

## **CRE Consultation on the creation of a single gas marketplace in France in 2018**



### **EFET<sup>1</sup> Taskforce France response – 21 March 2014**

The European Federation of Energy Traders (EFET) welcomes the opportunity to respond to the CRE consultation on the creation of a single gas marketplace in France in 2018.

As mentioned in previous contributions to CRE consultations on the subject<sup>2</sup>, EFET supports the consolidation of the French PEGs. We believe that such a development will improve the liquidity of the French market as a whole and will enhance competition among market participants. Both should contribute to the development of a liquid market in the South of France thanks to the reduction of the North-South congestion.

In the context of the Third Energy Package of the European Union aiming to establish an internal market for gas by 2014, maintaining the current structure may marginalise the French market, which is surrounded by more liquid markets such as NBP and TTF. In addition, the conditions for the development of a liquid market do not exist at present in the TIGF zone - because of its size - and GRTgaz South zone- because of the lack of liquidity in the market - taken individually. EFET supports the efforts of CRE to consolidate the PEGs to ensure security of supply and economic efficiency of the French gas market.

The restructuring of the French gas market needs to be done in a cost-efficient way taking account of the interaction with neighbouring countries. Looking for an economic optimum in the evolution of the market structure should be the determining factor of any decision on the subject.

Finally, EFET believes that the removal of the constraint between the North and South zones in France will not only generate benefits for the French market but will also reinforce the integration between the countries of the South and North-West GRIs and actively participate into delivering the EU Internal Energy market.

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<sup>1</sup> The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at [www.efet.org](http://www.efet.org).

<sup>2</sup> Please refer to the EFET response to the CRE consultation on the evolution of gas market places, dated June 2012, available at: [http://www.efet.org/Cms\\_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/Y73J2ECQP8YUKYQM/EFET\\_Consultation-CRE-places-de-marche.pdf](http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/Y73J2ECQP8YUKYQM/EFET_Consultation-CRE-places-de-marche.pdf)

**Question 1:** *Do you agree with CRE's analysis concerning the methodology retained in the Pöyry study?*

EFET broadly agrees with the analysis of CRE. Pöyry's choice to retain three contrasting market scenarios is indeed simplified and a scenario of increased tension would also be possible, but the three base cases allow to analyse the effects of the different solutions presented by the TSOs in a suitable manner with different contrasting scenarios of global gas prices development over the 2018-2038 period.

The mandate given by CRE to Pöyry was difficult and market participants will be able to confront the analysis based on the three market scenarios with their own prognosis of the evolution of the market, but given the time awarded for the study, the results are consistent with expectations and allow market participants to get a clearer idea of the situation. Also the global approach, which takes into account all networks, demonstrates that significant improvements and cost savings can be achieved by looking at all available solutions.

**Question 2:** *Do you agree with CRE's analysis regarding the quantitative and qualitative results of the Pöyry study for France?*

EFET agrees with CRE's analysis and appreciates the involvement of the external consultant in stakeholder meetings (Concertation Gaz). EFET also appreciates the proactive steps taken by Pöyry to consult with market participants at the various stages of the study and the efforts to take due account of their feedback.

The results of the study are consistent with what market participants could expect. The "Tomorrow as Today" scenario could even be reinforced if we consider the recent evolution of market spreads (as mentioned by CRE in its analysis leading to question 4), also taking into account the overall context of a mild winter and of a low macroeconomic support. The "Middle of the Road" scenario, which is balanced or optimistic, also shows that the NPV would remain balanced or positive when taking into account the qualitative results.

Therefore, there seems to be an interesting opportunity for the targeted infrastructure investments that will allow the integration of the French market.

**Question 3:** *Do you agree with CRE's analysis regarding the results of the Pöyry study at European level?*

As mentioned in the introduction of this document, there is a strong incentive to reforming the current structure of the French gas market in order to avoid its marginalisation in the context of the Third Energy Package of the European Union aiming to establish an internal market for gas by 2014.

EFET agrees with the analysis of CRE that the decongestion of the North-South axis of the French system will not only be beneficial for the development of the French market (including the development of competition in the South region) but also that the creation of a single PEG will favour price convergence between the South-West and North-West markets in Europe. It will also contribute to the construction of a European gas market composed of liquid and interconnected marketplaces and not only of a dynamic and integrated French market, which in itself will be a great achievement. This evolution will therefore be an important milestone in the overall roadmap towards the integration of European Gas markets.

EFET also supports the decision of CRE and CNMC to request that the cost of the Val de Saône PCI be distributed between France and Spain as part of a PCI project and supports the possibility for TIGF to

submit a request to the European Commission for the Gascogne/Midi project in order to receive the PCI status. These requests should of course not delay the technical studies and the investment decisions.

***Question 4: Do you agree with the lines of action envisaged by CRE?***

EFET supports CRE's analysis and the fact the winter 2013/14 market spreads do reinforce the need for action. Therefore EFET also agrees with CRE's proposals to:

- request the two TSOs to implement the Val de Saône and Gascogne/Midi projects without delay, and
- decide on the creation of a single marketplace in France by 2018 at the latest.

In this context some accelerated administrative procedures (with or without PCI status) will be more than welcome.

***Question 5: Are you in favour of the early merger of the North and South zones before the commissioning of decongestion investments?***

***Question 6: In your opinion, should this merger be based only on purchases of gas in the south by the TSOs or on LNG flow obligations? In the latter case, what type of obligation do you recommend?***

While EFET would welcome an early merger of the North and South zones before 2018, such a development should not be made at the expense of a competitive functioning of the wholesale market. Measures aiming to directly or indirectly influence market price formation mechanisms are to be avoided and contradict the spirit of the European Third Energy Package, which underpins this whole reform.

Therefore, we request that:

- Any interim measure or contractual mechanism should be transparent and non-discriminatory;
- Any such mechanism should be thoroughly discussed in Concertation Gaz in order to ensure the above-mentioned principles.

Beyond our call for care with regard to fundamental market principles, we would also like to point out that an early merger of the North and South zones should not be overly expensive, certainly not as much as investment projects lead us believe. As mentioned in the introduction to this document, we believe that the restructuring of the French gas market needs to be done in a cost-efficient way and all decisions in that respect need to take into account all available levers. An early merger of the North and South zones may lead to a significant increase in transportation costs throughout the common French market place, which would be a highly undesirable outcome and would a sign that decisions on the evolution of the market structure were not guided by an economic optimum, as requested by all parties.

***Question 7: Are you in favour of the sale by GRTgaz of additional North to South capacity until 2018 based on contractual tools? Do you support the mechanism envisaged by CRE? If not, in your opinion, what would be the most suitable tools?***

As a matter of principle a first measure should be to make sure that the South to North tariff is set to zero since any South to North flow would contribute to reducing GRTGaz' costs and to decreasing the North – South congestion.

The proposal to set up a specific mechanism to further decrease the North – South congestion seems attractive, especially if it proves to be less costly than other measures. However, when looking at all the

measures that have been implemented so far, there seems to be a risk of creating a patchwork of initiatives, which would contribute to decreasing transparency and which could lead to unexpected effects compared with a complete merger. The continuous innovation of new measures and the important cost variations seem to indicate that full maturity is not yet reached concerning interim measures. Also the overall objectives become blurred and it is even possible that other alternative solutions would also be available.

It would therefore be beneficial to clarify the objectives and to address the list of interim measures in a more systematic way, also by ranking them according to their cost and efficiency. A more integrated vision would also be useful in order to take into account the measures that have already been implemented, their respective efficiency and their overall impact on markets.

As a consequence we request that:

- interim measures should be transparent and non-discriminatory,
- the overall effect of the various measures and their respective efficiency and cost should be compared; GRTgaz should be better incentivised to study and possibly use all available measures based on clear objectives (which should be beneficial to the market and to end customers) and on the cost and efficiency of such measures (such as for redispatch measures in the power sector),
- interim measures should be thoroughly discussed in Concertation Gaz in order to ensure the above-mentioned principles and in order to check the overall efficiency and consistency of the proposed measures with market participants.

Besides, a full cost-benefit analysis should be performed in order to clarify the extra financial burden that the proposed measures would put on market participants and to compare that with the overall effects on the gas market. Once again, looking for an economic optimum in the evolution of the market structure should be the determining factor of any decision on the subject.

***Question 8:*** *Are you in favour of the implementation of the tools envisaged by CRE for avoiding congestion in the Southeast?*

Once again, a more integrated vision would be needed and the overall benefits and effects on the well functioning of the market should be more thoroughly analysed and described. In this specific case, it remains unsure whether a specific treatment of the South-East congestion is needed.

Based on GRTgaz's description of the phenomenon at Concertation Gaz meetings, EFET understands that the occurrence of the South-East congestion is linked to a low level of gas available at Fos LNG Terminals and at the salt cavern storages during times of high demand.

As a consequence, EFET is mixed about the interest of specific contractual tools to deal with this congestion, especially considering that:

- The recent regulatory changes on the storage obligation have resulted in the full reservation of the storage capacity available at the salt caverns in the South-East of France.
- The implementation of the contractual tools mentioned at questions 5,6 and 7 could lead to an increased availability of LNG in the South of France, thus releasing some of the network constraints in the South-East.

Moreover, we believe that measures presented by CRE such as increasing GRTgaz's buffer stock in Storengy's storage facilities, interrupting the tanker reloading service proposed by Elengy at the Fos Cavaou terminal if there is a risk of bottleneck in the south-east or conditionally selling firm capacity left

unsold after an initial capacity sale at the France- Spain interconnection should not unduly distort the competitive market.

**Question 9:** *Do you agree with the lines of action envisaged by CRE?*

EFET agrees with CRE that the continued existence of two very different gas prices in France would further damage the economic development of the country, would undermine the development of competition and would have detrimental impacts on industrial competitiveness and territorial equality. The least expensive and most robust long-term method for ensuring a single gas price in France is the merging of the marketplaces by way of investments to reduce bottlenecks in the system.

We support CRE's intention to request the TSOs, in coordination with the adjacent infrastructure operators, to study the arrangements for implementing the most cost efficient measures that will emerge from the present consultation and that will facilitate the development of a well-functioning gas market for the benefits of all stakeholders.

We insist once again on the need for a transparent process with appropriate consultation of market participants, including through Concertation Gaz meetings. Proper cost-benefit analyses must be provided and overall market effects must be studied and presented in order to restructure the French gas market in the most useful and cost-efficient way.