

## Deliberation of the French Energy Regulatory Commission on 26 June 2012 regarding the gas price spikes seen early February 2012

Present: Philippe de Ladoucette, Chairman, Olivier Challan Belval, Jean-Christophe Le Duigou and Michel Thiollière, Commissioners.

Pursuant to the provisions of Article L. 131-2 of the French Energy Code, the French Energy Regulatory Commission (CRE) “*monitors electricity and natural gas transactions carried out between suppliers, traders and producers, transactions carried out on the organised markets as well as cross-border trades. It monitors the consistency of the offers [...] made by producers, traders and suppliers [...] with their economic and technical constraints*”. This surveillance mission now falls within the framework of the European regulation REMIT on the transparency and integrity of energy markets. Entered into effect on 28 December 2011, REMIT prohibits market manipulations and insider trading in wholesale energy markets.

As part of its wholesale market monitoring mission, CRE systematically analyses occurrences of electricity and gas price spikes. This deliberation reports on the work carried out on the gas price spikes that occurred in February 2012.

Natural gas prices for delivery on 7 February and 8 February on the French spot market reached €40.5/MWh and €45.7/MWh respectively at the North PEG (Gas Exchange Point), the highest levels seen since 2006. These very high prices occurred during exceptional weather conditions: from 1 to 13 February, France and the rest of Europe experienced a cold wave with temperatures well below the seasonal averages. This increased pressure on demand was accompanied by restrictions at interconnection points upstream of the French network, caused in particular by a fall in Russian deliveries which affected the European supply. Although prices rose at all European hubs, France saw significant price differences compared to some of its neighbouring markets: the price at the North PEG for delivery on 8 February was €7.0/MWh higher than that in the Netherlands (TTF), Belgium (Zeebrugge) and Germany (NCG).

In addition to these contextual elements, and within the framework of its systematic analyses in the case of market events of this nature, CRE undertook an investigation into the reasons of these price levels. In particular it analysed the flows through the French gas network as well as the activity of market participants during this period.

### Observed prices

Natural gas prices on the French spot market rose sharply at the beginning of February 2012. In highly volatile conditions, the day-ahead price at the North PEG reached €40.5/MWh for delivery on 7 February and €45.7/MWh for delivery on 8 February, the highest levels seen at this hub since 2006<sup>1</sup>. The South PEG and the TIGF PEG generally echoed the evolution of the North PEG, meaning the price difference between these points remained relatively stable compared to January. Although spot prices at the main European hubs experienced similar rises, they did not reach the same levels as those seen in France (excepting for the Italian *Punto di Scambio Virtuale*, PSV, where the day-ahead reached €65/MWh for delivery on 9 February 2012). Therefore, between 2 and 8 February, the spread between the price at the North PEG on the one hand, and the Dutch (TTF), German (NCG) and Belgian (Zeebrugge) markets on the other hand, went from an average of €0.7/MWh to €7.0/MWh (the North PEG being more expensive). Given the absence of any public reference value for spot prices in Spain it was difficult to assess the price differences with this market.

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<sup>1</sup> The day-ahead price reached €66/MWh in March 2006.

This escalation in spot prices was only marginally reflected in the term contracts (the M+1 remained lower than €25.5/MWh) and the French term prices were not vastly different to those at neighbouring hubs. The TTF index, for example, was €24.9/MWh on 7 February for the M+1 contract and €24.2/MWh for the Q+1 contract. Consequently, CRE notes that the price reference used in the regulated gas tariffs formula was not affected by this episode<sup>2</sup>.

### **Analysis of gas flows in France**

Consumption rose sharply due to the exceptionally low temperatures for the season and was on average 3.6 TWh/day from 6-10 February 2012. Record consumption levels were seen during this period, with 3.7 TWh consumed on 8 February 2012, breaking the previous record of January 2010 (3.3 TWh). By way of comparison, average consumption for the same period last year was 2.2 TWh/day. It was mainly the distribution network clients and gas-powered electricity production sites that were responsible for this consumption.

In order to meet this high demand, storage withdrawals increased strongly, providing on average 47% of daily supplies from 6-10 February, an average of 1.9 TWh/day compared to 0.7 TWh/day in January. Over the same period, land imports rose to 1.6 TWh/day, an increase of 13% compared to January 2012. LNG imports averaged only 411 GWh/day, i.e. 29% less than over the same period last year.

The peak in French prices was accompanied by greater demand on the wholesale gas market which led to an increase in trading at the PEGs. Volumes delivered therefore rose from an average of 1.7 TWh/day during January to 2.3 TWh/day between 6 and 10 February. The volumes traded on the French intermediated market (brokers and commodity exchanges) for the day-ahead and intraday contracts and for delivery between 6 and 10 February rose on average to 467 GWh/day, an increase of 42% compared to the average for January 2012.

The access to the wholesale market allowed suppliers to balance their portfolios during this period, which helped secure supply for their clients.

Exports rose by 50% compared to January, reaching 348 GWh/day. This increase was concentrated at the interconnection point with Switzerland (Oltingue), whose flows were primarily intended for the Italian market. Net exports to Spain remained at a very high level. In the absence of a transparent reference price, CRE is unable to confirm whether these flows reflect rational economic behaviour on the part of the concerned shippers.

CRE also noted that the North-South link was saturated during the period 6-10 February and that storage withdrawals at the TIGF zone to supply the Southern zone led to a reversal of flows at the South/South-West interconnection point between 1 and 13 February.

### **Use of border interconnection capacities and behaviour of individual market participants**

The available import capacity at the main interconnection points along the French network (mainly Obergailbach and Taisnières H) was not fully utilised during the cold wave, despite the significant price difference between the North PEG and its neighbouring hubs. Between 1 and 7 February 2012, 20% of the subscribed entry capacities (2.2 TWh) went unused (9% of French consumption over this period).

Insofar as better utilisation of entry interconnection capacities could have reduced the significant price differences between the French market and its bordering countries, CRE decided to question the three main actors who did not fully use the import capacities to which they had subscribed at the entry points during the period when the price spikes occurred. CRE received a reply from one of them at the end of April, during the month of May and at the end of May from the other two.

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<sup>2</sup> The formula for calculating the regulated tariff uses the monthly average of the Q+1 on the TTF marketplace as a reference price for the gas market (cf. <http://www.cre.fr/marches/marche-de-detail/marche-du-gaz>).

In their replies, these shippers pointed out the unusual weather conditions, the high demand this caused and the tension it created, especially in the south of Germany, exacerbated by the limited supplies of gas coming from Russia.

Two of the actors mentioned the decision by the Italian authorities to force shippers to "maximise" imports of natural gas to Italy<sup>3</sup>. This decision is reflected in the evolution in exports via Oltingue (Swiss border), as previously discussed.

With regard to the German border (Obergailbach), two parties cited the disruptions of interruptible exit capacities from Germany towards France. This meant that all parties with firm entry capacities into France were unable to use them since these capacities could be interrupted upon exit of the German network.

At the Belgian border, one party mentioned that:

- balancing restrictions on the Belgian network made it impossible to reduce backhaul flows due to uncertainties in consumption;
- the GRTgaz rules state that subscribed capacities must only be compared to forward flows (gross flows entering France) and not to net flows (difference between forward flows and backhaul flows from France towards Belgium).

With regard to this last point, CRE nevertheless notes that an entry capacity of 76-100 GWh/day was available for subscription at Taisnières H for both 6 and 7 February.

Finally, at the Spanish border, one actor mentioned contractual transportation obligations and pointed out that in the absence of any day-ahead reference price for the Spanish market, it was impossible to determine the difference in price between France and Spain.

CRE believes that each of these parties has provided technical and economic reasons to justify their under-usage of the interconnections. Based on the information currently available to CRE, the possibility of a market abuse can be discarded, subject to further enquiries which may be carried out, if necessary, based on additional information or with the regulators of neighbouring markets.

## Conclusion

These price spikes on the gas market occurred during the cold wave that hit France and Europe, at a time when the market was faced with a fall in delivery of Russian gas, disruptions of exit capacities out of Germany and very high exports to Spain and Italy. In addition, LNG deliveries were relatively low. This tension between supply and demand explains the high prices that occurred on the various European spot markets.

If it had been possible to better utilise interconnection capacities, this could have helped reduce the price differences seen between the French market and neighbouring countries. An investigation into the individual actions of certain market participants during the tension period between supply and demand has not shown any unjustified behaviour, in light of their economic and technical constraints.

Discussions into how to coordinate the decisions of the Member States on security of supply, market mechanisms and the harmonised pan-European management of strained conditions such as those that occurred during the cold wave of winter 2012 would be welcome. Some aspects in the current design of the European gas markets could also be improved in order to make the wholesale markets run more smoothly. This in particular applies to the definition of interruptible and firm capacities to be harmonised either side of the borders.

In general terms, the specific technical aspects of Europe's gas transmission systems that were highlighted during this investigation could find a suitable solution through European work led by ACER on network codes and framework guidelines.

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<sup>3</sup> Memo from the Italian Ministry for Industry dated 6 February 2012 addressed to all shippers having subscribed capacities at the entry points of the Italian network.

Paris, 26 June 2012

For the Energy Regulatory Commission,  
The Chairman,

Philippe de Ladoucette