

September 22, 2011

The Energy Regulatory Commission's public consultation on the evolution of the balancing rules that apply to the gas transmission network.

Article L134-3 of the Energy Code states that «The Energy Regulatory Commission *is in charge of approving the technical and financial rules set by the operators and relative to the balancing of the natural gas network* and of covering the needs mentioned under articles L. 431-4, L. 431-5 and L. 431-8 »;

The load balancing rules that apply to the network of GRTgaz have been evolving since mid-2006, in cooperation with the market players as to set up a market-based balancing system.

Furthermore, as part of the implementation of the 3rd European legislative package that was adopted in 2009, work is currently underway at European level to define the European balancing rules that are to be applied to the gas transmission networks of all the member states.

Under these conditions and with its September 30, 2010, deliberation, the CRE (Energy Regulatory Commission) has asked:

- GRTgaz (GRT stands for Transmission System Operator) to propose a path that would allow the implementation of the target balancing system by 2013;
- TIGF (Total Infrastructure Gas France) to present a study on the necessary evolutions of its network balancing system to bring it in line with the new European provisions.

In accordance with this deliberation, GRTgaz and TIGF have submitted to CRE, in September 2011 their proposals, which include the input coming from the Concertation Gaz recommendations.

The purpose of this public consultation is to gather the various parties' positions with regards to GRTgaz and TIGF's proposals, which are attached to this public consultation. The parties involved are invited to answer the questions found at the end of this document by October 25th, 2011, at the latest.

1. Context

1.1. European level

The 3rd European legislative package adopted in 2009 states that the balancing rules applied to the gas transmission networks must be market based. The balancing fees must reflect the balancing expenses incurred by the gas (TSO) whenever possible and by encouraging the network users to participate in the balancing of their portfolio. This has to come along with the providing of reliable information by the TSO about the balancing situation of the shippers. This information is defined in the EC Regulation no. 715/2009.

A framework guideline relating to the balancing is being drawn up by ACER¹. This framework guideline will then be detailed in a network code by ENTSOG², which the European Commission will be able to submit for adoption as an annex to the EC Regulation no. 715/2009 through the comitology process. In this case, the network code will be legally binding for all the Member States.

ACER'S framework guideline draft was the object of a public consultation that ended on June 12, 2011.

This project calls for a system in which every shipper has the obligation to be balanced on a daily basis.

¹ Agency for the Cooperation of Energy Regulators.

² *European Network of Transmission System Operators for Gas.*

When the transmission network users are unable to manage their balance on their own, the TSO must ensure the physical balancing of the network by intervening directly on the market by purchasing gas when the system is short or by selling the gas when it is long.

The TSO will invoice every shipper for the imbalance that was noticed at the end of each day (between the network gas injections and withdrawals, corresponding to its customers' consumptions in particular) at a market price that can either be the marginal price of the TSO's market interventions or to the average market price, to which a premium or discount could be added depending on the imbalance.

1.2. National framework

The work related to the implementation of a balancing system that is based on the market was launched on the GRTgaz network since mid-2006 together with the market players. Since 2007, the balancing system of the GRTgaz network has progressively evolved to integrate an increasing utilization of market mechanisms.

On the other hand, TIGF has decided that making its balancing system evolve was unnecessary, since the existing regulations that apply to its network were satisfactory for the shippers and since the liquidity of the Southwestern PEG was insufficient to cover the balancing needs.

Furthermore, the CRE approved the principles of the target balancing system for 2013 for the GRTgaz network in its deliberation of September 30, 2010, as to anticipate the provisions of the 3rd package. It also asked the two French TSOs to continue their work in the framework of the Concertation Gaz so that:

- GRTgaz can offer a path that would allow the implementation of the target balancing system for 2013;
- TIGF can present a study relating to the necessary evolutions of the balancing system of its network to be compliant with the new European provisions.

In accordance with this deliberation, GRTgaz and TIGF have submitted their proposals to the CRE in September 2011, and these take into account the analyses conducted in the framework of the Concertation Gaz.

2. GRTgaz's proposal

GRTgaz plans to achieve the current target balancing system by 2014 rather than by 2013, as was asked by the CRE, in order to give the market parties more time to adapt to the new rules. In its proposal, GRTgaz clarifies and details various items of the target and describes the implementation path through three different aspects:

- provide shippers with the information regarding the balancing needs and the network's tension throughout the day;
- GRTgaz's market intervention methodology to cover its network balancing needs;
- the methodology to settle the shippers' imbalances.

2.1. Information made available to the shippers.

GRTgaz plans to provide the shippers with new information to complete the currently given one.

Two new items regarding to the global network situation will be published:

- The consumption forecast made by GRTgaz on the eve for the following day for each balancing area and which is currently given globally, will be divided between the customers that are connected to the transmission network and those that are located downstream from transmission distribution interface points (TDIP) as of mid-2013
- A tension indicator of the network that measures the expected imbalance of the network at the end of a gas day for each balancing area will be available at the end of 2012. This indicator, which is updated every hour, will first be published under a semi-quantitative base by the beginning of 2012.

More frequent data regarding the customers' consumption will be given to every shipper for his portfolio:

- The hourly consumptions delivered to each industrial customer who is connected to the transmission network and which are currently given to the shippers five times a day will be submitted on an hourly basis as of mid-2013;
- The consumption estimates concerning profiled customers for each balancing area will be transmitted once on the evening of the eve for the following day with two updates throughout the day. The methods used to elaborate these estimates, should be available by mid-2013 and are not yet clearly defined. With regards to the customers with tele-metering systems located on the distribution network, GRTgaz plans to continue the work in Concertation Gaz. At the moment, GRTgaz support the alternative where the shippers forecast and nominate the specific quantity they estimate will be consumed by their non-profiled customers rather than elaborating on its own a forecast of the consumption of the non-profiled customers.

1. What do you think of GRTgaz's proposal regarding the information that will be made available to the shippers?

2.2. Market intervention methodology used by GRTgaz to cover its network balancing needs.

In the framework of the target system, GRTgaz proposes to intervene on the *Within Day* market of the gas exchange³, at any time, depending on the network's tension, rather than within pre-established period as before. During the transition phase, GRTgaz proposes to open a new *Within Day* intervention session on one hand and to privilege the interventions on the *Within Day* market rather than on the *Day Ahead* market on the other.

Furthermore, GRTgaz proposes to progressively implement an intervention strategy that is based on the price. Under these conditions, GRTgaz's volume of interventions on the market will be connected to a representative price of the network's tension, as to encourage shippers to respect the balance on their own initiative. For this purpose, GRTgaz proposes to connect the market intervention volumes to the network's tension indicator by the beginning of 2012.

2. What do you think of the market intervention strategy that GRTgaz is considering for its target balancing system?

2.3. Imbalance calculations and settlement

The imbalances noted by GRTgaz at the end of the gas day will be integrally paid at the market price. GRTgaz proposes to maintain the current imbalance calculation rules by giving shippers the opportunity to pool the imbalances amongst the different categories of customers.

The proposed settlement price for imbalances is:

- If GRTgaz does not intervene on the market on the considered day, the average market price will be applied and to which a discount will be added in case of a sale or a premium in case of a purchase.
- If GRTgaz intervenes on the market on the considered day, the highest amount between the previous price and the marginal intervention price of GRTgaz on the exchange, whether for a purchase or a sale.

ACER's framework guideline does not set any rule concerning the balancing tolerances. Under these conditions, GRTgaz proposes to maintain a daily tolerance for the shippers who supply final customers, provided that this measure is in accordance with the rules that will be defined in ENTSOG's network code. The part to the imbalance under this tolerance will be treated at the average market price. GRTgaz proposes to continue the work with the Concertation Gaz to define the level of this tolerance.

³ An intra-daily market that allows to purchase/sell gas during the day for same day deliveries.

3. What do you think of the imbalances invoicing methodology that GRTgaz is considering for its target balancing system?

2.4. Summary for the path of target implementation

GRTgaz proposes to progressively implement the target balancing system by 2014 in order to take into account:

- The necessary delay of the implementation for improvements relative to the information systems (supply of new data);
- the state of maturity of the market both in terms of exchange opening hours and liquidity;
- the acceptance of the new rules by the market players.

In this context, it proposes to implement a path towards the target including three intermediate steps (beginning 2012, end of 2012, 2nd semester 2013) with the following evolutions:

- a progressive publication of the new information, notably relating to the network tension indicator;
- a progressive evolution of GRTgaz's market intervention method, with the creation of a 2nd *Within Day* intervention session at the beginning of 2012 and the correlation of the intervention volume with the network tension indicator;
- a progressive evolution of the shippers' imbalance settlement methods with a possible increase of the part of the imbalances fees paid at the end of the day at the market price.

4. What do you think about the path and the implementation timetable suggested by GRTgaz?

3. Evolutions of the balancing system proposed by TIGF

As for the GRTgaz network, every shipper is subjected to a daily balancing obligation on the TIGF network as well.

TIGF currently balances its system by using the Lussagnet storage. The operator's storage needs are the object of an internal flexibility protocol established between TIGF-transmission' and TIGF-storage.

The shippers benefit from various contractual flexibilities to balance themselves:

- an optional daily balancing service (called SEJ) is offered by TIGF-storage to its customers. This service allows shippers to settle their imbalances on the transmission network with their own gas by correcting the injection and withdrawal nominations on their reserved capacities in the TIGF storages afterwards;

- a daily balance tolerance and a cumulative imbalance account offered to the shipper by TIGF-transmission'. The shippers' imbalances inferior to the daily tolerances can be accumulated from one day to the next up to a total of 3 times the daily tolerance. The cumulative imbalance account is brought back to zero at the end of each month via a gas purchase or sale at a price that is based on the Powernext market price that is available at the Southern gas trading point (PEG Sud) and to which a transmission fee will be added up to the TIGF area.

The evaluation made by TIGF regarding the consequences of the European work relating to its balancing system shows that numerous improvements will be needed to ensure the conformity of these rules to ACER's draft framework guideline.

3.1. Evolutions relative to the information made available to the shippers

TIGF proposes to supply the network users a level of information that is compliant with the European requirements by 2013.

As for the industrial consumers that are directly connected to its network, TIGF plans to make the following elements available for the shippers' portfolio:

- end of 2012, the hourly consumptions that were delivered to each customer for those who are already equipped with an hourly recording device and every four hours for those who are equipped with a hourly tele-metering system that are currently recorded once a day;
- end of 2013, the hourly consumptions delivered to every customer on an hourly basis. This phase will require an extension of the hourly tele-metering systems.

For the consumers that are located on the distribution networks, downstream of the TDIP, TIGF proposes to use ACER's framework guideline recommendations, that is, providing every shipper on the eve for the next day with their customers' estimated consumptions which would be updated twice a day. This forecast would be separated between the profiled customers and the customers who have tele-metering systems. TIGF does not define the methodology used for the estimate and that is planned for 2014, but indicates that it will work with Distribution System Operators (DSO) on this subject and that it will pay attention to the development of a common approach with GRTgaz.

5. What do you think of TIGF's proposal regarding the information that will be made available to the shippers?

3.2. Methodology used by TIGF to call on the market to cover its network balancing needs

In order to comply with the ACER framework guideline on balancing, TIGF proposes to intervene on the Powernet Gas organized market as of the end of 2011 in order to purchase or sell *Day-Ahead*⁴ and *Weekend*⁵ products on the Southwestern PEG. These transactions will be made by TIGF's employees following pre-established rules, in order to cover shippers'⁶ residual imbalances.

TIGF states that an evolution of its interventions towards *Within Day* products will need further studies since it does not currently have the monitoring tools to follow the balance of its network in real time allowing the evaluation of the quantities of gas to purchase or to sell on the market.

6. What do you think of the market intervention strategy that TIGF is considering for its balancing system?

3.3. Evolutions of the calculation and settlement methodology for the shippers' imbalances

In order to meet the requirements of ACER's framework guideline, TIGF proposes an evolution of the settlement methods for the shippers' imbalances with:

- a suppression, starting from 2014, of the daily imbalances accumulation, which will be replaced by a settlement of the imbalances of every shipper at the end of each day instead of at the end of each month;
- The modification of the imbalances settlement price. TIGF proposes to replace the price reference based on the Powernet market price observed on the Southern PEG with a price that is based on its transactions. It also proposes to maintain the daily balance tolerance, but to change the penalty level that is added to this price to settle the part relating to the imbalances that are above this tolerance.

Finally, TIGF plans to preserve the SEJ, which it retains to be compatible with ACER's draft framework guideline.

⁴ Quantities of gas delivered the day following the date on which the transaction was made.

⁵ Quantities of gas delivered the weekend following the date on which the transaction was made.

⁶ The quantities of residual imbalances correspond to the aggregation of the total quantities purchased/sold from the shippers' portfolio after the SEJ was applied.

7. What do you think of the imbalances invoicing methodology that TIGF is considering for his balancing system?

4. Preliminary analyses of the CRE

4.1. Preliminary analysis of GRTgaz's proposal

The CRE considers that the evolutions of the balancing system that have been implemented by GRTgaz on its network, together with the market players, have enabled the operator and the users to anticipate and prepare the orientations that are being elaborated at a European level.

The evolution path proposed by GRTgaz will lead to the implementation of a balancing system that is coherent with ACER's framework guideline since it will allow:

- shippers to participate in the balancing of the network. They are encouraged to minimize their imbalances by an imbalance settlement system which enables to invoice every shipper for the balancing costs the system has to sustain every day due to its activity. The shippers will be able to reduce these imbalances thanks to the information provided during the day on the consumption of their customers and network tension;
- GRTgaz to cover the residual network imbalance by intervening on the market during the day, according to methods that take the real network tension into account.

The work done in the framework of the Concertation Gaz will nonetheless have to be continued in order to better define certain elements of the path and target:

- the methodology to determine the consumption forecast for the customers that are located downstream of the TDIP;
- the «price-volume» intervention strategy that is planned by GRTgaz in order to validate its coherence with the rest of the system. The price settlement relating to the shippers' imbalances must be coherent with the tools and information they have at their disposal to manage their balancing needs.
- the imbalances settlement methods (imbalances calculation methods, daily balance tolerance, etc.).

8. Do you consider that the path proposed by GRTgaz is adapted to implement the target balancing system that has been chosen for compliancy with ACER framework guideline?

4.2. Preliminary analysis of TIGF's proposal.

The CRE considers that the evolutions of its balancing system, as identified at this point by TIGF, constitute a first step towards the market balances as defined in ACER's draft framework guideline.

A more detailed study and work in Concertation Gaz will have to be conducted by TIGF in order to define or establish:

- the methods for elaborating and making available to shippers the information regarding the consumption of the customers that are connected to the distribution network during the day;
- the monitoring methods and the methods used to inform users of the network's status during the day;
- the rules and conditions of TIGF's market interventions.

Nevertheless, the CRE considers that TIGF's analysis on the consequences of the SEJ and on the compliancy with this service with the ACER framework guideline will have to be further studied. In fact, TIGF proposes evolutions that will enable compliancy with the draft framework guideline:

- on the methods for covering the balancing needs of the network;
- on the financial settlement of the invoiced imbalances of the shippers.

However, those evolutions may not produce the results that were targeted by the European framework guideline in the case where the SEJ was to remain in its current state. That is if the service maintains a predominant role for the storage in the management of the balancing of the TIGF area.

9. Do you believe that the target balancing system proposed by TIGF is compatible with ACER's draft framework guideline? Why?

4.3. The need to implement a single balancing system in France

The European work on the framework guideline and the network codes is conducted in order to accelerate and finalize the implementation of the European Energy Market, by defining new European rules regarding access to the infrastructures that will apply to every Member State. This harmonization of the rules at the level of the interconnections between transmission networks is to:

- facilitate the access of new participants to each market. In fact, the diversity and complexity of the access rules relating to the transmission networks can constitute an obstacle considering the costs and risks they can generate for the users;
- facilitate gas trading and promote the price convergence between the different European market places and improve their liquidity.

In this context, the balancing systems of GRTgaz and TIGF will have to evolve significantly with important costs, regarding the information system in particular. Consequently, the CRE retains that it is important to implement a single balancing system for all the French balancing areas.

Furthermore, ACER's guideline framework foresees the need for a coordination process between the TSOs and the DSOs, in order to make available to the shippers, the information relative to the consumption of their customers that are connected to the distribution network, even if these customers' consumptions are not tele-metered. In consideration of the complexity of the procedures and of the information chains that enable the information from the DSOs to the TSOs and of the significant number of players involved (2 TSOs and 25 DSOs), the implementation of a single balancing system for GRTgaz and TIGF becomes essential.

Finally, the quality of the data that are made available to shippers must be subject to monitoring and, if necessary, to mechanisms that encourage the TSOs to provide data at a high-quality level. The CRE is studying the possibility of integrating this data in the tariffs mechanisms regarding incentive regulation for the quality of service starting in April 2012 for the existing data (intra-day quantities measured for customers connected to the transmission system).

10. Do you agree to the creation of a single balancing system for the GRTgaz and TIGF areas? Why?

11. Do you think that it is necessary to integrate the data transmitted by the TSOs in the tariffs mechanisms regarding incentive regulation on the quality of service of operators?

12. Do you have other comments or suggestions?

Questions

The CRE invites the interested parties to submit their contribution by October 25, 2011, at the latest:

by email at the following address: webmestre@cre.fr;

by responding directly via the CRE website (www.cre.fr) through the "Documents / Public consultation" section (Documents/ Consultations publiques in French).

by mail: 15, rue Pasquier - F-75379 Paris Cedex 08;

by addressing the letter to the "Direction des infrastructures et réseaux de gaz": + 33.1.44.50.42.12;
by requesting to be heard by the Commission.

A summary of the suggestions and proposals will be published by the CRE in accordance with the confidentiality that must be protected by law.

When responding, please let us know if you wish to have **the confidentiality and/or anonymity of this information ensured**. The interested parties are invited to answer the following questions and to explain their answers.

1. What do you think of GRTgaz's proposal regarding the information that will be made available to the shippers?
2. What do you think of the market intervention strategy that GRTgaz is considering for its target balancing system?
3. What do you think of the imbalances invoicing methodology that GRTgaz is considering in its target balancing system?
4. What do you think about the path and the implementation timetable suggested by GRTgaz?
5. What do you think of TIGF's proposal regarding the information that will be made available to the shippers?
6. What do you think of the market intervention strategy that TIGF is considering for its balancing system?
7. What do you think of the imbalances invoicing methodology that TIGF is considering for his balancing system?
8. Do you consider that the path proposed by GRTgaz is adapted to implement the target balancing system that has been chosen for compliancy with ACER framework guideline?
9. Do you believe that the target balancing system proposed by TIGF is compatible with ACER's draft framework guideline? Why?
10. Do you agree with the creation of a single balancing system for the GRTgaz and TIGF areas? Why?
11. Do you think that it is necessary to integrate the data transmitted by the TSOs in the tariffs mechanisms regarding incentive regulation on the quality of service of operators?
12. Do you have other comments or suggestions?

Annexes

- Annex 1: Proposal of the evolution of the balancing system of the transmission network
⇒ *Proposal sent by GRTgaz to the CRE on September 12, 2011*
- Annex 2: Presentation of the study conducted on the evolutions of the balancing system for the TIGF network and which are needed to comply with the expected balancing system requirements provided by the new European regulations.
⇒ *Proposal sent by TIGF to the CRE on September 16, 2011.*
- Annex 3: Public and non valid version of the guideline project regarding the target balance relating to the Concertation Gaz found on ACER's website: PC-04 -Framework Guidelines on Gas Balancing in Transmission Systems *dated April 12, 2011*

The link to the documents relating to the existing network balancing rules:

GRTgaz : <http://www.grtgaz.com/fr/accueil/acheminement/>

TIGF : <http://www.tigf.fr/pageLibre00010289.htm>