

## **CRE consultation on the adaptation of gas balancing rules as of 1 October 2016**



### **EFET comments – 12 August 2016**

#### **General assessment of the new balancing framework**

##### **Q1: Do you share CRE's assessment of the first six months of the new balancing system? Do you have further comments?**

EFET generally shares CRE's assessment of the first six months of the new French balancing system. We agree that the balancing reform has been implemented without significant glitch either on the side of market participants or that of the TSOs. We also consider that it may be early to draw conclusions as to the sustainability of the new system given the rather mild temperatures experienced during the winter 2015/2016.

#### **Possible evolutions of the balancing framework**

##### **Q2: Do you agree with maintaining the level of the premium/discount at +/- 2,5% of the daily weighted average price, or do you prefer to set it at +/- 5% as the TSOs propose?**

As mentioned in responses to previous CRE consultations on the subject, EFET recalls that market participants have a natural financial interest in being balanced. Balancing trends for shippers during the winter 2015/2016 are stable to slightly improving, and as CRE notes, the TSOs have not experienced serious difficulties so far in maintaining the system in balance.

In general, EFET sees no objection to a proportionate strengthening of the financial incentives for market participants to be balanced, provided that a real need has been identified. For the time being, it does not look like the need for a strengthening of the financial incentives has been identified, as most shippers are improving their balancing situation, and only *“some shippers do not systematically make all the efforts required to reduce imbalances”*. Hence EFET concurs with the analysis of the regulator and suggests maintaining the premium/discount at +/- 2,5%.

However, EFET notes that where a bid or offer is taken outside the 2.5% threshold, there is no financial incentive on parties to deliver, and this may lead to less reliable bids at more extreme prices especially if, as it is overwhelmingly the case in France, the prices at which the TSO intervenes are not significantly different from the system average price. This can only be solved by System Marginal Price cash-out, where any failure to deliver is at best neutral but would normally be penalised. However, without more experience that SMPs would be set at reasonable levels, EFET supports a soft landing for example using the thresholds and premium/discount.

For the time being, EFET suggests that CRE:

- addresses the situation of the shippers that are recurrently and significantly imbalanced directly with them with a view to understand the reasons behind such behavior and adopt the necessary correctives; and
- review the parameters for intervention of the TSOs in the market in order to better activate all existing sources of flexibility (in particular, import and LNG terminals) at the price the market values them.

On the latter point above, we note with surprise that “important imbalances” have been maintained in the North zone at the end of the day for “about half” of November, December and January. However, no scarcity of gas or infrastructure bottlenecks existed at the time so GRTgaz could have to easily procured (or disposed of) the gas needed to balance the system by simply intervening more decidedly on the exchange.

Should any change in the financial incentives be considered in the future, CRE ought to ensure that appropriate information is available to market participants to enable them to take decisions near to real time in order to balance their positions at the end of the day. Until this is done, higher imbalance prices and penalties are unlikely to improve the situation.

**Q3: Do you support a study on a nominal value for the premium/discount?**

A nominal value would disconnect the premium/discount, a significant element of the new balancing model, from market prices. We do not think it advisable.

**Q4: Do you agree to an evolution of the intervention process as proposed by GRTgaz, i.e. to allow more flexibility in terms of timing and length of the intervention slots of the TSO on notional products?**

EFET is generally quite careful about TSO interventions on the market, and we believe that CRE should proceed with caution when considering options to expand the GRTgaz' balancing tools.

Ultimately, EFET believes that bilateral and multilateral markets should be continuous, allowing a shipper to rectify an imbalance or a TSO to balance the system at any time. However, where liquidity is insufficient, there is good rationale to constrain system action into specific windows where liquidity can be concentrated. Other ways to achieve this are to have good information on system imbalance (so that shippers can see when the system is going out of balance and can therefore expect an intervention) or the TSO can announce an expected intervention and give time for shippers to post bids and offers.

In the current French context, we think that an extension of the number, timing and length of intervention slots for GRTgaz could be an effective way to decrease the system risks inherent to wholesale market activities. In addition, an extension of these slots would allow GRTgaz to balance the system more proactively, especially during periods of tension on the network. This additional flexibility is likely to enhance the reflective nature of imbalance prices, particularly at the marginal price of intervention. Therefore EFET supports an evolution of the number, timing, and length of GRTgaz' intervention windows, provided that they remain clearly defined and communicated to the market.

Furthermore, the robot specifications should ensure that the TSO's interventions are carried out within a short time (X minutes) when a tension is clearly identified, i.e. at the most appropriate time considering market liquidity. Also, the ATRT financial incentive for these interventions has to be maintained.

A reflection could further be launched to allow GRTgaz to intervene at any time in the market, should the conditions for such interventions be met, i.e. whenever there is a system need for it, but only when there is a system need for it. Appropriate stakeholder consultation should be carried out if and when such reflection is launched in order to clearly agree on the conditions for TSO interventions.

**Q5: Do you support the new intervention thresholds proposed by TIGF**

EFET supports the new proposed first intervention threshold (to be moved from 9 to 12 GWh), as it would limit the need for intervention on the side of TIGF without endangering the system, while liquidity is low. More continuous trading, that would allow the TSO to take smaller corrective actions more frequently could be envisaged later. Ultimately, a TSO may be rewarded for more efficient balancing of the system, which may move away from larger interventions.

**Q6: Do you support the use of automatised intervention of TIGF on the market in replacement of manual rebalancing?**

We support the used of an automatised process for the interventions of TIGF on the market for balancing purposes as this type of process has proved efficient in many control areas. However, we request that CRE provides information on the cost of such a development for TIGF compared to the current manual interventions.

Moreover, we would like CRE and TSOs to:

- explore the possibility of a mutualisation of GRTgaz and TIGF's robots as a first step;
- explore the possibility of continuous TSO balancing activity in both GRTgaz and TIGF markets (cf. our response to Q4). Whether these continuous interventions are automatised or not is of lesser concern to EFET members. Any automatised market intervention however must ensure that it involves a price assessment and is more than pure volume procurement.

**Q7: Do you support the possibility for TIGF to intervene on the market off business hours and during week-ends?**

EFET supports the possibility for TIGF to intervene in the market off business hours and during weekends. Please refer to our answer to Q4 for more detailed considerations on the subject.

**Q8: Do you support prolonging the experimentation phase for localised products used by GRTgaz until the establishment of a common hub in November 2018?**

Given the limited experience we can draw from the first year of experimentation, we think it advisable to continue the experimentation.

**Q9: Do you share CRE's assessment that it is too early to use localised products for balancing the day after a tense day when the TSO has not managed to keep the system with reasonable balance, or do you support GRTgaz' position?**

EFET agrees with CRE's assessment, especially the considerations regarding the purpose and use of the various products used/interventions made by the TSOs. We believe that GRTgaz should concentrate on notional products.

## **Evolution of the financial guarantees provided by shippers**

### **Q10: Do you support the creation of a daily indicator of financial imbalances, defined as the level of financial imbalance deducted from each shippers theoretical financial guarantee?**

We fully support the objective of the TSOs to efficiently manage their counterpart risks and to prevent fraudulent activity in the balancing timeframe. We note that RTE conducted the same type of exercise for the electricity balancing framework and invite CRE to consider the lessons learnt of the reform initiated by RTE to adapt the financial guarantee system for the gas balancing framework<sup>1</sup>.

The proposed daily indicator of financial imbalances is a positive development. This new transparency tool would easily allow checking market participants' level of imbalances compared to their financial guarantee. We believe this indicator should not only be accessible to TSOs but also to each relevant shipper directly.

### **Q11: Do you support the TSOs' proposals concerning the various thresholds, as well as the associated reactions on their side?**

Like any reform of this kind, CRE should carefully consider whether the additional financial security provided to the TSOs is proportionate to the added costs for market participants. We believe that the effort to ensure the financial balance of the TSOs should focus on its primary purposes (ability to react quickly to limit the potential of fraud and efficient management of the TSOs' counterpart risks), while also reinforcing its operational robustness, limiting its management costs and avoiding false alarms or unnecessary burden.

We support the creation of the two initial thresholds proposed by the TSOs, with a series of alerts and official notifications. Concerning the third threshold (90% for GRTgaz, 100% for TIGF), a few elements need to be considered:

- The level of authorised "en-cours" corresponds to that of each shipper's financial guarantee. While a shipper with a financial imbalance corresponding to 90% of its financial guarantee may run into a critical situation within a short time, this shipper cannot be considered in breach of its financial obligations vis-à-vis the TSOs yet. We believe that the 90% threshold should be one last warning/alert threshold, and not one that would directly trigger action with financial consequences for the shipper.
- The notification sent to the shipper requesting the settlement of the financial imbalance should only take place once the 100% threshold is reached. It should also propose to the shipper the alternative to increase its financial

<sup>1</sup> For more information on this subject, please consult the EFET response to the RTE consultation on rules for balancing mechanism and balancing responsible parties, 19 November 2014, available at: [http://www.efet.org/Cms\\_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/A5HJ3ERCFKQ6RCHM/RTE-rules-on-balancing\\_financial-security\\_EFET.pdf](http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/A5HJ3ERCFKQ6RCHM/RTE-rules-on-balancing_financial-security_EFET.pdf).

guarantee, either through cash deposit or by way of a bank guarantee. For all these procedures, we believe that a deadline of three business days would be more appropriate – certainly necessary to establish a new bank guarantee – without creating excessive financial risk for the TSOs.

- There here should be sufficient flexibility to come back to the normal state of affairs even when the threshold of 100% has been reached one day to avoid false alarms and/or the ultimate stage of unilateral suspension of the contract. In particular we consider that the proposed process should be stopped if the calculations made in the following days after the 100% threshold was reached is back under the level authorised by the shipper's original financial guarantee. This would allow eliminating potential false alarms and taking into account the remedial actions taken by the shipper (either physically or financially).
- We request that the two TSOs put the same system in place. This is especially important for the settlement of imbalances in TRS.

As a summary, we would picture the thresholds system as follows:

|  |                                     |
|--|-------------------------------------|
| 0%   |                                     |
| 30%  | 1 <sup>st</sup> (automatic) alert   |
| 50%  | 2 <sup>nd</sup> (automatic) alert   |
| 90%  | Official notification               |
| 100%   | Start of the rectification process: |
| <ul style="list-style-type: none"> <li>- Step 1:<br/>request for the settlement of the imbalance or the increase of the financial within 3 business days</li> </ul>                |                                     |
| <ul style="list-style-type: none"> <li>- Step 2 (if no reaction to step 1 and no correction of the financial imbalance):<br/>Suspension of the contract and margin call</li> </ul> |                                     |

**Q12: Do you share CRE's view concerning the TIGF proposal when the level of financial imbalance reaches 100% of the financial guarantee?**

We share CRE's view on the subject. Please refer to our answer to Q11.

**Q13: Do you support the proposed evolution of the calculation methodology for the financial guarantees?**

We support the proposed reform of the financial guarantees calculation as it simplifies the system. Note that the financial guarantee should nonetheless be updated should a shipper increase its bank guarantee/collateral in the middle of a semester.

**Sharing of imbalances in the Trading Region South**

**Q14: Do you support the proposed reform relating to the distribution of imbalances in TRS as proposed by the TSOs?**

Considering that the proposal should have no impact on shippers, we support the TSOs' proposal.