Gaz de France

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Gaz de France Answer to the Public Consultation on ERGEG Discussion Paper
"Roadmap for a competitive single gas market in Europe"

Introduction

Gaz de France group is favourable to the development of a competitive European gas market more liquid and more harmonised.
For an infrastructure operator it means a broader range of users eager to develop gas consumption on the end-customer market.
For a gas seller it will pave the way to building a more European portfolio of customers.

Still we believe one has to keep in mind the European gas industry has the fundamental characteristic of being heavily and increasingly dependant on a limited number of upstream extra-European suppliers, granting them a strong market power. This characteristic is widely acknowledged in Ergeg document, but more as an obstacle to liquidity to fight against, than as an element which cannot but be fully integrated in the design of the competitive model that has to be adopted.

The other element which is heavily influencing the gas industry is its high capital intensivity. Gas infrastructure projects have long lead time and are extremely costly. Liquidity will only develop if investments are over-sized, be it in production, transportation, storage, or even gas quality treatment facilities. These additional capacities may appear marginal in comparison to the main investments necessary to keep pace with the development of the European gas consumption, still they have to be financed and are in the end born by the customer in their energy bill. Therefore first requirement of the regulatory road map is to take fully into account in its objectives the need for a climate favourable to investments, but at the same time it needs to constantly strike the right balance between, developing the extra-investments needed to foster competition and security and keeping an economically-optimised design of infrastructures.

On top of these two rather general statements we wish to add some more punctual comments to some of the elements put forward in Ergeg road map.

Regional initiative

Gaz de France is ready to participate in the regional study working group initiative proposed by Ergeg, but we wish to underline that investments to boost capacity regionally only make sense if they are launched in coordination with long distance import capacity development that insure enough gas can be fed into the expanded system.

Also, as mentioned in §26, special care should be taken that regional initiatives do not create border effects and build obstacles to inter-regional trading that do not exist today. The regional approach should be a practical device to understand locally what favours or hinders liquidity, it could lead to incentive schemes or harmonisation through good practice, but should not result in a third level of regulation between the European and the national one. In that regards Gaz de France is very favourable to all efforts that could bring an improved convergence of European and national regulation. Still we do not share Ergeg scepticism toward voluntary agreements, we feel they have accomplished quite a lot and are a rather powerful tool of convergence given the variety of national situations to accommodate.

Supply situation

It is very desirable that European gas imports and gas importing routes are diversified as much as possible and that new suppliers can feed European gas markets. Given the geography and the geology, it is very probable that most of these new suppliers will be LNG suppliers. This means that Europe will be faced with a world wide competition to attract these supplies that can also flow to gas thirsty Asia or United-States, this new LNG will only materialise in Europe in as much as we are able to show our attractivity in that regard.
One type of development which may certainly be considered attractive to both up-stream producers and European mid-stream gas companies is the co-financing of the gas production and transportation developments, either through direct co-financing or through long term take or pay and ship or pay contracts that unable the producer to raise the huge funds needed to finance a new LNG chain. These schemes are very favourable in term of security for both the seller and the buyer because they rely on a mutual commitment. Even if they somewhat restrict the “primary” liquidity, still the advantage for Europe of “winning” the new supply should more than compensate the effect on liquidity. Free capacities on regulated LNG terminals as in France, with the investments now under development, will allow new players to develop their own supply portfolios.

Same situation applies for existing (legacy) take or pay and ship or pay contracts, the advantage in terms of stability and security of retaining the mutual commitments that found these contracts, by far exceed the drawback of their potential effect on liquidity. Which does not mean that some congestion management principles should not apply to them.

UIOLI and secondary markets

To boost liquidity and optimise the use of infrastructures, we agree that TSO’s have an important role to play in implementing UIOLI and facilitating secondary markets, as provided for in the new gas regulation, and we fully support the strong focus in the Roadmap on a proper implementation of such mechanisms.

Shippers have a clear financial incentive to try and resale on secondary markets the capacities they no longer need. They are therefore eager that reliable, user-friendly secondary market systems are put in place. On the other hand, UIOLI mechanisms which are not controlled by the shippers have to be designed extremely cautiously.

A shipper as a supplier is faced with a whole range of responsibilities when it develops its supplying activity. The capacity it is booking as a shipper is a consequence of these commitments it has to face as a supplier :

- 1) commitment toward the up-stream suppliers

Once the shipper has signed its purchasing contract, it is bond to follow a certain contractual off-taking pattern, including flexibilities – if any- and the supplier needs these flexibilities and pays for them

-2) commitment toward the downstream customers

Once the supplier has built a portfolio of customers it has to serve them and match its supply profile including flexibilities with the demand pattern of its customers. For this it needs to book capacities, including to and from storages, based on most stringent consumption patterns assumed from its customers.

-3) commitment in term of security

Due to requirements imposed by public service obligations or by corporate risk mitigation policy, the shipper may need to book capacity on a back-up route that will only be used in case some default situation occurs in its supply portfolio.

This means some capacity will only be used part-time (if at all!). Still it is a responsibility of the shipper to have these capacities available when needed. Therefore UIOLI principles are to be applied in a way that ensures the supplier can still face its delivery obligations.

Decoupling contractual and physical flows

It is desirable for all actors (shippers and TSOs) to maximise possible contractual use of existing pipes notably by taking into account counter flows for allocating capacities. But as these counter flows will more and more be included in the calculation of contractually available capacities, it should be compulsory to inform any shipper on whether the capacity it is booking is, or not, subject to a (some) counter flow (s) being performed. This information is vital for the risk assessment of the supplier toward the delivery to its customers. It is also an information that TSOs need to decide when and how to upgrade a facility.

Hubs

Gaz de France shares Ergeg interest in the development of efficient hubs. We recognize and welcome the potential of hubs as a means to add flexibility and transform a portfolio, buying and selling volumes at different time horizons, looking for price optimisation and risk management by exchanging positions with a wide range of players each with different profiles and constraints.

Hubs also provide price signals, these can increase efficiency of gas consumption if they trigger adaptation in the behaviour of market participants.

However, hubs can not be considered separately from the physical constraints of the gas industry. If an increased number of actors in the liberalised gas market (competing suppliers, traders…) can trigger a higher liquidity on hubs via their portfolio optimisation deals, still with the decline of European gas production and the rise in consumption, new gas volumes will have to be sourced, these will come from distant gas field, requiring huge investments in production and transportation. Most often these will be financed through the backing of long term take or pay and ship or pay contracts. So hubs will never be a substitute to long term contracts for sourcing the gas. Even if at some point in time upstream suppliers may look for selling directly part of their reserves on European hubs, this should be limited by the need to secure investments, and by the reluctance of the actors –including consumers- to be exposed to too high volatility or to risks of price manipulations. Therefore it is our position that hubs are a tool very well suited to help the opening of the gas market and to pursue optimisation, but they should not be considered as a rival to long term gas contracts for the supply of European markets. Even on the American market, the very important Henry Hub is not incompatible with long term supply contracts.

Unbundling

We do support the statement in the report according to which TSOs should practice a strict non discrimination in giving access to pipes and that this should “be effectively monitored and fully enforced by regulators with adequate resources and powers.”
We are of the opinion that such checking should take place not only for TSOs being part of integrated companies but also for any TSO. A given TSO may have many reasons other than property links not to always apply strict equal treatment of shippers.
The legal unbundling rules required by the present directive, when put in place, soundly implemented, and monitored, do create a favourable dynamic in integrated companies. Going to a forced property unbundling may have more damaging effect than the cancellation of an ex-ante suspicion of “a credible threat of potential abuse”. In any case this potential abuse will not materialise ex-post, because regulators would not allow it !
Such move would re-open another period of regulatory uncertainty for the energy industry.
Also it would be depriving from stabilising assets the balance sheet of some suppliers which are holding commitments in long term gas contracts, contributing to European security of supply. In the case of Gaz de France, but also of other companies not being part of a major oil or electricity producing group, transportation is a very significant part of their assets portfolio.