

Public consultation

11th December 2015

Public consultation by the French Energy Regulatory Commission regarding the marketing of transmission capacities between the GRTgaz North and South zones

In its deliberation of 7th May 2014¹, the CRE confirmed the creation of a single gas trading point (PEG) based on the investment plan combining the Val de Saône and Gascogne-Midi projects in 2018, subject to the completion of work by this date. The investments allowing this merger of existing zones to be implemented form the subject of an incentive-based regulatory mechanism, which is designed to guarantee the creation of a single marketplace in France from 1st November 2018. Prior to completion of this merger of zones, gas transmission capacities are marketed between the GRTgaz North and South zones.

In its deliberation of 17th October 2013², the CRE decided that capacities at the North-South connection point would be allocated by means of an auction system recommended by Commission Regulation (EU) no. 984/2013 of 14th October 2013 on the rules for the allocation of gas transmission capacities (CAM network code). Application of this network code has been mandatory since 1st November 2015.

The rules for marketing transmission capacities form the subject of regular work within Concertation Gaz (the gas consultation body). This work shows that the current auction mechanism and the system of redistributing auction surpluses are functioning satisfactorily. GRTgaz wishes to keep the current system in place and to make some changes to it, as detailed in the proposal submitted to the CRE on 20th November 2015. This proposal is published as an appendix to this document.

This public consultation focuses on the changes proposed by GRTgaz to the arrangements for marketing transmission capacities between the North and South zones, applicable from the annual auctions in March 2016 until the creation of a single marketplace in 2018. Interested parties are invited to respond to the questions appearing at the end of this document by 11th January 2016 at the latest.

¹ [CRE deliberation of 7th May 2014 providing guidelines for the creation of a single marketplace in France in 2018](#)

² [CRE deliberation of 17th October 2013 determining the rules for the marketing of transmission capacities at the connection point between the GRTgaz North and South zones, at the interface between GRTgaz and TIGF and at the interconnection points with Spain](#)

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1. Background

1.1 European background: implementation of the CAM network code

The European network code on the rules for the allocation of transmission capacities (CAM network code) stipulates that capacities at interconnection points within the European Union are allocated at auctions, in the form of bundled products for standardised durations based on a common timetable. Annual capacities are marketed in March, quarterly capacities in June and monthly capacities on the second Monday of the previous month. The code also stipulates that at least 10% of technical capacities must be marketed in the short term, in the form of products with a duration of less than one year.

In order to market transmission capacities at auctions, the PRISMA platform was created jointly by 20 transmission system operators (TSOs) from seven European Union member countries. This platform, which has been accessible since 1st April 2013, is now used by 37 of the 43 European TSOs. It allows primary and secondary capacities to be sold, in accordance with the harmonised timetable under the conditions set out in the CAM code.

1.2 National background

1.2.1 The CRE's resolutions on the creation of a single marketplace in France

Since 2009, the CRE has been holding discussions with the aim of simplifying the structure of the French gas market. Following the work carried out within Concertation gaz, by means of its deliberations of 19th July 2012³, 13th December 2012⁴ and 7th May 2014, the CRE decided to:

- create a market area (*Trading Region South*, TRS) common to GRTgaz South's and TIGF's balancing zones on 1st April 2015,
- create a single PEG on 1st November 2018, following implementation of the Val de Saône and Gascogne-Midi projects, with a budget of € 823 M. The deliberation of 30th October 2014⁵ defined the incentive-based regulatory mechanism applicable to compliance with deadlines and costs associated with these investments.

1.2.2 The CRE's resolutions on the allocation of North-South capacities at auctions

Between 2012 and 2014, significant price differences between the North and South PEGs resulted in high demand for capacity at the North-South connection point. The CRE decided on an early replacement of the previous system of allocating capacities pro rata to demand with the ascending-bid auction system, specified by the CAM code, for the allocation of North-South capacities. The rules for marketing capacities at the North-South connection point were defined by the CRE deliberation of 13th February 2014⁶.

Since 2014, North-South capacities have been sold at auctions, in the form of annual, quarterly, monthly and daily products.

The difference between the auction price and the regulated tariff for capacities sold at auctions is fully redistributed to shippers for customers in the south of France, pro rata to their consumption.

1.2.3 Changes in congestion at the North-South connection point

- 2012-2014: shortage of liquefied natural gas (LNG), marked North-South spread and congestion at the North-South connection point

The world LNG market experienced an upheaval associated with high demand in Asia. LNG tankers were being heavily routed towards Asian markets, where the price of gas (LNG EAX) rose above €48/MWh in February 2014. As 40% of supply for GRTgaz South zone and TIGF zone depends on LNG emissions, gas prices rose sharply from the 1st six months of 2012. Significant spreads (up to

³ [CRE deliberation of 19th July 2012 providing guidelines on changes to gas marketplaces in France](#)

⁴ [CRE deliberation of 13th December 2012 determining the tariff for the use of natural gas transmission systems](#)

⁵ [CRE deliberation of 30th October 2014 determining the incentive-based regulatory mechanism for the Val de Saône and Gascogne/Midi projects](#)

⁶ [CRE deliberation of 13th February 2014 determining gradual implementation of the European network code on the allocation of gas transmission capacities at interconnection points between entry-exit zones](#)

€ 14/MWh) appeared between the day-ahead prices and month ahead prices recorded at the North and South PEGs, with the price in the south being higher and more volatile.

Consequently, the auction price at the first auctions, held in March 2014 for annual capacities from 1st October 2014 to 30th September 2015, was € 3.54/MWh/d.

- 2014-2015: LNG returns to Europe, North-South spread shrinks and demand at the North-South connection point

From November 2014, the worldwide price spread for LNG narrowed, encouraging the routing of LNG to Europe. As a result, the spread between the North PEG and the TRS (*Trading Regions South*) narrowed: between November 2014 and November 2015, it was € 0.37/MWh on average. Consequently, the North-South connection point was used less by stakeholders.

At the most recent capacity auctions in March 2015, for annual capacities available between 1st October 2015 and 30th September 2016, demand was markedly less pronounced than at previous auctions. The auction price was € 0.72/MWh/d, whereas in the previous year, shippers were subscribing for the same product at a price of € 2.96 /MWh/d.

During the course of these auctions, capacities were not fully subscribed. Hence, for the period from 1st October 2015 to 30th September 2016, 13.7 GWh/d of firm capacities and 20.9 GWh/d of interruptible capacities offered for sale were not subscribed.

2. Changes to the marketing conditions for selling capacities at the North-South link proposed by GRTgaz

GRTgaz and the CRE note that the practice of auctioning and redistributing surpluses introduced in 2013 has allowed capacities to be effectively allocated. The aim of GRTgaz's proposal is to marginally amend the rules in force, whilst retaining the existing principles and arrangements.

2.1 Marketing capacities at the North-South link beyond 1st October 2018

2.1.1 GRTgaz's proposal

The infrastructures needed for the zones to merge should be commissioned on 1st November 2018 at the latest. Nevertheless, GRTgaz proposes marketing the annual capacities for the period from 1st October 2018 to 30th September 2019 in March 2016.

GRTgaz emphasizes that no delays have been reported in the creation of these structures. However, work within Concertation Gaz has revealed that the market stakeholders attach great importance to visibility in terms of access conditions in the south of the territory. The majority of them require North-South link capacities to be marketed over several years, in order to provide for all contingencies.

GRTgaz believes that this marketing would make it possible to anticipate the sale of capacities for the month of October 2018, in order to provide the visibility required by shippers within Concertation Gaz.

2.1.2 The CRE's preliminary analysis

The CRE emphasizes that no delays are currently expected in the merger of zones. The incentive-based regulatory mechanism enables deadlines to be monitored and sanctions to be imposed for possible delays. However, the fact remains that the establishment of a single marketplace is not scheduled until 1st November 2018, creating uncertainty for shippers, which can only subscribe capacities for the month of October 2018 one month beforehand.

The CRE understands the shippers need for visibility, as expressed within Concertation gaz, and would like them to be able to subscribe capacity for the month of October 2018 in advance. As the CAM timetable only allows early marketing for annual capacities, it is not possible to market the month of October 2018 alone from 2016. The CRE is therefore in favour of marketing capacity at the North-South link for a further year, until 30th September 2019.

As the capacities subscribed are only billed *post hoc*, this early marketing would have no consequences if the merger of zones were to take place ahead of schedule. In any case, at the time of the merger, North-South gas transmission capacities would disappear and will no longer be charged to shippers. As a result, this marketing would provide shippers with cover for the month of October 2018 and beyond, in the event of a delay in creating the structures.

Therefore, at this stage, the CRE is in favour of GRTgaz's proposal.

Question 1: No delays are currently expected in implementing the merger of zones. Do you nevertheless believe that it would be desirable to market capacities at the North-South connection point after September 2018?

2.2 Timetable for marketing North-South capacities for the period from 1st October 2018 to 30th September 2019

2.2.1 *GRTgaz's proposal*

GRTgaz proposes that annual capacities at the North-South link for the period from 1st October 2018 to 30th September 2019 should be marketed, like the capacities for previous periods, in accordance with the arrangements determined by the CAM network code: sales by auction on the PRISMA platform, in accordance with the CAM timetable based on the various maturities.

Pursuant to article 8 of the CAM code, GRTgaz plans to reserve 10% of the total capacity for marketing quarterly capacities at the dedicated auction in 2018.

GRTgaz proposes to market the remaining 90% of available capacities at the North-South link for the period from 1st October 2018 to 30th September 2019 in at the auction in March 2016.

The following table presents the marketing mechanism for annual capacities proposed by GRTgaz. For the sake of simplicity, this table excludes the 10% reserved for quarterly capacities, which would be marketed in June 2018.

GRTgaz's proposal	oct.2017-sept.2018	oct.2018-sept.2019
2014 auctions	25%	0%
2015 auctions	25%	0%
2016 auctions	50%	100%
2017 auctions	0%	0%
2018 auctions		0%

2.2.2 *The CRE's preliminary analysis*

The CRE believes that GRTgaz's proposal could lead to a freezing of capacity subscriptions at the North-South link, while the portfolios of each shipper are likely to change and a possible new entrant could be interested in buying capacities after March 2016.

In order not to freeze the capacity portfolios from the 2014 auction, in its deliberation of 13th October 2013, the CRE requested that capacities at the North-South link should be marketed gradually. For the sake of consistency, the sale of capacity at the North South connection point for the period from October 2017 to September 2019 should follow the same principle.

Hence, the CRE proposes marketing 50% of the firm and interruptible capacity available for annual sale at the 2016 annual auctions, 25% at the 2017 annual auctions and 25% at the 2018 annual auctions.

The CRE's proposal	oct.2017-sept.2018	oct.2018-sept.2019
2014 auctions	25%	0%
2015 auctions	25%	0%
2016 auctions	25%	50%
2017 auctions	25%	25%
2018 auctions		25%

Question 2: Are you in favour of the marketing calendar for annual capacities at the North-South link as envisaged by GRTgaz, or do you prefer the solution designed to smooth the sales of annual capacities over three years?

2.3 Conditions for marketing interruptible North-South link capacities

2.3.1 Annual capacity

- GRTgaz's proposal

Since 2013, GRTgaz only markets interruptible capacities if at least 98% of firm capacities made available at the auction are subscribed. Yet, the algorithm defined in article 16 of the CAM network code, used for ascending-bid auctions, does not always enable this threshold to be reached, even when demand exceeds supply during the first round of auctions.

GRTgaz proposes reducing the marketing threshold for interruptible capacity to 95% of firm capacities made available for sale being subscribed.

- The CRE's preliminary analysis

The CRE notes that the auction mechanism, made up of large and small increments, results in residual unsold capacities which may exceed 2%. Therefore, the CRE is in favour of the threshold of 95% proposed by GRTgaz.

Question 3: Are you in favour of GRTgaz's proposal to only trigger the sale of interruptible capacities if at least 95% of the firm capacities made available for sale have been subscribed?

2.3.2 Quarterly and monthly capacity

- GRTgaz's proposal

Article 24 of the CAM code stipulates that interruptible capacities are interrupted on the basis of their maturity. As monthly capacities are interrupted before quarterly capacities, and quarterly capacities before annual capacities, capacities with a maturity below annual capacity would find themselves devalued.

Therefore, in 2015, GRTgaz decided to no longer market interruptible capacities with quarterly and monthly maturities at the North-South link. GRTgaz wishes to maintain this position until 2018.

- The CRE's preliminary analysis

The CRE notes that article 24 of the CAM code is likely to reduce the availability and, therefore, the value of monthly and quarterly interruptible products. In addition, capacity not made available as quarterly and monthly interruptible products is offered for sale by GRTgaz in the form of day-ahead firm capacity. Therefore, GRTgaz's proposal does not result in a reduction in the supply of capacity at the North-South link.

Consequently, at this stage, the CRE is in favour of GRTgaz's proposal not to market monthly and quarterly interruptible capacities.

Question 4: Are you in favour of GRTgaz's proposal to no longer market quarterly and monthly interruptible capacities at the North-South link?

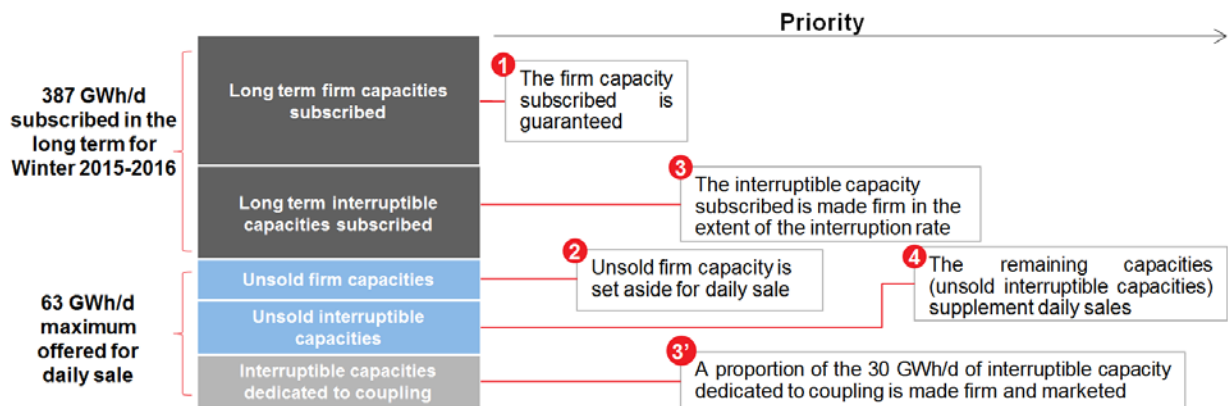
2.4 Sequence for the provision of daily capacities

2.4.1 GRTgaz's proposal

To effectively allocate capacities remaining unsold from 1st October 2015, GRTgaz proposed a sequence for the provision of daily capacities within Concertation gaz. This joint solution has been applied since 8th October 2015:

- Firm capacities subscribed are guaranteed by default.
- The amount of unsold firm capacities to be marketed is determined.
- Then the interruption rate for interruptible capacities is determined.

- The interruptible capacities subscribed are provided on the basis of this rate.
- At the same time, the interruptible capacities set aside for market coupling (a maximum of 30 GWh/d where the interruption rate is 0%) are offered for sale.
- Finally, the amount of unsubscribed interruptible capacities to be offered for sale in the form of firm capacities is determined on the basis of the previously calculated interruption rate.



GRTgaz proposes continuing with this method until the merger of zones. This sequence, established in consultation with shippers, guarantees good availability of interruptible capacities subscribed in the form of long term products as well it ensures that all shippers have access to short term capacities on a day-ahead basis.

2.4.2 *The CRE's preliminary analysis*

For now, the CRE is in favour of the sequence proposed by GRTgaz and its stability until 2018. This order reconciles, on the one hand, the maximisation of availability of interruptible capacities for shippers that have subscribed capacity in the long term, with, on the other hand, the marketing of short term capacities, allowing shippers to adjust their portfolio in line with their next day requirement.

Question 5: Are you in favour of maintaining the marketing mechanism for daily capacities that has been in place since 8th October 2015?

2.5 Marketing channels for short term products

2.5.1 *GRTgaz's proposal*

Currently, short term capacities are marketed in the form of 4 different products (firm daily, coupling⁷, JTS⁸ and UBI -Use it or buy it⁹), via three channels (PRISMA¹⁰, TRANS@ctions¹¹ and Powernext¹²).

- Firm capacities and established interruptible capacities are marketed on PRISMA on D-1 at 4.30 p.m.
- JTS capacities are marketed on PRISMA on D-1 between 4.30 p.m. and 5 p.m.
- Market coupling is marketed on Powernext on D-1 between 3.30 p.m. and 5 p.m.
- Shippers use TRANS@ctions to submit their nomination programme. They can subscribe UBI capacities by over-nominating, beyond their subscribed capacity, from 7 p.m. on D-1.

⁷ Established by the deliberation of [19th April 2011](#) market coupling consists of selling capacity and molecules at auction on Powernext. This mechanism is based on a "South PEG - North PEG spread" type product, which equates to an exchange ("swap") of gas between the two zones (purchase of gas in one zone and sale of the same volume of gas in the other).

⁸ *Joint Transport Storage*: In its deliberation of [23rd May 2013](#) the CRE authorised GRTgaz to experimentally market additional North to South capacities during the Summer of 2013 ("Summer" JTS). To provide this service, GRTgaz uses injection capacities not used on a given day by shippers at the South – East transport storage interface point (PITS). Since 1st April 2014, 20 GWh/d of JTS has been offered for sale by auction on PRISMA.

⁹ UBI allows a shipper to nominate capacity beyond its subscriptions. If the capacity nominated above is available (either as unsold capacity because it has been subscribed but not used by its initial holder), it is allocated and charged to the shipper.

¹⁰ European platform for marketing capacities at interconnections between member countries.

¹¹ TRANS@ctions is GRTgaz's customer portal, which is used by shippers to subscribe and nominate capacities.

¹² Powernext operates the Pegas gas exchange, which is a regulated market operating under the control of the FMA.

GRTgaz proposes two ways of changing access to short term capacities:

- The "Pathway towards merger" option.

Daily capacities would be integrated into market coupling and sold by implicit auction on Pownext, without a reserve price. As it is currently done, JTS would be marketed on PRISMA. As it is currently done, capacities remaining unsold would be marketed as UBI, on TRANS@ctions platform, from 7 p.m. on the day before the gas day.

- The "100% Prisma" option

This option consists in marketing daily, JTS and intraday capacity on PRISMA, by auction, with the regulated tariff used as the reserve price. Market coupling would no longer be offered for sale. UBI would be replaced by intraday selling on PRISMA.

2.5.2 The CRE's preliminary analysis

At this stage, the CRE is in favour of a change to the marketing mechanism for short term products, which currently seems too complex.

- The "Pathway towards merger" option.

The CRE points out that, with daily maturity, this option results in all unsold capacities being dedicated to the market coupling mechanism, with the exception of JTS product (*Joint Transport Storage*), which would continue to be sold at auction on PRISMA. Unsold market coupling capacity would be offered as UBI on TRANS@ctions, which enables shippers to easily enter and amend their nominations during the day.

Market coupling at the North-South link is an implicit marketing mechanism for capacity, which allows gas to be bought in the North zone and the corresponding volume to be sold in the South zone for the following day or vice versa, according to the price spread level between the South PEG and the North PEG. Increasing the capacities dedicated to market coupling may increase the liquidity of wholesale markets and help to reduce North-South price differences, in the event of tension.

Furthermore, the market coupling mechanism leads to capacity being offered at auction, but without a reserve price. This prefigures the end of the North-South link term, which is scheduled for 2018, because of the merger of zones: stakeholders would be able to decide between the different sources of supply, by no longer taking account of the North-South transmission restriction. Abolition of the reserve tariff may increase the appeal of the daily product, and thereby check the fall in short term subscriptions, which is currently observed when the North-South spread is low. It should be noted that all revenue generated by marketing coupling are fully covered by the claw-back account.

The CRE points out that this option requires Pownext membership, and payment of the corresponding operating costs. Five shippers out of the twenty four currently subscribing capacities at the North-South link do not have direct access to Pownext. Nevertheless, these have a shipper in charge of their balancing and may instruct the latter to make use of Pownext on their behalf.

- The "100% Prisma" option

This option would also enable the marketing mechanisms for daily capacities to be simplified and streamlined.

However, the ergonomics of PRISMA and the chosen marketing mechanism do not appear to be perfectly suited to short term marketing, in particular for intraday capacity.

Furthermore, in the current situation where the North-South spread is narrow, maintaining the reserve price for North-South capacities risks resulting in a failure to maximise use of the North-South connection point.

Finally, market coupling has occasionally enabled the price difference between the North PEG and the TRS to be reduced, including in circumstances where there is high tension at the North-South connection point. Consequently, it would not appear opportune to abolish this mechanism prior to completion of the merger of zones.

Therefore, at this stage, the CRE favours the first option proposed by GRTgaz, which anticipates the

creation of a single marketplace.

Question 6: Would you like the marketing channels for short term capacities to be streamlined? If you would, are you in favour, like the CRE, of option 1 "Pathway towards merger", or of option 2 "100% PRISMA"?

2.6 Continuing JTS product

GRTgaz wishes to keep saling JTS on PRISMA within both options. JTS has enabled an additional 6 TWh to be offered for sale in 2014, and 5.4 TWh in 2015, the subscription level of which has varied greatly depending on the spread between the gas price at North PEG and TRS.

Provision of this service generates costs based on the capacities subscribed, which are covered by the GRTgaz transmission tariff¹³.

In 2015, only 1.1 TWh of JTS capacity was subscribed, generating an estimated income of ~€ 700 K, which does not enable the cost above mentioned to be covered.

In view of current market conditions, the question may arise of whether to continue the JTS service or not.

At this stage, the CRE is in favour of retaining JTS product until 2018. Indeed, in circumstances where there is tension on the market in the South, for whatever reason, the additional capacity made available to shippers allows these tensions to be reduced and the volatility of prices in the South to be limited. The CRE believes that the cost of this service is low in view of the potential benefit for the market in the South of France.

Question 7: Are you in favour of continuing with JTS in 2016 and until the creation of a single market area in 2018?

3. Summary of the questions asked

Question 1: No delays are currently expected in implementing the merger of zones. Do you nevertheless believe that it would be desirable to market capacities at the North-South connection point after September 2018?

Question 2: Are you in favour of the marketing calendar for annual capacities at the North-South link as envisaged by GRTgaz, or do you prefer the solution designed to smooth the sales of annual capacities over three years?

Question 3: Are you in favour of GRTgaz's proposal to only trigger the sale of interruptible capacities if at least 95% of the firm capacities made available for sale have been subscribed?

Question 4: Are you in favour of GRTgaz's proposal to no longer market quarterly and monthly interruptible capacities at the North-South link?

Question 5: Are you in favour of maintaining the marketing mechanism for daily capacities that has been in place since 8th October 2015?

Question 6: Would you like the marketing channels for short term capacities to be streamlined? If you would, are you in favour, like the CRE, of option 1 "Pathway towards merger", or of option 2 "100% PRISMA"?

Question 7: Are you in favour of continuing with JTS in 2016 and until the creation of a single market area in 2018?

The CRE would like to invite all parties involved to send their input by no later than 11th January 2016:

- by e-mail to: dr.cp1@cre.fr,
- by posting directly in the "Documents / Public Consultations" section of the CRE website (www.cre.fr).

Non-confidential answers will be published on the CRE website.

¹³ [Deliberation of the Energy Regulatory Commission of 23rd May 2013 determining the rules for GRTgaz to experimentally market additional transmission capacities at the connection point between the North and South zones](#)

Please state in your response whether you would like your response to be treated as **confidential**. Failing this, your input will be deemed not to be confidential or anonymous. Interested parties are asked to submit their comments and to justify them.

Appendices:

- GRTgaz's proposal dated 20/11/2015