



David Linden

European Regulatory Affairs  
Gas Trading Europe and LNG



BP Gas Marketing Ltd  
20 Canada Square  
Canary Wharf  
London  
E14 5NJ  
United Kingdom

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Commission de Régulation de l'Energie  
15, rue Pasquier  
75 379 PARIS Cedex 08  
France

Direct: +44 (0)20 7948 3200  
Main: +44 (0)20 7948 4000  
Mobile: +44 (0)78 2689 0922  
Fax: +44(0)2079487848  
David.Linden@bp.com

**CRE Public Consultation: Developing Firm Natural Gas Transmission Capacities from France to Belgium**

Dear Sir / Madam,

The development of firm natural gas capacities from France to Belgium is a welcome addition to the integration of the North West European gas market. The CRE's consultation suggests practical solutions to overcome the issue of gas odourisation levels between the two markets. However, recognising the cross-border nature of the problem, we are disappointed that the consultation concerns only the French developments. Whilst acknowledging that the CRE has "communicated" with the Belgian regulator CREG on the issue before publishing its consultation, it would in our view have helped to maximise stakeholder input if the CREG had also issued a complementary consultation in parallel. This limits the ability to assess the projects being offered, as the full benefits, costs and risks are not listed.

Concerning the different types of capacities being consulted on by CRE, we would call for a partial implementation of firm reverse flow capacity at Taisnières-H from October 2010 using flow commitments. This would allow some firm capacity to be available while the Open Season procedure is undertaken. Although we are not able to fully assess the economic viability of the proposed deodorisation plant at Taisnières, the indicative tariffs do not suggest that this is a viable solution. Instead an Open Season for the new interconnection point 'Veurne' should be pursued, as the indications are that this point would provide more capacity at a lower price (than the deodorisation plant). Clarity is still required on tariffs, as a 50% difference remains between the maximum and minimum range. Finally, further efforts should also be made to harmonise the gas odourisation procedures across the EU, as in the long term this could be a significantly cheaper method for dealing with cross-border odourisation issues.

Please find below our response to the specific questions from the CRE public consultation:

BP Gas Marketing Ltd  
Registered in England and Wales No. 902982  
Registered Office:  
Chertsey road  
Sunbury on Thames  
Middlesex  
TW16 7BP

**Q1** *Do you see an interest for you in the development of firm physical capacities from France towards Belgium through the creation of a new interconnection point at Veurne?*

In light of the current gas odourisation issues, the development of the new interconnection point Veurne would appear to be a practical solution to create firm physical capacities from France to Belgium. Developing a new interconnection point would be in preference to the construction of a de-odourisation plant at Taisnières. The indicative tariffs presented by the CRE, suggest that the cost of transporting gas to Belgium would be more than double that of other options presented – this is an uneconomically high cost for any shipper to transport gas between the two markets. The estimated €50m set aside for the construction of the deodourisation plant should instead be used to cover the investment necessary for the new point Veurne.

However, to be able to fully assess the costs and benefits of a new interconnection at Veurne, further clarity is required on a number of commercial and technical issues. As the consultation for the interconnection point is only being carried out by the CRE, and not the CREG, we are unsure of the issues being faced by the Belgian side. Particularly uncertain is the tariff structure envisaged by Fluxys, as well as whether the offered capacity will be bi-directional or only for gas flows from France to Belgium.

**Q2** *What do you think of the exit capacity products at the interconnection point of Veurne to be proposed during the Open Season between France and Belgium?*

**Q6** *Do you see an interest in setting a quota of short-term capacities at the Veurne interconnection point?*

Using the minimum flows from the Franpipe at Veurne would provide firm capacity for shippers of the north zone in excess of the other solutions presented in the consultation at Taisnières-H. What needs to be clarified is that if the Franpipe flows are below 270 GWh/d (such as when maintenance occurs), what happens to this firm capacity? If flows are curtailed because of reduced flows other than a force majeure event, then it is incorrect to call the capacity a 'firm' product.

As Veurne should be treated the same as all other interconnection points on the GRTgaz system, short-term and interruptible capacity must be made available alongside the long term commitments. The availability of short-term capacity is necessary to encourage new entrants and allow for greater flexibility. Taisnières-H should also retain its short term capacity (either as a firm or interruptible product), as this gives shippers greater optionality, which is particularly useful when entering the Fluxys transmission system.

**Q3** *What do you think of applying a proximity tariff to shippers transporting gas towards the new interconnection point at Veurne from Dunkirk PIR or Dunkerque LNG terminal?*

Proximity tariffs provide a sensible cost saving to shippers transporting gas at a short distance in a localised part of the transmission network. However, it is imperative that such a tariff is designed appropriately and is restricted to reflect the actual flows from France to Belgium by its user. The charging of this tariff should only be allowed, if the user physically flows (nominates) gas to Belgium via Veurne. Any other nomination should not qualify for the proximity tariff.

***Q4 What do you think of the tariff difference applied to firm and conditional capacities?***

As the technical capacity used for transportation from Dunkerque LNG to Veurne would be limited by the send-out rate of the LNG terminal, and this send-out rate is also dependent on non-flat LNG supplies, it makes sense to offer conditional capacity at a discounted rate.

More concerning is the 50% difference between the maximum and minimum tariff range for the firm capacity product. Such a wide range makes the commercial viability of purchasing capacity difficult to assess. Therefore we would expect the estimate range to be much narrower in the Open Season procedure.

***Q5 Do you support the tariff mode considered for the capacities developed through the deodorisation plant at Taisnières H?***

It is difficult to assess whether the tariffs calculated for 'de-odorised' capacities are appropriate, as there is no direct comparison for such a product, and we have little transparency regarding the fixed and variable costs of the project. However, it is worth noting that the operational expense range of €0.2 - 0.9/MWh on top of the €0.2/MWh initial cost would erode the value of having France to Belgium capacity. Therefore, it would not make sense to construct a deodorisation plant when the other options presented in this consultation would provide more capacity at a lower cost.

Furthermore, with aspirations for a single European market which features a wider use of odorisation for its health and safety benefits, investment in de-odorisation facilities seems somewhat counter-intuitive if alternative (more cost-effective) means can be found to achieve the desired impact.

***Q7 What do you think of the proposed Open Season procedure?***

***Q8 What do you think of the durations of the commitments which could be requested from the market?***

***Q9 What do you think of the envisaged timetable?***

Using the limited information provided, the Open Season procedure generally seems to follow the principles laid out by the ERGEG Guidelines of Good Practice on Open Seasons (GGPOS). We welcome as much transparency and co-ordination as possible, so that those taking part in the process are able to assess their costs and risks appropriately. Particularly important is greater transparency regarding tariffs, as the current indicative range is very wide.

Although GRTgaz is seeking long term commitments to validate and underwrite its investment, asking for a 20 year commitment for conditional capacities is inappropriate. This is double the envisaged period for firm capacity (10 years) and is a financial and commercial obligation beyond many shippers' abilities. This may result in only a select number of bidders being able to take part in the Open Season. Furthermore, the GGPOS call for a range of products to be offered in an Open Season, including short-term capacity. Providing a balanced and diverse set of products would allow a greater variety of users to take part in the Open Season – short-term capacity would also encourage new entrants to participate.

We have no particular concerns regarding the envisaged timetable. That said the open season should feature timetables that permit all bidders to undertake the necessary logistical work to prepare and sanction their bids.

**Q10** *Do you see an interest in developing "firm reverse capacities" from France towards Belgium by a "flow commitments" system compared to the existing reverse capacity?*

As firm reverse capacities can be created at Taisnieres-H in a short period of time using a contractual solution ("flow commitments"), we would support its implementation from the 1 October 2010. This would create firm capacities in a short space of time while the Open Season procedure is run.

In addition to creating new firm reverse capacities, the current short term interruptible reverse capacity should be retained. Of the 122 GWh of interruptible capacity currently on offer, around half could be 'firmed-up' using flow commitments. This arrangement would give shippers the flexibility of being able to use either a firm or interruptible product.

**Q11** *Do you have additional comments?*

Reversing gas flows is not only impossible towards Belgium (Entry Point Taisnieres), but also towards Germany (Obergailbach). Here the same issue exists, whereby French odorised gas can not mix with German non-odorised gas. However, similar solutions to those currently being consulted on for Taisnieres-H could be used to create firm capacity. Easiest to implement would be flow commitments creating firm reverse flow capacities, although other options should be explored.

Additional efforts should also be made to harmonise the gas odorisation procedures of the EU. Although all countries supposedly have the same Basic Safety Requirements, odorisation is obligatory in and occurs at either a transmission or distribution level (or both). We would encourage the CRE to work together with other National Regulators to seek other means for harmonising these processes as a further step to creating an integrated European gas market. A study of the key bottlenecks and a quantification of the necessary work to alleviate the problem would be a valuable first step.

Please feel free to contact me if you have any further questions.

Yours Sincerely,



**David Linden**  
Regulatory Analyst