



Deliberation of the French Energy Regulatory Commission (CRE) dated 30 September 2010 to decide on changes to gas transmission networks' balancing rules

The following were present at the meeting: Maurice MÉDA, Vice-Chairman, Michel THIOILLIERE, Vice-Chairman, Jean-Paul AGHETTI, Anne DUTHILLEUL, Emmanuel RODRIGUEZ and Marie-Solange TISSIER, commissioners.

In accordance with the deliberation of the French Energy Regulatory Commission (CRE) dated 7 December 2006, GRTgaz submitted for CRE's approval on 8 July 2010 a proposal for a target balancing system for its network as of 2013. In addition, CRE has examined the balancing rules that are applicable in the TIGF zone.

1. Background

GRTgaz transmission networks' balancing rules have gradually evolved towards a market-based mechanism:

- since 12 April 2007, GRTgaz has relied on the market and, today, it meets around 20% of its physical balancing needs by intervening directly, since December 2009, on the "Powernext Gas Spot"¹ exchange. The remaining demand is covered by using the Storengy storage facilities,
- a daily balancing price (P_t) is established based on GRTgaz's transactions on *Powernext* and is used to bill a share of the imbalances of each shipper.

In order to anticipate the obligations to be imposed on TSOs within the framework of the third energy package, the Concertation Gaz working group spent the first half of 2010 defining the principles of the target balancing system to be implemented by 2013.

The proposal submitted by GRTgaz, appended to this deliberation, sets out the target balancing principles selected following these proceedings.

In order to prepare its decision, CRE included two questions on upgrading the balancing systems of GRTgaz and TIGF in its public consultation conducted from 21 July to 6 September 2010 on target gas market organization in France by 2013. Balancing systems must be upgraded in line with market organisation principles, as the number and definition of balancing zones have direct consequences on the balancing systems to be set up.

2. Upgrading the balancing system on gas transmission networks

2.1. GRTgaz's proposal for the upgrading of the balancing rules on its network

GRTgaz proposes to accept the principle of predominantly market-based balancing. This change will strongly encourage shippers to comply with daily balancing by withdrawing the cumulative imbalance mid-range and cumulative imbalance accounts. It will also contribute to the development of liquidity on the wholesale market and of a financial signal to convey the physical situation on the French network (gas shortages or surpluses).

¹ Marketplace for trading products to be delivered on the current day, the following working day or during the weekend.



GRTgaz is also committed to improving the quality and quantity of information provided to shippers on the network's overall situation and on the situation specific to each shipper. Furthermore, GRTgaz's interventions on Powernext will be in direct relation to the physical tension level on its network and will focus more on the *within-day*² market.

GRTgaz proposes to make the changes to the balancing system in stages until 2013. These stages would be defined under the Concertation Gaz working group's remit in the second half of 2010.

2.2. TIGF's position

TIGF currently proposes an optional daily balancing service (SEJ) allowing shippers to minimize part of their daily imbalances on its transmission network. For shippers who have subscribed to capacity in the TIGF storage facilities, nominations may be corrected after the event in proportion to their subscribed storage capacity.

According to TIGF, shippers consider the balancing service it offers on its network to be very competitive. For this reason, it does not believe it is necessary to upgrade its balancing system but is open to any change which meets the preferences and requirements of the shippers on its network.

Moreover, TIGF believes that it is preferable to wait for the publication of the future network code on the standardisation of balancing systems which will be written by ENTSOG, before incurring information system adaptation costs.

3. Synthesis of the CRE public consultation

3.1. Upgrading the GRTgaz balancing system

The large majority of the thirty-nine contributors to this consultation are in favour of GRTgaz's target system proposal.

However, most market players state that the planned implementation should take into consideration the improvement of quality regarding information and data exchanged between GRTgaz and shippers.

Some contributors believe that the move towards the target system should be conducted in steps, based on the following:

- The TSO should publish the network's tension level during the day at times agreed in advance, D+1 allocations, intra-day consumption for all remote-reading customers and k2 factor forecasts (four contributors),
- Indicators should be set up to monitor information quality (four contributors),
- The *within-day* market should have sufficient liquidity (two contributors),
- Tolerance levels should be increased for suppliers with profiled portfolios (one contributor).

Lastly, as regards the two options proposed by GRTgaz for the settlement of imbalances, most market players prefer the proposal which involves determining the imbalance settlement price based on the marginal transaction cost for the TSO on the gas exchange.

² Marketplace for trading products to be delivered during the current day.

3.2. Upgrading the TIGF balancing system

A large majority of contributors are satisfied with the current balancing system for the TIGF network.

Most believe that TIGF should upgrade its network's balancing system, moving towards a market-based system, as a large marketplace was created in the south of the territory. If the system were upgraded, contributors believe that TSO balancing systems across France could be standardised, which is necessary for a simplified system and improved market operations.

Three contributors are in favour of waiting for the European guidelines before modifying the existing system in order to avoid adopting solutions that are only temporary and incurring significant information system adaptation costs.

4. CRE's observations

The third European legislative package, adopted in 2009, provides for the balancing of natural gas transmission networks as follows:

- *"Balancing rules shall be market-based"* (article 21(1)),
- *"The transmission system operator shall provide sufficient, well-timed and reliable [...] information on the balancing status of network users"* (article 21(2)),
- *"Imbalance charges shall be cost-reflective to the extent possible, whilst providing appropriate incentives on network users to balance their input and off-take of gas"* (article 21(3)).

Regulation EC 715/2009 also provides for the preparation of network codes by ENTSOG which are intended to be enforced for European TSOs in twelve fields, including balancing. Network codes must comply with the framework guidelines developed by the Agency for the Cooperation of Energy Regulators (ACER). While ACER is being established, European regulators within ERGEG are working on a draft framework guideline on balancing for which a public consultation³ is being conducted from 19 August to 28 October 2010.

Moreover, chapter 3 of Annex 1 of the Regulation EC 715/2009 defines the technical information necessary for transmission network users that TSOs must publish.

4.1. Upgrading the GRTgaz balancing system

CRE observes that most market players are in favour of GRTgaz's target balancing system proposal based on the work of the Concertation Gaz group. Furthermore, this system fully complies with the provisions of the third energy package and the draft framework guideline submitted for consultation by ERGEG.

CRE believes that upgrading the current balancing system towards the target system should be done gradually to allow shippers and GRTgaz the time to adapt. The balancing rules applicable at each stage should bring the constraints imposed on shippers in line with the level of additional information provided by GRTgaz.

³ http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Framework%20guideline%20on%20gas%20balancing/BG

4.2. Upgrading the TIGF balancing system

CRE observes, as do most of the market players, that the TIGF balancing system is well suited to the current structure. Liquidity on the South-West Gas Exchange Point (PEG) is low and implies that it is not likely that TIGF will be able to intervene regularly on this market to obtain all or part of its balancing needs.

Conversely, if there were a deep and liquid gas marketplace in the south of France, TIGF would have no difficulties in upgrading its balancing system and intervening on the market. These interventions would help to increase market liquidity, as has been the case on the GRTgaz network.

In any case, the third gas directive and Regulation EC 715/2009 have laid down the principles with which future balancing systems must comply. It is therefore possible to begin considering upgrades to the TIGF balancing system, without waiting for the official adoption of the European network code.

5. CRE's decision

5.1. Decision with regard to upgrading balancing rules on the GRTgaz network

CRE approves the target balancing system principles proposed by GRTgaz.

It asks GRTgaz to further work under the Concertation Gaz working group in order to submit to CRE by 30 June 2011 an implementation plan for this target as of 2013.

This plan should define the upgrade stages with regard to:

- Balancing rules applicable to shippers,
- Data made available by GRTgaz to enable shippers to minimize their imbalances,
- The terms of GRTgaz's market interventions to cover its balancing needs.

5.2. Decision with regard to upgrading balancing rules on the TIGF network

CRE requests that TIGF presents the following to the Concertation Gaz "Balancing" working group:

- By the end of 2010, a precise assessment of the operation of the balancing system in its zone, together with possible elements to be upgraded, in line with the European principles (third gas directive, Regulation EC 715/2009 and the draft framework guideline proposed by ERGEG),
- By 30 June 2011, a study on the necessary balancing system upgrades to ensure compliance with these principles.

Executed in Paris, 30 September 2010,

For the Commission de régulation de l'énergie
The Vice-Chairman,

Maurice MÉDA