Paris, 31July 2015

Summary of the main developments in the electricity and gas markets in France in 2014 and the first half of 2015

1. Main developments for the regulator

In accordance with the provisions specified by the law of 15 April 2013, which changed the composition of CRE's Board, three new commissioners, Catherine Edwige, Christine Chauvet and Yann Padova, were appointed for their respective knowledge of non-interconnected zones, data protection and local public services.

While CRE's missions and activities have grown considerably since 2010, the operating budget of the French energy regulator has declined over the same period. In addition, the number of its agents was drastically reduced in 2015 to 120 agents (excluding commissioners) compared to 124 as of 31 December 2014. This drop in staff occurred while the energy transition law, adopted on 22 July 2015, once more entrusted many new missions to CRE.

2. Main developments in the electricity market

a. Network regulation

As part of its task to **follow up the certification of the transmission system operator**, RTE, CRE approved six of the twelve contracts signed with the vertically integrated enterprise during the period from 5 July 2014 to 1 July 2015. The six other contracts are being examined or have been discussed in letters exchanged with RTE. Moreover, RTE submitted to CRE the fourth edition of the ten-year development plan for the French electricity network in February 2014. CRE considered that it covered the investment needs and that it was generally consistent with the European ten-year network development plan (TYNDP). However, a certain number of recommendations in view of the preparation of RTE's next ten-year development plan were made.

With regard to the follow-up of the **implementation of the DSOs' and local distribution companies' guidelines of good practice**, CRE noted that the independence of several of these entities remains insufficient and that these players have difficulties in being perceived as independent from incumbent suppliers despite the progress made by most of them in 2013 and 2014. Progress to remove rapidly any elements of confusion that may persist between DSOs and incumbent suppliers is therefore essential, particularly in view of the gradual elimination of regulated tariffs for business customers.

Within the framework of its tariff powers, CRE defined an incentive regulation framework for ERDF's smart metering project Linky, in its deliberation of 17 July 2014. This deliberation served to formalise the conditions for taking into account the project's forecasted costs and gains in the tariffs for the use of the low and medium-voltage public electricity networks. Moreover, it set up a mechanism to defer the effects of the Linky project on ERDF's operating and capital costs until the theoretical end of its massive deployment, i.e. 2021. In addition, in accordance with the **tariff rules** specified in the tariffs for the use of the public electricity networks (TURPE), the tariffs for the use of the public transmission and distribution networks dropped 1.3% as at 1 August 2014. Given the high level of surplus revenue collected by RTE as at that date, CRE decided in its deliberation of 7 May 2014 to grant certain energy-intensive industrial customers a 50% reduction in their electricity transmission bills for the period from 1 August 2014 to 31 July 2015.

The year 2014 was marked above all by the extension of day-ahead **market coupling**: it was extended in February 2014 and thus applied to 15 countries, before being extended a few months later to Spain and Portugal, and then in February 2015 to Italy and Slovenia. For France, this means that its electricity interconnection capacity is allocated efficiently at five out of its six borders. The extension of coupling to Switzerland is technically ready, but its go-live remains pending on the signing of an agreement between the EU and Switzerland. CRE also approved, on 26 March 2015, the go-live of flow-based market coupling. It has been operational since 20 May 2015 in the Central West European region, and has had very positive initial results. Other progress made during the year 2014 included the improvement of the **rules for allocating long-term products** at the Spanish border, with the guarantees associated with these rights being strengthened at CRE's request. They are now allocated on the same platform for all French borders with the exception of the interconnection with Great Britain. In addition, CRE's departments continued to promote the setting up of the European cross-border intraday trading platform. Lastly, CRE adopted, in its decision of 28 August 2014, the joint opinion related to the exemption request for the **ElecLink interconnection with Great Britain** as amended in compliance with the European Commission's decision.

b. Promotion of competition

The volumes exchanged increased significantly in all **wholesale market** segments compared to 2013. The average spot price dropped sharply in 2014 to €34.6/MWh in baseload and €43.8/MWh in peakload, i.e. a 19.8% and 20.3% drop respectively compared to 2013. This is due in particular to the very mild temperatures at the start of the year. Another significant event of the year 2014 results from the fall in gas and coal prices, which enabled the calendar product price to deviate from the price of regulated access to electricity produced by EDF's incumbent nuclear plants (ARENH), to reach €40.28/MWh at the end of 2014. This caused a reduction in the volumes subscribed within the framework of the ARENH mechanism and contributed to the major increase in volumes traded in the futures markets in 2014. The volumes ordered under ARENH for the first half of 2015 therefore totalled 12.3 TWh compared to 36.8 TWh in the first half of 2014, and four suppliers cancelled their framework agreement.

In the **retail market**, the opening up of the residential market to competition progressed more significantly during the year 2014 than in 2013. The number of residential clients with a market offer increased by 23% (+ 559,000 sites) in 2014 compared to +15% in 2013. As at 31 December 2014, 3,035,000 of a total of 31.3 million sites had market offers, of which 3,026,000 were with an alternative supplier. However, the regulated tariffs are still dominant, representing 90% of sites, and 93% of consumption. In the non-residential segment, opening up to competition continued at the same pace as in 2013, with +3% of non-residential sites under a market offer during 2014 (i.e. +19,000 sites). As at 31 December 2014, 698,000 sites of a total of 5 million had subscribed a market offer, of which 448,000 were with an alternative supplier. 86% of non-residential sites, representing 57% of consumption in this segment, were still supplied under regulated tariffs.

However, the ministerial order of 30 October 2014, in force since 1 November 2014, set new rates for the regulated electricity tariffs proposed by EDF and local distribution companies. Elaborated for the first time according to a "cost accumulation" methodology, these tariffs are now contestable. Moreover, major developments are to be expected with the elimination of the regulated tariffs for clients whose subscribed power exceeds 36 kVA as at 1 January 2016.

c. Security of supply

According to RTE, domestic consumption, including losses in the distribution and transmission networks, totalled 465 TWh in 2014, marking a 6% drop compared to 2013. France was a net importer of approximately 5.9 TWh from Germany and a net exporter to Italy (19.3 TWh), Belgium (16.5 TWh), Switzerland (16.4 TWh), Great Britain (15.1 TWh) and Spain (3.5 TWh).

The 2014 edition of RTE's forecast **supply/demand balance** concludes that a capacity deficit may emerge in winter 2015-2016 if there is a cold spell, with a power deficit of 900 MW needed to comply with the security criterion of less than 3 hours of network failure per year. This deterioration in supply security is due mainly to the shutdown of fuel and coal plants, combined with the shutdown of two nuclear units scheduled for the end of 2016. As from winter 2018-2019, the balance is expected to improve, as a result of the start-up of two new combined cycle gas power plants, the commissioning of the Flamanville EPR, the connection of new wind farms and the **development of interconnections**. The 2,800 MW of capacity of the new interconnection commissioned in the France to Spain direction in the first half of 2015 will be upgraded to 2,800 MW in the other direction in 2017. Moreover, construction work for a new interconnection axis with Italy via the Fréjus tunnel started in 2015 and will end in 2019.

Given the continuing elimination of historic tariff-based demand-response capacities operated by the suppliers (less than 2 GW now), CRE continued to promote the development of other types of demand-response development. In particular, explicit demand response valued on the market therefore continued to grow in 2014, with the associated volume reaching an estimated 1 GW. The year 2014 also marked the launch of the NEBEF (*Notifications d'Echanges de Blocs d'Effacement*) mechanism, which enables demand response operators to sell the shed loads combined for all consumers directly in the spot market as a day-ahead product. Also, bilateral contracts between consumers and suppliers cover an additional total potential of load shedding capacity estimated at 500 MW.

3. Main developments in the gas market

a. Network regulation

CRE continues to ensure the **independence of the TSOs** in the French gas market. It certified TIGF under the ownership unbundling model on 3 July 2014 for an indefinite period. It also makes sure that GRTgaz complies with its independence obligations with regard to its parent company: as at 1 July 2015 and since the certification decision taken on 26 January 2012, GRTgaz had forwarded 53 contracts to CRE. Forty-four of those contracts were approved in the context of the monitoring of certification. For the remaining contracts, CRE requested that the services be terminated. Following the examination of the consistency of their ten-year plans with ENTSOG's network development plan, CRE requested the two TSOs for additional information, in particular with regard to the analysis of their gas consumption hypotheses.

With regard to the **separation of distribution activities**, the first communication campaign to the general public launched by GRDF in autumn 2014 enhanced the notoriety of the main French DSO. Although it considers that the changing of GDF SUEZ's name to ENGIE may dissipate the confusion between GRDF and its parent company, CRE nevertheless requests GRDF to specify, by October 2015, its communication strategy to understandably convey the missions of the DSO by distinguishing them clearly from suppliers' missions. As regards the independence of LDCs, CRE considered that the full compliance by Régaz-Bordeaux with the principle of independence from its natural gas supply and biomethane production subsidiaries and by Réseau GDS vis-à-vis its biomethane production subsidiary required the implementation of complementary measures.

As regards the **tariff framework**, CRE defined the terms and conditions for taking into account the forecasted costs and gains of GRDF's smart metering project between 1 July 2013 and 31 December 2015 in the tariff for the use of GRDF's public natural gas distribution networks (ATRD4). This tariff increased by 2.94% as of 1 July 2014 and by 3.93% as of 1 July 2015. During the tariff update of 1 April 2015, a new entry point on GRTgaz's network from the Dunkerque LNG terminal, scheduled for commissioning at the end of 2015, and a new exit point for non-odourised gas towards Alveringem in Belgium were created. Lastly, the current regulated tariffs for access to LNG terminals (ATTM4) were increased as from 1 April 2015 due in particular to the drop in subscriptions observed over the last few months.

In 2014, CRE also continued its **cooperation with the TSOs and neighbouring regulators** in order to enable the gradual and consistent implementation of the new rules that will complete the provisions of EC regulation No 715/2009 on the conditions for access to the natural gas transmission networks. Thanks to the association and service provision agreement that the Spanish TSO Enagas and the Portuguese TSO REN signed with PRISMA in February 2015, the capacity of all French interconnection points can henceforth be allocated through this platform.

b. Promotion of competition

In the **wholesale market**, the day-ahead prices at the PEG Nord saw a 29% drop during 2014, reaching an average €21.4/MWh compared to €27.7/MWh in 2013. This drop is partly due to the relatively mild temperatures recorded during winter. Since storage facilities were used to a lesser extent during the winter period, refilling them required fewer injections that in previous years, thereby aggravating the drop in prices. In addition, gas-fired power generation dropped again in 2014 (-28.2% compared to 2013), against increased competitiveness of plants using coal and the increase in electricity generated from renewable sources. Although the day-ahead price spread between the PEG Nord and PEG Sud generally increased slightly in 2014, its elimination since the end of October 2014 is a notable event. This is the result of the improvement in supply conditions in the French market. In terms of volumes, trades through Powernext continued to increase in 2014, thanks in particular to the development of its offer within the framework of its cooperation project with EEX (PEGAS), despite the general drop in trades in the spot segment, which represents approximately one third of the total volume of gas traded in France. In 2014, 646 TWh were delivered at the PEGs, compared to 635 TWh in 2013. CRE also noted that deliveries at the PEG Sud continue to increase and represented 22% of the total volumes traded in 2014.

In the **retail market**, the opening up of the residential market to competition intensified in 2014. 3,451,000 residential sites had market offers (51% with an alternative supplier), i.e. a 39% increase over the year. In this segment however, the regulated tariffs are still dominant, applying to 67% of sites, and 69% of consumption. Notable progress was made in the opening up of the non-residential market to competition due in particular to the end of large natural gas consumers' eligibility to regulated tariffs and the approaching elimination of those tariffs for a large portion of non-residential consumers as of 1 January 2015 and 2016. As of 31 December 2014, 205,000 out of 669,000 residential sites were supplied through alternative suppliers. 400,000 non-residential sites had market offers, representing an 18% increase in 2014. In this segment, regulated tariffs now account for only 40% of the number of sites and 10% of total consumption.

c. Security of supply

Natural gas represents 14.5% of French primary energy consumption and 20% of final energy consumption. In 2014, **net consumption** (excluding losses) reached 416.2 TWh, which represents a drop of almost 17% compared to 2013. Nevertheless, in its ten-year network development plan for 2014-2023, GRTgaz reviewed its forecasts upward and assumes an average annual gas consumption growth of 0.4% per year for its scope of activity.

The quantity of gas injected in the French networks through **gas pipelines** reached 452.3 TWh in 2014, down 3.5% compared to 2013. **Storage** sites continue to play an essential role in the security of gas supply in France, with a capacity of 131.4 TWh, i.e. almost 30% of French natural gas consumption, even though withdrawals dropped 26.5%, to 99.9 TWh. Lastly, although **liquefied natural gas** (LNG) entries dropped 19.5% in 2014, France remains one of the main importers of LNG in Europe and receives approximately 13% of its gas imports in this form (69.6 TWh in 2014).

Following CRE's deliberation of 30 October 2014 on the interim measures until the creation of a single gas market place, the measures taken by GRTgaz and TIGF for the **allocation of flows** to the TIGF zone enabled to increase the capacity available for the North-South link and to limit the risk of South-East congestion. Balancing system developments as at 1 April 2014 also considerably reduced tolerances, to the extent that end-of-day imbalances occurred rarely. This favourable analysis was confirmed by the arrival, starting in November, of numerous LNG cargos to the Fos terminals. Driven by the drop in LNG prices in Asia, this trend continued throughout winter.

The creation, as at 1 April 2015, of the Trading Region South*,* a common marketplace bringing together GRTgaz's PEG Sud and the TIGF PEG, hence resulting in single gas price in the region but with two balancing zones, should further increase market liquidity in the south of France. **In view of the creation of a single gas market place** in France by 2018, CRE also approved the Val de Saône and Gascogne-Midi projects, while requesting GRTgaz to continue the Eridan project. The creation of 100 GWh/d of entry capacity at the France/Switzerland interconnection at Oltingue approved by CRE in December 2014 will allow for the creation of an additional supply source for the French market by 2018.

4. Consumer protection

a. Consumer protection

The one-stop-shop service energie-info.fr, jointly managed by CRE and the national energy ombudsman to respond to consumer requests concerning their rights, legislation in force and the tools available to them for settling disputes, assisted over 1.4 million consumers in 2014, compared to under 1.3 million in 2013.

With regard to measures to protect the most vulnerable consumers, 2.5 million of the 4 million potential beneficiary households were offered the special social tariff for electricity and 900,000 of the 1.6 million potential beneficiary households benefited from the social tariff for gas.

b. Dispute settlement

Two significant decisions were taken by CRE's Standing committee for dispute settlement and sanctions in 2014. These served to clarify the liability regime which applies to distribution network operators with regard to the end consumer, and reiterated the scope of DSOs' transparency obligation.