



EUROPEAN COMMISSION

Brussels, 25.11.2011
C(2011) 8569 final

COMMISSION OPINION

of 25.11.2011

**pursuant to Article 3(1) of Regulation (EC) No 715/2009 and Article 10(6) of
Directive 2009/73/EC - France - Certification of GRTgaz**

COMMISSION OPINION

of 25.11.2011

pursuant to Article 3(1) of Regulation (EC) No 715/2009 and Article 10(6) of Directive 2009/73/EC - France - Certification of GRTgaz

I. PROCEDURE

On 27 September 2011, the Commission received a notification from the French national regulatory authority, Commission de régulation de l'énergie (hereafter "CRE"), of a draft decision on the certification of the transmission system operator for gas GRTgaz S.A. (hereafter "GRTgaz"), dated 15 September 2011.

Pursuant to Article 10 Directive 2009/73/EC¹ (hereafter "Gas Directive") and Article 3 Regulation (EC) No 715/2009² (hereafter "Gas Regulation") the Commission is required to examine the notified draft decision and deliver an opinion to the relevant national regulatory authority as to its compatibility with Article 10(2) and Article 9 of Directive 2009/73/EC.

II. DESCRIPTION OF THE NOTIFIED DRAFT DECISION

Background

GRTgaz is one of the two transmission system operators for gas in France. In order to comply with the applicable rules on unbundling of transmission system operators, GRTgaz has chosen the Independent Transmission Operator (ITO) model, referred to in Article 9(8)(b) Gas Directive. This choice is available to GRTgaz under the French legislation transposing the Gas Directive.

Article 9 Gas Directive sets out rules on the unbundling of transmission systems and transmission system operators. Article 9(8)(b) therein provides that where on 3 September 2009, the transmission system belongs to a vertically integrated undertaking a Member State may decide not to apply paragraph 1, provided that the Member State concerned complies with the provisions of Chapter IV, establishing requirements for independent transmission operators (Articles 17 to 23 Gas Directive).

The CRE has analysed whether and to what extent GRTgaz complies with the unbundling rules of the ITO model as laid down in the French legislation transposing the Gas Directive. In its draft decision, the CRE has identified a number of measures which still remain to be

¹ Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, OJ L 211/94 of 14.8.2009.

² Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, OJ L 211/36 of 14.8.2009.

taken in order to ensure full compliance with the unbundling rules. The measures concerned have been summarized in point 7 of the CRE's draft decision.

III. COMMENTS

On the basis of the present notification the Commission has the following comments on the draft decision.

1. Choice of the ITO model

According to Article 9(8) Gas Directive, the ITO model may be applied in cases where, on 3 September 2009, the transmission system belonged to a Vertically Integrated Undertaking ("VIU"). The Commission agrees with the CRE in the present case that the choice for the ITO model is legitimate, considering that the transmission system concerned did belong to a VIU on the relevant date.

2. Definition of VIU

Article 2(20) Gas Directive provides for a definition of the concept of VIU. The definition of VIU is relevant for the application of a considerable number of unbundling provisions in the Gas Directive. In its draft decision, the CRE makes reference to the concept of VIU as defined in the French legislation transposing the Gas Directive. The Commission questions whether the definition in the French legislation is in compliance with the Gas Directive. The Commission notes that the definition of VIU in the French legislation, inter alia, seems to exclude categorically without apparent justification companies which are controlled by the VIU but are located outside the European Economic Area. Moreover, the definition of VIU in the French legislation seems to exclude without apparent justification distribution system operators controlled by the VIU. In the Commission's view, the definition of VIU in the French legislation appears inconsistent with Article 2(20) Gas Directive. The Commission considers that the CRE should apply in its final certification decision a definition of VIU which is in conformity with Article 2(20) Gas Directive.

3. Tasks of the ITO

According to the Gas Directive, the ITO is required to carry out the activity of gas transmission, including all the tasks of a TSO under Article 13 as well as a number of additional tasks listed in Article 17(2) Gas Directive. For all these tasks the ITO has to be autonomous. The draft decision does not make clear whether GRTgaz has indeed been entrusted with all these relevant tasks. The Commission considers that the CRE should clarify in the final certification decision how it has verified whether GRTgaz has been entrusted with all relevant tasks.

4. Contracts for services between the VIU and the ITO

A. Services provided to the ITO by other parts of the VIU

Article 17(1)(c) Gas Directive provides for specific rules on the contracting of services between other parts of the VIU and the ITO. As the ITO should be autonomous and not dependent on other parts of the VIU, contracting of services to the ITO by any other part of the VIU is prohibited by the Gas Directive. As a preliminary remark the Commission

considers that in view of the general prohibition of services provided to the ITO by other parts of the VIU, a derogation could only be envisaged in exceptional circumstances. Such derogation should be construed narrowly and should not go beyond what is strictly necessary to protect overriding interests, such as the security and the reliability of the transmission system. Only in exceptional cases, where the services concerned are strictly necessary to protect overriding interests as referred to above, and where no other service provider except for the VIU could provide these services to the ITO could a derogation possibly be considered justified. Such derogation should also in principle be of a transitional nature, limited in time. In addition it should be ensured that transactions between other parts of the VIU and the ITO occur at arms length in order to avoid cross subsidisation. In the draft decision the CRE has not clearly demonstrated that all the services which are provided to the ITO by other parts of the VIU in the present case are strictly necessary to protect the overriding interests referred to above. Neither has the CRE demonstrated whether the services concerned, even if strictly necessary as such, could also be provided by other service providers not related to the VIU, now or in the foreseeable future. The Commission considers that in the present case contracts for services provided to the ITO by other parts of the VIU, such as, by way of example, those for IT services, for treasury services and for research and development should be revised in accordance with the principles referred to above to ensure full independence of the ITO. This list is not exhaustive.

B. Services provided by the ITO to other parts of the VIU

Article 17(1)(c) Gas Directive allows in specific circumstances for the provision of services by the ITO to other parts of the VIU, in particular if there is no discrimination of other system users, if there is no restriction of competition in generation or supply and if the regulatory authority has approved the provision of the services concerned. The CRE refers in its draft decision to a significant number of contracts for services provided by the ITO to other parts of the VIU. The Commission takes the view that in the analysis of the contracts concerned, the CRE should assess, in situations where a functioning market for the services concerned cannot be identified, whether the terms of the service contract can be considered cost reflective so as to ensure that there is no undue cross subsidization. This analysis has not always been made in the draft decision. The Commission considers that the CRE should consistently make such detailed analysis and take its outcome into account in the final certification decision.

5. Separation of IT systems

Article 17(5) Gas Directive prescribes that the ITO shall not share IT systems or equipment with any part of the VIU, nor use the same consultants or external contractors for IT systems or equipment, and security access systems. From the draft decision it appears that GRTgaz will not comply with this requirement before the end of 2014. The Commission is concerned about the potential conflicts of interests and abuses related to the use of commercially sensitive data that could take place as long as IT systems have not been separated. The Commission is furthermore concerned about the duration of the period which is proposed to bring the IT systems in conformity with the requirement of the Directive, and the absence of a detailed roadmap towards complete separation. The Commission invites the CRE to examine whether the IT systems of GRTgaz can reasonably be separated by an earlier date than by the end of 2014, and to require from GRTgaz a detailed roadmap as well as effective transitory measures to reduce any risk of conflicts of interests and abuses pending complete separation.

6. Separation of auditors

According to 17(6) Gas Directive, auditors of the ITO may not be the same as the auditors of other parts of the VIU. The Commission supports the CRE in requiring GRTgaz to change its statutes to ensure that the auditors who audit the ITO and those who audit other parts of the VIU cannot be the same.

7. Power to raise money on the capital market

Article 18 Gas Directive stipulates, without prejudice to the powers of the Supervisory Body under Article 20, that the ITO shall have the power to raise money on the capital market in particular through borrowing and capital increase. From the draft decision it appears that the statutes of GRTgaz limit this right by prescribing that the ITO can only obtain loans from third parties if the arrangements offered by the VIU are not financially more attractive. Such condition may have the effect, directly or indirectly, to unduly limit the power of the ITO to define its own strategy in this respect. The Commission therefore considers that the CRE should require the adjustment of this condition, so that the independent power of decision of the ITO is respected.

Moreover, from the draft decision it appears that the ITO has concluded a contract for the provision of treasury services to be provided by the VIU. From the draft decision it remains unclear whether and to what extent this contract might restrict the right of the ITO to raise money on the capital market on its own terms, set independently from the VIU. In any event, the contract for treasury services concerned does not appear to comply with Article 17(1)(c) Gas Directive, as it is a service contract from the VIU to the ITO. Reference is made to the general considerations put forward above on contracts for services provided to the ITO by other parts of the VIU. The Commission considers that the CRE should reassess whether the contract for treasury services concerned is acceptable in its final certification decision, with a view to ensuring that the autonomy of the ITO is respected.

8. Management Board - Powers

Chapter IV of the Gas Directive provides for a detailed division of powers between the various bodies of the ITO, including between the Management Board and the Supervisory Body. The CRE correctly takes the view that the competence to prepare the 10 Year Network Development Plan and to submit this plan to the CRE lies exclusively with the Management Board. However, from the draft decision it appears that the statutes of GRTgaz do not provide such exclusive competence to the Management Board, considering that also the Supervisory Body has been given the competence to take decisions on individual investments in the 10 Year Network Development Plan. At the request of the CRE, GRTgaz is currently revising its statutes in order to correct the situation. The Commission considers that the CRE should indeed require that the exclusive competence of the Management Board in this respect is unambiguously defined in the statutes of GRTgaz.

9. Management Board - independence

According to Article 19(3) Gas Directive, the majority of members of the Management Board cannot have exercised any professional position or have had any responsibility, interest or business relationship, directly or indirectly, with any part of the VIU, or with its controlling shareholders, for a period of three years before their appointment. The Management Board of GRTgaz is composed of three members. At least two of these members must comply with the

strict independence requirements as set out in the Gas Directive. The Commission has not been able to verify whether the proposed independent members have been employed by the VIU or by its controlling shareholder in the past three years, or not. The draft decision of the CRE does not contain sufficiently detailed information on this point. The Commission invites the CRE to clarify its assessment on this point in the final certification decision

From the draft decision it appears that some members of the Management Board proposed as independent members still maintain financial interests in the VIU. The Commission takes the view that the CRE should require that these members sell these financial interests, or as a minimum give them in the hands of an independent trustee. The Commission considers it necessary that the CRE strengthens its initial position on this, which appears to provide for a recommendation in this respect, but not a binding requirement.

According to Article 19(8) Gas Directive the majority of members of the Management Board is not entitled to have exercised any professional position or have had any responsibility, interest or business relationship, directly or indirectly, with any part of the VIU, or with its controlling shareholders, for a period of at least six months before their appointment. The Commission has not been able to verify whether this requirement on independence has been complied with. The Commission invites the CRE to clarify its assessment on this point for all Board Members concerned in the final certification decision.

According to the same Article 19(8) Gas Directive, also persons directly reporting to the Management Board on matters related to the operation, maintenance or development of the network must comply with strict independence rules. The Commission notes that it is not clear from the draft decision to what extent this requirement has been fulfilled, as the draft decision does not contain detailed information on this. The Commission invites the CRE to clarify its assessment on this point in the final certification decision.

10. Employees – independence

It appears from the draft decision that the VIU has a coordinated remuneration policy for its managers, which includes the managers of the ITO. Decisions on salary increases, including of managers of the ITO, can only be taken after the opinion of a specific branch of the VIU. Such practice is incompatible with the independence requirements of Article 19(5) Gas Directive, which stipulates *inter alia* that remuneration of employees of the ITO shall not depend on activities or results of the VIU other than those of the ITO. At the request of the CRE, this practice will be terminated and replaced by an obligation to inform the branch of the VIU *a posteriori* about any salary increases of the management of the ITO. The Commission considers that a general reporting obligation of the ITO to the General Assembly of shareholders on salaries of employees and managers would be a better way of complying with the independence requirements of the Gas Directive, than a specific reporting obligation to a branch of the VIU only.

The Commission moreover notes that the VIU has an overall career management program for its high potentials and managers, including for those of the ITO. Also such a common program has an inherent risk of interfering with the required independence of the staff of the ITO. The Commission takes the view that the CRE should carefully assess how this career management program is being implemented, and notes that in any event the cooling off periods contained in Article 19(7) Gas Directive must be strictly complied with.

11. Supervisory Body – powers

Chapter IV of the Gas Directive provides for a detailed division of powers between the various bodies of the ITO, including between the Management Board and the Supervisory Body. According to the statutes of GRTgaz, prior authorisation by the Supervisory Body is required for certain decisions of the Management Board relating to loans, credits, and settlements in case of litigations, above a certain threshold. These thresholds are defined by the Supervisory Body. The Commission underlines that thresholds should not be set at a too low level as this could undermine the autonomy of the Management Board enshrined in the Gas Directive. The Commission has doubts whether these thresholds allow the ITO to be autonomous and hence asks the CRE to establish an appropriate level of these thresholds.

Moreover, the statutes of GRTgaz provide that the Supervisory Body when taking decisions on the budget, the financing policy and the creation of legal entities, must have a favourable vote of the majority of members of the Supervisory Board as well as of the majority of members appointed by the General Assembly of shareholders. The same rule of double majority applies to decisions above a certain threshold concerning the sale or purchase of assets, and the establishment of securities or guaranties of any nature. The Commission notes that the corresponding levels of the thresholds in the statutes appear to be low (€50 million for decisions on sale and purchase of assets, and €1 million for decisions on establishing securities and guarantees) and risk undermining the autonomy of the Management Board of the ITO in favour of the Supervisory Body and the General Assembly of shareholders. The Commission invites the CRE to reassess in its final decision whether these thresholds need to be increased significantly.

12. Supervisory Body - independence

According to Article 20(3) *juncto* 19(3) Gas Directive, the independent members of the Supervisory Body cannot have exercised any professional position or have had any

responsibility, interest or business relationship, directly or indirectly, with any part of the VIU, or with its controlling shareholders, for a period of three years before their appointment. The Supervisory Body of GRTgaz is composed of 17 members. 14 of these members are elected by the General Assembly of shareholders, of which two are proposed as independent members. In addition, three members are elected by the employees of GRTgaz. In total eight members of the Supervisory Body must comply with the strict rules on independence of the Gas Directive. From the draft decision of the CRE it does not become clear whether the eight members of the Supervisory Body concerned fully comply with the above requirements on independence. [...]. As to the three members appointed by the minority shareholder in GRTgaz - a consortium composed of CNP Assurances, CDC Infrastructure and Caisse de Dépôts et Consignations, these members can only qualify as independent members if it is demonstrated that the minority shareholder has no controlling influence in GRTgaz. The draft decision does not contain an analysis of this point. In view of the above considerations, the Commission invites the CRE to clarify in the final certification decision its assessment as to whether the requirements for independent members of the Supervisory Body have been complied with.

According to Article 20(3) juncto 19(5) Gas Directive the independent members of the Supervisory Body cannot hold an interest in or receive any financial benefit, directly or indirectly, from any part of the VIU other than the ITO. From the draft decision it appears that some independent members of the Supervisory Body may still have financial interests in the VIU. The Commission takes the view that the CRE should require in its final certification decision that these members sell these financial interests, or as a minimum give them in the hands of an independent trustee.

13. Compliance officer – independence

According to Article 21(2) Gas Directive, the compliance officer of the ITO must fulfil the similar requirements of independence which relate to the majority of members of the Management Board. The Commission has not been able to verify whether [...], as proposed compliance officer of the ITO, complies with these requirements of independence. In particular the draft decision does not clarify whether [...] has had any business relation with the controlling shareholder of the VIU in the three years before his appointment as compliance officer. Furthermore, the draft decision does not clarify whether [...] has had, or still has, certain financial interests in the VIU. The Commission invites the CRE to clarify its assessment on this point in the final certification decision.

14. Conclusion

Pursuant to Article 3 Gas Regulation, the CRE shall take utmost account of the above comments of the Commission when taking its final decision regarding the certification of GRTgaz, and when it does so, shall communicate this decision to the Commission.

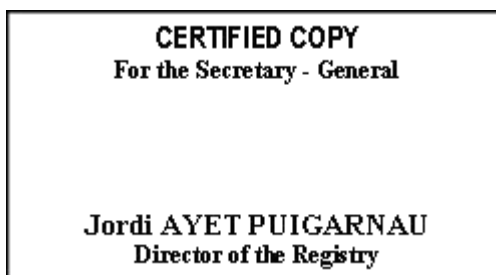
The Commission's position on this particular notification is without prejudice to any position it may take *vis-à-vis* national regulatory authorities on any other notified draft measures concerning certification, or *vis-à-vis* national authorities responsible for the transposition of EU legislation, on the compatibility of any national implementing measure with EU law.

The Commission will publish this document on its website. The Commission does not consider the information contained therein to be confidential. The CRE is invited to inform

the Commission within five working days following receipt whether it considers that, in accordance with EU and national rules on business confidentiality, this document contains confidential information which it wishes to have deleted prior to such publication³. Reasons for such a request should be given.

Done at Brussels, 25.11.2011

For the Commission
Günther OETTINGER
Member of the Commission



³ Your request should be sent by email to [to be completed]