

Deliberation by the French Energy Regulatory Commission dated 1 December 2011 on the approval of changes in balancing rules on the gas transmission systems of GRTgaz and TIGF

Attending the session: Philippe de LADOUCKETTE, President, Olivier CHALLAN BELVAL and Jean-Christophe LE DUIGOU, Commissioners.

Two companies (GRTgaz and TIGF) operate the French gas transmission system, which is organized into three balancing zones (GRTgaz North, GRTgaz South and TIGF).

This situation translates into different balancing rules for French gas transport networks. Harmonising these rules between transmission system operators (TSOs) will facilitate user access and promote gas exchanges between zones.

Article L. 134-3 of the French Energy Code stipulates that “The French Energy Regulatory Commission approves the technical and financial rules drafted by operators on the balancing of natural gas systems and the coverage of needs cited in Articles L. 431-40, L. 431-5 and L. 431-8.”

In its deliberation dated 30 September 2010, the French Energy Regulatory Commission (CRE) requested a) GRTgaz to propose a schedule to implement its balancing target regime by 2013; b) TIGF to propose changes to its balancing regime for compliance with the new European guidelines.

In September 2011, GRTgaz and TIGF sent their proposals, which take into account the work done within the framework of the “Concertation Gaz” (Gas Consultation) group. To prepare its decision, CRE also consulted market players in September and October 2011.

In this deliberation, the proposals of GRTgaz and TIGF were analysed and assessed to ensure the implementation of a single balancing regime compliant with European principles; it also defines the areas of improvement on which TSOs must continue working within the “Concertation Gaz”. In particular:

- CRE requests TIGF to use feedback and the mechanisms already implemented in the GRTgaz system to minimise users' costs.
- CRE approves GRTgaz and TIGF's proposals on the provision of hourly consumption information for customers connected to the transmission system. CRE requests they continue work to define the information provided to shippers for customers connected to distribution networks by the end of Q1 2012. The methods for producing these data should be common to GRTgaz and TIGF.
- CRE requests TIGF to propose by the end of Q1 2012 a path for its interventions in the within-day market.
- CRE requests TIGF to adjust some parameters of its proposal on the imbalance charging methods to comply with ACER's framework guideline.

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1. Background

1.1. European framework

The 3rd package on the internal electricity and gas markets adopted in 2009 stipulates the application of market-based balancing rules for gas transmission systems. Where applicable, the fees for balancing must reflect the balancing costs supported by the TSO, while prompting network users to balance their portfolios. This must be accompanied by the TSO providing reliable information on the shipper balancing status. This information is specified in Regulation (EC) 715/2009.

ACER¹ adopted a framework guideline on the 4th of November 2011. The European Commission asked the ENTSOG² to translate this framework guideline into a network code, which it may propose, through the comitology process, for adoption as an annex to Regulation (EC) 715/2009. Under these circumstances, the network code would be legally binding in all Member States.

ACER framework guideline stipulates a regime in which each shipper is subject to a general obligation of daily balancing.

When transmission system users are unable to balance themselves their portfolio, the TSO must provide physical system balancing by intervening directly in the market and by making purchases for gas shortfalls or selling gas surpluses.

The TSO invoices each shipper for the reported imbalance at day's end, at an established price based on the transactions made on the wholesale market. A shipper's daily imbalance represents the difference between its gas injections and withdrawals, which correspond notably to the consumption of those shipper's customers.

1.2. Domestic framework

The work to set up market-based balancing was launched on the GRTgaz system in mid-2006 in consultation with market players. Since 2007, the balancing system on the GRTgaz network has evolved progressively integrating increasingly significant market mechanisms.

Until now, TIGF had not proposed developing its balancing regime considering that the rules in force on its network gave satisfaction to shippers; and that the liquidity on its hub was insufficient to cover its balancing needs.

To anticipate the provisions provided for in the 3rd package, in its deliberation dated 30 September 2010, CRE approved the general principles of the target balancing regime by 2013 for the GRTgaz network. It also requested that the two French TSOs continue working in with the framework of the "Concertation Gaz", in order to:

- GRTgaz propose a path enabling the implementation of the target balancing by 2013;
- TIGF submit a study on the changes in the balancing regime on its network required to be in compliance with the new European framework.

In accordance with this deliberation, in September 2011, GRTgaz and TIGF submitted their proposals to CRE, which take into account the work done within the framework of "Concertation Gaz".

1.3. Public consultation

Between 30 September and 25 October 2011, CRE held a public consultation on the proposals to upgrade GRTgaz and TIGF's balancing systems.

CRE received 23 contributions which break down as follows:

¹ Agency for the Cooperation of Energy Regulators.

² European Network of Transmission System Operators for Gas.

- 14 from shippers;
- 3 from associations;
- 6 from gas infrastructure operators.

2. Convergence towards a single balancing system

The French transmission networks are operated by two TSOs and organised into three balancing zones (GRTgaz North, GRTgaz South and TIGF), each one having one gas hub. This situation translates into different balancing rules for French gas transport networks.

2.1. Feedback from the public consultation

The vast majority of contributors favour a progressive convergence towards a target balancing regime common to both TSOs.

Market players received the rules simplifying the operational and contractual restrictions very well. Some contributors cited the Net Connect Germany (NCG) balancing regime as exemplary. In France, these contributors believe adopting a similar model would increase the attractiveness of the French gas market and boost competition.

Several contributors believe that the convergence towards common rules must be a preliminary stage for market coupling or merging marketplaces.

2.2. CRE's analysis

CRE shares the market players' opinion, and believes that the purpose of harmonising balancing rules is to:

- facilitate access of new entrants to each market, as the diversity and complexity of the rules of access to the transmission system may be a barrier to entry, given the costs and the risks they cause for users ;
- promote gas exchanges and price convergence between the different European marketplaces as well as improve the liquidity of said marketplaces.

Furthermore, a European network code will be implemented and be binding to all European transmission operators. Defining two target balancing regimes today in France would run counter to this logic of European harmonisation.

This is why GRTgaz and TIGF target balancing regimes must be identical. However, the ways these two systems change during the transition phase may be different, in order to take into account marketplace maturity and the current practices of both TSOs.

2.3. CRE's decision

CRE requests that GRTgaz and TIGF continue work in the framework of the "Concertation Gaz" to ensure that the rules implemented will meet the target. In particular, TIGF, which in 2011 introduced its thinking on the means of upgrading its balancing regime, should use the feedback and mechanisms already implemented on the GRTgaz network to minimise costs and to simplify user learning, notably in regards to the following:

- information provided to shippers;
- TSO intervention rules;
- shippers imbalances charges.

3. Characteristics and evolutionary path of TSO balancing systems

3.1. Provision of information to shippers

3.1.1. TSOs' proposals

In their target balancing regime proposals, the TSOs plan to provide each shipper with the following:

- for their customers connected to the transmission system, hourly consumption schedules on an hourly basis (late 2013 for GRTgaz and TIGF);
- for customers connected to distribution networks, the forecasted consumption for profiled customers (late 2013 for GRTgaz and by 2014 for TIGF) and for non-profiled customers. These forecasts provided in day-ahead shall be updated twice during the gas day.

And at an aggregated level:

- GRTgaz proposes publishing, by balancing zone, customer consumption forecasts upstream and downstream of the Transmission Distribution Interface Points (PITDs) as soon as Q2 2013 and an end-of-gas-day forecast balance network indicator (semi-quantitative version early 2012, quantitative version late 2012).
- by late 2012, TIGF will publish the consumption information for industrial customers connected to the transmission system retrieved every hour or every four hours and a time-step every four hours for customer consumption information connected to the distribution systems.

3.1.2. Feedback from the public consultation

The contributors are in the majority satisfied with the TSOs' proposals on the provision of consumptions of customers connected to the transmission system.

However, several of these contributors have expressed concerns in terms of the quality of forecasts for consumptions that would be provided for distribution customers. Some of them also request that TIGF propose a methodology for the calculation of its forecasts, which is as consistent as possible with those of GRTgaz.

Furthermore, a wide majority of contributors wished that the data provided by TSOs to shippers be integrated into the scope of the incentive regulation included in the tariffication for the access to gas transmission networks. The TSOs as well as GrDF (main distribution system operator in France) notify about scheduling difficulties and costs related to implementing quality forecasts for the consumptions downstream of PITDs.

Regarding GRTgaz, many contributors have expressed their interest in the end-of-gas-day forecast balance network indicator. However, they have stated that, as this indicator will not improve the information level related to individual balancing of each shipper, its publication alone should not lead to a reduction in tolerance levels.

3.1.3. CRE's analysis

CRE agrees with the contributors observations and believes that quality of information provided to shippers is a crucial element for the proper functioning of the balancing regime.

CRE believes that the TSOs should work in partnership with the distribution system operators (DSOs) to define common methods for calculating the consumption forecasts of customers connected to the distribution networks.

This information will be included in the scope of the incentive regulation, just like the indicator for hourly consumption data of industrial customers transmitted by GRTgaz (to be included in April 2012).

3.1.4. CRE's decision

CRE approves the TSOs' proposals on the provision of information regarding hourly consumption schedule of customers connected to the transmission system.

It requests that they continue working within the framework of the "Concertation Gaz" to define information provided to shippers for customers connected to distribution networks and the calculation methods of this data. The methods of construction of this data should be common to GRTgaz and to TIGF and specified in consultation with the DSOs.

The incentive regulation regime will be supplemented for ATRT5 (1 April 2013) in order to progressively include information provided by the TSOs for the purpose of balancing. To this end, CRE requests that TSOs work in the framework of "Concertation Gaz" to propose new indicators.

In line with the work schedule related to ATRT5, as well as the provisional publication date of an initial version of the European network code on balancing, the two requests should be completed by the end of May 2012, at the latest.

3.2. TSOs' intervention methods onto markets

3.2.1. TSOs' proposals

a) GRTgaz's proposals

During the transition period, GRTgaz proposes opening a second intraday session, in addition to the daily existing intervention sessions in the markets (one on within-day products and the other on day-ahead and weekend products).

GRTgaz envisages using the end-of-gas day network indicator to determine intervention volumes.

In its target regime, GRTgaz envisages intervening at any time during the day, depending on the end-of-gas day network indicator and giving priority to the within-day market. To this end, GRTgaz believes that it will be necessary to gradually extend the exchange's business hours in the evenings as well as during weekends and holidays.

In the end, GRTgaz is planning to draw up an intervention strategy based on the reach of a price representative of the system stress.

b) TIGF's proposals

TIGF proposes intervening on the Southwest Gas hub on the day-ahead market through the Powernext commodities exchange. In its proposal, TIGF's staff makes transactions with predefined supervisory rules.

TIGF currently doesn't have monitoring tools for its intraday balancing needs. As a result, intervening in the within-day market requires additional studies and is not planned at this stage.

3.2.2. Feedback from the public consultation

As regards the GRTgaz proposal:

- a wide majority of contributors favour opening an additional window of intervention that in particular may generate an increase in the number of interventions and liquidity on the corresponding hubs;
- several contributors would like GRTgaz to explain its intervention strategy, especially with respect to price.

As regards the TIGF proposal:

- a majority of contributors has favourably received TIGF's intention to intervene on its hub;
- several contributors believe that TIGF should develop a plan leading to an intervention method based on the intraday market in order to be compliant with ACER's orientation framework;
- some contributors request that TIGF clearly explain the rules for supervising its staff's interventions in the exchange;
- several contributors have underlined the balancing price volatility risks due to the low level of liquidity currently on the TIGF hub. Under such circumstances, a contributor suggested that TIGF reserved the option of intervening on the GRTgaz South's hub.

Lastly, many contributors have expressed the need to take into account the market liquidity level to adjust intervention volumes both for GRTgaz and TIGF in order to limit price spikes. For some contributors, it will also be necessary to ensure that the extension of business hours of the market exchange is not a source of significant additional costs for new entrants.

3.2.3. CRE's analysis

CRE believes that the methods for intervention proposed by GRTgaz are satisfactory.

Regarding TIGF, CRE believes that methods for intervention proposed are not compliant with ACER framework guideline because these methods do not stipulate intervening in the intraday market. Furthermore, if the Southwest's hub liquidity remains insufficient, TIGF should consider the option of intervening in the intraday GRTgaz South hub.

3.2.4. CRE's decision

CRE approves GRTgaz's proposal. It requests that GRTgaz explain its intervention strategy as regards price, and adjust price to possible extensions of exchange business hours in the evenings and nights as well as during weekends and holidays.

CRE approves TIGF's proposal to start its interventions in day-ahead products. Prior to the start of its interventions, TIGF should send to CRE, and submit within the framework of "Concertation Gaz", the rules establishing the methods for intervention. Furthermore, CRE requests that TIGF propose a path for its actions in the within-day market for the end of Q1 2012.

In general, CRE believes that in the event of a development in which there is long-lasting and insufficient liquidity on a hub, the TSOs must review the possibility within the "Concertation Gaz" framework to intervene in the most liquid, adjacent hub.

3.3. Methods for charging imbalances

3.3.1. TSOs' proposals

a) Points common to the GRTgaz and TIGF proposals

In their target regime, the TSOs plan to regulate imbalances daily and to phase out accumulated imbalances after 2014. At the same time, the level of daily tolerance would be revised downward as TSOs have not excluded the possibility of maintaining, in certain cases, the non-null tolerance level in the transition phase, should the ENTSOG network code allow this.

b) Specific points on the GRTgaz proposal

GRTgaz plans to maintain at the target a daily tolerance exclusively for shippers who supply end-customers, on condition of compliance with ENTSOG network code.

- as regards billing shipper imbalances, the volume of imbalances below the tolerance will be paid at the average price observed during the day on the Pownext exchange of the South hub or the North hub based on the location of the shipper's imbalances.
- if GRTgaz does not intervene in the market, shipper imbalances greater than the daily tolerance level will be processed at the average price observed on the market, increased by a premium in the event of sale to the shipper, or decreased by a discount otherwise. The amount of the premium/discount still has not been decided.
- beyond the tolerance, in the event of GRTgaz's intervention in the market, the volume of imbalances greater than the tolerance will be processed at the marginal price³, as set forth in the framework guideline.

c) Specific points on the TIGF proposal

- below the tolerance threshold, TIGF proposes applying the average price observed for the end-of-day product for the PEG South, increased by a cost representative of the gas transport from the South zone to TIGF zone⁴, as well as of the Pownext transaction and its clearing house costs;⁵

³ The marginal purchase price (respectively for sales) is equal to the minimum (maximum) of the average price observed on the market, decreased (increased) by a discount (premium) and the minimum (maximum) intervention price of the TSO in the market for the day in question.

- beyond the tolerance, if there's no intervention in the market, TIGF will apply the same method as GRTgaz to charge imbalances. TIGF proposes the premium/discount at €0.35/MWh;
- beyond the tolerance, when TIGF intervenes in the market, the imbalance will be processed at TIGF's highest or lowest intervention prices increased by a premium, or decreased by a discount depending on which way the imbalance goes.

TIGF is considering keeping the Daily Balancing Service (SEJ) at the target, considering that this service is compliant with the framework guideline.

3.3.2. Feedback from the public consultation

Shippers are in the majority satisfied with GRTgaz's proposal regarding its methods of regulating imbalances, but have reservations about TIGF's proposal.

Several contributors recall the need to maintain the proliferation of imbalances over their entire portfolio, even if nominations by customer type should be notified by the shippers to the TSOs.

Several contributors believe that the change in the tolerance level should be adjusted to the quality of the information provided like the consumption forecasts for example, especially for profiled customers.

Contributors would like to have more details on the level and the structure of the premium/discount that the TSOs are considering.

With respect to TIGF's proposal, contributors have some reservations, such as:

- the application of the premium/discount in the event of TIGF's intervention in the market, ACER's framework guideline specifying that an adjustment can only be applied in the event of non-intervention in the market;
- a level of premium/discount considered as too low to actually prompt shippers to be balanced;
- the risk of importing imbalances in the TIGF zone, if the balancing regimes are different between the TSOs and if the rules in effect in the TIGF zone are less incentivising.

3.3.3. CRE's analysis

The system GRTgaz proposed is compliant with the provisions of ACER's framework guideline.

TIGF must adjust certain parameters of its proposal to ensure compliance with ACER's framework guideline, in particular as regards the following points:

- the price for charging imbalances in the event of an intervention in the market;
- the amount of the premium/discount;
- the application rules of the SEJ.

CRE believes that if the methods for charging imbalances were different for the two TSOs, they could arbitrate between the South and TIGF zones. TIGF should therefore continue work in with the framework of the "Concertation Gaz" to define a target regime compatible with that of GRTgaz. TIGF will examine the opportunity of using the daily balancing price of the South zone, in particular when it does not intervene in the market.

3.3.4. CRE's decision

CRE approves GRTgaz's proposal, as it is consistent with ACER framework guideline. It asks GRTgaz to pursue the work within the "Concertation Gaz", to specify still pending rules (tolerance, premium/discount, etc.).

⁴ the amount applied would be €0.39 /MWh

⁵ the amount applied would be €0.02 MWh

CRE also requests that TIGF pursues the work within the “Concertation Gaz” in order to comply with the rules specified in ACER’s framework guideline.

CRE requests that GRTgaz and TIGF minimise the arbitrage risk between the two balancing systems in the transition phase. In particular, both TSOs should propose through the “Concertation Gaz”, at least comparable premium/discount levels meant to be identical in target.

3.4. Consistency with European work and implementation schedule

3.4.1. Feedback from the public consultation

The contributors request that both TSOs provide a more specific schedule for the reduction of tolerance and the publication of new information.

Market players have favourably received the path and the target envisaged by GRTgaz. Many contributors insist on the fact the gradual reduction of tolerances should be done simultaneously to the publication of new information. In addition, the visibility provided by the TSO on these changes is a crucial element for shippers so they can anticipate and adjust their information system accordingly.

As regards TIGF, some contributors recall that an intervention not evolving rapidly towards the within-day market would not fall within the logic of covering balancing needs, and would not be compliant with ACER’s framework guideline. The contributors’ opinions are divided about maintaining the SEJ at the target.

3.4.2. CRE’s analysis

CRE believes that the TSOs must provide shippers with visibility to facilitate their adaptation to changes in the balancing regime, in particular regarding the reduction of tolerance and the provision of new information. The milestones specified must be broken down more precisely to identify an action plan and specific implementation schedule.

CRE believes the target proposed by GRTgaz is consistent with the framework guideline. TIGF’s target must be improved to take into account fully the various aspects of this framework guideline.

3.4.3. CRE’s decision

CRE approves the path proposed by GRTgaz.

As to TIGF, it should integrate interventions in the intraday market in its path towards the target system.

CRE requests that both TSOs draw up a specific action plan for Q2 2012 and 2013, before the end of Q1 2012.

CRE recalls that the evolutionary path of the balancing regime for both TSOs may be different even if the target is the same.

4. CRE’s decisions

4.1. Convergence towards a single balancing system

CRE requests that GRTgaz and TIGF continue work in the framework of the “Concertation Gaz” to ensure that the rules implemented will meet the target. In particular, TIGF, which in 2011 introduced its thinking on the means of upgrading its balancing regime, should use the feedback and mechanisms already implemented on the GRTgaz network to minimise costs and to simplify user learning, notably in regards to the following:

- information provided to shippers;
- TSO intervention rules;
- shippers imbalances charges.

4.2. *Transmission of information to shippers*

CRE approves the TSOs' proposals on the provision of information regarding hourly consumption schedule of customers connected to the transmission system.

It requests that they continue working within the framework of the "Concertation Gaz" to define information provided to shippers for customers connected to distribution networks and the calculation methods of this data. The methods of construction of this data should be common to GRTgaz and to TIGF and specified in consultation with the DSOs.

The incentive regulation regime will be supplemented for ATRT5 (1 April 2013) in order to progressively include information provided by the TSOs for the purpose of balancing. To this end, CRE requests that TSOs work in the framework of "Concertation Gaz" to propose new indicators.

In line with the work schedule related to ATRT5, as well as the provisional publication date of an initial version of the European network code on balancing, the two requests should be completed by the end of May 2012, at the latest.

4.3. *TSOs' intervention methods in markets*

CRE approves GRTgaz's proposal. It requests that GRTgaz explain its intervention strategy as regards price, and adjust price to possible extensions of exchange business hours in the evenings and nights as well as during weekends and holidays.

CRE approves TIGF's proposal to start its interventions in day-ahead products. Prior to the start of its interventions, TIGF should send to CRE, and submit within the framework of "Concertation Gaz", the rules establishing the methods for intervention. Furthermore, CRE requests that TIGF propose a path for its actions in the within-day market for the end of Q1 2012.

In general, CRE believes that in the event of a development in which there is long-lasting and insufficient liquidity on a hub, the TSOs must review the possibility within the "Concertation Gaz" framework to intervene in the most liquid, adjacent hub.

4.4. *Methods for charging imbalances*

CRE approves GRTgaz's proposal, as it is consistent with ACER framework guideline. It asks GRTgaz to pursue the work within the "Concertation Gaz", to specify still pending rules (tolerance, premium/discount, etc.).

CRE also requests that TIGF pursues the work within the "Concertation Gaz" in order to comply with the rules specified in ACER's framework guideline.

CRE requests that GRTgaz and TIGF minimise the arbitrage risk between the two balancing systems in the transition phase. In particular, both TSOs should propose through the "Concertation Gaz", at least comparable premium/discount levels meant to be identical in target.

4.5. *Consistency with European work and implementation schedule*

CRE approves the path proposed by GRTgaz.

As to TIGF, it should integrate interventions in the intraday market in its path towards the target system.

CRE requests that both TSOs draw up a specific action plan for Q2 2012 and 2013, before the end of Q1 2012.

CRE recalls that the evolutionary path of the balancing regime for both TSOs may be different even if the target is the same.

Paris, 1 December 2011,

For the French Energy Regulatory Commission (CRE),
The chairman,

Philippe de LADOUCKETTE