

GAZ DE FRANCE COMMENTS ON JUNE 2006 ERGEG DOCUMENT :

«Report on the transmission pricing (for transit) and how it interacts with entry-exit systems»

General comment :

Gaz de France welcomes the work accomplished by ERGEG on the important question of pricing of gas transit flows. We believe that transits deserve careful attention not only with regards to the issue of cost allocation in an entry-exit system but also more generally given the fundamental role they play in Europe's security of supply.

Ability to put in place a satisfactory corresponding transit is a pre-condition for supply companies to conclude gas purchase contracts, symmetrically, long term commitment of supply companies is key for securing and launching pipe investments.

We note that this report represents a first step and that the ERGEG intends to draft further proposals as regards tariff structure for cross border transport.

At this stage, reading the first part of the report, we remain uncertain on how the ERGEG considers the specificity of transits and the opportunity of specific treatments for such flows.

The report first refers to GTE's report and indicates ERGEG's intention to develop "appropriate charging arrangements for transit that ensures that costs are allocated efficiently", also "for ensuring that necessary investment in cross-border infrastructure are brought forward on a timely and efficient basis". These two sentences bode well of the intention of the report. However we do not see how this intention is implemented in the rest of the document, where notably the opportunity to consider, in the tariff, specific elements such as distance, load factor, etc. remains an open question in some paragraphs, while treated restrictively in others.

Also the document examines issues that may arise in diverse circumstances in relation with efficient use of capacities, investments, planning procedures, pipe-to-pipe competition - a range of issues that have been recently discussed at the Madrid Forum in relation with transport in general-with no transit specific considerations.

Finally the call for a general review of existing transit contracts raises very serious concerns and would require to be reconsidered.

Selection of remarks on specific paragraphs :

Executive Summary

Definition of transit :

"The term transit means transportation of gas from one boundary of the network and/or entry/exit zone to another boundary, potentially the transport of large volumes over long distances"

The term "boundary" is in this definition ambiguous.

Does it apply to a TSO sector limit and not only to a national border ?

1 Definition and classification of gas transit flows

Comment on § 10-11:

In these paragraphs ERGEG develops its views on the circumstances under which existing transit contracts should be reviewed and tariff conditions made “consistent with new regulation”.

We wish, on this matter, to remind the importance we attach to the principle of sanctity of pre-liberalisation contracts, in line with article 32 of the Gas Directive. We would strongly object to a reasoning leading to a general questioning of this principle.

2 Requirements on gas transits / Legal requirements

Comment on § 16 :

Without questioning the contribution of DG TREN’s explanatory notes to a common comprehension of the Gas Regulation, we would prefer not to see them referred to as “legal requirement” as are the Directive and the Gas Regulation.

2 Requirements on gas transits / Market requirements

Comment on § 19-20 :

The notion of pan-caking is not absolutely clear. The report refers to “pan-caking of transaction costs – associated with booking capacity in several systems” and “pan-caking of network access tariffs”. It can be legitimate to fight against piling up of administrative costs linked to a booking process involving multiple TSOs (although money wise this remains minor, it is more a question of complexity) but when gas molecules circulate through several grids sections the capital and operating costs of all the relevant sections have to be covered this is not pan-caking but basic cost reflectivity.

We are not sure either what is meant with the “Europe-wide entry-exit system” as a solution against pan-caking of tariffs for cross-border flows : A unique entry-exit zone covering all Europe ? A European Grid Code harmonizing access conditions to the various zones ? A one-stop shop for booking/paying with a redistribution mechanism toward the various TSOs?

A unique entry-exit zone would seem totally unrealistic at this stage.

As a general remark we would point out the importance of keeping markets (entry – exit zones) at a reasonable size ; too small they generate complexity ; but too wide they spread physical congestions and distort excessively the allocation of costs of gas transport.

Comment : Distance-based tariffs

Considerations on the advantage and drawbacks of distance-based tariffs for transits are developed in several parts of the report : § 27-32 and §51-52-53.

First of all we welcome the recognition by the ERGEG that a specific tariff methodology might be appropriate for transit flows.

However we would appreciate some clarification on when, practically, the ERGEG would admit that elements such as distance, load factor, etc could be taken into account, that is when the criteria (insufficiently meshed network, significant cross-subsidisation) would be fulfilled. § 51&52 are unclear in that regard.

The “exclusively linear long distance transit not interconnected with other domestic transmission system” pipe being “rare in practice” !

Finally we do not share with ERGEG the theoretical view that a sufficiently meshed gas network could be considered as a tub, because, unlike with electricity, there will always be in gas large dominant flow across Europe (from North, East and South toward West and Central Europe) where distance related costs have to be recovered.

3 Increasing the efficiency in the usage of the pipeline /Trading of unused capacity

Comment on § 43-44-45 :

It has to be recalled that gas transit flows generally play a specific role in a country's security of supply and for this reason they require careful treatment when congestion management procedures are applied - as recognized in the Gas Regulation. We regret not to see any consideration for this in this part of the report.

Regulation 1775/2005 requires TSOs to facilitate day-ahead (and not month ahead) interruptible re-selling of capacity.

We welcome the priority given to secondary markets to optimise capacity utilisation, but secondary market being a voluntary step, the TSO bulletin board should be available to capacity holders to facilitate their advertisement on availability not to be compulsory and fix secondary market conditions.

3 Increasing the efficiency in the usage of the pipeline / New pipeline infrastructure - setting tariffs

Comment on § 46-47-48 :

Though the development on possible measures of specific regulatory treatment is very interesting , these paragraphs would need some rewriting for clarity purposes.

For instance the sentence : "The value of the reserved capacity (capacity which is exempted from rTPA) shall be considered a source of implicit or virtual revenues to the shareholders", is unclear.

3 Increasing the efficiency ... / Interaction of transit flows with Entry Exit Areas

Comment on § 49-50-51-52-53 :

Same comment for clarification requirements apply to these paragraphs.

- See in particular above our questions on application of distance-based tariffs
- and § 49 : "Under the entry-exit tariff system, capacity booking can be done on the same basis, that is, booking is done separately for each entry and exit point, with actual movements being based, ex post, upon combining a shippers' portfolio of capacity".
- ...