

Deliberation of the French Energy Regulatory Commission of 20 September 2012 regarding approval of the balancing rules for GRTgaz's gas transmission system

Present at the meeting: Philippe de LADOUCETTE, Chairman, Olivier CHALLAN BELVAL, Frédéric GONAND, Jean-Christophe LE DUIGOU and Michel THIOILLIERE, commissioners.

In accordance with Article L. 134-3 of the French Energy Code, the French Energy Regulatory Commission (CRE) hereby approves *'the technical and financial rules drawn up by the operators with regard to balancing the natural gas systems and covering the requirements set out in Articles L. 431-4, L. 431-5 and L. 431-8'*.

Therefore on 11 July 2012, GRTgaz submitted to the CRE a proposal regarding how its balancing rules would evolve.

1. Context

This deliberation is part of an evolution of balancing rules on the natural gas transmission network towards the target balancing system as set out by the CRE in its deliberation of 1 December 2011 in accordance with the framework guidelines of 1 December 2011 with regard to balancing, published by ACER¹ on 18 October 2011. ENTSOG² published a provisional version of the network code regarding balancing on 14 September 2012 and intends to submit it to ACER in November 2012.

This deliberation applies to:

- The daily imbalance mid-range levels applicable from 1 October 2012 to 31 March 2013;
- GRTgaz's trading volumes on the market to cover its balancing requirements.

GRTgaz has submitted proposals regarding the development of these two points. These were the subject of a CRE public consultation between 19 July and 4 September 2012.

The CRE received twenty-one contributions:

- fifteen from shippers;
- three from associations;
- three from infrastructure operators.

¹ Agence de Coopération des Régulateurs de l'Energie (*Agency for the Cooperation of Energy Regulators*).

² Réseau européen des gestionnaires de réseau de transport pour le gaz (*European Network of Transmission System Operators for Gas*).

2. Daily imbalance mid-range levels applicable from 1 October 2012 to 31 March 2013;

2.1. GRTgaz's proposal

For the period 1 October 2011 to 30 April 2012, the winter mid-range levels applied for the North H, North B and South balancing zones were set at 40% of the daily tolerance for each shipper.

Since 1 May 2012, the daily mid-range levels applied have related to 20% of the daily tolerance for the North H zone and 35% of the daily tolerance for the North B and South zones respectively.

GRTgaz is proposing, as of 1 October 2012, to adjust the winter mid-range levels to their current summer level, i.e. 20% in zone North H and 35% in zones North B and South. In line with this reduction, GRTgaz is proposing to reduce the reference price P3³ as of 1 October 2012 by lowering the penalty to 10 % of reference price P1 as opposed to the current 20%.

Furthermore, for some weeks now GRTgaz has been publishing, on an hourly basis, a provisional indication of imbalance of the network at the end of the gas day as well as its forecasts by category of customer⁴ and by balancing zone.

2.2. Summary of the public consultation

A large majority of those taking part agree on the need to reduce to zero, in due course, the daily imbalance mid-range level in order to comply with European legislation regarding the balancing of transport systems.

Nevertheless, the contributors are split over the reduction as of next 1 October of the winter mid-range levels proposed by GRTgaz. A very large majority of shippers are not in favour of this proposal and believe that reducing the mid-range levels at the beginning of winter will create additional risks, in particular for the North B and South balancing zones that are less fluid than the North H zone. Several of those who contributed pointed out that GRT's publication of the network imbalance indicator at the end of the day and the consumption forecasts by category of customer by zone is a recent development and insufficient at this stage. A certain number of those contributing would like the CRE to introduce appropriate indicators for monitoring the quality of information made available by GRTgaz before any of it is used by them for balancing purposes.

On the other hand, some shippers, as well as the infrastructure managers, would like the time scale for reducing the balancing mid-ranges to be brought forward in order to improve and simplify network balancing.

2.3. CRE analysis

In view of the short notice for implementing the reduction to mid-ranges proposed by GRTgaz and the financial risks highlighted by certain contributors in view of the difficult economic situation, the CRE believes that is not desirable to reduce the mid-range levels on 1 October.

Furthermore, GRTgaz bringing online new consumption forecasts and the provisional network imbalance indicator at the end of the day are very recent developments. The shippers must take ownership of this new data, the reliability of which must be monitored, in order to better manage their balancing obligations .

In addition, with regard to making new information available, GRTgaz, as part of the Concertation Gaz, presented a study for the calculation of the k_0 coefficient aimed at improving the shippers' consumption forecast of their profiled customers connected to the distribution systems. In order to calculate this indicator, every day, shippers are required to provide GRTgaz, on a non-binding basis, the consumption forecast for their non-profiled customers connected to the transmission system. GRTgaz believes that the outcome of its study was positive and proposes publishing this indicator on a daily basis as of April 2013.

Finally, the CRE points out that, in accordance with European guidelines, a priority objective for 2015 remains the removal of the current possibility offered of accumulating the imbalance over several days. To

³ Price P3 is the price at which quantities of gas from shippers exceeding the Cumulative Imbalances are penalised. Price P3 is subject to a penalty equal to 20% of the balancing price P1 for the day.

⁴ Customers connected upstream of the PITDs (Transport Distribution Interface Point), heavily modulated sites, industrial customers attached to the transmission system.

this end, the mid-range levels must be reduced gradually roughly every six months as of 1 April 2013. This must allow the bulk intra-day market to be developed and the TSOs resorting to stocks to assist with balancing the network to be reduced.

2.4. CRE deliberation

The CRE does not approve GRTgaz's proposal to reduce as of 1 October 2012 the mid-range levels and the level of the penalty that applies to price P3.

It is requesting GRTgaz to submit, no later than mid-December 2012 after consultation with the market players, a proposal for bringing the balancing system in line with the target set out in its deliberation of 1 December 2011. This proposal must take into account an initial evolution of the rules on 1 April 2013 regarding:

- the gradual reduction of balancing tolerances (daily tolerance, mid-range and Cumulative Imbalance levels called EBC) as well as the imbalance settlement price (P1, P2) and penalty (P3) levels;
- information provided regarding consumption forecasts. In this respect, the CRE intends to introduce, as part of the next transport tariffs, service quality indicators to encourage GRTgaz to improve the reliability of published consumption forecasts. Therefore, the CRE is in favour of the publishing the indicator k_0 by GRTgaz.

Finally, the CRE points out that GRTgaz must, as part of the Gas Consultation, look into the possible development of the invoicing frequency of imbalances and clearing of the financial neutrality account linked to balancing.

3. Progress of GRTgaz's trading volumes on the market to cover its balancing requirements

3.1. GRTgaz's proposal

In application of the latest deliberation of the CRE of 21 June 2012 approving the evolution of balancing rules on the gas transmission networks, GRTgaz shall trade as of 1 August 2012 almost exclusively on the market with regard to intra-day and weekend products for its balancing requirements. This deliberation also sets out the maximum trading volumes for GRTgaz for each balancing zone.

GRTgaz proposes that, as of 1 October 2012, its buy and sell trades in the North and South balancing zones are directly linked to the end-of-day imbalance indicator published on *Smart* GRTgaz. Therefore, if this indicator is:

- balanced, GRTgaz would trade for a maximum volume of 500 MWh/j;
- short/long, GRTgaz would trade for a maximum equivalent to the trading ceiling for the zone (i.e. 7,750 MWh/d in the North zone and 5,500 MWh/d in the South zone);
- very short/very long, GRTgaz would trade for a maximum equivalent to twice the ceiling for the zone (i.e. 15,500 MWh/d in the North zone and 11,000 MWh/d in the South zone).

3.2. Summary of the public consultation

A very large majority of those that contributed believe the principle of making GRTgaz vary its trading volumes according to the state of imbalance on its network is satisfactory. At the same time, a majority would like GRTgaz's trading methods to take into account more directly the level of the end-of-day imbalance indicator. To this end, numerous of those who contributed are asking that the way of calculating the pressure indicator, as well as the limits setting out its different states, should be shared during the Concertation Gaz.

A certain number of those who contributed believe that the trading methods are not appropriate, in particular with regard to maintaining a GRTgaz trading intervention when the network is balanced.

Furthermore, several of those who contributed feel that a new trading window needs to be created with regard to intra-day products, or that at least the current length of the window of fifteen minutes should be extended in the event of GRTgaz trading for large volumes.

Finally, certain shippers have been critical of the way balancing trades have been automatically generated and they are urging for trading to be conducted by individuals, or at least for stricter control of these trades.

3.3. CRE analysis

The CRE is in favour of the principle proposed by GRTgaz to vary its trades on the market according to its actual balancing requirements of its network. This principle is in line with the European target.

At the same time, the trading methods proposed by GRTgaz need to be improved. To this end, the work must be pursued in Concertation Gaz.

The CRE takes note of the view of several players who are in favour of GRTgaz implementing trading by humans with regard to its balancing requirements and opening a second window with regard to intra-day products earlier in the day. It points out that it requested GRTgaz to study these matters in its deliberation of 21 June 2012.

3.4. CRE deliberation

The CRE does not approve GRTgaz's proposal to develop its trading methods as of 1 October 2012

It is requesting GRTgaz to submit, no later than mid-December 2012 after consultation with the market players, a proposal to develop its trading methods on the market as of April 2013 with regard to the proportionality of its trades to the provisional imbalance of the network at the end of the gas day.

With regard to the opportunity, and where applicable implementation, of individuals buying and selling GRTgaz requirements on the market with regard to the network's balancing and the opening of a second window regarding intra-day products, the CRE is asking GRTgaz to submit a proposal, no later than mid-December 2012, based on the outcome of studies that have already been requested.

Finally, the CRE points out that GRTgaz will have to present, before the end of 2012, proposals regarding the conditions for using the day-ahead trading window.

At the end of 2012, the CRE intends to launch a public consultation into how GRTgaz's and TIGF's balancing systems are progressing towards the target it set.

Signed in Paris on 20 September 2012

For the French Energy Regulatory
Commission

The Chairman,

Philippe de LADOUCETTE