Public consultation of the French Energy Regulation Commission (CRE) of 10 February 2014 related to the creation of a joint GRTgaz-TIGF marketplace as of 1 April 2015

The tariffs for the use of the natural gas transmission networks, known as the ATRT4 tariffs, which entered into force on 1 April 2009, implemented a contractual structure for access to the transmission networks in France based on three balancing zones compared to the five previously in operation: the North and South zones on the GRTgaz network and the TIGF zone connected to the GRTgaz South zone.

These balancing zones reflect the physical constraints placed on transmission infrastructures and attest to the presence of two Transmission System Operators (TSOs) in France. Shippers have to balance the quantities of gas entering and exiting (including their clients' consumption) on every balancing zone on a daily timeframe.

Today, each balancing zone represents a marketplace, known as a notional gas title transfer point, or PEG (*Point d'échange de gaz*) enabling shippers to purchase or sell gas. This results in gas prices being determined in line with the balance between supply and demand.

This development has simplified access conditions on the gas transmission networks and has helped to improve market operations in the North of France through the creation of a large North zone that is well interconnected to other markets in North-West Europe and has diversified sources of supply. This organisation does not however result in optimised market operations in the South of France.

Work to improve the contractual structure of access to transmission networks and the organisation of the French wholesale market has therefore been furthered. The French Energy Regulation Commission (CRE), in its deliberation of 13 December 2012[1], decided on the creation, as of 1 April 2015, of a common marketplace for the GRTgaz South and TIGF balancing zones.

On 31 January 2014, GRTgaz and TIGF submitted to CRE a joint report on the operating procedures of this joint PEG.

This public consultation aims to gather market players' views on the proposals submitted by the two TSOs. Following this consultation, CRE will take a deliberation setting out the operating principles of this joint PEG.

Interested parties are requested to reply to the questions listed in this consultation by 13 March 2014 at the latest.

[1] Deliberation of the French Energy Regulation Commission of 13 December 2012 deciding on the tariffs for the use of natural gas transmission networks

CONTENTS

I. Background

CRE has continued work with the two TSOs and in consultation with all market players since 2009 to reduce the number of French marketplaces, focusing on two development axes: the merger of the North and South zones on the GRTgaz network and the merger of the South and TIGF zones.

In 2010, GRTgaz and TIGF conducted a joint network study with a view to merging the South and TIGF zones. The study concluded that there was no structural congestion between these two zones.

In 2011, GRTgaz, upon CRE's request, commissioned a study on a merger between the North and South zones. This study, conducted by KEMA, concluded that the contractual mechanisms required to balance the network in case of a merger between these two zones without further investment than the Eridan project would be very costly.

Following this work and a widespread consultation with all market players, CRE issued the following decisions and guidelines (deliberations of 19 July 2012[2] and 13 December 2012[3]):

- The creation of a common marketplace (joint PEG) for the GRTgaz South and TIGF balancing zones by 1 April 2015 at the latest,
- The aim of creation of a single French PEG by 2018 at the latest, following the reinforcement of the Bourgogne line (Val de Saône project), with an estimated cost of €650M.

To prepare the creation of a joint PEG in the South of France by 1 April 2015, CRE has taken the following decisions:

- deliberation of the CRE of 5 February 2013[4], on changes to balancing rules on the GRTgaz and TIGF networks, provides that the balancing rules on the GRTgaz South and TIGF zones must converge by 1 April 2015,
- deliberation of the CRE of 11 December 2013[5], on the evolution of the tariffs for the use of natural gas transmission networks, provides that by 1 April 2015 the tariff at the interface between the TIGF and GRTgaz South zones will be nil.

In a letter dated 13 June 2013, CRE requested that TIGF and GRTgaz submit a joint proposal on the implementation of the joint PEG. On 31 January 2014, the two TSOs' report was addressed to the CRE and is appended to this public consultation.

In addition, CRE commissioned the Pöyry Management Consulting firm to conduct a cost/benefit study on the investment schemes for the creation of a single French PEG by 2018. The conclusion of this study and CRE's analysis will be subject to a specific public consultation set to be launched in the first quarter of 2014.

[2] CRE's Deliberation dated 19 July 2012 relating to guidelines for gas marketplace evolution in France
[3] CRE's Deliberation dated 13 December 2012 deciding on the tariffs for the use of natural gas transmission networks
[4] CRE's Deliberation dated 5 February 2013 deciding on the balancing rules for the GRTgaz and TIGF gas transmission networks
[5] CRE's Deliberation dated 11 December 2013 deciding on the evolution of the tariffs for the use of natural gas transmission networks as of 1 April 2014

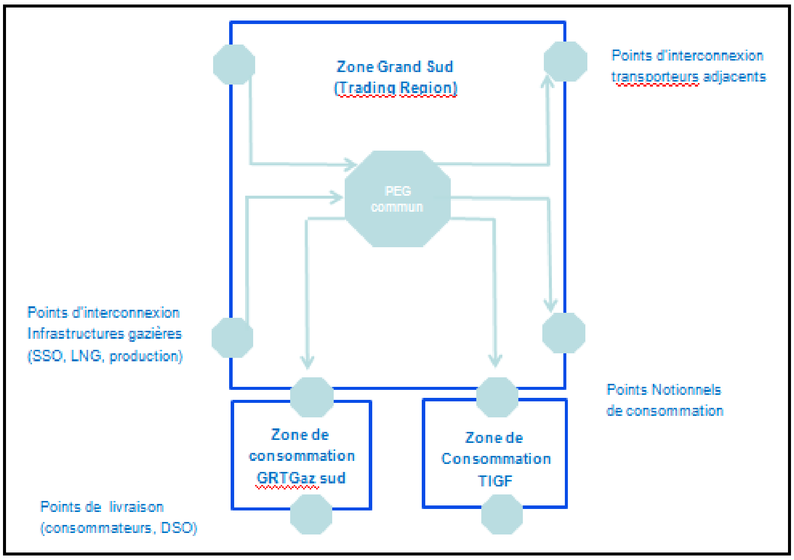
II. The TSOs' proposal

A. Implementation of the "*trading region*" *model*

In its deliberation of 19 July 2012, CRE stated that the implementation of a joint PEG may be based on a "trading region" system, envisaged in the European target model for gas. This system would be used to create a joint PEG while meeting TIGF's request to retain two separate balancing zones.

GRTgaz and TIGF propose to break down this model as follows (see diagram below):

- A "trading region" (or Great South zone) including the joint PEG and all existing interconnection points for the TIGF and GRTgaz balancing zones (North-South link, interconnection with Switzerland (Jura PIR – network interconnection point), interconnections with Spain, the Fos LNG terminal transmission interface (PITTM), and the transport storage interface points (PITS)),
- Two consumer zones, TIGF and GRTgaz South, connected to the "trading region" by notional consumption points. These consumer zones group together all points of delivery to end users in the TIGF or GRTgaz South balancing zones (industrial consumers directly connected to the transmission networks and transmission-distribution interface points or PITD).



B. Operating rules for the joint PEG

The joint PEG enables shippers with a transmission contract with one of the two TSOs to purchase or sell gas, irrespective of their presence or that of their counterparts with either or both of the two TSOs.

Transactions on this PEG are firm and exchanged gas may be delivered at all points connected to the "trading region": interconnections and consumer zones.

Access to the joint PEG is subject to contractual relations with the two TSOs.

Shippers notify GRTgaz (operator of the PEG) of the quantities exchanged at the joint PEG. The matching operations and shipper notification checks are conducted by GRTgaz according to the same rules as those currently in force.

Revenues at the PEG are shared between TIGF and GRTgaz using an allocation key to be determined.

Each TSO invoices shippers for access to the PEG (fixed and proportional tariffs) according to rules that are yet to be defined in line with the PEG revenue allocation key between the two TSOs.

C. Transportation management

1. *Capacity subscription and use*

Capacity at the interconnection points connected to the “trading region” continues to be marketed and invoiced according to the rules currently in force. The subscription of these capacities requires the signature of a transmission contract with the TSO in question.

TIGF is solely responsible for the marketing and invoicing of capacity at the PIR Pirineos and at the South-West PITS.

GRTgaz is solely responsible for the marketing and invoicing of capacity at the North-South link, the Jura PIR, the Fos PITTM and at the South-Atlantic and South-East PITS.

Nomination procedures on all these points also remain unchanged.

Capacity at the interface between the GRTgaz South and TIGF zones is no longer marketed. This capacity, which corresponds to two physical interconnections between the TSOs’ networks, Cruzy and Castillon to the South-East and the North of TIGF’s network respectively, will be jointly operated by the two TSOs, without shippers having to make nominations on these points.

2. *Management of contractual and physical balancing*

GRTgaz and TIGF propose two options of the “trading region” model for the management of contractual and physical balancing.

a) Option 1

i. Management of shippers’ contractual balancing

In this option, two types of contractual imbalance are calculated and invoiced to each shipper, including a scheduling imbalance that does not exist today and a consumption imbalance.

Each shipper ensures their scheduling and consumption balances by adjusting their nominations to the data they receive during the day, particularly with regard to their customers’ consumption.

- Scheduling imbalance:

For each shipper, this is the difference between its last nominations entering and exiting the “trading region” (including those at consumer zones).

Each shipper’s scheduling imbalance is split between the TSOs on a pro-rata basis of its nominations at the notional consumption points and other exit points. The imbalance is invoiced to the shipper at a marginal price, as defined by the balancing network code.

- Consumption imbalance:

A consumption imbalance is calculated for each shipper and for each consumer zone. For each of the zones, this imbalance is the difference between the shipper’s allocations at the notional consumption points and its allocations at the consumer zone delivery points.

The consumption imbalance is calculated by each TSO for its consumer zone and is invoiced to the shipper at a marginal price, as defined by the balancing network code.

The TSOs propose the introduction of a commercial “netting” service to combine each shipper’s consumption imbalance between the two consumer zones.

ii. Management of physical balancing on the network

In this option, shipper nominations on the two GRTgaz and TIGF notional consumption points play the same role as nominations at the interface between the TIGF and GRTgaz South zones, which will disappear with the creation of the joint PEG. The TSOs will use these nominations to calculate physical flows at the link.

Once the flow has been determined, each TSO manages the physical balancing of its network with the same tools that today.

In order to avoid excessive flow variations between the GRTgaz South and TIGF zones, in particular at end-of-day, the two TSOs propose to limit shippers' upward and downward re-nominations at the notional consumption points, according to the same rules as those in force at the North-South link and at the PIR Pirineos. These rules are based on a *pro-rata temporis* principle according to which the quantity transported may not be inversed and subscribed (delivery) capacity may not be exceeded over the rest of the day.

b) Option 2

i. Management of shippers' contractual balancing

In this option, there is no invoicing of a scheduling imbalance. The contractual balancing of each shipper is calculated globally, on the level of the entire "trading region". For each shipper, this imbalance corresponds to the difference between the total entry allocations in the trading region and the total allocations exiting the trading region (including allocations at delivery points).

For each shipper, the total imbalance is then shared per balancing zone by using:

- either a normative key (50/50), if the balancing rules are the same for both balancing zones,
- or a specific key, according to as the total allocations at exit points, including delivery points, for each balancing zone, if the balancing rules are different in each balancing zone.

Imbalances are invoiced to shippers at a marginal price, as defined in the balancing network code.

As in the option 1, each shipper ensures their balances by adjusting their nominations to the data they receive during the day, particularly with regard to their customers' consumption.

ii. Management of physical network balancing

In this option 1, the TSOs do not use shipper nominations at notional consumption points to calculate the physical flow between the TIGF and GRTgaz South zones. They determine the physical flow between the TIGF and GRTgaz South zones on the basis of nominations of shippers at interconnection points and their own consumption forecasts in their respective zone.

As in the option 1, once the flow has been determined, each TSO manages the balancing requirements of their consumer zones with the same tools that today.

3. Management of maintenance

GRTgaz and TIGF propose that physical capacity restrictions at the link between their two zones, in case of congestion or maintenance work, may be transferred to entry and/or exit points in the TIGF and GRTgaz South zones.

They propose to implement mechanisms to guarantee sufficient capacity at the PITS to ensure that storage is used in line with capacity sold.

TSOs wish to continue the analysis and exchange with market players within the Concertation Gaz before finalizing their proposals on how to manage the limitations of physical capacity on the interconnection between their networks

D. Governance and implementation costs

The creation of the joint PEG requires data exchanges between the two TSOs. It also results in joint management of some functions (such as shipper notifications at the PEG, the calculation of shipper imbalance allocations, the calculation of flows at the interface, etc.). These functions are conducted by either TSO.

These changes require developments to the TSOs' information systems, at an estimated approximate cost of €5M.

TIGF and GRTgaz propose that GRTgaz manages the PEG in the south of France and makes the information system developments necessary for its implementation.

III. CRE's analysis

CRE considers the TSOs' proposals are in accordance with its tariff decision of the 13 December 2012:

- The creation of a single marketplace in the South of France could enable market players to exchange gas without restrictions, as is the case in the North PEG,
- The continuation of two balancing zones would afford each TSO some independence for network operation and contractual management.

In comparison to the current situation, the main consequences of the creation of a joint PEG concern the management of the PEG and shippers' contractual balancing.

A. Operating rules of the joint PEG

CRE believes that the TSOs' proposal is favourable to the creation of a single PEG in the South of France by 1 April 2015, offering the same level of service as the North PEG. Transactions on this PEG will be firm and may be concluded with any market player present on the PEG, regardless of the origin or destination of the gas. As a result, there will be no pro-rata basis or volume restrictions on the transactions.

In addition, the management rules for this PEG will be identical to those in force at the North PEG.

Question 1: Do you have any comments on the management rules proposed by the TSOs for the joint GRTgaz and TIGF PEG?

B. Transportation management

1. Management of contractual and physical balancing

CRE believes that either of the two options proposed by the TSOs will mostly have an impact on shippers' contractual balancing.

a) Option 1

i. Management of physical network balancing

As regards physical network balancing, this option is, as previously, based on shipper nominations. It is therefore relatively similar in its operation to the current situation. Its implementation and operational management should be simple for the TSOs. This option permits more simplicity at the cost of greater complexity for shippers, who in some conditions may be restricted in their re-nominations.

ii. Management of shippers' contractual balancing

As regards contractual balancing, option 1 would result in an increasingly complex procedure and new risks for shippers, by introducing the new "scheduling" imbalance. Shippers would not be able to combine their scheduling and consumption imbalances together. By means of example, a shipper with a positive scheduling imbalance and a negative consumption imbalance would have two imbalances that do not cancel each other out.

In principle, a shipper must not have an end-of-day scheduling imbalance, as it can change nominations at all points, including notional consumption points. However, the operation of some mechanisms may result in scheduling imbalances. For instance, the UIOLI or UBI, enabling TSOs to provide shippers with available capacity or that not used by a primary holder, may result in shippers who wish to use such capacity having an end-of-day scheduling imbalance.

On the other hand, the commercial netting service proposed by the TSOs to enable shippers to combine their consumption imbalances between the two balancing zones is a real improvement on the current situation.

CRE also notes that the use of nominations at notional consumption points to calculate imbalances for each consumer zone would enable shippers to select the distribution of their imbalance between the TIGF and GRTgaz South zones. This option would therefore require balancing rules to be strictly identical between the two zones in order to avoid shippers arbitrating between the two balancing zones.

Lastly, CRE believes that the restrictions on re-nominations at the notional consumption points may be too restrictive for shippers.

In conclusion, CRE observes that Option 1 is closer to the current situation in its operation, with regard to the two TSOs' internal balancing procedures. On the other hand, for shippers, this option makes balancing rules more complex than the current situation.

Question 2: Are you in favour of an implementation of Option 1 proposed by the TSOs for the creation of the joint GRTgaz South and TIGF PEG?

b) Option 2

i. Management of physical network balancing

As regards physical network balancing, this option does not provide the TSO to use shipper nominations to manage physical flows at the interface between their networks. The TSOs use their own consumption analyses in addition to shipper nominations on other entry and exit points of the Greater South zone to calculate this physical flow.

As today, shippers made nominations at the notional consumption points. In the option 2, these nominations are only indicative. CRE questions the value of these nominations at notional consumption points.

ii. Management of shippers' contractual balancing

As regards contractual balancing, Option 2 enables shippers to combine imbalances between the two zones GRTgaz Sud and TIGF. In addition, a scheduling imbalance is not required.

As each shipper's imbalance is distributed between the balancing zones with the aid of a key, this option does not raise the issue of potential arbitration between the two balancing zones.

As regards the key used to allocate each shipper's imbalance between the two balancing zones, CRE believes that a normative key (50/50) does not take into account each shipper's individual situation. A shipper who is only active in one of the zones would be obliged to sign a transmission contract with the other TSO, who would invoice a share of contractual imbalance. CRE is therefore in favour of the second key proposed by the TSOs, based on exit point allocations (including at delivery points).

In conclusion, the option 2 differs more from the existing system as regard the TSOs internal processes as the TSOs would no longer use shipper nominations to manage physical flows at the interface between their two networks. It does, however, provide added value for shippers compared to the current system, in terms of simplified and optimised management of their balancing.

Question 3: Are you in favour of the implementation of Option 2 proposed by the TSOs for the creation of the joint GRTgaz South and TIGF PEG?

Question 4: Are you in favour of CRE's proposal concerning an allocation key specific to each shipper to distribute daily imbalances between the two consumer zones in Option 2? If you do not agree, do you have any other suggestions?

Question 5: Do you consider that it would be useful to ask shippers to make nominations at notional consumption points in the option 2?

2. Management of maintenance

As of the creation of the joint PEG, capacity at the interface between the two TSOs will no longer be marketed. Restrictions on this capacity related to maintenance works or physical limitations may no longer be managed by limiting the nominations at this interface, as is the case today.

The TSOs propose to manage these restrictions by reducing capacity on other interconnection points in the GRTgaz South and TIGF zones. They have not submitted a proposal to distribute restrictions over these points for the time being. The TSOs wish to continue their analyses and discuss the situation with market players before proposing rules to manage physical restrictions at the interface between their networks.

At this point, CRE believes that the distribution of these limitations should take into account the direction of the gas flow at the interface between the GRTgaz and TIGF networks. In this way, when gas flows from the GRTgaz South zone to the TIGF zone, capacity restrictions would be carried over into the TIGF zone and in the opposite case into the GRTgaz South zone. This rule would result in the same capacity restriction management as is currently used. Today, when a TSO conducts work at the interface between the two networks, it limits capacity at this interface and therefore gas flows. If the flow is from the GRTgaz South zone to the TIGF zone, the TIGF zone is affected, and conversely, if the flow is from the TIGF zone to the GRTgaz South zone, the GRTgaz South zone is affected.

Within each zone, capacity restrictions would affect exit points, with the exception of end users. In the TIGF zone, it would concern the interconnection with Spain and injections at the South-West PITS. In the GRTgaz zone, it would concern the South-to-North link and the South-Atlantic and South-East PITS.

The capacity restriction management rules for maintenance works or physical limitations will be defined at a later date, once the proposals of the two TSOs have been considered.

Question 5: Are you in favour of CRE's proposal concerning capacity restriction management at the interface between the GRTgaz South and TIGF zones? If you do not agree, do you have any other suggestions?

Question 6: Do you have any further comments?

IV. Summary of questions and how to respond

Question 1: Do you have any comments on the management rules proposed by the TSOs for the joint GRTgaz and TIGF PEG?

Question 2: Are you in favour of an implementation of Option 1 proposed by the TSOs for the creation of the joint GRTgaz South and TIGF PEG?

Question 3: Are you in favour of the implementation of Option 2 proposed by the TSOs for the creation of the joint GRTgaz South and TIGF PEG?

Question 4: Are you in favour of CRE's proposal concerning an allocation key specific to each shipper to distribute daily imbalances between the two consumer zones in Option 2? If you do not agree, do you have any other suggestions?

Question 5: Do you consider that it would be useful to ask shippers to make nominations at notional consumption points in the option 2?

Question 6: Are you in favour of CRE's proposal concerning capacity restriction management at the interface between the GRTgaz South and TIGF zones? If you do not agree, do you have any other suggestions?

Question 7: Do you have any further comments?

CRE asks all parties concerned to submit their contribution, by 13 March 2014 at the latest:

- By e-mail to the following address: dirgaz.cp1@cre.fr ;
- By post to: 15 rue Pasquier - F-75379 Paris Cedex 08.

Confidential contributions will be published by CRE, in accordance with the legal confidentiality requirements.

Please state in your contribution whether you would like **have your response treated as confidential and anonymous**. The parties concerned are asked to submit their observations, justifying their responses.