

Deliberation of the French Energy Regulatory Commission (Commission de Régulation de l'Énergie – CRE) on 8 January 2009
Publication of the 2007 French wholesale markets for electricity and gas monitoring report

The following were attending the meeting: Philippe de LADOUCETTE, Chairman; Michel LAPEYRE and Maurice MEDA, Vice-Chairmen; Jean-Paul AGHETTI, Eric DYEUVRE, Jean-Christophe LE DUIGOU, Pascal LOROT and Emmanuel RODRIGUEZ, Commissioners.

The French Law on Energy voted on 7 December 2006 provided CRE with a new market monitoring duty on French wholesale markets for electricity and gas.

In this context, CRE has adopted a plan for a step-by-step roll-out of monitoring on all market segments. The plan was designed to take into account a benchmark of market monitoring processes implemented by other energy regulators in Europe as well as in Northern America.

In autumn 2007, CRE was able to carry out a first investigation regarding electricity price spikes that occurred on Powernext in October and November 2007. The findings of this investigation were published in April 2008.

CRE extended the analysis to market players' conduct during the whole year 2007, in electricity and in natural gas. After having built the required tools and databases and set-up data collection processes, CRE has questioned nearly 20 companies for additional pieces of information.

CRE publishes today a report disclosing the results of these first analyses, as well as the next actions to be conducted in order to explain some observed behaviour.

1. Main outcomes of the report

1.1 Electricity

The main characteristics of the French electricity wholesale market are: an important generation capacity compared to the final national consumption; one single actor holding the majority of the generation capacity; and some limited international interconnection capacities compared to generation capacities, especially on the export side.

Because of these characteristics, the functioning of the French wholesale market has to be analysed through the following criteria:

- on the spot market as well as on the forward market, prices should reflect the supply and demand equilibrium tension; these prices must be driven by the marginal cost of production anticipated each hour (and not the average cost of the installed power generation capacity); they should be linked to the national consumption level, to the availability and the generation costs of the plants, and to the situation on the border markets and at the interconnections;
- a level of transparency which allows all actors to anticipate the supply and demand equilibrium evolution, and especially the future generation facilities situation;
- liquid spot and forward markets and efficient access arrangements to interconnections which allow actors to supply part or totality on the national market or on the interconnected markets;
- the absence of a price signal manipulation, especially on the trading platforms.

CRE has established the following statements on the functioning of the French wholesale market in 2007:

1. The growth of the activity on the wholesale market was low. This situation is mainly due to the weak development of alternative suppliers' market share on the retail market, and to the direct and indirect effects of the transitional regulated tariff for balancing markets (TaRTAM).
2. The evolution of day-ahead prices was consistent with the evolution of the supply and demand equilibrium with the exception of some price spikes detected in October and November. These spikes have already been investigated by CRE.
3. Nuclear generation was not frequently in a situation to set French wholesale prices; it was marginal during 15% of the hours. However, coal generation was marginal during 25% to 30% of the hours, and its cost had a major effect on French wholesale prices. Likewise, the valuation of hydraulic reserves had an important impact: dam generation being marginal during 25% of the hours. Finally, prices on the border markets were of high importance on the French prices which they determined during 20% to 25% of the hours of the year.
4. When nuclear or hydraulic generation was marginal, the day-ahead price reflected the valuation of this generation decided by EDF. The level of this valuation was generally higher than the marginal generation cost of these plants. This valuation is linked to EDF's method for optimising the use of its fuel and energy stock. It is to be reminded that even a dominant producer is not blameful to optimise his revenues if there is no abuse of a dominant position or any manipulation. At this stage, the relevance of the valuation method for nuclear and hydraulic generation on the wholesale market is still to be checked.
5. The generation capacity use was optimal during the vast majority of the hours. Nevertheless, some cases have been detected where nuclear and fuel-oil plants seem to have been underused.
6. In late 2006, some members of UFE implemented a periodic publication of information on generation; this process contributed to increase the transparency of the French market. Nevertheless, information disclosure has to be improved. Availability forecasts were almost always overestimated in 2007, due to the development rules adopted by the producers who are members of UFE; besides, the lack of continuous updating increased information asymmetry between producers and other market participants, and the quality of the data released in 2007 was not satisfactory.
7. On Powernext Day-ahead Auction, no behaviour which purpose would have been to manipulate prices was identified.
8. At the interconnections, no behaviour which purpose would have been to manipulate prices was identified. Nevertheless, capacity access arrangements led to inefficiencies.
9. Most of the time, VPP auctions seem to have taken place in a satisfactory manner. Though, a few interventions of EDF on the forward markets approaching the auctions remain to be analysed.

1.2 Gas

The main characteristics of the French gas wholesale market are: a low national production compared to the imports, which account for 98% of the final national consumption; the high proportion of long-term import contracts; one single actor holding the majority of supply sources and storage capacities.

Because of these characteristics, the French wholesale market functioning has to be analysed through the following criteria:

- on the spot market as well as on the forward market, prices should reflect the supply and demand equilibrium tension; these prices must be driven by the marginal cost of supply anticipated each hour (and not the average cost of imported gas); they should be linked to the national level of consumption, to the level of storage, to the characteristics of import contracts, and to the situation on the international markets and at the interconnections;
- liquid spot and forward markets and efficient rules for accessing cross-border capacities, in a way that market players can rely on the national wholesale market and the interconnected markets to secure their supplies;

- the absence of a price signal manipulation, especially on the trading platforms.

CRE has established the following statements on the functioning of the French wholesale market in 2007:

1. The activity on the wholesale market has increased but remains at a low level compared to final consumption. It was mainly focused on short-term trading. North-H GRTGaz zone accounted for 90% of traded volumes. In 2007, most transactions were concluded bilaterally, without any intermediary.
2. Day-ahead prices for delivery at PEG Nord did not reflect the French supply and demand equilibrium evolution: they remained very close to Zeebrugge's prices, and were usually higher.
3. The activity of all categories of market players has increased. Yet, the supply conditions of suppliers who are not former incumbents in Europe were not satisfactory. Even if cross-border competition has increased, these suppliers have imported little gas to develop their supply activity in France. They had to purchase most of their gas directly to French and European incumbents.

Considering these conclusions, CRE will lead the following action plan.

2. Next steps

2.1 Electricity

CRE will launch additional analyses, will ask for explanations or will carry out audits on specific decisions made by EDF, regarding in particular:

1. The reasons of EDF's strong buying position on the *forward* market in 2007 and the effects of this strategy on the functioning of the short-term markets in 2008.
2. The method implemented by EDF in order to manage the different constraints of its nuclear and hydraulic facilities and value the corresponding generation on the wholesale market.
3. The valuation on the market of specific coal generation units during the last quarter of 2007.
4. The situations in which some nuclear and fuel-oil facilities appear to have been underused; such cases were observed during a few tens of hours.
5. Some interventions of EDF on the *forward* market approaching VPP's auctions.

Besides, CRE will continue the analysis of price movements observed on Calendar 2008 and 2009 products. Such analysis will be conducted on the basis of information collected in 2008 from all actors active on the French markets and related to transactions concluded in 2007 on above-mentioned yearly products.

2.2 Gas

The development of the French gas wholesale market is to be assessed and its transparency needs to be improved in order to favour an efficient market functioning. For that purpose, CRE will collect data from market participants, especially as regards their bilateral purchases and sales volumes so as to publish aggregated and anonymous information on bilateral trading activity. Practical arrangements for such a collection will be defined through a continuous dialogue with market participants.

On the other hand, complementary analyses on long term purchases and sales operations will go on. Such analysis will be conducted on the basis of information collected in summer 2008 from all actors active on the French markets and related to transactions concluded in 2007 on Calendar and Seasonal 2008 and 2009 products. In particular, the effects of the end of Gas release programs on supply and on the development of alternative suppliers' activity will be analysed.

2.3 Public consultation

CRE is willing to receive opinions from market participants on the adequacy of the analyses that were conducted. Any suggestion for the improvement of its electricity and gas markets' surveillance device would be welcome.

Moreover, CRE will formulate all appropriate recommendations on necessary measures to be taken by electricity suppliers in order to allow proper anticipation by the market of the situation of generation facilities.

For that purpose, CRE will carry out a public consultation during the first quarter 2009.

Made in Paris, 8 January 2009

For the French Energy Regulatory Commission

The Chairman,

Philippe de Ladoucette