



CRE consultation on the next tariff structure for use of GTRgaz and Terega transportation networks



EFET response – 10 May 2019

The European Federation of Energy Traders (EFET) thanks CRE for the opportunity to present its view on the next tariff structures for use of French gas transportation networks. We also thank CRE for making this consultation once again available in English.

CRE process to implement NC TAR

We are disappointed with the process CRE has used to consult on and implement the European Network Code on Tariffs (Commission Regulation (EU) 2017/460) – NC TAR. EFET has been highly engaged since the beginning of the process and communicated our concerns on a number of occasions. Most recently, we wrote to CRE on 20th February outlining our concerns on the process and, in addition, we responded on 3rd April to the last consultation on tariff regulation applicable to infrastructure operators. None of our communications have received a response and none of our feedback or concerns appear to have been taken into account in the latest consultation document.

The first process issue is the consultation procedure does not meet the deadline set by Article 27, §5 of the NC TAR which states that “the procedure consisting of the final consultation on the reference price methodology [...], the decision by the national regulatory authority [...], the calculation of tariffs on the basis of this decision, and the publication of the tariffs [...] shall be concluded no later than 31 May 2019”. This means that the transportation tariffs will not be finalised and published before the auctions for the next gas year 2019-2020 which creates significant risk and uncertainty for shippers for their subscriptions.

The second significant concern are the proposals to shorten the ATRT6 tariff by one year, which would mean it would end in 2020 rather than 2021. As we have previously stated, if the new tariff period were to commence in April 2020, it would expose the French gas system users to further regulatory uncertainty, which may become subject to legal challenges in relation to the open interests of market participants. **Transactions have been concluded on the basis of the ATRT6 tariffs and ignoring these open interests in the market would threaten the general trustworthiness of the French regulatory framework around gas transmission tariffs, and the confidence that the market has had in it so far.**

In addition, we highlight a third issue of compliance with the NC TAR: CRE states that the reference methodology provided by Article 8 of the NC is inapplicable due to the fact that the CWD calculation methodology described in NC TAR cannot be applied as is to the French transmission network without a risk of creating cross-subsidies for certain categories of users, as a single entry point may feed multiple exit points¹. It has to be noted that the benchmark calculation has been carried out by other Member States (e.g. Italy, Belgium and the Netherlands) with a transmission network similar to the French one. We believe that CRE should comply with the NC TAR and enforce the calculation methodology provided by Article 8 of the Code.

Tariff methodology

Beyond the compliancy issue mentioned above, we do not support the proposed methodology over the CWD model defined in NC TAR. This is primarily because the treatment of interconnection points is inconsistent with the treatment of exit points to end-users. This leads to unjustifiably high tariffs at interconnection points. Moreover, this also does not reflect the main characteristics of an entry/exit system.

By way of illustration, transportation tariffs are currently calculated using a cost allocation methodology that considers distance as a driver to allocate costs at exit points. Distance is, however, calculated differently for exit points towards neighbouring systems and for exit points towards the French domestic market. This is because the methodology uses the key assumption that cross-border exit flows only enter the French system from Dunkirk, which is one of the **furthest** entry points for both PIRs Oltingue and Pirineos, while for domestic exit points, the distance is calculated from the **closest** entry point.

This methodology is arbitrary and unrealistic and we are disappointed that CRE is sticking to this assumption in this consultation. It is important to highlight that gas being consumed domestically and transiting France towards neighbouring markets may be coming from any of the entry points in the system like Obergailbach, Virtualys, Dunkirk, Pirineos etc.. It is important to highlight that in an entry-exit system, the old point-to-point approach to the definition of import/export routes does not apply any longer.

¹ "La méthode de calcul des prix de référence CWD décrite dans le code de réseau Tarif ne peut en conséquence pas être appliquée en l'état au réseau de transport français sans risquer de créer des subventions croisées importantes entre catégories d'utilisateurs» car «un même point d'entrée peut alimenter plusieurs points de sortie."

The current methodology leads to very high distances being used as a driver to allocate costs to cross-border exit points, thus directly increasing the applicable tariffs. The consequence of such a differentiation in the methodologies used to calculate distances for cross-border exit points on the one hand and domestic exit points on the other hand has significant negative implications for cross-border trade with neighbouring markets (cross-border exit tariffs at Oltingue and Pirineos are respectively 4 and 6 times higher than the tariffs for domestic exit points). The adoption of a “standard” Capacity Weighted Distance (CWD) method, as foreseen in NC TAR, would remove this distortion and imply that all exits points in the network are treated equally, since each specific exit tariff would depend on the CWD from all entry points, not on any point-to-point approach.

Regarding the entry/exit split, we are disappointed to see that CRE only presents a short qualitative assessment, without providing any numbers showing the impact that the use of storages has on the correct allocation of costs in the system. Hence, we do not consider the arguments brought forward by CRE as enough to justify to either maintain the current split or switch to a new one. We request that a quantitative and analytical assessment be made before taking a decision on the final entry/exit split.

Missing revenues question

According to the consultation document, there will be a decrease in subscriptions at the IP entry points, during the ATRT7 tariff period. This means that there is a situation of overcapacity with regard to IP entry points into the French system. CRE states that the missing revenues from this decrease in subscriptions should be recovered, ex-post, equally from all the points in the system: this would lead to a redefinition of the entry/exit split towards the end of the ATRT7 period to 30/70 (from the initial 34/66 split).

In reaction to this proposal, while sharing CRE’s concerns about potential price spikes at entry of the system, we’d like first to refer again to our point above on the need for a full quantitative assessment of the effects of the proposed split. Second, it should be noted that ex-post changes in tariffs always have the drawback of bringing uncertainties on the side of market participants, and ideally the missing revenues question linked to lower capacity bookings should be treated similarly as the other components of the tariff, i.e. at the beginning of the tariff period (ATRT7). Alternatively, we suggest keeping the existing arrangements whereby any tariff adjustments made during the regulatory period are not charged on the “principal network”. This would help facilitate predictable and stable IP tariffs. Moreover, this would also allow a better allocation of the costs linked to the missing revenues from entry points. As such, missing revenues would come from the decrease of consumption of gas end-users, it is reasonable that the costs of such overcapacity are allocated directly to the latter.

Other

Proposed removal of rebate for short distances (“Terme de proximité”): We do not support the removal of this rebate. The only argument put forward to justify its removal appears to be that shippers are not obliged to pass the rebate through to customers. We have two observations on this: First, there is no evidence to suggest

they do not pass the savings back to the clients. Indeed, contractual agreements to recognise lower transportation charges for trades only involving short distances are quite common in many areas of Europe. Second, the objective of the rebate is to recognise the fact that it is not cost-effective to charge shippers the full network tariff when they are only using a limited part of the network. This, and the fact that the reductions only amount to €2.5 million per year, leads us to request that the CRE does not proceed with this proposal.

Proposed new reshuffling service (“offre de transfert de capacités à prix préférentiel”):

Whilst we support the principle of TSOs offering flexibility in their products, especially given that one of the evolving features of the European wholesale gas market is that flows of gas are going to become increasingly unpredictable over the next few years, we do share CRE’s concerns that the proposed service is limited to a sub-set of shippers and that the service may not reduce spreads with neighbouring markets. There is also the risk of under-recovery.

This mechanism should not lead to perverse effects, i.e. avoiding opportunistic behaviours from shippers: it should be an optimisation tool for the management of entry flows and should not be part of capacity booking strategies of shippers *per se*.

The Italian experience of the time-based reshuffling mechanism shows that these risks are real and they should be avoided. We would also point to the ACER guidance in this regard about the need to avoid cross-subsidies. We would not be against a reshuffling service *per se* but any proposals would need to address the risks outlined above.

If the service be maintained, we request a lowering of the fee which seems to be too high compared to similar experiences in other systems (e.g. Belgium): a premium of +3%, instead of 10 % as proposed by GRTgaz, would be far more adequate.

Proposed pooling at LNG entry points (“pooling aux PITTM”):

We support the proposed introduction of a pooling mechanism covering entry capacity from all French LNG terminals.

We believe it is not fully accurate to define this mechanism as equivalent to the proposed reshuffling service at IPs. First, due to the difference in transportation logistics between pipeline gas and LNG, the impact of the pooling mechanism on the French market is expected to be unequivocally positive with virtually no risk of under-recovery. Second, the fact that both long-term and short-term capacity holders can benefit from it substantially reduces the risk of discrimination between market participants.

As for the reshuffling service, the requested fee is arbitrary and unnecessarily high. A fee based on the costs incurred by the terminals for the provisions of this service seems more appropriate.

Tariff period:

We believe that the timing of the tariff year should be as straightforward as possible. In an ideal world, the tariff period for all points should be aligned, while the proposal presented by CRE is to have two different tariff years between PIR tariffs (1st of October) and the tariffs applicable to the rest of the points in the system (1st of April).

This differentiation in the start of tariff years would of course create an additional layer of complexity. On the other hand moving the tariff period for all points may have the potential to create significant contractual disruptions. We therefore support the proposal of CRE for the moment. Nonetheless, we would welcome an analysis by the regulator on the effects of this differentiation in tariff year timings in order to compare the benefits and drawbacks of a possible alignment of the tariff year timings at a later stage.