



The French Energy Regulatory Commission (CRE) is consulting market participants.

## **PUBLIC CONSULTATION NO. 2018-012 OF 25 OCTOBER 2018 CONCERNING THE CONDITIONS GOVERNING ACCESS TO THE ZONE SUPPLIED WITH LOW-CALORIFIC GAS (“L-GAS”)**

The present public consultation covers the conditions governing access to the zone supplied with low-calorific gas (“L-gas”) during the period of conversion to a high-calorific gas (“H-gas”) supply scheduled for completion in 2029.

The L-gas and H-gas areas have been merged contractually since 2013. GRTgaz proposes a conversion service, from H-gas to L-gas so that all shippers can supply customers with L-gas as if it were H-gas. For this conversion service to operate, since 2005 Engie has provided GRTgaz with an H-gas to L-gas conversion service. This service is guaranteed up to end 2023, but no further.

Within this context, CRE proposes to develop the operating conditions of the L-gas area to enable all shippers to continue to have simple and transparent access to the L-gas area up to 2029. These conditions will serve to maintain the contractual merging of the L-gas and H-gas areas, extend and adapt the H-gas to B-gas swap service provided by Engie to GRTgaz and simplify access to physical L-gas infrastructure.

The present public consultation aims to gather the views of market participants regarding the conditions envisaged.

Paris, 25 October 2018

For the Energy Regulatory Commission,

The Chairman,

Jean-François CARENCO

### To participate in the consultation

CRE invites all interested parties to submit their contributions by Monday, 26 November 2018 at the latest:

- by email, in Word format, to the following address: dr.cp2@cre.fr;
- by contributing directly on CRE's website ([www.cre.fr](http://www.cre.fr)), in the "Documents/Public Consultations" section;
- by post to: 15, rue Pasquier - F-75379 Paris Cedex 08, France.

For the purpose of transparency, contributions shall be published by CRE.

**If your contribution contains elements that you wish to keep confidential, a version concealing those elements shall also have to be provided.** In this case, only that version shall be published. CRE reserves the right to publish elements that could be essential for all participants, provided that they are not secret and protected by law.

**In the absence of a redacted version, the full version shall be published,** with the exception of information classified secret and protected by law.

Interested parties are invited to provide well-grounded answers to the questions above.

## CONTENTS

<b>1.</b>	<b>CURRENT CONDITIONS FOR ACCESS TO THE L-GAS AREA .....</b>	<b>3</b>
1.1	THE L-GAS CONSUMPTION AREA IN FRANCE .....	3
1.2	AN AREA OPEN TO COMPETITION THANKS TO THE H-GAS TO L-GAS SWAP SERVICE.....	3
1.2.1	The H-gas to L-gas swap service .....	3
1.2.2	Creation of a single North marketplace for the for H-gas and L-gas areas .....	3
1.2.3	Review of the opening up of the L-gas consumption area to competition .....	4
1.3	AN AREA CONVERTED TO H-GAS PROGRESSIVELY FROM 2018 TO 2029 .....	5
1.3.1	Plan for conversion of the area to H-gas .....	5
1.3.2	Increasingly great technical constraints of the L-gas area.....	5
1.4	THE H-GAS TO L-GAS SWAP SERVICE COULD BE INTERRUPTED END 2023 .....	6
<b>2.</b>	<b>PROPOSAL FOR THE EVOLUTION OF THE OPERATING CONDITIONS OF THE L-GAS AREA .....</b>	<b>7</b>
2.1	GENERAL PRINCIPLES .....	7
2.1.1	Perimeter of L-gas area consumption covered by the H-gas to L-gas conversion service .....	7
2.1.2	Evolution of the price of the H-gas to L-gas swap service .....	7
2.1.3	Capacity and volume covered by the H-gas to L-gas swap service .....	8
2.1.4	Third-party access to L-gas infrastructure maintained .....	8
2.2	CONSEQUENCES ON THE ATRT TARIFF.....	9
<b>3.</b>	<b>SUMMARY OF QUESTIONS .....</b>	<b>10</b>

## 1. CURRENT CONDITIONS FOR ACCESS TO THE L-GAS AREA

### 1.1 The L-gas consumption area in France

Part of the *Hauts-de-France* region is currently supplied with low-calorific natural gas (hereinafter “L-gas”), coming mainly from the Groningen gas field in the Netherlands. The 1.3 million customers supplied with L-gas consume an average 42 TWh per year, representing approximately 10% of French natural gas consumption. Among these L-gas consumers, 93 industrial sites are directly connected to the transmission network. The rest of the French territory is supplied with high-calorific gas (hereinafter “H-gas”).

The L-gas and H-gas areas are physically separate. In the L-gas network, gas comes from the only network interconnection point (PIR), Taisnières B. It is imported mainly from the Groningen gas field in the Netherlands and passes through Belgium. The L-gas network also has a storage facility in Gournay, operated by Storengy, as well as two physical conversion tools, the peak Loon-Plage H-gas to L-gas converter and the L-gas to H-gas adaptor, which belong to GRTgaz. In addition, marginal quantities of L-gas derived from mine gas are injected into the network from the transport/production interface point (PITP), as well as five biomethane injection sites (connected to the distribution network).

### 1.2 An area open to competition thanks to the H-gas to L-gas swap service

#### 1.2.1 The H-gas to L-gas swap service

Given the L-gas network access constraints, GRTgaz’s transmission tariff (known as “ATRT” tariff) has proposed, since 2005, a contractual H-gas to L-gas conversion service, which enables shippers that do not have an L-gas supply, to contractually supply customers connected to the L-gas network.

To provide this service, on 26 April 2005, GRTgaz signed a contract with Gaz de France (now Engie) for an H-gas to L-gas swap service. This contract was approved by CRE within the framework of the decision of 26 January 2012 certifying GRTgaz<sup>1</sup> in compliance with Articles L. 111-17 and L. 111-18 of the French energy code. In accordance with that contract, Engie performs a conversion service which involves receiving quantities of H-gas at a virtual H-gas exchange point and returning quantities of L-gas of an equivalent energy content at a virtual L-gas conversion point.

Within the framework of Engie’s commitments to the European Commission made in 2009, under the procedure COMP/B-1/39.316 opened against it, Engie committed, in particular, “*to continue the H-gas to L-gas swap service provided to GRTgaz under reasonable financial conditions largely identical to conditions in effect [...] so that [GRTgaz] may continue the regulated H-gas to L-gas conversion service, which enables shippers with H-gas to swap it for L-gas, in order to supply clients in the L-gas area*”. This commitment is applicable until 1 October 2023 (see section 1.4).

Therefore, to supply their clients in the L-gas area, up until 2013 shippers had the possibility of subscribing to the H-gas to L-gas conversion service proposed by GRTgaz according to the conditions and tariff defined by CRE.

#### 1.2.2 Creation of a single North marketplace for the for H-gas and L-gas areas

Initially, two market areas corresponded to the two physically separate consumption areas: the North H-gas area and the North L-gas area. In order to simplify access to the L-gas network, CRE decided to merge the North L-gas marketplace and the North H-gas marketplace to create a single North marketplace<sup>2</sup> as at 1 April 2013<sup>3</sup>, based on GRTgaz’s feasibility study and the market consultation. This merger enabled alternative suppliers to consider a unified zone, with no distinction between H-gas and L-gas consumers.

Previously, GRTgaz’s H-gas to L-gas conversion service had to be subscribed with GRTgaz by each supplier depending on their clients’ consumption in the L-gas area and it was billed in part directly to suppliers; the other part of its cost being covered by the transmission tariff. Since the merger, shippers are responsible for balancing within a single H-gas balancing perimeter. GRTgaz continues to provide the conversion service to suppliers that do not have L-gas by using Engie’s H-gas to L-gas swap service. However, the cost of this service is no longer billed directly to suppliers having clients in the L-gas area but fully covered by the transmission tariff. Engie nevertheless conserves the obligation to supply L-gas to its customers connected to the L-gas grid.

The H-gas to L-gas swap service therefore enables Engie to ensure physical supply of the L-gas consumption area to all L-gas area customers, except those supplied by shippers that have chosen not to use the H-gas to L-gas contractual conversion service.

<sup>1</sup> Deliberation by the Energy Regulatory Commission of 26 January 2012 certifying the GRTgaz company

<sup>2</sup> Deliberation of the French Energy Regulatory Commission of 29 May 2012 defining guidelines for the creation of a single marketplace for H-gas and L-gas in the GRTgaz network

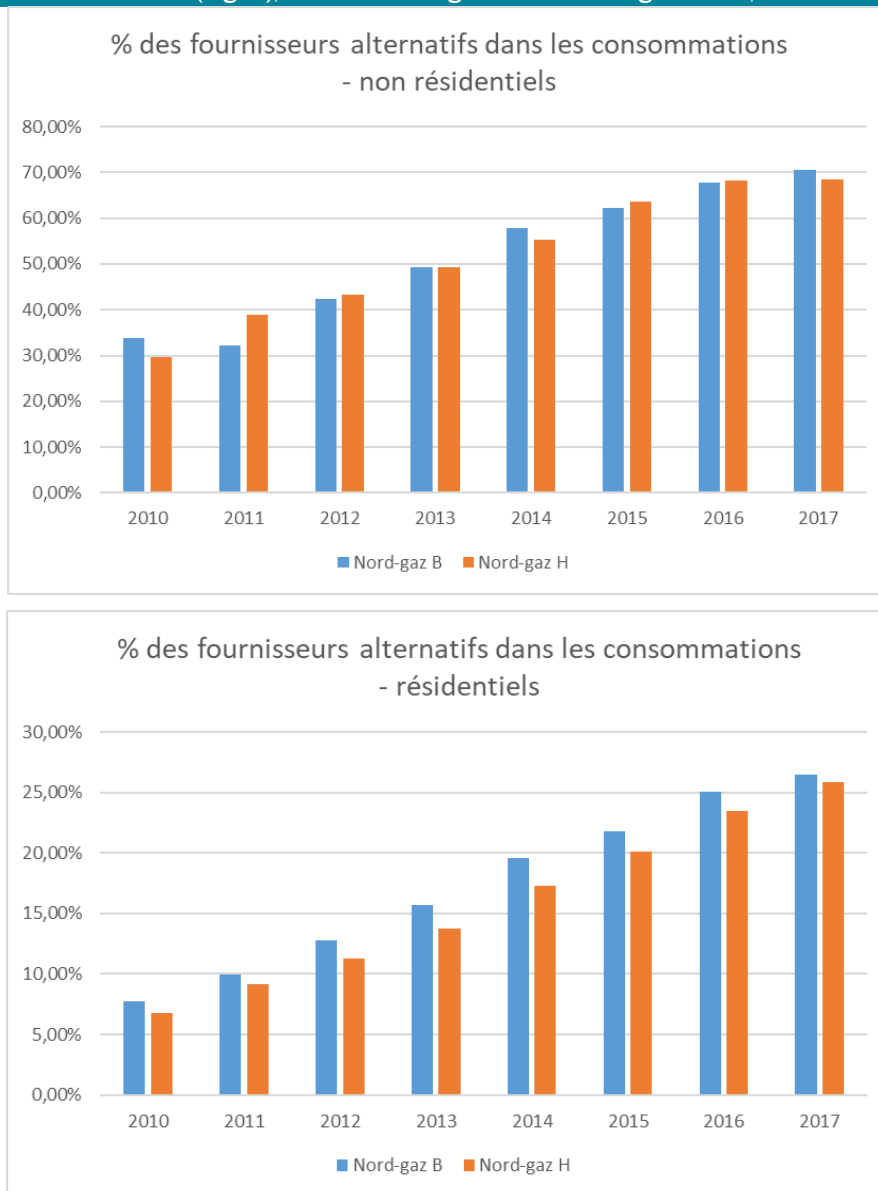
<sup>3</sup> Deliberation of the French Energy Regulation Commission of 13 December 2012 deciding on the tariffs for the use of natural gas transmission networks

### 1.2.3 Review of the opening up of the L-gas consumption area to competition

The L-gas consumption area has several incumbent suppliers: Engie (GRDF's distribution network) and several local distribution companies (their own network).

While the physical supply conditions of the area (long-term entry capacity booked mostly by Engie and existence of a single physical L-gas supply source, the Groningen field) could have hindered the possibility for alternative suppliers to supply their L-gas area customers under satisfactory economic conditions, the H-gas to L-gas conversion service implemented in 2005 enabled a development of competition that was largely identical to that seen in the rest of the gas network. Therefore, the development of alternative suppliers' market share since 2010 has been similar in the North L-gas area and the North H-gas area, as shown by Figures 1 and 2 below.

Figures 1 & 2: evolution of alternative suppliers' market share in the consumption of non-residential customers (Fig. 1) and residential customers (Fig. 2), in the North L-gas and North H-gas areas, from 2010 to 2017



**Question 1** Do you agree with CRE's positive review of the rules for accessing the L-gas area in effect since 2013?

### 1.3 An area converted to H-gas progressively from 2018 to 2029

#### 1.3.1 Plan for conversion of the area to H-gas

The progressive depletion of the Groningen field discards the possibility of L-gas supply between the Netherlands and France beyond 2029. Moreover, the seismic risks caused by the extraction of L-gas could lead the Dutch government to reduce L-gas production even more quickly.

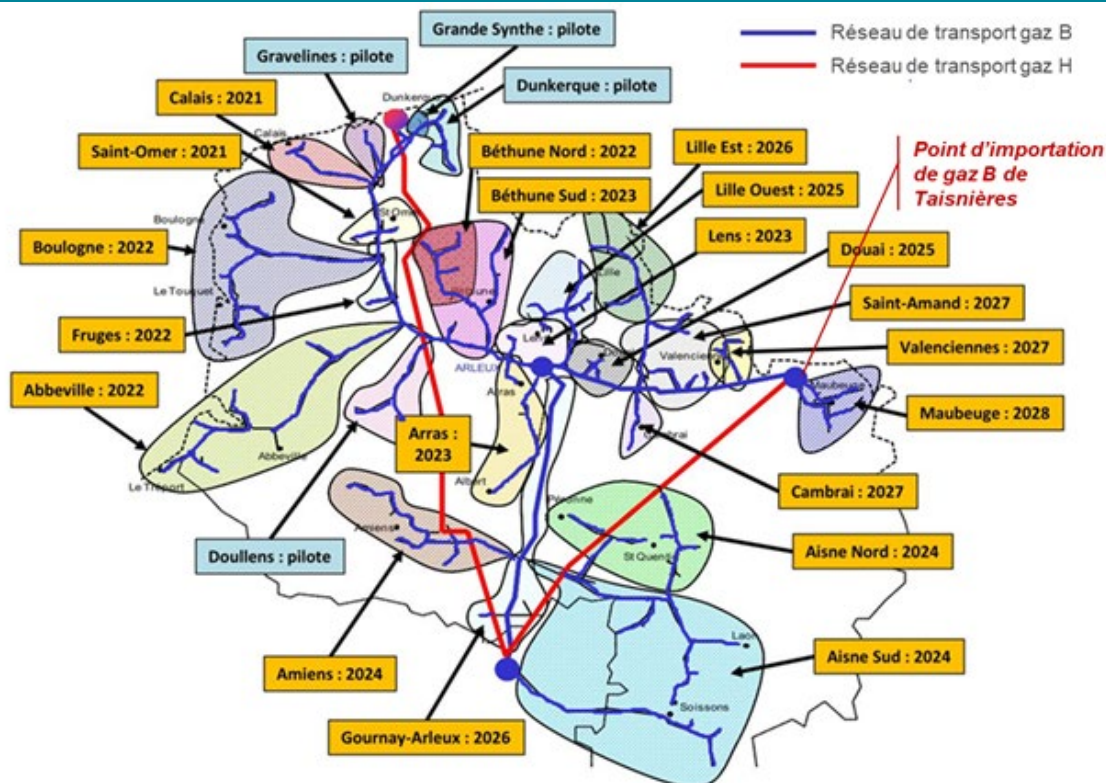
In order to ensure continuity of customers' supply in the part of the natural gas transmission network currently supplied by L-gas, it is necessary to convert this part of the network to enable it to accept H-gas.

The infrastructure operators concerned by this adaptation (GRTgaz for the transmission network, Storengy for the Gournay network, as well as GRDF, the municipal electricity distributors of the Somme and Cambrais area and Gazelec de Péronne for the distribution networks) submitted a conversion plan to CRE in 2016, which was subject to a technical and economic assessment by CRE. On the basis of the results of that assessment, CRE issued a favourable opinion concerning the conversion plan in its deliberation of 21 March 2018<sup>4</sup>.

The conversion plan started with a pilot phase, which was launched operationally mid-2018. The industrial deployment phase is scheduled for 2021 to 2029. The conversion plan is based on a division of the natural gas transmission and distribution networks into 24 geographical sectors. The gas change shall be done independently and successively for each sector, therefore enabling progressive conversion of the entire area up until 2029 at the latest (see Figure 3 below).

Within the framework of the conversion of the L-gas area to H-gas, it will therefore be necessary to supply L-gas to a decreasing number of customers up until 2029, with increasingly few L-gas infrastructure.

**Figure 3: Conversion schedule for the different areas in France**



Source: TULIPE project – Technical and economic assessment by E-Cube, February 2018

#### 1.3.2 Increasingly great technical constraints of the L-gas area

Because of the progressive conversion of the L-gas area, the technical constraints for managing the L-gas network will be increasingly great.

In 2021, according to the current conversion plan, the Loon H-gas/L-gas adaptor will no longer enable L-gas to be produced because the pipeline to which it is connected will have been converted into H-gas. Instead of two L-gas transmission network entry points (Taisnières B PIR and the Gournay storage facility), there will only be one in 2026 following the conversion of the Gournay storage facility. Moreover, the perimeter of customers connected to the L-

<sup>4</sup> Deliberation by the French Energy Regulatory Commission of 21 March 2018 issuing an opinion on the project for conversion of the North area of France from low-calorific gas to high-calorific gas

gas network will continually decrease, as the conversion plan progresses. All of these developments will make operational management of the network increasingly challenging for GRTgaz.

Therefore, it will become impossible to maintain the L-gas imbalance intolerance currently accepted for shippers using infrastructure supplied with L-gas.

#### **1.4 The H-gas to L-gas swap service could be interrupted end 2023**

The commitments made by Engie to the European Commission in 2009<sup>5</sup> have a limited duration. The L-gas commitment is therefore applicable until the expiration of the commitment to limit subscriptions within a quantity below 50% of firm long-term H-gas entry capacity. This commitment is itself *“applicable for a duration of 10 years as from the date at which [Engie’s] firm long-term H-gas entry capacity becomes lower than 50% of all firm long-term H-gas entry capacity (i) in the North zone, (ii) in the South zone and (iii) across the entire French mainland, i.e. as from 1 October 2014 at the latest.”*

Since Engie’s firm long-term H-gas entry capacity bookings fell below 50% of total firm, long-term H-gas entry capacity in France as of 1 October 2013, the L-gas commitment is therefore applicable until 1 October 2023. Beyond that date, Engie will no longer be obliged to provide GRTgaz with the H-gas to L-gas swap service and intends to no longer propose this service under the current conditions.

In addition, for several years Engie has contested certain conditions in the current contractual framework, in particular:

- the price of the contract, since it no longer enables Engie to cover its supply costs;
- certain operational delivery conditions of the service;
- the discrimination caused by the full sharing of this service in the tariff: Engie has an obligation to supply L-gas to its own clients connected to the L-gas network without the H-gas to L-gas swap service. Therefore, GRTgaz books the service only to cover the needs of alternative suppliers. Therefore, Engie considers that, in the ATRT tariff, it pays for a service that it cannot use, unlike other shippers.

In the absence of such a service, each shipper would have to directly supply L-gas to clients consuming L-gas, which presents the following difficulties:

- for suppliers: a “demerging” of the L-gas area, since each shipper would have to balance within the perimeter of the L-gas area and ensure the supply of its own clients in that area. CRE considers that with such a complex process, there would be a major risk of supply competition taking a step backwards;
- for GRTgaz: complex management of the area, in particular within the framework of conversion and therefore of progressive evolution of customers supplied in the L-gas area.

Within this context, CRE wishes to perpetuate the current operation of the L-gas area beyond 2023 through a proposal for technical and financial conditions.

<sup>5</sup> Commitments proposed formally by GDF Suez, GRTgaz and Elengy within the framework of the COMP/B-1/39.316 procedure

## 2. PROPOSAL FOR THE EVOLUTION OF THE OPERATING CONDITIONS OF THE L-GAS AREA

The use of the H-gas to L-gas swap service enabled competition to be developed in the L-gas area, while guaranteeing simple operating conditions for shippers. At this stage, CRE therefore favours the extension of this operation until the end of the conversion of the area in 2029.

To guarantee continuity of supply of the L-gas area, which will remain necessary until the end of the physical conversion of installations in the area (scheduled for 2029), and with a view to the continued operation of the area until its extinction, CRE wishes, as from the start of the conversion phase, to define permanent operating rules for the L-gas area.

Therefore, CRE considers that one of the priorities must be to secure the operation of the area and the long-term supply of L-gas to customers. The operation of Engie's H-gas to L-gas swap service is based on a long-term contract for supply of L-gas coming from the Netherlands which has long-lasting guarantees. In addition, given the evolution of L-gas production, the signing of two new long-term L-gas contracts appears complex.

For these reasons, CRE has sought to maintain simplified access, for all suppliers, to the L-gas area, on the basis of a long-term supply within the framework of an H-gas to L-gas swap service, until the entire area is converted to H-gas.

### 2.1 General principles

#### 2.1.1 Perimeter of L-gas area consumption covered by the H-gas to L-gas conversion service

Currently, only alternative suppliers can access the basic H-gas to L-gas conversion service proposed by GRTgaz. Engie itself directly supplies its clients and cannot have access to the conversion service. CRE's deliberation of 29 May 2012 states that Engie, "the supplier of the H-gas to L-gas swap service maintains, under its swap service contract, the obligation to supply L-gas to its own customers connected to the transmission network". Similarly, suppliers may choose not to use GRTgaz's conversion service and to ship their L-gas themselves. In reality, this supply mode was little used by alternative suppliers.

To simplify operation of the area and meet Engie's request to access GRTgaz's contract-based service, extending the perimeter covered by the basic H-gas to L-gas conversion service to all customers in the L-gas area is envisaged. The H-gas to L-gas swap service would become the only supply source of customers in the L-gas area, since Engie, like the other shippers, would no longer be directly supplying its clients with L-gas.

GRTgaz shall therefore book the H-gas to L-gas swap service by scoping its need based on all of the L-gas area's total consumption in a 2% risk scenario (extreme climate conditions as may occur every 50 years), according to evolution forecasts up until the full conversion of the area to H-gas.

This proposal presents the following advantages:

- considerably simplifying GRTgaz's management of the L-gas area, where all end customers will be physically supplied by an H-gas to L-gas swap service. Such simplification appears necessary ahead of the conversion of the area to H-gas;
- opening up the possibility of an agreement with Engie beyond 2023 and therefore of the end of its commitments with the European Commission, since all shippers, henceforth including Engie, would have access to this service pooled in the ATRT tariff;
- maintaining alternative suppliers' transparent access to clients in the L-gas area, i.e. maintaining the merging of the L-gas and H-gas areas.

Engie has requested the application of this operation at least as from the entry into effect of the ATRT6 tariff, i.e. 1 April 2017, considering that its requests for revisions to the operation were made prior and must be taken into account at least partially.

#### 2.1.2 Evolution of the price of the H-gas to L-gas swap service

Until 2023, the H-gas to L-gas swap service would be at a fixed price. It is currently composed of a capacity charge, set at €161.60/MWh/d/year, and a quantity charge, set at €0.2/MWh.

At the end of Engie's commitments, i.e. as from 2023, CRE intends to adopt a price based on an L-gas area supply optimised with respect to the long-term L-gas supply contract held by Engie and the Gournay storage facility.

In particular, the price would evolve based on the price of Engie's Dutch supply contract, the cost of shipping to France through Belgium, storage capacity costs, and peak consumption in the L-gas area. This price would therefore

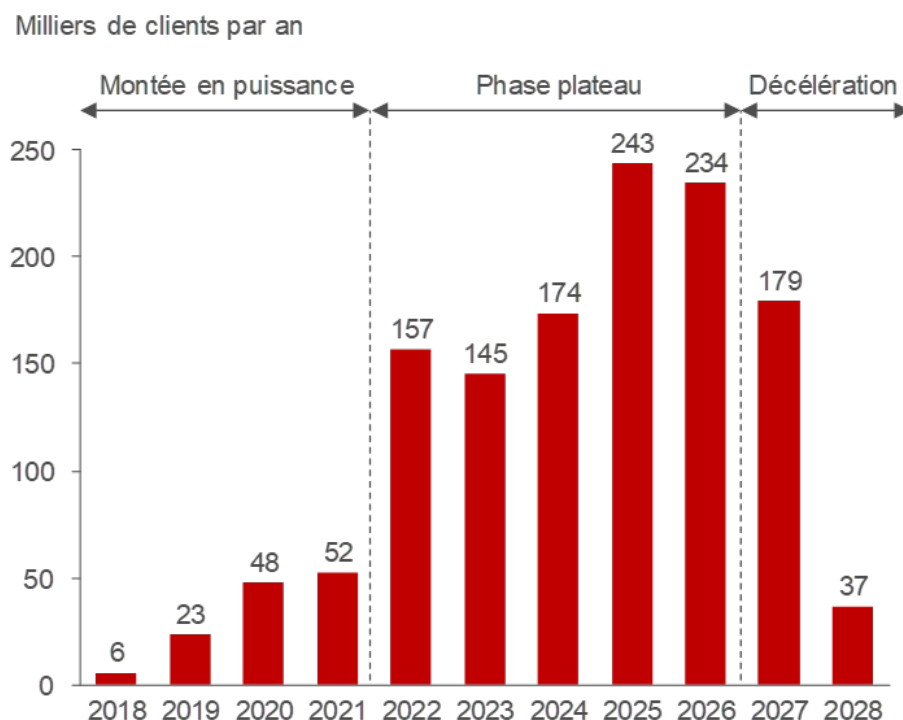
depend on a certain number of parameters whose evolution as of now is uncertain. With this system, Engie would bear the greater part of the risks related to the change in supply costs.

CRE would approve the contract and its price within the framework of its missions, in particular under Articles L. 111-17 and L. 111-18 of French energy code. All price components would therefore be audited by CRE.

### 2.1.3 Capacity and volume covered by the H-gas to L-gas swap service

In order to ensure supply to the L-gas area, the H-gas to L-gas swap service would cover forecast capacity until the full conversion of the area to H-gas up until 2029. The capacity taken into account would be defined based on the conversion plan presented by GRDF, published in the technical and economic assessment of March 2018<sup>6</sup> and presented in Figure 4 below, and based on GRTgaz's annual forecast consumption in the 2% risk scenario. The principle of this commitment is that GRTgaz would also commit in the long term to enable Engie to scope its contract as accurately as possible. In that regard, if additional capacity is required, GRTgaz could access it within the limit of Engie's long-term supply contract.

Figure 4: number of L-gas consumers converted annually in France according to the conversion plan



Source: GRDF (septembre 2017), Analyse E-CUBE Strategy Consultants

### 2.1.4 Third-party access to L-gas infrastructure maintained

All shippers would maintain transparent and non-discriminatory access to L-gas infrastructure: Taisnières B, Gournay storage facility, the Loon-Plage peak H-gas to L-gas converter and the L-gas to H-gas adaptor.

Shippers that use L-gas infrastructure would be required to balance the L-gas perimeter on a daily basis. Penalties would apply for shippers that do not fulfill their balance obligation having long or short positions. GRTgaz proposes the following penalties:

- if there is a positive imbalance, lower than the defined threshold, the shipper shall have to pay the price of the daily firm L-gas to H-gas conversion service multiplied by 5, i.e. €1/MWh (0.2/day per MWh/d × 5);
- if there is a negative imbalance, lower than the defined threshold, the shipper shall have to pay the price of the daily firm H-gas to L-gas conversion service multiplied by 5, i.e. €3.35/MWh (€161/year per MWh/d/8/30 × 5);
- if there is a positive or negative balance exceeding the threshold, the shipper shall have to pay a dissuasive price of €30/MWh.

<sup>6</sup> TULIPE project report – technical and economic assessment by E-Cube, March 2018 (in French)



The thresholds proposed for application as at 1 April 2019 are 5 GWh for a positive imbalance (long shipper) and 1 GWh for a negative imbalance (short shipper). These thresholds would decrease progressively as the area is converted.

In addition, GRTgaz is currently working on the development of backhaul capacity at Taisnières B. This exit capacity at the PIR would be able to be booked a day ahead, as from 1 April 2019. The capacity level booked would be limited to the technical minimum at Taisnières B (minimum physical flow necessary for the operation of that point).

These conditions would maintain access for shippers that wish to use L-gas infrastructure, and in particular the Gournay storage facility, by ensuring that imbalances do not jeopardise supply of end customers in the L-gas area.

**2.2 Consequences on the ATRT tariff**

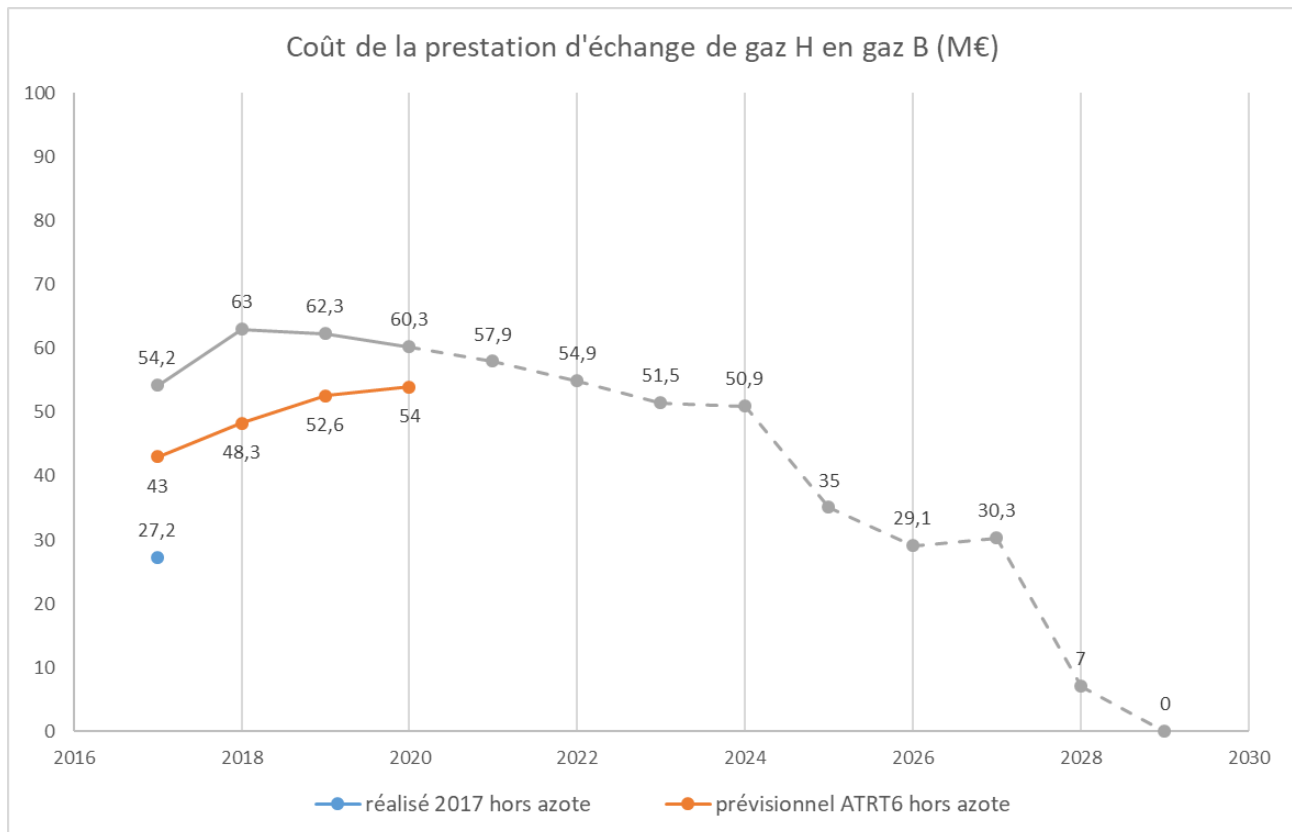
In accordance with the conditions envisaged in 2.1.1. of the present consultation, all suppliers supplying customers in the L-gas area, including Engie, would have access to the conversion service. The main short-term financial consequence of the developments envisaged would therefore be an increase in capacity booked by GRTgaz for the H-gas to L-gas swap service.

The ATRT6 tariff defined a reference trajectory for the cost of the H-gas to L-gas conversion contract. This trajectory is presented in section 3.3.5 of the deliberation of 15 December 2016:

GRTgaz, in current €M	2017	2018	2019	2020
Expenses under the H-gas to L-gas conversion service (variation in volumes converted)	46	51	56	56

The ATRT6 tariff states that the difference between forecast costs and real costs associated with the quantities of gas converted through the conversion service must be fully covered by the expenses and revenue clawback account (CRCP).

GRTgaz supplied its best estimate of conversion needs, based on the 2% risk extreme cold peak consumption of consumers in the L-gas area, by the end of the physical conversion of the area (2029). On the basis of that estimate, and according to the principles of evolution of the contract price described in section 2.1.2, the cost of the H-gas to L-gas swap service should evolve based on the indicative trajectory presented in Figure 5 below.



The tariff consequences of the evolutions envisaged at this stage by CRE would be taken into account in the ATRT tariff, within the framework of the tariff update of 1 April 2019.

In particular, the CRCP shall be calculated, as the difference between, on the one hand, the tariff trajectory, and on the other hand, the expected costs of the new H-gas to L-gas swap service over the duration of the ATRT6 tariff, corrected for the amounts actually paid by GRTgaz in 2017. The impact would therefore be an increase by roughly €51.4 M in the CRCP ATRT6 balance (covering the years 2017 to 2019). Given that the CRCP is reconciled over four years, the tariff impact associated with this evolution would be +1%.

**Question 2** Are you in favour of the operation of the H-gas and L-gas areas as envisaged by CRE? Do you have any alternative solutions to maintaining the merging of the H-gas and L-gas areas beyond 2023?

### **3. SUMMARY OF QUESTIONS**

**Question 1** Do you agree with CRE's positive review of the rules for accessing the L-gas area in effect since 2013?

**Question 2** Are you in favour of the operation of the H-gas and L-gas areas as envisaged by CRE? Do you have any alternative solutions to maintaining the merging of the H-gas and L-gas areas beyond 2023?