupling between gas hubs in France and Iberia**

   The abovementioned aspects, particularly the lack of commercial interest to contract long-term capacity and its interruptible nature will increase the probability of the Iberian hub to be decoupled form North-West hubs. If shippers are not able to contract firm long-term capacity, this will prevent them from signing long-term gas contracts. Thus, gas prices would remain less competitive for Iberian consumers.

   The fact that the project does not create firm capacity is not fully captured in the analysis presented when estimating the level of booked capacity for the interconnector, resulting in a bias to overestimating the benefits of the project, in particular when performing the financial analysis, which is based on revenues from capacity bookings.

   Furthermore, the current level of gas interconnection tariffs in the Virtual Interconnection Point Pyrenees, calculated to reflect the costs of transmission in France and Spain, adds to the lack of commercial interest to contract capacity, and fails to provide converged, competitive and stable prices to Iberian consumers.

6. **The project's cost-benefit analysis does not clearly show that its benefits overweigh its costs in the most credible scenarios**

   The CBA largely builds on the results of the study performed by Pöyry, developed at the mandate of the European Commission, which uses a methodology consistent with the one developed by ENTSOG pursuant to Article 11 of Regulation (EU) n°347/2013. The primary focus of the cost-benefit analysis is to examine the supply cost impacts of adding the infrastructure as well as looking at some wider quantitative/qualitative indicators under the ENTSOG model of the European gas market under a series of scenarios. In the Pöyry study, this analysis only provides benefits in two out of the six scenarios examined. The two more generally accepted scenarios give a negative cost-benefit ratio (the green revolution and the blue transition). Only in the two more extreme scenarios (very expensive LNG and lack of gas in Algeria), the project would have a positive net benefit and in such cases all benefits, according to the Pöyry study, are concentrated in Spain and Portugal.

   The investment request adds to the benefits based on Pöyry's results, without questioning its findings, the benefits identified in a study mandated by the TSOs to Frontier Economics regarding the effects of the projects on liquidity and competition. Additional benefits provided in terms of liquidity and competition are not reasonable if the project only provides interruptible capacity, and therefore low long-term capacity contracting.

   Finally, regarding the benefits of avoided future investments in Teréga's networks, the CRE expresses strong reservations to the need of such reinforcements.

For these reasons, the parties reject the investment request, and recommend the TSOs to perform further evaluations on this PCI in order to assess whether the project would provide a clear and positive cost-benefit ratio in the future, taking into account the nature of the capacities offered such as:

1. the future role of gas in the Region, following the clean energy package recently agreed in Europe.
2. the gas market developments after the complete implementation of gas Network Codes.
3. the developments in the South-West gas market, for instance the merger of the two French market zones, to calculate the capacity that the proposed infrastructures might provide to the market.
4. the possibility to offer firm capacity
5. an alternative configuration considering the most efficient cost for the benefit of the SWE consumers
6. The market interest in additional capacity in the French-Spanish border.