

**Deliberation of the *Commission de régulation de l'énergie* (French Energy Regulatory Commission) of 24 April 2008, with regard to changes in balancing rules for natural gas transmission networks in France**

In accordance with the CRE deliberation of 7 December 2006, GRTgaz submitted on 4 April 2008, a proposal for CRE approval concerning changes to balancing rules for its gas transmission network.

The GRTgaz proposal adds to and amends the rules approved by CRE on 7 December 2006 and 23 August 2007. It is part of a consultation process with shippers that has been underway since January 2007.

## **1. Context**

The balancing rules for the GRTgaz transmission network approved by CRE on 7 December 2006 and 23 August 2007 have allowed progressively implementing a market-based balancing mechanism, in three steps:

- since 12 April 2007, GRTgaz has relied on the market for a portion of the physical balancing of its network. A specific platform has been set up to allow shippers to make offers daily to buy or sell to GRTgaz, for the same day or the following day. Currently, GRTgaz buys or sells daily up to 3.6 GWh at *PEG Sud* (south gas exchange point), and up to 5.4 GWh at *PEG Nord* (north gas exchange point). A daily balancing price has been established based on these transactions;
- on 1 July 2007, the "Daily Balancing Service" (SEJ), backed by *Gaz de France Direction des Grandes Infrastructures* (Gaz de France Key Infrastructures Department), was replaced by an optional tolerance offer backed by GRTgaz and made available to all shippers;
- since 1 September 2007, the daily balancing price has been used for billing the imbalance volumes of each shipper that exceed 70% of the shipper's daily tolerance. Imbalances below the threshold of 70% of the tolerance are carried over to the cumulative imbalance account of each shipper.

These rules also establish the principle of financial neutrality with regard to balancing and stipulate that any modification to the balancing system must be approved by deliberation of CRE.

## **2. Changes proposed by GRTgaz**

### *2.1. Portion of shippers' daily imbalances billed at the daily balancing price during summer 2008*

For the period from 1 May 2008 to 31 October 2008, GRTgaz proposes lowering from 70 to 50% of the tolerance accorded to the shipper, the threshold beyond which the shipper's imbalances are billed at market price. Imbalances below this threshold would be carried over to the cumulative imbalance account.

GRTgaz justifies this reduction in the balancing price threshold by the decreased balancing constraints for shippers in summer compared to winter.

### *2.2. Portion of shippers' daily imbalances billed at the daily balancing price during winter 2008-2009*

As of 1 November 2008, GRTgaz proposes reverting to the threshold of 70% of the tolerance beyond which imbalances are billed at market price. A significant reorganisation of transportation on the transmission network will take place on 1 January 2009, and the position of GRTgaz is that the balancing constraint should not be accentuated at a time when shippers will have to adapt to these changes.

### *2.3. Transition period between the two thresholds*

GRTgaz proposes a transition period of 7 working days, starting 1 May 2008, to allow shippers to adapt to the lower balancing price threshold. During this period, the penalties on any overruns in the cumulative imbalance account of between 50% and 70% of 5 times the daily tolerance could be lifted, after assessment on a case-by-case basis.

## **3. CRE observations**

### *3.1. Operational feedback on the balancing system*

Since the implementation of the new GRTgaz balancing system in April 2007, CRE has observed a progressive improvement in how the mechanism works.

The number of players involved in the platform has gone from 7 at the launch to 12 at the beginning of 2008. The balancing market has increased in depth, the volume of offers by shippers now representing more than two times the volume exchanged on the market by GRTgaz. The average deviation between shippers' bid and ask prices has substantially narrowed since the month of December 2007 (around €0.5/MWh) and is now close to levels observed in the markets.

Furthermore, applying this market price to a portion of the imbalances seems to have brought about a change in shippers' behaviour. The need for balancing was reduced by around 25% between winter 2006-2007 and winter 2007-2008. This could ultimately reduce TSO balancing costs.

Finally, the quality of GRTgaz allocations has improved since April 2007, even though further improvement is necessary to reach the target level.

The operational feedback on the GRTgaz balancing system is therefore positive.

### 3.2. *Summary of shipper positions*

During consultation with GRTgaz, shippers expressed three reservations with regard to reducing the summer threshold beyond which the imbalances are billed at market price: the mid-season months, included in summer, are problematic for balancing; the network maintenance programme creates difficulties during this period; and there was insufficient progress in the quality of allocations.

In addition to these remarks, certain shippers expressed the following concerns to CRE:

- according to them, the threshold beyond which imbalances are billed at market price should be maintained at 70%;
- they are in favour of GRTgaz publishing indicators that would allow them to evaluate performance of the GRTgaz balancing system (costs, reduction of overall balancing requirements);
- finally, for the medium-term they are in favour of creating an actual gas exchange which would replace the current trading platform and where incumbent suppliers would play the role of "market makers".

### 3.3. *Analysis of the GRTgaz proposal*

An analysis for summer 2007 and winter 2007-2008 of shippers' imbalances shows that the balancing requirement represents less of a burden for shippers in the summer than in the winter. The volumes transported are effectively lower in the summer, whereas the daily tolerance for shippers remains constant throughout the year. As a result, although the quality of allocations tends to decline in the summer, forecasting errors in volume are much lower than in winter. Reducing the summer threshold beyond which the imbalances are billed at market price will not increase the balancing constraints compared to the winter period.

The mid-season months, when weather-induced deviations are significant, can on the contrary be penalising by their variability for the management of balancing. The analyses provided by GrDF (*Gaz Réseau Distribution France*) via the GTG (gas working group) showed that allocation errors can be significant in volume starting in the month of October. Moreover, it is true that the maintenance works planned this summer by GRTgaz will significantly reduce the shippers' flexibility of having diverse supply sources for the overall management of their portfolios.

Consequently, CRE takes the position that reducing the threshold of exposure to market prices must be carried out with more prudence than GRTgaz has proposed. An exposure threshold set at 55% of the daily tolerance appears adequate.

Concerning winter 2008-2009, a number of changes will take place during this period and shippers will have to adapt to a new organisation of transmission in France. It is therefore advisable not to accentuate the balancing constraint at the same time, and to instead maintain the same parameters as during winter 2007-2008. CRE agrees with the analysis of GRTgaz on this point.

Similarly, CRE believes that a transition period is necessary so that shippers can adapt to the lower threshold in the summer. In effect, the reduction of this threshold automatically reduces the cumulative imbalance tolerance, equal to 5 times the threshold beyond which daily imbalances are exposed to market price.

#### 4. CRE decision

##### 4.1. *Decision on balancing rules for the GRTgaz network*

The GRTgaz proposal concerning changes in the balancing rules has been approved, subject to the following modifications:

- for the period from 1 May 2008 to 31 October 2008, the daily balancing price will be applied, for each shipper, to imbalance volumes exceeding 55% of the tolerance accorded to the shipper. Imbalances below this threshold will be carried over to the cumulative imbalance account;
- the penalties on any cumulative imbalance account overruns between 5 times 55% and 5 times 70% of the daily tolerance will be systematically lifted during 7 working days starting on 1 May.

In its consultation with shippers, GRTgaz will put the issue of changes in the portion of imbalances billed at market price back on the agenda, to prepare for the period following 31 March 2009.

Before September 2008, GRTgaz will submit to CRE for approval the rules related to final settlement of the balancing system operating account.

##### 4.2. *Decision on balancing rules for the TIGF network*

Each year starting in 2008, TIGF will redistribute the balancing penalties to shippers.

Signed in Paris, 24 April 2008

For the *Commission de régulation de l'énergie*,

The Chairman,

Philippe de Ladoucette