



FORMULÁRIO DE COMENTÁRIOS E SUGESTÕES
CONSULTA PÚBLICA Nº 14/2016 DE 12/9/2016 a 12/12/2016

NOME: ENGIE BRASIL

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Consulta Pública sobre a aplicação de metodologias de cálculo das Parcelas do Preço referente ao Transporte que devem constar dos contratos de compra e venda de gás natural, conforme o embasamento exposto na Nota Técnica nº 11/2016-SCM, de 31 de agosto de 2016.

First of all, ENGIE wants to thank the Agência Nacional do Petrol, Gás Natural e Biocombustíveis (ANP) to invite her to express her opinion and to generate discussions about an important topic for the gas sector as the change of the regulated tariff methodology for the gas transmission. In our opinion, such interactions are essentials to develop the gas market in the near future.

For such consultation to be effective and efficient, all the contributors need to share at least a common understanding of the global context and of the challenges of the reform envisaged. The quality of the document made available by the ANP is remarkable in the way it synthesizes very complicated technical matters and regulatory concerns.

The Consultation of the ANP supports fully the will of ENGIE to contribute actively to the debate on the evolution of the rules to reinforce natural gas as a competitive and reliable energy for Brazil. As an experienced international energy company, ENGIE recognizes that there is not a single model for all but that each country is unique and should be organized according to its particularities.

We hope you find our comments to your consultation hereafter useful. Please do not hesitate to contact us should you have any further comments and queries.

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The Consultation 14/2016 of the ANP aims at presenting a new tariff methodology for the gas transmission operations bringing major changes by identifying the cost of the service and by changing the capacity reservation and pricing model. It appears as **a significant step toward the progressive implementation of a liberalized gas market** which will deeply and structurally modify the functioning of the gas sector in Brazil, including the roles and responsibilities of the market players. As this reform should be integrated to wider scope of changes, it should be carefully designed.

The elaboration of a new tariff methodology for the gas network utilization is a very technical topic. In the case of a very concentrated and rather opaque gas sector, we would like to highlight the importance of **building a common understanding of operational and technical matters for all the stakeholders**. We believe the didactic presentation of the subject by the ANP responds partly to this concern. Nevertheless, the decision of the new tariff methodology should be the occasion to **insure market players full support** to the reform in the frame of the wider discussion conducted by the MME under the *Gas par Crescer* Initiative.

As presented in the documentation prepared for the Consultation by the ANP, the Entry/Exit (E/E) model has been largely adopted in mature gas markets as a way to reinforce the opening of the market. In the European Union, it became the norm. The adequacy of this methodology to the Brazilian market has to be carefully studied as the methodology doesn't by itself generate the desired results.

That's why we would like to mention several aspects that should be taken into account by the public authority, in our opinion, while preparing such structural reform.

- **Acceptability of the reform:**

The approach of the ANP to determine the best methodology should be based on the **transparency** that will be the standard in the future market organization (as foreseen in the Resolution 11/2016 for example, inclusive that such information should be available right now for the market). Therefore, we would recommend **to make available all the models and the simulations** to allow any player to assess by itself the impact of the change for its own case. In general, the change of a tariff structure with constant income for the operator could impact some clients. In the extent that the **conditions of the competition could be somehow modified**, any evolution should be made with care and a sense of proportion.

Such tariff model should **insure a long term visibility and predictability** in the future tariff to allow market players and investors to commit and take the most efficient decisions. It is key that changes would not be confused with uncertainty. **Tariff revisions** periods should be foreseen to implement the required adjustment according to the market conditions. The **transition period** should be carefully designed and fully implemented. The transition process itself should be well organized and mark out to give comfort to the stakeholders in the way the reform will step forward. The transition should be consistent with the final targeted model.

In the evolution anticipated to the gas sector, the **role and responsibility of the ANP** will continuously grow especially its ability to regulate adequately the natural monopolies and the essential facilities. In this reform, the ANP should prove its full respect of the principles of no discrimination and equal treatment of all the stakeholders, the full transparency in the decisions and total independency. The reform should be conducted toward the general interest building **the credibility of the ANP to regulate such complex organization as the coming Brazilian gas market**.

- **Adequacy of the reform to the expected goals:**

We understand that the new tariff methodology should support the emergence of a gas market with sufficient exchanges to generate enough liquidity to allow a gas-gas competition. Thus, **Third Party Access rules** (TPA) to the Natural Monopolies services and to the Essential Facilities is fundamental. As regards the gas transmission system, a Network Code would be needed as several Transmission System Operators (TSO)

would be impacted. This implies aspects that have not been covered in the analysis of the ANP but which should be treated as a whole.

The effectiveness of TPA relies on both the possibility and the ability to do. For this, we highly recommend the ANP to adopt **rules and mechanisms that are as simple as possible in the point of view of a new comer**, shipper and trader.

Considering the above the adoption of the Entry-Exit (E/E) methodology for capacity booking and TSO tariff seems relevant as soon as the following conditions are respected:

- The transmission **infrastructure should be mature enough** to reach the benefits of the E/E model as presented in the documentation of the Consultation. This supposes to know if any **physical congestion issue** could appear, where and in which conditions. The network access principles should include **congestion management rules** to treat any existing bottlenecks in the gas networks.
- The precise **identification of the E/E points** should be a concern of the users of the network and should be transparent. It involves as well the creation of gas **balancing zone(s)** which could, by the way, support the development of Gas Exchange Virtual Point(s). The mechanism of network balancing should be foreseen as well.
- The ANP indicates in its documentation significant unused capacities in the gas network. We recommend that the regulation creates the conditions to valorize them as **maximization of the use of the network** should reduce the tariff at constant revenue for the TSO. This brings us to highlight the importance to define exactly the transmission capacities to frame the analysis (products technical specifications, durations, flexibility...). This would be part of the necessary **contract standardization** that would be asked by the market. As well to establish and publish general terms and conditions for the products which should be preferably the same for all the TSOs.
- The tariff methodology should **allow the operator to propose innovative products and services** to improve the efficient usage of the gas grid and to support the gas market liquidity by making extra income above the revenue cap.
- The tariff methodology should take into consideration the impact of **new investments** and the way new projects connected to the grid will be treated and will impact the tariff. The efficiency and the development of the gas market will depend on the adequate development of the gas infrastructures. Especially the infrastructures bringing additional flexibility shall be addressed: pipelines to avoid physical congestion of the grid, new import facilities and underground gas storages (UGS). They shall be created in a way that not refrain competition and the TSO should be incentivized to support them as they would be directly connected to its network. The case of a new LNG terminal or a UGS allowing SWAP and increasing the firm capacity of the network should not be impeached by the TSO as it could compete to its grid expansion, as soon as such project has a better cost-benefit impact for the whole system and its users.

As a conclusion, we could say that the Consultation makes by the ANP would gain if more information about the elaboration of the proposal would be made available to the stakeholders. As a natural monopoly, the activities of the TSO should be better known by the agents.

To allow the ANP to benefit from the experience of the European markets and in order to show to all the stakeholders an independent opinion on the gas transmission tariff reform in Brazil, we would recommend the ANP to get contact with some European entities. In our view, the ENTSOG would be very qualify to provide technical advices about the tariff methodology envisaged. ENTSOG could also inform on the different topics addressed by the Tariff code which is about to be implemented in Europe. ENGIE would be pleased to support the ANP to make contact with the ENTSOG.