



**European Commission call for comments on the inquiry into the legal and regulatory framework applicable to gas storage in France  
State Aid case SA.49414 (2019/NN)**



**EFET comments – 3 May 2020**

We thank the European Commission for the opportunity to provide comments on its inquiry in the storage system operators (SSOs) compensation mechanism, as part of the reform of gas storage in France.

**Introduction**

As a preliminary statement, we would like to reaffirm our support for the 2018 reform of the legal and regulatory framework applicable to gas storage in France implemented after the adoption of Act 2017-1839 of 30 December 2017. It foresees a new form of access to storage via voluntary auctions in place of the obligation and subscription rights that pre-existed before. Remnants of the former regulated system comprised a last-resort storage obligation on suppliers, and a compensation mechanism for SSOs to compensate the missing money from auctions rents.

As security of supply is a national competence along with differing levels of supply diversity and concentration, the establishment of a pure competitive framework for natural gas storage is not always politically acceptable. To the extent storage obligations are considered necessary, European Regulation 2017-1938 on natural gas security of supply requires that they “shall be based primarily on market-based measures and shall not put an undue burden on natural gas undertakings, or negatively impact on the functioning of the internal market in gas”.

Moving away from a fully regulated storage obligation for suppliers towards a more market-based mechanism has allowed the creation of an attractive and competitive market for gas storage in France, in line with European best practice. The new auction-based system has already improved the efficiency of storage access in France

after two booking seasons, as evidenced by the wide participation of shippers to these auctions and the fulfilment of the security of supply standards set by the authorities. We believe that the EC inquiry should not put into question this main building block of the reform.

Concerning the compensation mechanism for the French SSOs that accompanies the reform on access to storage, we understand that the EC inquiry challenges the following aspects:

- whether the economic assessment of the market value of the SSOs' assets, used to calculate potential missing revenues from the auctions, is appropriate and does not create a disproportionate measure to ensure security of supply;
- whether the compensation mechanism does not create unjustified distortions of competition (i) between French natural gas suppliers and the natural gas suppliers of other Member States, (ii) between, on the one hand, gas storage operators and, on the other, LNG operators and operators of interconnectors, and (iii) between French gas storage operators and the gas storage operators of other Member States.

## **1. Economic assessment of the market value of the SSOs' assets**

With regard to the economic assessment of the market value of the SSO assets, in this instance we trust the methodology decided by CRE, whether it concerns the basis value chosen by CRE for its assessment (gross book value) or the rate of return on capital, as we do not have at this stage elements to do differently. However, we note that while it is true that the value of an asset should generally be defined by the market, the value of regulated assets – as storage sites are considered in France – should be nothing else than the regulated asset base plus the regulated remuneration rate. If there is a concern with respect to the economic value of French storage assets, the inquiry should focus on these aspects only.

## **2. Potential distortions to competition and cross-border trade**

In the few months leading up to the reform of gas storage access in France, the French authorities conducted extensive engagement with market participants. EFET, alongside its members and other market participants, have been particularly attentive to questions of competition and level-playing field in cross-border trade.

With regard to **competition between French natural gas suppliers and the natural gas suppliers of other Member States**, we are not aware of any evidence that the current mechanism discriminates against non-domestic suppliers or negatively affects competition between French and foreign gas suppliers. We believe the 2018 reform has had a positive effect on liquidity and market efficiency, which has helped to make French wholesale gas prices some of the cheapest in Europe. Access to this attractive market, for both energy and storage, is guaranteed equal for domestic and foreign suppliers of natural gas until interconnection capacity is exhausted.

With regard to **competition between gas storage operators and LNG terminal operators**, we observe a steady growth of the market value of LNG terminals in France and abroad over the past three years.

LNG Annual imports	2017	2018	2019
France	9,6 Gm <sup>3</sup>	11,1 Gm <sup>3</sup>	21,5 Gm <sup>3</sup>
Belgium	1,1 Gm <sup>3</sup>	2,2 Gm <sup>3</sup>	6,7 Gm <sup>3</sup>
Netherlands	0,8 Gm <sup>3</sup>	2,7 Gm <sup>3</sup>	7,9 Gm <sup>3</sup>

Source: ALSI – GIE

The figures above undoubtedly show the growing appetite of the market for LNG terminals in France as well as in adjacent countries. We are not in a position to assess the exact effect of the 2018 reform on the flexibility value of French, Belgian or Dutch LNG terminals, but we note that competition between French SSOs and LNG terminal operators in France and abroad as healthy.

Also, SSOs can provide a very short-term flexibility to the system which is not in direct competition with the flexibility provided by LNG terminal operators. This very short-term flexibility plays a key role in providing deliverability for local congestions and enabling gas fired power plants to support renewable intermittency.

With regard to **competition between French gas storage operators and the gas storage operators of other Member States**, figures show consistent increase of storage subscriptions and use in France and abroad since implementation of the 2018 reform.

European storages (subscription rate in %; volumes stored as of 1 Nov. in TWh)	2018	2019
France	93% 124 TWh	98% 129 TWh
Germany	88% 204 TWh	99% 225 TWh
Netherlands	96% 125 TWh	95% 133 TWh
Belgium	54% 5 TWh	97% 9 TWh
Italy	96% 190 TWh	95% 194 TWh

Source: ALSI – GIE

Once again, we are not in a position to assess the exact effect of the 2018 reform on subscription rates and use of storage assets, but the data show that the new storage regulation in France does not seem to have induced distortions of competition between French and European SSOs.

## **Conclusion**

As a conclusion, we reiterate our general preference for Member States not to impose gas storage obligations, and for storage sites to operate in a purely commercial environment. We believe that the 2018 reform in France generally meets this requirement.

We see the wholesale gas and gas storage markets in France as healthy, and we have no reason to believe that the 2018 reform as a whole – or the SSO compensation mechanism in particular – have been damaging to competition or cross-border trade. It is nonetheless important that the amount of remuneration covered by the SSO compensation mechanism is regularly reassessed to prove its efficiency from a cost and security of supply perspective.