

French Energy Regulatory Commission's public consultation of 1 July 2015 on the evolution of the balancing rules for the gas transmission networks as at 1 October 2015

The present public consultation is part of the evolution of the balancing rules for the natural gas transmission networks towards the target balancing system defined by regulation No 312/2014¹ ("Network balancing code" or "Network code"), which entered into force on 16 April 2014, the provisions of which will apply as from 1 October 2015.

In its deliberation of 15 January 2015 approving the balancing rules for GRTgaz's and TIGF's transmission networks as at 1 April and 1 October 2015, CRE requested the transmission system operators (TSOs) to:

- study the possibility of offering a flexibility service based on linepack;
- specify their proposal to use the purchase/sale of "locational" products for their balancing.

Following work carried out within the framework of Concertation Gaz, GRTgaz and TIGF forwarded to CRE on 24 and 25 June 2015 proposals concerning the implementation of these two mechanisms. GRTgaz also submitted proposals for adapting its market actions. These proposals are described in the Annex to the present consultation.

The present public consultation aims to collect market participants' views on the proposals of the two transmission system operators.

Interested parties are requested to answer the questions in the consultation notice by Friday, 31 July 2015 at the latest.

¹ Commission Regulation (EU) No 312/2014 of March 2014 establishing a Network Code on Gas Balancing of Transmission Networks

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1. Background

Pursuant to Article L. 134-3 of the French Energy Code, the French Energy Regulatory Commission (CRE) "approves the technical and financial rules drafted by the operators on the balancing of natural gas systems and the coverage of needs cited in Articles L.431-4, L.431-5 and L. 431-8".

In its deliberation dated 1 December 2011², CRE approved the roadmaps towards the target balancing system proposed by GRTgaz and TIGF. On that basis, every year the TSOs forward to CRE their proposals for changing the balancing rules, following work carried out in Concertation Gaz.

Thus, in its deliberations of 21 June 2012³, 20 September 2012⁴, 5 February 2013⁵, 4 April 2014⁶ and 15 January 2015⁷, CRE approved, in particular, developments related to:

- the level and frequency of information made available to shippers by the TSOs;
- the methods for settling shippers' imbalances, by gradually reducing the level of imbalance tolerance;
- the terms and conditions surrounding TSOs' market actions to cover their balancing needs, and encourage shippers to balance their volumes of gas through the application of a marginal price for settling imbalances.

In its deliberation of 15 January 2015, CRE approved the balancing rules submitted by the TSOs, applicable as at 1 October 2015, date from which the Network Code will apply. Given the elements provided by the TSOs and concerning the development of the short-term wholesale gas market, CRE has decided not to implement the interim measures provided for by the Network Code. In particular, the new balancing rules eliminate tolerances and the daily balancing service, and provide for the application of a system of supplements/reduction of +/- 2.5% to the average imbalance settlement price.

CRE also requested the TSOs to offer a linepack flexibility service and to provide more details concerning their proposal to use the purchase/sale of "locational" products for their balancing.

2. Linepack flexibility service

2.1. General principle

2.1.1. TSOs' proposals

GRTgaz and TIGF forwarded to CRE a common document with their proposal for flexibility services based on available linepack. Both services require interested shippers to take out a monthly subscription. Subscriptions to the service provided by each TSO are independent.

For each day that is eligible for the service, i.e. days in which the overall system imbalance does not require⁸ TSO market action, and in each balancing zone in which the service is a subscribed, the shippers benefit from the linepack service to balance their portfolio. Therefore, they are not exposed to the imbalance settlement price.

The monthly imbalance sum for the days in which the service is applied is cleared at a neutral reference price (PNR). The PNR corresponds to the average of the daily average prices for the month for the market place in question (PEG Nord or Trading Region South (TRS)).

Participants that have subscribed to the service are collectively encouraged to act in order for the day to be eligible, i.e. contribute to balancing the system in order to have access to the service.

² [Deliberation by the French Energy Regulatory Commission dated 1 December 2011 on the approval of changes to the balancing rules for the GRTgaz and TIGF gas transmission networks](#)

³ [Deliberation by the French Energy Regulatory Commission dated 21 June 2012 on the approval of changes to the balancing rules for the GRTgaz and TIGF gas transmission networks](#)

⁴ [Deliberation of the French Energy Regulatory Commission dated 20 September 2012 deciding on the approval of the evolution of balancing rules for GRTgaz's gas transmission network](#)

⁵ [Deliberation of the French Energy Regulatory Commission dated 5 February 2013 on the decision concerning the balancing rules for the GRTgaz and TIGF gas transmission networks](#)

⁶ [Deliberation by the French Energy Regulatory Commission dated 4 April 2014 approving the evolution of the balancing rules for the GRTgaz and TIGF gas transmission network](#)

⁷ [Deliberation of the French Energy Regulatory Commission dated 15 January 2015 approving the balancing rules for the GRTgaz and TIGF gas transmission networks as at 1 April and 1 October 2015](#)

⁸ See eligibility explained in section 2.2

2.1.2. CRE's preliminary analysis

The TSOs' proposal to offer a linepack flexibility service corresponds to a request made by CRE in its deliberation of 15 January 2015. Work in Concertation Gaz shows that this proposal also meets a request made by market participants. At this stage, CRE is in favour of the principles for implementing the service proposed by the TSOs.

However, clearing on the basis of a monthly average price eliminates shippers' exposure to the gas price of the day. This could reduce, especially at the end of the month, the incentive to be balanced, and may even encourage some shippers to maintain an imbalance. In addition, it could be considered that this monthly price deviates from the Code (Article 43 §2):

"the terms and conditions applicable to a linepack flexibility service shall be consistent with the responsibility of a network user to balance its inputs and off-takes over the gas day."

In order to maintain the incentive for all shippers to balance, one alternative could be that of a monthly price calculated for each shipper as the weighted average of the average prices of each gas day for imbalance volumes offset by the service.

Question 1: Are you in favour of the implementation by the TSOs of these two linepack flexibility services?

Question 2: Should clearing be based on the average of the average daily prices of the month or do you consider that clearing weighted by the imbalance of each day is preferable?

2.2. Conditions for interrupting the service

2.2.1. TSOs' proposals

GRTgaz, unlike TIGF, can undertake actions in the market outside working days. This leads the TSOs to propose different conditions for the application of the service:

- GRTgaz proposes that the service be available, in the GRTgaz Nord zone, on days during which GRTgaz does not have to undertake balancing actions at the PEG Nord (neither buy/sell actions in the exchange nor calls for locational products). Similarly, in the GRTgaz Sud zone, the service is eligible on days during which GRTgaz has not bought/sold standard or locational products at the TRS.
- For TIGF's balancing zone, the service is applied:
 - each working day during which TIGF has not undertaken any balancing actions in the market;
 - each non-working day during which projected linepack for the TIGF balancing zone published at 4:00 p.m. falls within the zone corresponding to the limits of linepack (dark green on the graph on TIGF's website).

Each TSO therefore proposes service interruptions depending only on the conditions of its balancing zones, in particular for the TRS market zone in the south of France.

2.2.2. CRE's preliminary analysis

The criterion of no market action is relevant. However, under certain configurations, in particular, when market liquidity is not sufficient, the TSO is unable to undertake action even though the system imbalance requires it. The TSO must therefore resort to storage. In these cases, the application of the criterion proposed by GRTgaz and TIGF on working days, which is simple, means that the day is still eligible for the service.

Yet, use of storage is considered a balancing action under the Network Code.

For these few cases, CRE considers that it might be relevant to interrupt the service. The criterion proposed by TIGF for non-working days does not have this problem.

Question 3: Are you in favour of the eligibility criteria proposed by the TSOs?

In addition, CRE questions the appropriateness of separated eligibility for the TIGF and GRTgaz Sud zone.

Indeed, the marginal price is common to the TIGF and GRTgaz Sud zone regardless of which TSO

undertakes action in the TRS market place. Shippers are therefore exposed to the marginal price in the two balancing zones even if one of the TSOs has not undertaken any action.

Feedback shall be collected by the TSOs in order to justify the relevance of interrupting the service separately for each balancing zone.

Question 4: What do you think of interruptions specific to each balancing zone, in particular between the TIGF and GRTgaz Sud zone?

2.3. Access to the service

2.3.1. TSOs' proposals

The TSOs propose that the services be available to all shippers with delivery capacity at at least one PITD (transport distribution interface point) or an industrial site directly connected to the TSO's transmission system in the balancing zone concerned for the subscription month.

The TSOs propose that the length of subscription be indefinite. The service will take effect on the 1st of the month, the deadline for subscribing being the 20th of the previous month. The TSO will confirm subscription to the shipper five working days after the 20th of month M-1 at the latest.

The shipper can cancel the subscription for month M on the 20th of month M-1 at the latest. If a shipper does not cancel the subscription, the service is automatically renewed for month M.

GRTgaz proposes a single subscription to the service for its two balancing zones.

2.3.2. CRE's preliminary analysis

CRE is in favour of the shippers' eligibility criteria for the services proposed. Indeed, this service is addressed only to shippers who deliver to customers and are thus exposed to imbalances.

CRE considers that the deadlines for service subscription and cancellation are reasonable.

Question 5: Do you agree with the terms and conditions for subscription to the service proposed by the TSOs?

2.4. Integration in the neutrality account

2.4.1. TSOs' proposals

The TSOs propose that the settling of the daily imbalance quantity covered by the service be performed M+2 and included in the balancing neutrality account.

2.4.2. CRE's preliminary analysis

Balancing must continue to be financially neutral for operators and for the transmission tariff. Therefore, CRE is in favour of integrating monthly clearance in the balancing neutrality account.

Question 6: Do you agree with integrating the clearance of the service into the balancing financial neutrality account?

2.5. Service pricing

2.5.1. TSOs' proposals

The TSOs propose a basic subscription price equal to 0.12 euros/MWh/d/month for all delivery points of industrial sites directly connected to the transmission network or for all delivery points of daily-metered sites connected to a PITD. This price takes into account the costs of the TSO, but also the value of the service for shippers (first of all, savings related to the small adjustment).

In order to make the service accessible in priority to shippers whose portfolios are mainly composed of non-daily metered clients, the TSOs propose that a 50% discount be applied to the subscription price for all delivery points of non-daily metered sites connected to the distribution network.

Invoicing would be done M+1 for TIGF's service and M+2 for GRTgaz's service.

The TSOs propose that the income from subscriptions be included in the TSOs' regulated revenue.

2.5.2. CRE's preliminary analysis

CRE considers that the price discount proposed by the TSOs responds to its request, made in the deliberation of 15 January 2015, to study the possibility of making this service accessible in priority to shippers whose portfolios are mainly composed of profiled clients.

In addition, CRE considers that the prices proposed by the TSOs cover the TSOs' costs, and are also of interest to all shippers.

Question 7: Do you agree with the pricing system proposed by the TSOs?

3. Use of locational products for GRTgaz's residual balancing

3.1. Needs assessment

3.1.1. GRTgaz's proposal

For about 20 days per year, system imbalance reaches high values (over 90 GWh) which GRTgaz's actions in the markets are unable to cover.

Currently, GRTgaz has a flexibility contract with Storengy, which enables it to input or offtake quantities of gas during the day to cover balancing needs. This contract is very expensive, 90% fixed, since it is a storage reservation.

However, Article 9 of the network balancing code concerning the merit order of balancing actions, provides that standardised short-term non-title products (locational and/or temporal) must be preferred over balancing services. "[The TSO shall] use balancing services where short term standardised products will not or are not likely to provide, upon assessment of the transmission system operator concerned, the response necessary to keep the transmission network within its operational limits."

To limit the use of the flexibility contract signed with Storengy and reduce balancing-related costs, GRTgaz wishes to use locational products. These products involve physical delivery of gas at one or several points of the balancing zone within the gas day, comprising:

- a gas purchase/sale to/from GRTgaz;
- a physical delivery by re-nominating one or several points of the system.

GRTgaz proposes to test the mechanism for one year starting from the beginning of winter 2015-2016 and to demonstrate the usefulness of locational products for residual system balancing in the days with the highest imbalances.

Feedback will be presented in Concertation Gaz in order to assess the cost/benefit ratio of the use of locational products and to identify any risks observed during this period.

3.1.2. CRE's preliminary analysis

The Network Code specifies that the TSOs must take into account the cost/benefit ratio of the solutions implemented. The one-year experiment proposed by GRTgaz would serve to determine the effectiveness of the mechanism and to compare its costs with that of current tools. This experiment would also preserve the operating conditions of the system, since, in the event of any difficulty to purchase or sell locational products, the storage operator would then be called upon.

CRE considers that it is appropriate to study the possibility for the TSO to use locational products for its residual balancing, on days during which the purchase/sale of standardised products does not suffice to maintain the system's operating conditions.

At this stage, CRE is therefore in favour of the experiment proposed by GRTgaz, the results of which shall be presented regularly in Concertation Gaz. It would be particularly necessary to present the conditions leading to the launch of the call for tenders (tight weather conditions, imbalance widened by certain shippers, restriction on off-takes from storage, etc.), the number of participants in the tender and the average price of the selected products. It would also be necessary to analyse any effects of this new mechanism on within-day market liquidity. Lastly, a detailed analysis of the value of the system compared to market actions will have to be performed.

Question 8: Are you in favour of an experiment to study the effectiveness of the use of locational products?

3.2. Conditions for resorting to the use of locational products

3.2.1. GRTgaz's proposal

The purchase/sale of locational products is a last-resort solution, justified when two market actions by the TSO have not sufficed to re-establish system balance (projected linepack indicator in the orange and red zone).

GRTgaz proposes that the calls for tenders be allowed only after the TSO's second market action. This takes place at 5:25 p.m. and ends at 5:45 p.m. GRTgaz intends to wait for the result of transactions during this window, before determining whether it is necessary to resort to the purchase/sale of locational products.

3.2.2. CRE's preliminary analysis

CRE is in favour of the conditions for launching calls for tenders proposed by GRTgaz. These conditions comply with the merit order established by the Network Code and spare the TSO from excessive purchases/sales that could in fact reverse the end-of-day imbalance direction.

Nevertheless, few shippers have the necessary human resources to manage a call for tenders after 5:45 p.m. and outside of working days. CRE will therefore pay particular attention to the number of participants in each call for tenders in order to determine whether the mechanism is sufficiently accessible and open. This criterion will, among other things, serve to decide whether this type of call for tenders should be maintained in the long term.

3.3. Terms and conditions for calls for tenders and selection of the locational product provider

3.3.1. GRTgaz's proposal

Following GRTgaz's second market action (6:00 p.m.) and in the event of critical imbalance, GRTgaz proposes to notify its need by email to the signatories of the framework agreement for the supply of locational products. This information will specify the quantity of product requested, the group of delivery points targeted and the direction (purchase or sale).

Shippers qualified to respond to a call for tenders must have a supply authorisation and a transmission contract, and must be signatories to an agreement for the use of Powernext and to the locational products purchase/sale agreement.

As from the time the email is sent, shippers have at least 30 minutes to submit their bids on the Powernext platform. They have the possibility of re-assessing their price and volume during that period of time. Then, GRTgaz selects the bids: shippers remain anonymous; the only criterion is the price.

3.3.2. CRE's preliminary analysis

CRE is in favour of GRTgaz launching calls for tenders at several points rather than at a single point, which increases the number of shippers with the capacity needed to respond to the call for tenders.

CRE agrees with the bid selection process proposed by GRTgaz. The method of informing shippers that have signed a locational products supply contract is not at all costly, since it does not involve the development of information systems. However, GRTgaz shall have to ensure that the same email is sent simultaneously to all parties.

Question 9: Do you agree with the criteria for the launch, participation and functioning of the call for tenders proposed by GRTgaz?

3.4. Contract, verifications and penalties

3.4.1. GRTgaz's proposal

Shippers whose bids have been selected must inform GRTgaz by email, within 30 minutes, of the points covered by the transaction as well as the associated quantities. This measure will enable the TSO to verify that shippers re-nominate in the TRANS@ctions portal (or in that of Storengy, SAM, in the event of a nomination at a storage group) and to measure the expected flow of gas. In addition, providers whose bids have been selected will not be able to re-nominate in the opposite direction at points specified in the confirmation email.

Each contract obligation exposes the shipper to penalties:

- in the event of a late email notification of quantities and delivery points, a penalty equal to 25% of the value of the transaction will be charged;
- in the event of no email notification of quantities and delivery points, a penalty equal to 100% of the value of the transaction will be charged;
- the absence of re-nomination and re-nomination in the opposite direction at the points concerned will be penalised at 100% of the value of the transaction;
- lastly, if the shipper does not have the necessary capacity, its nominations being capped, GRTgaz could apply a penalty equal to the pro rata of the quantity missing compared to that of the transaction.

Verifications carried out after the gas day will aim to analyse any behaviour aimed at manipulating system operation.

3.4.2. CRE's preliminary analysis

CRE is in favour of the procedure proposed by GRTgaz, which it considers to be relatively simple and responsive. It however entails long delays for carrying out the calls for tenders, which could make the mechanism less effective than the storage flexibility service. These difficulties shall have to be studied in the light of feedback.

As regards penalties, CRE notes that the mechanism is based on verifications that are only possible with the full cooperation of the shippers selected, in particular a certain number of verifications carried out afterwards, which are however essential. Therefore, CRE wishes for GRTgaz to submit to it a detailed report of the functioning of the calls for tenders in order to be able to carry out additional analyses. Feedback should enable the mechanism to improved, which is necessary for securing the sustainability of this type of call for tenders.

Question 10: Do you agree with the verifications and the penalties established by GRTgaz?

3.5. Integration of locational products in marginal price calculation and in the neutrality account

3.5.1. GRTgaz's proposal

GRTgaz proposes that the purchases/sales of locational products be included in the neutrality account, similar to the purchases/sales of standardised products.

It proposes that the prices of these transactions be excluded from the calculation of the imbalance settlement prices during the experiment. If the mechanism was to be prolonged however, GRTgaz wishes for the prices of these transactions to be included in the calculation of the marginal price.

3.5.2. CRE's preliminary analysis

CRE is in favour of integrating locational product transactions into the neutrality account, which will ensure that the effect of balancing actions on the TSO's revenue remains neutral.

The use of locational products will be carried out as part of an experimentation, it is therefore possible for non-representative prices to emerge. Therefore, it does not appear to be appropriate to include them in the imbalance settlement price for the time being. However, the balancing system is built on an incentivised imbalance settlement price, whose value must reflect the costs which imbalanced shippers generate for the system. At this stage, CRE therefore agrees with GRTgaz's proposal to include the price of locational products in the calculation of the imbalance settlement price at the end of the experiment.

Question 11: Do you agree with the integration of locational products into the financial neutrality account under balancing during the experimentation?

Question 12: Do you agree with the integration, ultimately, of locational products in the calculation of the marginal price for imbalance settlement?

4. TSO market actions

4.1. Frequency and time frames

4.1.1. GRTgaz's proposal

GRTgaz proposes, in addition to the three windows for action that it has had since 1 April 2015 to purchase or sell title products in the exchange (10:25 a.m., 5:25 p.m. and 11:25 p.m.), to create two new ones.

The first, at 2:25 p.m., will enable GRTgaz to meet its needs before 5:25 p.m., in the event of critical and persistent imbalance.

The second will aim to anticipate critical imbalance for the following day, by buying/selling day-ahead products either at 11:25 p.m. the day before, or by buying/selling within-day products at 7:25 a.m. when the imbalance at the start of the gas day is critical.

4.1.2. CRE's preliminary analysis

CRE is in favour of GRTgaz's request to have an additional window in order to increase the opportunities to buy/sell title products in priority, as soon as imbalance is identified. It is desirable to limit the number of windows to four, in order to concentrate liquidity. Therefore, CRE is favourable, at this stage, to opening a new window for within-day products at 2:25 p.m.

However, CRE considers that buying/selling day-ahead products would be a step backward, since concentrating actions on within-day products is recommended in the Network Code. Therefore, at this stage, it is not in favour of this part of GRTgaz's proposal.

Question 13: Do you agree with the opening by GRTgaz of a window for balancing at 7:25 a.m. for within-day products? Do you agree with the opening by GRTgaz of a window for balancing at 2:25 p.m. for within-day products and at 11:25 p.m. for day-ahead products?

4.2. Physical clearance of the financial neutrality account for balancing

4.2.1. GRTgaz's proposal

Currently, GRTgaz physically clears the balance of the neutrality account by buying or selling month-ahead products. During the elapsed year, this method occasionally resulted in the purchase of gas for the previous month, delivered while the system is long and vice versa.

GRTgaz proposes, on the one hand, to transfer the physical results of imbalances to its own needs. On the other hand, the quantities thus cleared would be valued at the average price of the past month in order to provision the financial neutrality account. Therefore, instead of using month-ahead purchases/sales in the market to cover the balance of the month cleared, GRTgaz would make purchases, only when necessary, for its own needs. This method would prevent the expansion of a long or short trend by the clearance of the neutrality account of the previous month.

4.2.2. CRE's preliminary analysis

GRTgaz's proposal is the result of certain participants' determination to bring the clearance price closer to that of the previous month, for the purposes of consistency. In addition, it would reduce the risk of a large variation between the price of gas at the time of the imbalance and the time it is delivered in the network. At this stage, CRE does not object to GRTgaz's proposal.

Question 14: Do you agree with the development of the arrangements for clearing the neutrality account proposed by GRTgaz?

5. Summary of questions

Question 1: Are you in favour of the implementation by the TSOs of these two linepack flexibility services?

Question 2: Should clearing be based on the average of the average daily prices of the month or do you feel that clearing weighted by the imbalance of each day is preferable?

Question 3: Are you in favour of the eligibility criteria proposed by the TSOs?

Question 4: What do you think of interruptions specific to each balancing zone, in particular between

the TIGF and GRTgaz Sud zone?

Question 5: Do you agree with the terms and conditions for subscription to the service proposed by the TSOs?

Question 6: Do you agree with integrating the clearance of the service into the balancing neutrality account?

Question 7: Do you agree with the pricing system proposed by the TSOs?

Question 8: Are you in favour of an experiment to study the effectiveness of the use of locational products?

Question 9: Do you agree with the criteria for the launch, participation and functioning of the call for tenders proposed by GRTgaz?

Question 10: Do you agree with the verifications and the penalties established by GRTgaz?

Question 11: Do you agree with the integration of locational products into the financial neutrality account under balancing during the experimentation?

Question 12: Do you agree with the integration, ultimately, of locational products in the calculation of the marginal price for imbalance settlement?

Question 13: Do you agree with the opening by GRTgaz of a window for balancing at 7:25 a.m. for within-day products? Do you agree with the opening by GRTgaz of a window for balancing at 2:25 p.m. for within-day products and at 11:25 a.m. for day-ahead products?

Question 14: Do you agree with the development of the arrangements for clearing the neutrality account proposed by GRTgaz?

CRE invites all interested parties to submit their contributions by Friday, 31 July 2015 at the latest:

- by email to the following address: dr.cp2@cre.fr;
- by contributing directly on CRE's website (www.cre.fr), in the "Documents/Public Consultations" section;

Individual non-confidential responses will be published on CRE's website.

Please state in your response whether you wish for your contribution to remain **confidential** or **anonymous**. If not, your contribution will be considered as non-confidential and non-anonymous. Interested parties are invited to submit their observations by explaining their positions.

For any additional information, please contact the Direction des Réseaux: +33(0)1.44.50.41.43.

Annex:

- TIGF's and GRTgaz's common proposal for the offering of linepack flexibility services dated 24/06/2015
- GRTgaz's proposal for the use of locational products dated 25/06/2015

Links to documents on the current balancing systems:

- GRTgaz: <http://www.grtgaz.com/fr/accueil/acheminement/equilibrage/>
- TIGF: <https://www.tigf.fr/fr/nos-publications/publications-transport/reglement-des-desequilibres.html>