COMMISSION DE RÉGULATION DE L'ÉNERGIE

PUBLIC CONSULTATION

30 June 2016

Public Consultation of the French Energy Regulation Commission of 30 June 2016 regarding changes to the balancing rules in gas transmission networks on the 1st of October 2016

This public consultation is part of the framework regarding changes to the balancing rules for the natural gas transmission networks1 ("Network Code on Gas Balancing" or "Network Code"), which entered into force on 16th of April 2014, the provisions of which will apply as from 1 October 2015..

In its decision dated September 10, 2015[2], the CRE approved the implementation as of 1st of October 2015 of a balancing system compliant with the network code on balancing. This public consultation drafts a first report on the functioning of this system and studies the proposed changes communicated to the CRE by GRTgaz and by TIGF, respectively on the 10th and 6th June 2016. These proposals are outlined in the appendix to this consultation document.

This public consultation also deals with the financial security of the balancing system. In its correspondence dated May 6th, 2015, the CRE requested that the TSOs work on the contractual provisions for financial security, in order to improve the coverage of the risks of counterparty non-payments, in the case of bankruptcy or fraudulent behaviour, particularly in relation to balancing. Following these discussions, GRTgaz and TIGF submitted to the CRE, respectively on the 2nd of May 2016 and the 17th of June 2016, their proposed changes, attached to this public consultation document.

Response to the consultation

The CRE would like to invite all parties involved to send their input by no later than 12 August 2016:

- by email to: dr.cp3@cre.fr;
- via the "Documents/Public Consultations" section on the CRE website (www.cre.fr);

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

Please indicate in your response whether you wish your response to be considered as confidential or anonymous. Otherwise, your contribution will be considered not confidential and not anonymous. Interested parties are invited to send their comments justifying their positions.

For any further information, please contact the Networks Management Team: +33(0)1.44.50.41.43.

[1] (EU) Regulation No 3012/2014 of March 26, 2014 establishing a Network Code on Balancing in Gas Transmission Networks
[2] CRE deliberation of September 10 2015 regarding changes to balancing rules on gas transmission networks of October 1, 2015

CONTENTS

1. BACKGROUND 3
1.1 SHIPPER BALANCING RULES 3
1.2 FINANCIAL SECURITY OF THE BALANCING SYSTEM 3
2. REVIEW OF THE FIRST SIX MONTHS' OPERATION OF THE CURRENT BALANCING SYSTEM 4
2.1 THE TSOS' REPORT 4
2.1.1 System balance 4
2.1.2 The TSOs' balancing interventions 4
2.1.3 Linepack flexibility service 4
2.1.4 Summary of the TSOs' report 5
2.2 THE CRE'S PRELIMINARY ANALYSIS 5
2.2.1 System balance 5
2.2.2 The TSOs' balancing interventions 5
2.2.3 Summary 5
3. CHANGES PLANNED TO THE CURRENT BALANCING SYSTEM 6
3.1 CHANGE TO THE METHOD OF CALCULATING THE IMBALANCE SETTLEMENT PRICE 6
3.1.1 The TSOs' proposals 6
3.1.2 The CRE's preliminary analysis 6
3.2 THE TSOS' MARKET INTERVENTIONS FOR RESIDUAL NETWORK BALANCING 6
3.2.1 Change to the methods of GRTgaz's interventions on the wholesale markets 6
3.2.2 Changes to the method of TIGF's intervention on wholesale markets 7
3.2.3 Renewal of the test on locational products for residual balancing of the GRTgaz network 8
4. CHANGE IN THE FINANCIAL GUARANTEES REQUIRED OF SHIPPERS FOR BALANCING 9
4.1 BACKGROUND 9
4.1.1 The TSOs' financial risks 9
4.1.2 Current situation 9
4.1.3 Provisions of the network balancing code 9
4.1.4 The CRE's request 9
4.2 PLANNED CHANGES 10
4.2.1 Definition of a balancing liability indicator 10
4.2.2 Implementation of actions based on a percentage breach of the theoretical guarantee 10
4.2.3 Change to the methods of calculating payment guarantees 11
5. METHOD FOR DISTRIBUTING IMBALANCES IN THE TRS MARKETPLACE 12
5.1 REMINDER OF HOW IT WORKS CURRENTLY 12
5.2 THE TSOS' PROPOSALS 12
5.3 THE CRE'S PRELIMINARY ANALYSIS 12
6. SUMMARY OF QUESTIONS ASKED 13

1. BACKGROUND

1.1 Shipper balancing rules

Pursuant to Article L. 134-3 of the French Energy Code, the French Energy Regulation Commission *"approves the technical and financial rules drafted by operators regarding the balancing of natural gas systems and the fulfilling of requirements cited in Articles L. 431-4, L. 431-5 and L. 431-8".*

In its deliberation dated 1 December 2011[1], the CRE approved the roadmaps towards the target balancing system proposed by GRTgaz and TIGF. Consequently, in its deliberations of 21 June 2012[2], 20 September 2012[3], 5 February, 2013[4], 4 April, 2014[5], and 5 January 2015[7], the CRE specifically approved the changes pertaining to:

- The level and frequency of information available to shippers from the TSOs;
- the methods for settling shippers' imbalances, by progressively 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 10 September 2015 regarding the approval of gas balancing on the GRTgaz and TIFG transmission networks on 1 October 2015[6], the CRE approved the implementation of a balancing system in compliance with the network code of balancing indicating:

- the invoicing of each kWh imbalance, at the day settlement price, meaning the maximum purchase price or the minimal sale price if the TSO had intervened on the markets or indeed the average gas day price[7] to which a surcharge/discount of +/-2.5% is added;
- the option for all shippers delivering gas to subscribe to a flexible[8] service based on TSO linepack availabilities, on the days where these had not intervened on the market.

Furthermore, the CRE validated the launch of a test on the use of locational products for residual balancing of GRTgaz.

Following feedback outlined in the framework of the Concertation Gaz, GRTgaz and TIGF sent the CRE proposals for marginal changes to the balancing rules. These proposals relate to the level of the surcharge/discount, a change to the TSOs' intervention methods on the wholesale markets and extending the option of locational products to the morning of D+1.

1.2 Financial security of the balancing system

Currently, the TSOs are protected from non-payment of invoices through financial guarantees or cash deposits. These guarantees do not extend to liabilities relating to balancing, which is a risk if a party becomes bankrupt or engage in fraudulent behaviour.

On foot of the CRE's request, the TSOs worked together with the Concertation gaz throughout 2015. This ad-hoc working groups met on 3 occasions, on the 18th of June, 24th of September and on the 1st of December 2015. This work allowed the TSOs to establish a process for identifying risk scenarios, as well as a process for formalised communication with the relevant shippers and a process to limit risks.

[1] Deliberation of the French Energy Regulation Commission of 1 December 2011 on the approval of changes to the balancing rules on the GRTgaz and TIGF gas transmission network
[2] Deliberation of the French Energy Regulation Commission of 21 June 2012 on the approval of changes to the balancing rules on the GRTgaz and TIFG gas transmission network
[3] Deliberation of the French Energy Regulatory Commission of 20 September 2012 on the approval of changes to the balancing rules on the GRTgaz gas transmission network
[4] Deliberation of the French Energy Regulation Commission of 5 February 2013 on changes to the balancing rules on the GRTgaz and TIGF.gas transmission networks
[5]
[7] Deliberation of the French Energy Regulation Commission of 15 January 2015 on the approval of changes to the balancing rules on the GRTgaz and TIGF.gas transmission networks on the 1st of April and 1st of October 2015
[6] CRE deliberation of 10 September 2015 regarding changes to balancing rules on gas transmission networks on 1 October 2015
[7] End-Of-Day Powernext
[8] GRTgaz markets the "ALIZES" service, TIGF the "SET" service

2. REVIEW OF THE FIRST SIX MONTHS' OPERATION OF THE CURRENT BALANCING SYSTEM

2.1 The TSOs' Report

2.1.1 System balance

- For GRTgaz

65% of the days in the northern zone and 70% of the days in the southern zone were well balanced (i.e. forecast linepack in the dark green zone of the diagram at 3.2.2). This level is stable compared to 2014-2015. Approximately half the days in November, December and January ended with a significant imbalance.

The results are better in the southern zone with an improvement noticed over the number of end of day imbalances in 2015-2016 compared to 2014-2015.

For the remaining days, the main issue encountered by GRTgaz was market interventions not always being sufficient to reduce the imbalance. In certain situations, the imbalances had accumulated over several days without GRTgaz being able to re-absorb them.

- For TIGF

80% of the end of days were well balanced (forecast linepack in the dark green zone). The removal of the daily balancing service (SEJ) explains the increased imbalances invoiced to shippers on the TIGF network: these are now invoiced while in the past, they would have been absorbed by the SEJ. Therefore the volume of gas purchased by TIGF had considerably increased compared to the periods between October 2014 and March 2015, without causing TIGF any problem.

Although certain shippers frequently show individual scheduling imbalances at the beginning of the day, these imbalances generally decline towards 8pm. During this period, TIGF did not encounter situations similar to those reported by GRTgaz, where the previous day's imbalance was brought forward to the next day.

2.1.2 The TSOs' balancing interventions

- Interventions on notional products

The frequency of the TSOs' interventions slightly increased for GRTgaz and declined for TIGF compared to winter 2014-2015.

In the GRTgaz northern zone, the coverage of needs shifts from an average of 53% during winter 2014-2015 to 89% in 2015-2016. This improvement also applies to night interventions (23h5) where the rate of coverage shifts from 25% to 72% for the northern zone and to a similar level for the southern zone.

- Interventions on locational products

The use of locational products allows for different flexible sources to be mobilised through bids open to all the signatories to the locational products purchase-sale convention. Moreover the locational product guarantees the TSO:

- the physical delivery of gas to the network, whereas when buying a notional product, the TSO can buy length from a shipper, without the overall quantities of gas varying within the network;
- re-nomination within a given time frame, although the seller of the notional product may have to wait until the last cycle (3h00), thereby depriving the system of the effect of the product at a time where the system is most stretched;
- the arrival of the gas at a point or group of specific points.

GRTgaz resorted to locational products 6 times over 4 different days between 25th December 2015 and 11th January 2016. Of these 6 interventions, none of them was able to meet all the needs and 3 bids received no response. During these interventions, only 9 shippers, holding 11% of the entry capacity at the PIR (network interconnection points) and PITS (transmission interface storage points) were qualified to respond to these bids, which could explain the poor coverage of needs. From now on, 14 shippers have been approved to participate in bids for locational products, representing 61% of the capacity subscribed at the PIR and PITS.

2.1.3 Linepack flexibility service

The linepack flexibility service is a service proposed by both TSOs, which ensures that shippers are not subjected to surcharges/discounts during the days when the system is balanced. It was approved by the CRE in its deliberation of 10th September 2015.

- Subscription rates

On the GRTgaz network, 26% of the shippers eligible for the ALIZES service subscribed to it on the 30th May 2016. These shippers represent 17.6% of the delivery capacity across the GRTgaz network.

On the TIGF network, 20% of the shippers eligible for the balancing transport service (SET) subscribed to it on the 30th May 2016. These shippers represent 23% of the delivery capacity across the GRTgaz network.

- Availability rates

For GRTgaz, the availability rate for ALIZES was 54% in the North and 57% in the South.

For TIGF, the availability rate for SET was 80.4% (74 days out of 92) in the months of October, November and December 2015. It declined in January, February, March 2016, reaching 57.1% (52 days out of 91). During the period from the 1st of October 2015 to the 31st of March 2016, 26% of the non-eligible days were at the weekend (15/57).

2.1.4 Summary of the TSOs' report

According to GRTgaz, shipper imbalances continue despite incentives. The TSO believes that it still plays too great a part in balancing the system. Within this context, the interventions of the TSO on the markets are not always enough to reduce imbalances. In fact, the imperfect coverage of needs by purchases/sales on the market (the absence of an offer or a physical delivery) occasionally leads to significant imbalances. In both these cases, imbalances can accumulate over several days, which could theoretically jeopardise the overall good balancing of the network.

2.2 The CRE's preliminary analysis

2.2.1 System balance

The period studied does not support the conclusion of a clear trend towards the reduction of contractual imbalances. Shippers have adapted to the removal of tolerances and the TIGF daily balancing service as of 1st October 2015. They seem to have efficiently adapted their processes to limit the risks of high balancing costs. Nevertheless, winter 2015-2016 was particularly mild and did not give rise to situations similar to those encountered in 2012 for example.

2.2.2 The TSOs' balancing interventions

During the period studied, the TSOs were able to test a new balancing system without any major problems. The level of coverage of TSOs' balancing needs through purchases-sales on the markets is in progress, with no aberrant prices: no purchase-sale occurred at a price above €2.5/MWh on the average daily prices.

Furthermore, the CRE believes feedback on the testing of locational products is insufficient to make a definitive decision on the usefulness of these products.

2.2.3 Summary

From the 1st October 2015, the CRE decided to implement all the provisions of the network balancing code, without using the time frames for insufficiently mature markets. The CRE is pleased that GRTgaz and TIGF were able to implement this major change within the timeframes and without any operational issues. It notes that shippers have adapted to the new rules.

Nevertheless, the new balancing system has only been operational for 6 months and winter 2015-2016 was rather mild. Moreover, the TSOs indicate, that despite the strengthening of incentives in the new system, some shippers do not systematically make all the efforts required to reduce imbalances. The TSOs thus propose improvements to the system on two fronts:

- strengthening the financial incentives for shippers for better balancing;
- improving the tools available to the TSOs to meet imbalances.

Question 1: Do you agree with the report drafted by the CRE on the first six months' of operation of the current balancing system? Do you want to share any other comments?

3. CHANGES PLANNED TO THE CURRENT BALANCING SYSTEM

3.1 Change to the method of calculating the imbalance settlement price

3.1.1 The TSOs' proposals

The TSOs wish to strengthen balancing incentives by increasing the level of surcharges/discounts, currently set at +/-2.5% of the average weighted gas price for the gas day. This level was set in summer 2015, when gas prices were above €24/MWh.

Reacting to the drop in the price of gas, the TSOs wish to maintain the balancing incentive by adjusting the surcharge/discount: they would like it to be set at 5%, which corresponds to a value of €0.80/MWh pertaining to an average price of €16/MWh. The TSOs believe that a level of €0.80/MWh corresponds to an incentive equivalent to the one implemented on October 1st 2015, with an average price observed of €24/MWh.

3.1.2 The CRE's preliminary analysis

The CRE notes the persistence of imbalances. These are partially due to the difficulty of shippers accurately forecasting their clients' use (in particular, non-daily metered customers). They could also be due to an inadequate imbalance pricing signal:

- when the TSOs intervene on the markets, prices do not vary at all or very slightly;
- the surcharge/discount was voluntarily set at a very low level[1], to ensure a transition when the optional tolerances and SEJ were removed. This was less than year ago.

The network code fixes the maximum value of the surcharge/discount at 10% of the average weighted gas price per gas day. The TSOs' proposal is compliant with this rule.

In a context where the TSOs have not encountered any major difficulty in ensuring balancing, and so not to unnecessarily destabilise the market, the CRE is not, at this stage, in favour of changing the surcharge/discount.

Moreover, the CRE does not wish for the surcharge/discount to change each time the price of gas fluctuates. Nevertheless, at a later date, the TSOs could study the option of setting a surcharge/discount to an absolute value, less sensitive to gas price fluctuations.

The CRE is not in favour, at this stage, of changing the surcharge/discount proposed by the TSOs.

Question 2: Are you in favour of maintaining a fixed surcharge/discount at +/- 2.5% of the average weighted gas price for the gas day in question, or would you prefer as per the TSOs' proposal to set it at +/-5% of this same price?

Question 3: Are you in favour of studying the opportunity to settle surcharge/discount at an absolute value?

3.2 The TSOs' market interventions for residual network balancing

3.2.1 Change to the methods of GRTgaz's interventions on the wholesale markets

- Reminder of how GRTgaz currently intervenes in the wholesale markets

The CRE's deliberation of 15th January 2015 restricted the interventions of GRTgaz on the wholesale markets to 3 windows: 10h25, 17h25 and 23h25 for 20 minutes.

The CRE's deliberation of 10th September, 2015 added a 4th intervention window for GRTgaz at 14h25.

Since the 1st of April, 2015, following the work with the CRE services, GRTgaz changed its intervention methods several times to better fulfil its needs: the criteria and parameters of the automated interventions used by GRTgaz were adapted. These initiatives, as well as the development of liquidity, allowed the levels of cover to reach 89% in the northern zone and 85% in the southern zone from January to March 2016.

- GRTgaz's proposal

In order to continue to improve its interventions, GRTgaz would like to have the option to change their intervention methods. In particular, GRTgaz would like to freely adapt the schedules for its interventions, based on occasional network requirements and the opportunities observed on the markets, instead of using the currently pre-determined slots. By the same token, based on the results of each intervention, GRTgaz would like to be able to alter the duration of the intervention windows, currently set at 20 minutes.

[1] The CRE's deliberation of 4 April 2014 set the surcharge/discount at 10% from the 1st May 2014 to 1st October 2015.

- The CRE's preliminary analysis

The CRE believes it is pertinent to change the hours and the duration of GRTgaz's interventions so it can adapt to various markets contexts.

It is the CRE's opinion, in particular, that it would be useful to make the intervention slots flexible to capture the liquidity of the markets during the day, notably between the windows of 14h25 and 17h25, in order to improve the level of cover for GRTgaz's needs.

At this stage, the CRE is therefore in favour of changing the method of GRTgaz's interventions on condition that the latter continues to inform CRE of the changes.

Question 4: Are you in favour of the changes to the interventions proposed by GRTgaz which consist in giving it greater latitude regarding timing and duration of its slots to intervene on notional products?

3.2.2 Changes to the method of TIGF's intervention on wholesale markets

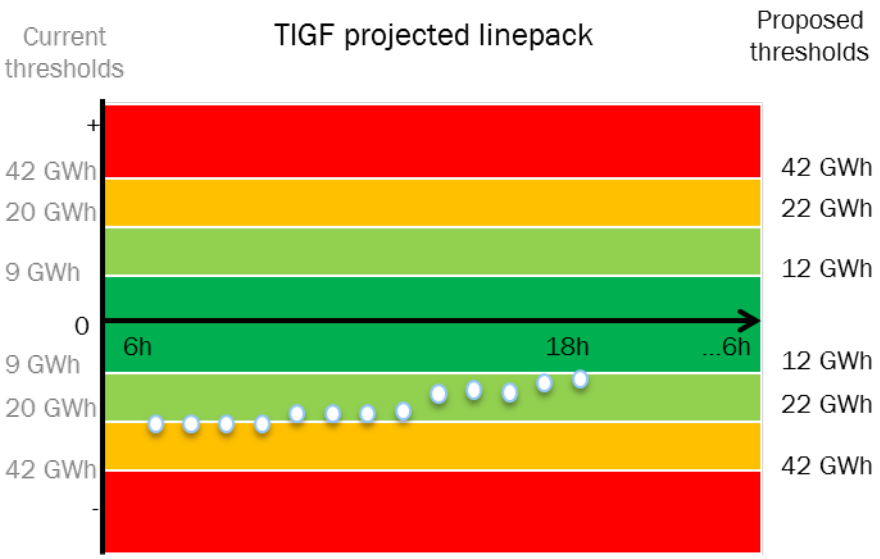
- Reminder of TIGF's current method of intervention on wholesale markets

Currently, TIGF intervenes in the markets depending on the predefined and forecast linepack stock thresholds. TIGF only intervenes once a day (between 17h25 and 17h45), and only on working days. This intervention is manual, carried out by employees and therefore not automated, within the limits of €100k per day[1].

- TIGF's proposal

TIGF proposes:

- from the 1st October 2016, to allow the intervention thresholds to move from 9 to 12 GWh, thanks to the implemented improvements for managing its network's flexibility;
- to use an automated system, similar to GRTgaz, to industrialise the interventions, from the beginning of 2017;
- to increase the number of intervention windows, notably to extend them to non-business days.



- The CRE's preliminary analysis
  - Regarding the revision of the intervention thresholds:

Moving the first threshold from 9 GWh to 12 GWH would allow, all things being equal, to reduce the number of interventions by 43% over the period between April 2015-April 2016 without putting the network at risk.

The reduction in the number of interventions would increase the availability of the flexible service based on the linepack (SET), for the benefit of its subscribers.

[1] TIGF's methods of interventions are detailed on its website

At this point, the CRE is in favour of TIGF's proposal.

- Regarding the use of automated interventions:

GRTgaz's automated balancing has demonstrated its effectiveness. Automating the interventions allows the TSO to intervene outside business hours whilst controlling the automated interventions through its configuration system.

At this point, the CRE is in favour of the use of an automated system for TIGF interventions.

- Regarding the opening of new intervention windows, including out of business hours:

Automation will respond to the TIGF's need to intervene in a more reactive manner based on the status of the linepack.

The TRS marketplace, created on the 1st April 2015, is sufficiently liquid to allow TSOs to find counterparts. Furthermore, the intervention parameters of the automated system can be configured which will avoid aberrant pricing.

At this point, the CRE is in favour of opening new intervention time slots for TIGF, outside business hours and in the weekends.

Question 5: Are you in favour of the new intervention thresholds proposed by TIGF?

Question 6: Are you in favour of TIFG using an automated system to buy or sell gas on the wholesale markets, to fulfil its balancing needs?

Question 7: Are you in favour of TIGF's market interventions for balancing outside business hours?

3.2.3 Renewal of the test on locational products for residual balancing of the GRTgaz network

- GRTgaz's proposal

Faced with the imperfect cover of its needs through the purchase-sale of notional products, mainly due to the fact that the physical delivery of gas in the network cannot always be confirmed by the purchase or sale of a notional product, GRTgaz proposes:

- to renew the test of locational products for one more year;
- to be allowed to resort to locational products from the morning in the case of (i.) a very high imbalance (orange or red zone of the forecast SEC) and (ii.) if previous day(s) ended on imbalances (SEC outside the dark green zone). In this situation, it becomes crucial that GRTgaz has the tools available to obtain gas, associated with a physical variation of the contractual points, and this at the start of the gas day, because the imbalances determined on the previous day compromise GRTgaz's flexibility to ensure the residual balancing of the network.

- The CRE's preliminary analysis

- Regarding re-testing over a year period:

Locational products impose strong limitations on sellers: to retain unused capacities on Day D, to be available during the bid offer schedules, to implement an efficient validation and operational scheme to comply with the deadlines required by the TSO. All of these limitations reduce the list of potential candidates.

To date, the test is inconclusive in terms of the efficacy of the locational products to fill critical network imbalances. In fact, the TSO only resorted to it for 4 days, even though 9 shippers holding in total only 11% of the capacities at the PIR and PITS were approved for the locational product, which is insufficient to determine outcomes.

The CRE at this stage is in favour of renewing the test on the use of locational products for residual balancing of the GRTgaz network, until the creation of a single marketplace on the 1st of November 2018.

- Regarding the launch of bids in the morning to fill the imbalances of D:

One advantage of locational products is that it allows to obtain quantities of gas within a short time frame (2h). Furthermore, this need can arise at the start of the gas day, when the imbalance of the previous day has not been correctly covered by the intervention on notional products.

Article 9 of the network code determines a merit order applicable to balancing actions. According to this article, the purchases-sales of notional products must take priority over the use of locational products. The use of locational products in the morning can only be justified if it is to "*maintain the transmission network within its operational limits*". The CRE believes that GRTgaz's interventions on notional products can respond to this requirement in advance. In fact, if the level of cover of needs was sufficient, the imbalances would be corrected the same day, rendering the launch of the bids on the morning of D+1 superfluous. For this situation to be reached, it is necessary to continue improving interventions, to ensure their efficacy.

Given the poor feedback on locational products and the unresolved question of integrating the purchases-sales of locational products in calculating the settlement price for imbalances, the CRE, at this stage, is not in favour of GRTgaz's proposal. It would prefer that GRTgaz as a priority continues to review its methods of intervening on notional products to solve the problem upstream.

Question 8: Are you in favour of continuing the test on the use of locational products for balancing GRTgaz until a single marketplace is created (November 2018)?

Question 9: Do you share the CRE's analysis which believes it would be premature to use locational products for balancing, the day after a difficult day, when the GRT has not been able to re-set the system within its operational limits (dark green zone) or are you in favour of GRTgaz's proposal?

4. CHANGE IN THE FINANCIAL GUARANTEES REQUIRED OF SHIPPERS FOR BALANCING

4.1 Background

4.1.1 The TSOs' financial risks

The TSOs assume a two-fold financial risk:

- in terms of transmission, the TSO is exposed to the non-payment of a shipper's invoice (in M+1) in the case of bankruptcy or ill-will;
- in terms of balancing, the TSO is exposed to the non-payment of balancing invoices (in M +2) in the case of a shipper selling gas without supplying it. As the TSO is required, under its public service obligations, to ensure delivery to the end customer, it would then be required to supply gas in advance, without being able to bill for this gas afterwards, at imbalance settlement prices, to the defaulting shipper.

4.1.2 Current situation

The transmission contract requires shipping clients to provide TSOs with financial guarantees equivalent to twice the amount of its first month's transmission invoice.

Guarantee exemptions are conceded to shippers whose financial ratings are at least a Standard & Poor's A- rating (A for TIGF), a Moody's A3 (A2 TIGF) or an A- Fitch rating.

The minimal guarantee is €100k or €20K for businesses supplying from PEGs (gas exchange points).

4.1.3 Provisions of the network balancing code

Article 31 of the balancing network states that *"The network transmission operator is allowed to adopt the necessary measures to impose on the network user the required contractual conditions, including financial guarantees, to mitigate failed payments for any payment of fees owing [balancing]".*

Article 30 §2 establishes that *"The national regulatory authority establishes or approves and publishes [...] the rules on credit risk management"*.

4.1.4 The CRE's request

In its correspondence dated May 6th, 2015, the CRE asked the TSOs to work on the contractual provisions for financial security, in order to improve the protection of the TSOs from non-payment risks by counterparty, in the case of bankruptcy or fraudulent conduct, mainly in terms of balancing.

A similar action was undertaken by the RTE (French Electricity Transmission Network) within the framework of the rules relating to Programming, Balancing Mechanisms and the balance Responsibility entity system[1].

[1] These rules were approved following the deliberations of 19 June 2014 and of 10 March 2016.

4.2 Planned changes

All of the changes detailed below were outlined in the Concertation gaz and could be implemented on the 1st October 2016. The TSOs propose to change the frequency and the calculation band for the financial guarantee, to implement daily monitoring of balancing liabilities and to determine the actions to be taken when thresholds considered critical are exceeded. This provision aims at detecting any potential fraudulent behaviour and gives the TSOs a means to safeguard themselves.

4.2.1 Definition of a balancing liability indicator

- The TSOs' proposals

The TSOs propose calculating the liability level, expressed as a percentage, which when calculated on a daily basis would allow one to compare:

- on the one hand:
  - the level of the bank guarantee, as per the TSOs' current proposals for calculating it (see 4.2.1) ;
  - or the theoretical level of the bank guarantee, which corresponds to the guarantee or cash deposit that the shipper must deposit if not exempt due to its financial rating;
- and on the other hand the imbalance of the shipper multiplied by the imbalance settlement price.

This indicator allows the breach level of the shippers' theoretical guarantee to be observed on a daily basis.

- The CRE's preliminary analysis

The CRE considers that the indicator proposed reflects the risk the TSOs run taking into account the specific nature of each shipper. It is in favour of the TSOs' proposals.

Question 10: Are you in favour of creating a daily liability indicator defined as the breach level of a shipper's theoretical financial guarantee?

4.2.2 Implementation of actions based on a percentage breach of the theoretical guarantee

- The TSOs' proposals

GRTgaz and TIGF propose to define the liability thresholds beyond which the following actions are implemented:

- the first warning threshold, defined and benchmarked at the TSO's discretion, in an internal procedure available to the CRE, would trigger an email or telephone reminder to the shipper for further measures;
- the second threshold, fixed at 50% would trigger a formal notice to the shipper of breaching the threshold;
- the third threshold is different for GRTgaz and for TIGF. GRTgaz proposes a 90% breach of the theoretical guarantee, GRTgaz could request the shipper to pay a down payment on the stated imbalance, in advance, within 2 working days. TIGF proposes that the third threshold, set at a 100% breach of the liability, would allow the TSO to activate the financial guarantee;
- 3 days following the 100% breach of the theoretical guarantee, the TSOs would be allowed to suspend the contract after a 2-day unanswered notice to pay. The suspension of the contract prohibits the shipper from subscribing to new capacities and nominating any quantity on the TSOs' networks, but does not cancel its contractual obligations and notably the payment of its overdue invoices. This is applied without prejudice to the exercise of other acquired rights of the transmission contract.

- The CRE's preliminary analysis

The TSOs' proposals were agreed under the Concertation gaz. The CRE considers that the thresholds proposed by GRTgaz meet the objective of rapidly detecting potential fraud. It seems that the actions defined are proportional and efficient in limiting the financial risks for the TSOs because they allow for:

- any potential critical situation to be detected;
- warning notice to be given to the relevant shippers, giving them the opportunity to rectify the situation by early payment of their invoice;

- losses to be minimised in the case of suspected fraud, by suspending the shipper's contract when their liability exceeds 100% of their bank guarantee over a 3 day period.

The CRE notes that the history of liability indicators over the last three years demonstrates that a breach rate of 90% is rare. In addition, shippers would have been notified as soon as their liability level exceeded 50%.

Furthermore, the CRE believes that the option left to the shippers to voluntarily adjust the level of their guarantee to a higher level allows each of them to minimise their exposure to the actions planned in anticipation of a potential 100% breach of the thresholds. In practice, if this is not anticipated by the shipper, the negotiation of a new first demand bank guarantee is time-consuming and cannot be obtained within the timescale allowed by the TSOs (2 business days). Only a cash deposit can be useful within these time frames. The CRE envisages at this point requesting that the TSOs offer this option on the same level as the pre-payment of the balancing part of their invoice.

The CRE, at this stage, is not favourable to the solution proposed by the TIGF when the 100% threshold is reached. It believes that triggering the bank guarantee before issuing the invoice seems an unnecessary penalty. In addition, activating it means that the TSO is left without any other guarantee for further breaches: it would seem better to leave the shipper the option of paying the current invoice. Therefore, the CRE recommends that once the liability reaches 90%, the shipper is offered to proceed to the pre-payment of its invoice within 2 working days as envisaged by GRTgaz or by a cash deposit.

To summarise, the CRE at this stage is favour of the TSOs' proposals, excluding the activation of the financial guarantee proposed by TIGF when the liability exceeds 100%.

Question 11: Are you in favour of the TSOs' proposals regarding the breach thresholds for the financial guarantee and the associated actions the TSOs propose?

Question 12: Do you agree with the CRE's analysis of the TIGF proposal when the liability exceeds 100%?

4.2.3 Change to the methods of calculating payment guarantees

- The TSOs' proposals

The TSOs propose changing the method of calculating the bank guarantee. The new amount will be equal to the maximum between, on the one hand, the sum arising from the current calculation, and on the other, the sum of the two highest monthly transmission and balancing invoices over the last twelve months.

The TSOs also propose to revise the calculation every 6 months instead of the current monthly calculation. Updates could take place after the sale of the annual capacities, in March for all the PIRs sold on PRISMA and in September for the sale of the capacities at PIR Dunkirk to take into account the shippers' portfolio capacities.

Finally, the TSOs plan to offer shippers the option to voluntarily adjust their guarantee above the level required by the transmission contract, by supplementing the deposit amounts or the first demand guarantee. This upward adjustment can occur at any time.

- The CRE's preliminary analysis

These are relatively small changes and respond to the wishes of the working group and are part of the operational difficulties caused by the overly frequent updating of guarantee levels. Calculating the amount of the guarantee every six months on the one hand will reduce the frequency of reassessing the guarantee and on the other will allow the variations of the subscriptions in the short term to be taken into account. At this stage, the CRE is therefore in favour of the TSOs' proposals.

Question 13: Are you in favour of the proposed changes to the methods of calculating payment guarantees?

5. METHOD FOR DISTRIBUTING IMBALANCES IN THE TRS MARKETPLACE

5.1 Reminder of how it works currently

Each shipper's contractual imbalance is calculated overall on the TRS.

For each shipper, the TSOs allocate this imbalance between two balancing zones using a specific code for each shipper, depending on the total amount of its capacity allocations at exit points (delivery points, PIR, PITS) for each balancing zone.

This code takes into account the segmentation of shippers into 4 categories, on a monthly basis, depending on their capacity portfolio:

- shippers with delivery capacities for end users or to the PITDs (transport distribution interface points) make up segment 1;
- shippers with transport capacity but no delivery capacity to end users or to the PITDs make up segment 2;
- shippers with no transport capacity (pure traders) make up segment 3;
- inactive shippers make up segment 4.

5.2 The TSOs' proposals

GRTgaz and TIGF propose calculating the distribution code on a daily basis, depending on the quantities delivered, starting from the 1st of January, 2016.

Therefore, every day:

- a shipper's imbalance, after delivery to its end users, is distributed across the two balancing zones pro-rata to the allocations at delivery points based on segment-specific formula;
- a shipper's imbalance with only volume allocations at the TRS (Trading Region South) entry and exit points is distributed pro-rata to the allocations at TRS entry and exit points (PIR, PITTM, PITS), based on a segment-specific formula;
- a shipper's imbalance after having exclusively carried out transactions to the TRS is completely allocated to the GRTgaz south zone.

5.3 The CRE's preliminary analysis

The CRE considers that the change proposed by the TSOs corresponds to a distribution of imbalances based on quantities allocated in each zone[1] and improves the precision of the distribution code because the calculation is done on a daily basis.

Furthermore, the homogenisation of balancing rules in the TIGF and GRTgaz South zones was agreed by the deliberations of 15 January, and 10 September 2015. Consequently, although the eligibility of the flexibility services based on linepack and the TSOs' intervention thresholds on the wholesale markets remain specific to each zone, the daily fluctuation of imbalance distribution should have a very limited impact on shipper balancing invoices.

The CRE is therefore in favour, at this stage, of the changes proposed by the TSOs.

Question 14: Are you in favour of a change to the frequency of segment allocation to distribute imbalances in the TRS marketplace as proposed by the TSOs?

[1] The CRE, in its public consultation of 6 February 2014, agreed with such a distribution.

6. SUMMARY OF QUESTIONS ASKED

Question 1: Do you agree with the report drafted by the CRE on the first six months' of operation of the current balancing system? Do you want to share any other comments?

Question 2: Are you in favour of maintaining a fixed surcharge/discount at +/- 2.5% of the average weighted gas price for the gas day in question, or would you prefer as per the TSOs' proposal to set it at +/-5% of this same price?

Question 3: Are you in favour of studying the opportunity to setthe surcharge/discount at an absolute value?

Question 4: Are you in favour of the changes to the interventions proposed by GRTgaz which consist in giving it greater latitude regarding timing and duration of its slots to intervene on notional products?

Question 5: Are you in favour of the new intervention thresholds proposed by TIGF?

Question 6: Are you in favour of TIFG using an automated system to buy or sell gas on the wholesale markets, to fulfil its balancing needs?

Question 7: Are you in favour of TIGF's market interventions for balancing outside business hours?

Question 8: Are you in favour of continuing the test on the use of locational products for balancing GRTgaz until a single marketplace is created (November 2018)?

Question 9: Do you share the CRE's analysis which believes it would be premature to use locational products for balancing, the day after a difficult day, when the GRT has not been able to re-set the system within its operational limits (dark green zone) or are you in favour of GRTgaz's proposal?

Question 10: Are you in favour of creating a daily liability indicator defined as the breach level of a shipper's theoretical financial guarantee?

Question 11: Are you in favour of the TSOs' proposals regarding the breach thresholds for the financial guarantee and the associated actions the TSOs propose?

Question 12: Do you agree with the CRE's analysis of the TIGF proposal when the liability exceeds 100%?

Question 13: Are you in favour of the proposed changes to the methods of calculating payment guarantees?

Question 14: Are you in favour of a change to the frequency of segment allocation to distribute imbalances in the TRS marketplace as proposed by the TSOs?

Appendices:

- GRTgaz proposal regarding balancing dated 10/06/2016
- TIGF proposal regarding balancing dated 06/06/2016
- GRTgaz proposal regarding financial guarantees dated 02/05/2016
- TIGF proposal regarding financial guarantees dated 17/06/2016

Links to the documents on the current effective balancing systems:

GRTgaz: http://www.grtgaz.com/fr/accueil/acheminement/equilibrage/

TIGF: https://www.tigf.fr/nos-publications/publications-transport/reglement-des-desequilibres.html