

CRE consultation on the evolution of GRTgaz and TIGF network tariffs and regulated LNG terminal tariffs



EFET response – 25 March 2016

The European Federation of Energy Traders (EFET)¹ thanks CRE for the opportunity to provide its views on the proposal to amend the regulated tariffs for the GRTgaz and TIGF networks (ATRT6) and the tariffs for regulated LNG terminals (ATTM5). We very much appreciate that CRE has seen fit to translate this lengthy consultation into English. This helps our non-French members to understand what is being proposed and anticipate possible tariff changes, enhancing the transparency and trust surrounding what is a key driver of trading decisions. CRE's best-practice approach to consultation (across all areas of market development) should serve as an example to other European regulators of the importance of open and effective translation.

As a European trading association, EFET cannot comment on all points that are touched upon in the consultation as some concern topics that are beyond the pure trading role of market participants. Nonetheless, EFET sees important elements in the consultation that may impact proper market functioning and would like to react to these points.

Question 1: Major challenges related to the gas network tariffs in the run-up to 2020

We believe that CRE has correctly taken stock of the current situation of the French gas market and network. This includes:

- the Europeanisation of market rules through network codes
- the improved liquidity on the wholesale market
- the development of competition on the retail market
- a stagnation of demand for gas in Europe in general, and in France in particular
- nonetheless a situation where capacity bookings secure TSO revenues until 2020
- a changing situation relating to the merging of gas balancing zones with the completion of the zones merger by November 2018

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org.

We observe that some of the market fundamentals are indeed evolving in the sense of more market orientation – which we welcome – and at the same time that uncertainty remains as to the future of gas demand.

One clear objective of any reform of the tariffs is to ensure that the regulation does not add any uncertainty in the market, and to foster further competition at all levels in the French gas market. One key element is to ensure a level-playing field between the different market participants: regulated tariffs should be set so that transportation network users and LNG terminal users are treated fairly, regardless of whether they are sole traders or they supply end consumers. Also, considering the position of the French gas market within the greater European market, the question of the competitiveness of entry tariffs should be addressed.

Question 2: Work programme for ATRT 6

We trust that CRE will publish its proposed second consultation and any related deliberations in English too, to the same professional standard as this current consultation.

Questions 3 and 4: Network tariffs setting timing

At first glance, it seems logical to align the timing of the network tariffs setting on the provisions of the CAM network code, and thereby changing the start of the tariff year to 1 October. The option favoured by CRE with maintaining the tariff year starting 1 April seems to add unnecessary complexity and a departure of the French methodology from the European orientations.

Concerning the change in the regulated tariff at the time of the merger of the North and South zones, EFET agrees with a change of tariffs to compensate for the TSO losses linked to the disappearance of the North-South capacity allocation. However, we reserve judgement as to whether this should be applied as a one-off, or gradually, until such time as the magnitude of the change is known. Were the tariff year to change, as we suggest, from 1st October 2018, the impact of the loss of North-South capacity revenue could be factored over a complete tariff year (as the merger will take place just one month later), thereby creating a clean break between the old and new zone configuration. The methodology for setting the new tariff should be defined in the decision on ATRT6 this year to ensure visibility to market participants.

Questions 5 to 9: General network tariffs framework

EFET does not have specific comments with regard to the current ATRT5 tariffs. The basic principles of the ATRT5 tariffs setting methodology are sound² and we believe that these fundamentals can be used for setting the ATRT6 tariffs.

Considering the “bonification” system, we agree with CRE’s consideration that the heaviest infrastructure investments that justified the extra incentive provided to the TSOs have been carried out or provisioned already. Fundamentally, the TSO business model should rely on a guaranteed return on existing investments, and future investments should be guided by the needs of the system – as indicated by the market. We therefore think that the “bonification” system should not be carried forward for the next regulatory period.

² See EFET response to the CRE consultation on the ATRT5 tariffs dated 29 August 2014, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~content/ARY24LNWN8MSU4NH/EFET-response_CRE-consultation-ARTRT5_29082014.pdf.

In keeping with the same reasoning, we believe that regulatory mechanisms should be put in place to ensure that the TSOs appropriately manage the unit costs of their investments. Similarly, we agree with CRE's suggestion to set targets for non-network related costs (real estate, IT, etc.) during the regulatory period, and perform ex-post assessments on deviations to ensure appropriate targets are set for the following regulatory periods.

Question 12 to 18: Performance quality indicators and incentives

EFET notes that the quality of service and information provided by the TSOs to market participants is improving. To keep up with this trend, we welcome incentives/sanctions systems that would improve the performance of the TSOs in terms of firmness of allocated capacity, transparency of information and quality of service in general.

In addition, CRE should consider whether it is appropriate to introduce a new incentive on GRTgaz and TIGF to publish actual physical flow data at all relevant points updates within day in "near-real time". At present some within-day flow data is being provided on an hourly basis. But in our view this is incomplete and not conducive to most efficient market operation. French TSOs should look at the near-real time flow information provided by National Grid, in the UK, as an example of the standard they should aspire to.

Questions 19: Equalisation of network tariffs

We welcome the CRE proposal to already take account of the incoming Tariff network code and its provisions on reference price methodologies. While we understand that equalisation is an allowed form of secondary adjustment in the draft network code, we believe that the spirit of the code and of EU regulation 715/2009 is that no distinction should be made between transit and non-transit transport contracts.

We believe that the benefit of the zones merger will largely materialise through an increased liquidity on the French market. This will benefit customers via more comfort for aggressive pricing of customers through the decrease of the bid/ask spread and deeper order books. The network tariffs structure should therefore seek to promote and preserve this liquidity on the French market, without negatively affecting neighbouring markets.

Question 23: Allocating the costs of creating a single marketplace

EFET is increasingly of the view³ that a pan-European approach to transmission tariff setting is necessary which, amongst other things, addresses the impact of market mergers and facilitates greater flows between market areas. Such an approach envisages "missing money" resulting from market mergers and the possible removal of tariffs at interconnection points being recovered consistently at categories of entry/exit points and equitably between the affected TSOs We are keen to encourage a wider discussion at EU and national level on this issue.

Question 24: Storage tariffs

Whilst the current comitology draft of the EU Tariff network code envisages a 50% default discount for transmission entry and exit capacity to storage facilities, it also states that this can be increased,

³ See EFET discussion paper titled "Developing a sustainable pan-EU approach to transmission charging" submitted to the 28th Madrid Gas Regulatory Forum in October 2015, available at: <https://ec.europa.eu/energy/en/madrid-forum-previous-meetings>.

or decreased, subject to certain considerations. Therefore, if the current level of storage discount can continue to be justified based on the net benefits storage has for the French transmission system and the other considerations referred to in Article 10 of the comitology draft, there is no need to reduce it to 50% per se.

Question 25: One-off or gradual approach

As stated above, we reserve judgement as to whether the costs of creating a single marketplace should be applied at the time it is created, or gradually, until such time as the magnitude of the resulting tariff changes are better known.

Questions 26 to 30: Regional tariffs

If a reform of NTRs is considered, transparency in the tariff setting and simplification compared to the current system should be privileged. Referring to our answer to question 1, any reform proposal put forward by CRE should ensure that it does not induce additional uncertainty in the market.

Questions 34 to 36: Interconnections

Despite the new Alveringem interconnection point being unidirectional, we agree with the proposal to establish a single virtual interconnection point between France and Belgium, to the extent this is in accordance with Article 19(9) of EU Regulation 984/2013.

We are also in favour of the increase of firm monthly capacity of 35 GWh/day in the direction France-Germany at the Obergailbach interconnection point based along the lines of the GRTgaz proposal. Creating a reverse firm capacity of 35 GWh/day from France to Germany would firstly require a nomination from Germany towards France (i.e. forward flow). Appetite of market participants for this reverse capacity would necessitate a lower market price in France compared to Germany, otherwise no shipper should be expected to book capacity. Ensuring the viability of this reverse firm capacity would require to settle a flow commitment mechanism (Germany towards France), for which a tender process run by the TSOs could be the most reliable and cost-effective solution.

Also, we fail to see why GRTgaz should limit their contracting for load flow commitments to just storage facilities: all market participants should be allowed to book capacity. Finally, should the interest in monthly capacity not be forthcoming, we would support adapting the proposal to offer firm daily backhaul capacity.

Questions 38 to 44: Regulated LNG tariffs

EFET agrees with the general assessment of CRE of the current state of the LNG market in France. We consider that innovative products and services should develop freely. Referring to our response to question 1, it is important that the ATTM5 tariffs ensure a level-playing field between transportation network users and LNG terminal users. The market should be the primary driver for market participants to choose using a specific source of gas or another, not misaligned network and LNG terminal use tariffs.