

Deliberation of the Energy Regulation Commission of 19 July 2012 relating to guidelines for gas marketplace evolution in France

Present: Philippe de LADOUCKETTE, President, Olivier CHALLAN BELVAL, Frédéric GONAND, Jean-Christophe LE DUIGOU and Michel THIOILLIERE, commissioners.

1. Context

The French gas market currently includes three marketplaces, called Gas Transfer Points (PEG): the North and South PEGs (respectively called “North” and South” PEGs below) on the GRTgaz network and the TIGF PEG. PEGs are essential for suppliers that are active on the retail market. They enable them to hedge between various gas sources in order to offer customers the benefit of the most competitive sources. They also allow them to balance their portfolio in the short term, purchasing and selling gas according to their needs, and may complete the supplying contracts signed directly with producers to supply their customers.

The reduction in the number of PEGs, undertaken since 2003, in particular with the creation of a great North PEG on 1 January 2009, constituted a major improving factor for the operation of the French gas market.

While the North PEG has a satisfactory level of liquidity and competitiveness, both on the wholesale and retail markets, the South PEG and the TIGF PEG still have little liquidity. Thus, consumers, in particular industrial ones, do not have the benefit of market conditions as attractive as those at the North PEG.

In addition, the start of 2012 was characterised by significant price spreads between the North PEG on the one hand, and the South PEG and the TIGF PEG on the other hand. These spreads are the consequence of the congestion between the North and South areas of the GRTgaz network that occur when deliveries of Liquefied natural gas (LNG) decrease, which is currently the case due to the high LNG prices in Asia.

The Energy Regulation Commission (CRE) wants to go further with marketplace evolution so that the entire French wholesale gas market can operate in an optimal way, thereby allowing the disappearance of spreads and contributing to the development of an effective retail market for the benefit of end-consumers.

For this purpose, several studies have been conducted over the past few years concerning:

- the creation of a common South-TIGF PEG: a study conducted jointly in 2009 and 2010 by GRTgaz and TIGF concluded that there was no structural congestion between the two networks;
- the creation of a single GRTgaz PEG : a study conducted during the second half of 2011 by the KEMA consultant dealt with the possibility of a merger of the GRTgaz North and South zones by market based mechanisms.

Based on those works, CRE organised two workshops at the start of 2012, bringing together the stakeholders. A public consultation regarding marketplace evolutions was then opened from 31 May to 22 June 2012. Thirty one contributions were received and those that are not confidential were published on the CRE website. Most of the contributors affirmed their desire to continue with the momentum of the reduction of the number of PEGs, aimed at improving the operation and attractiveness of the French gas market, especially in the South of France.

2. Summary of the public consultation and CRE analysis

2.1. A gas marketplace evolution is necessary in France

A very large majority of stakeholders support consolidation of PEGs. They deem that the maintenance of the three current PEGs is not feasible and that the first changes must take place by 2015, with some contributors finding that this deadline is not soon enough. Most of the contributors emphasise that consolidation of the French PEGs must be included in the European market integration process and thus, consider that GRTgaz and TIGF must harmonise their procedures and their information systems during the upcoming implementation of the European network codes.

In addition, most contributors wish this consolidation to lead to the ultimately creation of a unique France-wide PEG.

As a result of the consultation, CRE has confirmed its will to seek the consolidation of the marketplaces as soon as possible, aiming at the creation, in the long term, of a unique France PEG.

2.2. The creation of a single GRTgaz PEG is a priority

A large majority of contributors considers that the creation of a single GRTgaz PEG is the main objective. It can be envisaged with variable investment combinations and contractual mechanisms.

A large majority of the contributors reject the option of creating a single GRTgaz PEG by the complete elimination of the congestion between the North and South, i.e. investments estimated at €1,800m by GRTgaz. Indeed, while the expected benefits, in particular in terms of the improvement of security of supply and hedging opportunities, are not in dispute, the effect of an increase of such investments on the transmission tariff is deemed excessive.

A large majority of the contributors also reject the option of the creation of a single GRTgaz PEG, which would be only based on two contractual mechanisms. Contributors emphasise the quality of the study conducted by the KEMA consultants, which allowed the congestions of the GRTgaz network to be identified, to quantify their effects and to analyse the contractual mechanisms to deal with them. Nevertheless, the contributors consider that these mechanisms entail excessive risks.

CRE shares the stakeholders' point of view. It feels that sustained recourse to contractual mechanisms only would expose the market, and thus, *in fine*, end consumers, to significant risks concerning:

- security of supply in the South of France: it doesn't seem possible, given the current state of the legislation, to compel suppliers to respond to the GRTgaz calls for tenders in order to ensure, in the event of need, the arrival of gas directly to the South of its network. In addition, the disappearance of price signals in the South zone would entail the risk, if infrastructures are not reinforced, of producing a stored gas deficit in the South of France;
- the costs incurred: the cost of flow commitments necessary for GRTgaz to balance its network in the South is uncertain, not controllable and potentially very high;
- the operational implementation of the flow commitments: unresolved difficulties concerning the sizing and scheduling of the GRTgaz calls for tenders.

On the other hand, contributors support the implementation of a single GRTgaz PEG based on the doubling of the *Artère de Bourgogne* for around €600m, together with limited recourse to contractual mechanisms. Taking into account the late commissioning of this infrastructure in 2018, most of these stakeholders want an anticipation of the single GRTgaz PEG, based on contractual tools, to be studied for 2016. Some of these even consider that it would be useful to experiment as soon as possible with part of the contractual tools recommended by the KEMAs study, in order to reduce the spreads between the North and South PEGs.

Lastly, a minority of the contributors call for these changes be preceded by a cost-benefit study, in order to quantify the savings for end consumers.

In conclusion, CRE considers that the creation of a single GRTgaz PEG based on the doubling of the *Artère de Bourgogne* together with contractual tools represents the best option for the French market. A cost-

benefit study can be conducted to validate this analysis, without compromising the schedule for the implementation of this solution. In addition, CRE considers that the current market conditions in the South of France are not satisfactory for end consumers. Thus, it supports experimenting with any measure allowing this situation to be improved.

2.3. The creation of a common GRTgaz South and TIGF PEG can be done by 2015

Almost all of the contributors feel that the size of the TIGF PEG is not large enough to constitute an effective and permanent marketplace. Contributors also indicate that market coupling cannot constitute, in itself, an alternative for the creation of a common marketplace.

A large majority of the contributors would like a large South PEG linking the South and TIGF PEGs to be effective by 2015 at the latest. They indicate that since there is no congestion between the two networks, the technical constraints of implementation are limited.

CRE shares the stakeholders' position regarding the TIGF PEG and market coupling. It considers that a great Southern PEG must be implemented in 2015 at the latest. Such a change is essential from the point of view of a single marketplace in France in the long term. It estimates that a "*Trading region*" system, envisaged in the Gas target model to merge marketplaces, while maintaining various balancing zones, would meet this objective and the request by TIGF not to merge balancing management with GRTgaz.

In addition, the stakeholders feel that the technical and regulatory obstacles are too significant, at this time, for a connection of the TIGF PEG with the Spanish market.

CRE considers that a better integration of the French and Spanish markets is desirable, aiming at the creation of an internal European gas market. This should happen, as a first step, by necessary changes to each national market in a direction consistent with the Gas target model defined by the European Energy Regulation Authorities: consolidation of the PEGs in France, emergence of a functional marketplace in Spain.

3. CRE Guidelines

3.1. Implementation of an effective gas marketplace in France

CRE intends to set the marketplace structure evolution trajectory with its decision regarding the upcoming tariff for the use of the gas transmission networks.

It considers that, in the long term, France should have a single marketplace and thus a single gas price. Such a change is fundamental to achieve an effective wholesale market, for the benefit of gas consumers.

a) In regard to the creation of a single North - South PEG

A single North - South PEG will be created at the latest in 2018 based on the doubling of the *Artère de Bourgogne* to reduce the congestion between the North and South of the GRTgaz network.

From this point of view and in order to avoid delays, CRE has asked GRTgaz to launch, as from September 2012, the engineering studies necessary for this investment. Potential recoverable costs related to these studies will be covered up to €15m by the transmission tariff.

In parallel, CRE will conduct, or make conduct a cost-benefit study allowing the optimal investment level to create the single North - South PEG to be defined. The specifications of this study will be defined during the second half of 2012, bringing together the stakeholders within the framework of the *Concertation Gaz*. The GRTgaz final investment decision will be made at the latest by mid-2014.

During the transition period, CRE has asked GRTgaz to study, as part of the *Concertation Gaz*, the actions or contractual tools that could be experimented with, as from 2013, in order to release the constraint in the South of the territory. An overview of these tools needs to be done by GRTgaz by mid-2014. Based on this overview, CRE will decide a potential anticipation of the creation of the single North - South PEG.

In the short term, CRE, as part of its wholesale market monitoring mission, will pay particular attention to the behaviour of prices at the North and South PEGs, as well as the changes in spreads between both PEGs.

b) *In regard to the creation of a common GRTgaz South - TIGF PEG*

A common South - TIGF PEG will be created by 2015 at the latest. This could be done while maintaining two independent balancing zones, according to the “*trading region*” model. An assessment of the operation of this common PEG will be done at the time of the creation of the single North - South PEG, that is 2018 at the latest.

CRE has asked TIGF and GRTgaz to propose, between now and 15 October 2012, the creation methods for this common PEG.

3.2. Integration of the French market with the other European markets

The European target model envisages the implementation of efficient marketplaces. The orientations envisaged by CRE above will allow this objective to be achieved. This model also envisages the interconnection of marketplaces in Europe with various tools:

- investments, in particular in interconnections, to allow gas flows in both directions;
- marketing of interconnection capacities by auctions and in a linked way (“*bundles*”);
- the implementation of market coupling mechanisms to reinforce price convergence between marketplaces.

Thus, CRE welcomes the proposal by TIGF and Enagas to implement market coupling with the Iberian Peninsula. This project will allow integration between the French and the Spanish markets to be reinforced, in addition to the decided investments to develop French-Spanish interconnections. It will find its full meaning when French and Spanish marketplaces operate in an optimal way.

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For the Energy Regulation Commission
The Chairman,

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