

Deliberation of the French Energy Regulatory Commission of 15 January 2014 approving the balancing rules for the GRTgaz and TIGF transmission networks as from 1 April and 1 October 2015

Present: Philippe de Ladoucette, President, Olivier Challan Belval, Catherine Edwige, Jean-Pierre Sotura and Michel Thiollière, commissioners.

Pursuant to Article L.134-3 of the French Energy Code, the French Energy Regulatory Commission (CRE) *"approves the technical and financial rules drafted by the operators on the balancing of natural gas systems and the coverage of needs cited in Articles L.431-4, L.431-5 and L.431-8"*.

The purpose of the present deliberation is to approve the balancing rules proposed by GRTgaz and TIGF as from 1 October 2015.

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1. BACKGROUND

The present deliberation falls within the framework of the development of the balancing rules for the natural gas transmission systems towards the target balancing system defined by EU Regulation No 312/2014¹ ("Network balancing code" or "Network code"), which entered into force on 16 April 2014, the provisions of which will apply as from 1 October 2015.

In its deliberation of 1 December 2011², CRE requested GRTgaz and TIGF to define intermediate milestones in order to gradually move towards the target balancing system. Therefore, each year the transmission system operators (TSOs) forward to CRE their proposals for changing the balancing rules, following work carried out within the framework of Concertation Gaz.

CRE's deliberations of 21 June 2012³, 20 September 2012⁴, 5 February 2013⁵ and 4 April 2014⁶ brought changes to:

- the level and frequency of clients' consumption data made available to shippers by the TSOs;
- the methods for charging shippers' imbalances, by gradually reducing the level of imbalance tolerance under which the shipper is not penalised;
- the TSOs' actions in the market to cover their balancing need, in order to encourage shippers to balance their portfolios by means of a charge for imbalances billed by the TSO, which reflects actual tension in the system.

The target balancing system aims at reducing the overall balancing cost for the gas market: shippers will receive more accurate information on consumption which will enable them to nominate quantities closer to those actually used. At the same time, there will be no more tolerances: they will expose the responsible shippers to the first kilowatt-hour of imbalance. The TSO's actions in the market will be marginal, to settle residual imbalances, at the best price, through competition between the different sources of supply in the intraday market.

In addition, the balancing system implemented by the present deliberation must meet the requirements of the creation of a single marketplace in the south of France. The creation of a PEG Commun (common Trading Region South) as at 1 April 2015 will provide shippers with access to a more efficient wholesale market based on the trading region model defined in CRE's deliberation of 22 May 2014⁷.

Following work carried out within the framework of Concertation Gaz, GRTgaz and TIGF forwarded to CRE in September 2014 proposals on how to apply the Network balancing code. These proposals, which are contained in the Annex to the present deliberation cover:

- the balancing rules envisaged as at 1 October 2015, date from which the Network balancing code will apply;
- the transitional balancing rules envisaged between 1 April 2015 and 1 October 2015.

CRE carried out a public consultation from 13 to 30 October 2014 on the TSOs' proposals.

Twenty-two contributions were addressed to CRE:

- Six from industrial clients or associations of industrial clients: ADISSEO, CONDAT, PETROINEOS, SOLVAY, TOTAL Raffinage Chimie, UNIDEN;
- Ten from shippers: AFIEG, Direct Energie, EDF, ENI, GAZPROM, GDF SUEZ, GAS NATURAL

¹ Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks

² [Deliberation of the French Energy Regulatory Commission of 1 December 2011 on the approval of changes in balancing rules on the gas transmission systems of GRTgaz and TIGF](#)

³ [Deliberation of the French Regulatory Commission \(CRE\) dated 21 June 2012 on the approval of changes to balancing rules on the GRTgaz and TIGF gas transmission networks](#)

⁴ [Deliberation of the French Energy Regulatory Commission of 20 September 2012 regarding approval of the balancing rules for GRTgaz's gas transmission system](#)

⁵ [Deliberation of the French Regulatory Commission \(CRE\) dated 21 June 2012 on the decision concerning changes to balancing rules on the GRTgaz and TIGF gas transmission networks](#)

⁶ [Deliberation of the French Energy Regulatory Commission of 4 April 2014 approving the evolution of the balancing rules for the GRTgaz and TIGF transmission networks](#)

⁷ [Deliberation of the French Energy Regulatory Commission of 22 May 2014 on the decision concerning the operating rules for the marketplace common to the GRTgaz Sud and TIGF zones as at 1 April 2015](#)

EUROPE (GNE), STATOIL, TEGAZ, TOTAL G&P;

- Two from associations: AFG, UPRIGAZ;
- Four from infrastructure operators: GDF Suez Branche Infrastructures, GRTgaz, Storengy, TIGF.

The non-confidential responses are published on CRE's website.⁸

The shippers and industrial clients who took part in the public consultation were invited to share their view on the future changes with the Board of CRE during a round table held on 4 December 2014.

2. BALANCING RULES AS AT 1 OCTOBER 2015

2.1. Tolerances and imbalance price

2.1.1. TSOs' proposals

The TSOs propose to eliminate balancing tolerances, in line with their proposal presented during Concertation Gaz. Therefore, shippers will be charged for any imbalance based on the marginal price for settling imbalances (see section 3 of the present deliberation). Moreover, the TSOs propose to eliminate the cumulative imbalance account as from 1 April 2015.

In compliance with the Network code, the marginal price of imbalances corresponds to the most penalising value between:

- the average price of gas trades in the market for that gas day +/- a small adjustment;
- in the case in which the TSO intervened in the markets, the extreme price for its purchases/sales in gas.

To prevent the elimination of tolerances from increasing the financial risk of balancing for shippers, the TSOs propose lowering the level of the small adjustment used to calculate the price for the imbalance charge. Therefore, the small adjustment, which is currently set at +/- 10% will be lowered to 2.5% in the GRTgaz North zone, and to €0.1/MWh in the GRTgaz Sud and TIGF zone. This level, which is lower than that proposed for the GRTgaz North zone is a bonus for attractiveness, justified by the lower liquidity in the marketplace common to the GRTgaz Sud and TIGF zones.

2.1.2. Summary of responses to the public consultation

A great majority of participants (17/20) were in favour of the principles of the target balancing system proposed by the TSOS, based on the elimination of tolerances and the large decrease in the small adjustment:

- shippers with telemetered clients support the TSOs' proposal. Shippers with mostly non-daily metered (NDM) clients support this target, but request that it be accompanied by specific measures or a transitional period during which tolerances are maintained;
- several contributors highlighted the importance of the information transmitted by the TSO for balancing and requested an improvement in their quality, in particular that of the balancing coefficient K0;
- industrial clients and Storengy fear that a small adjustment that is too low, would remove shippers' responsibility and lead to a recurring physical system imbalance, which would then have to be settled by the TSO through action in the market, which would increase the cost of balancing.

A large majority of contributors (14/17) are in favour of the small adjustment at 2.5% in the North zone, but wished for this level to be reviewed regularly. Only two infrastructure operators wished for a higher adjustment, in order to provide incentive to shippers.

With regard to the adjustment at €0.1/MWh in the South zone:

⁸ <http://www.cre.fr/documents/consultations-publiques/evolution-des-regles-d-equilibrage-sur-les-reseaux-de-transport-de-gaz-aux-1er-avril-et-1er-octobre-2015>

- the majority of contributors (14/20) considered that this level was too low. The industrial clients and a shipper suggest that the small adjustment be at least equal to the cost of storage cycling, i.e. €0.47/MWh, so that shippers will not be encouraged to leave the TSOs to resorb their imbalance;
- a few number of participants are in favour of an adjustment at €0.1/MWh. They highlight the major role of the marginal price, in the event of TSO action, in encouraging shippers to balance. If the gas system can be balanced without the intervention of the TSO, then there is no reason to heavily penalise participants that are out of balance;
- several contributors wish for the rates at the Nord and South zones to be uniformly posted as a percentage for consistency and simplification purposes. In addition, while certain contributors deemed it relevant to propose different rates in the Nord and South zones, others preferred that these rates be harmonised in order to simplify the system and increase the attractiveness of the French market.

2.1.3. CRE's analysis

CRE considers that the elimination of tolerances, the simultaneous lowering of the level of the small adjustment and the implementation of a single imbalance price in the GRTgaz Sud and TIGF zones are the principles of an efficient balancing system:

- when the system is in a near-balanced situation, the cost of balancing is moderate for shippers, because of the low adjustment applied to the average price;
- if there is a significant imbalance in the system, the settlement price for imbalances, equal to the extremum of the TSO's gas sales or purchases, encourages shippers to resorb their own imbalance;
- every hour, shippers access the settlement price for imbalances and the level of tightness in the GRTgaz and TIGF networks by consulting the SMART GRTgaz and DATAGAS websites and act accordingly (in compliance with the TSOs' proposal described in section 2.2).

However, CRE considers that in compliance with §4 of Article 22 of the Network code, the small adjustment should provide incentives for shippers to resorb their balances through their own actions rather than leaving the TSO to undertake balancing actions which will then be charged. The small adjustment at +/-€0.1/MWh proposed for the GRTgaz Sud and TIGF zones therefore seems insufficient.

Moreover, CRE considers that the harmonisation of the balancing rules at national level will make them clearer. Therefore, the rates should be expressed as a percentage for both the Nord and South zones.

As a result, CRE does not approve the adjustment rate of €0.1/MWh proposed by TIGF and GRTgaz. It requests GRTgaz and TIGF to set this rate at 2.5% for the TIGF and GRTgaz South zones, as for the North zone.

These rates may be revised annually, depending on feedback within the context of Concertation Gaz.

2.2. TSOs' actions in the market for their balancing needs

2.2.1. TSOs' proposals

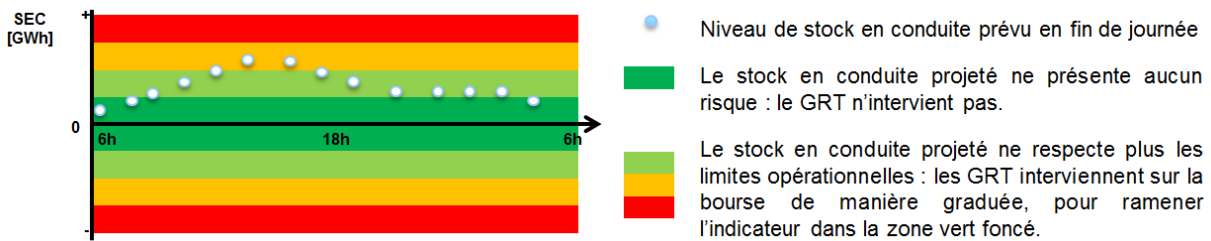
a.) TSOs' market action strategy

As from 1 April 2015, the TSOs propose that their action strategy be based on the linepack indicator projected for each balancing zone calculated by the TSOs, taking into account the linepack in their network (GRTgaz Nord, GRTgaz Sud, TIGF) at the start of the gas day and the projected imbalance of the associated balancing zone at the end of the day. Depending on the result, the TSOs will define the degree of network tightness for each of the zones.

GRTgaz proposes to adopt four possible levels of system tightness: nil, acceptable, high, critical. A colour is attributed to each level (dark green, light green, orange and red respectively), to make the reading easier.

Diagram proposed by GRTgaz*:

* TIGF will use a similar projected linepack indicator, with quantities adjusted to its network.



For GRTgaz, the degree of tightness will influence the time and action in the market: the more critical the level, the sooner the action.

b.) Market action times

In July 2014, Powernext announced the opening of the gas stock exchange 24/7. In this context, GRTgaz proposes to increase its intervention windows. As from 1 April 2015, GRTgaz wishes to have five 20-minute windows for within-day transactions, starting at 10:25 a.m., 2:25 p.m., 5:25 p.m., 8:25 p.m. and 11:25 p.m., regardless of the day of the week.

TIGF proposes to not change its market intervention times, between 3:45 p.m. and 4:15 p.m. on working days.

c.) Method for calculating the marginal balancing price

GRTgaz proposes that the calculation of the imbalance price, corresponding to the extremum of the average price or the marginal price of the day in question, be changed as follows:

- for gas days during the week, the average price would be equal to the weighted average (by volume) of the prices obtained during all the within-day spot product transactions of the day in question;
- for weekend gas days or holidays, the average price would become the weighted average (by volume) of the prices obtained during all the within-day spot product transactions of the day in question.

The marginal price would include all the transactions made by GRTgaz in the within-day spot product. As from 1 April 2015, the TRS will replace the PEG Sud and the PEG TIGF. In compliance with the deliberation of 22 May 2014, the overall contractual imbalance of each shipper will be shared between the two balancing zones according to a distribution key specific to each shipper, based on the quantities shipped. Consequently, a shipper's imbalance will have the same sign in both balancing zones of the trading region. Similarly, the projected physical imbalance will be distributed between the two GRTgaz Sud and TIGF networks by implicit flows during the day. At a given time, both networks will therefore be short, or long, in proportions that might be different. Thus, at a given time, TIGF's and GRTgaz's actions will be in the same direction for both balancing zones.

GRTgaz and TIGF propose that the marginal sale price and the marginal purchase price be identical for both balancing zones in the trading region. The calculation of the marginal purchase and sale prices would be identical to that described above, by adopting as a perimeter GRTgaz's and TIGF's interventions at the TRS.

d.) Other topics related to TSO actions

GRTgaz proposes the elimination of the intervention window for the day-ahead product, optional since 1 August 2012, and the intervention window for the spot week-end product. This measure would help concentrate the TSO's actions in the within-day market.

Lastly, GRTgaz proposes the creation of an operations committee bringing together CRE, Powernext and GRTgaz to develop the intervention parameters as needed, which are:

- window times and durations;
- the dimensioning of actions;
- parameters of the different actions.

This operations committee could also cancel the imbalance price in the event of anomalous marginal prices.

2.2.2. Summary of responses to the public consultation

a.) TSOs' market action strategy

Contributors were unanimously in favour of the use and publication of the projected linepack indicator. Some of them made recommendations for the indicator to be updated frequently and for it to be as accurate as possible. AFG and EDF pointed out that the quality of the indicator depends partly on the nominations of contributors and that it could be manipulated by a participant who would deliberately nominate quantities out of balance and then balance those differences during the day.

b.) Market action times and method for calculating the marginal balancing price

GRTgaz's proposal to intervene outside of work hours caused concern for most contributors, since they feared that liquidity would be insufficient after 6 p.m. and on weekends.

- A large number of participants were in favour of the increase in GRTgaz's intervention windows but expressed reservations. They wish for a gradual implementation of evening and weekend interventions by GRTgaz in particular given the low level of liquidity on evenings. Several shippers wish for the imbalance charge to exclude the TSOs' interventions outside of working days, until 1 October 2015, in order to decide whether or not to include them based on initial feedback.
- Industrial clients were opposed to the increase in the TSOs' intervention windows since they fear that in the absence of sufficient liquidity, the TSO would intervene at abnormal prices, thereby increasing the cost of imbalances for network users.
- Most participants are in favour of CRE's proposal to create a service quality indicator to measure differences between the prices of the TSOs' interventions and the average price observed in the markets. Three contributors, including GRTgaz, were against this proposal, considering that if the system tightness required it, the TSO should not be discouraged from intervening, even at extreme prices. One shipper proposed the creation of a second indicator, based on the British model⁹, in order to introduce a double incentive: on the one hand, an incentive for the TSOs to intervene at a price close to the average prices observed in the markets, and on the other hand, an incentive to maintain a stable linepack.

c.) Single marginal price for the TRS

Contributors were unanimously in favour of the implementation of a single marginal price in the TIGF and GRTgaz South zones. They commended the simplification effort made by both TSOs. One shipper moreover wished for both TSOs to simultaneously publish that price in a harmonised format.

2.2.3. CRE's analysis

a.) TSOs' market action strategy

CRE is in favour of an action strategy based on the use of the projected linepack indicator proposed by both TSOs; this indicator would be published and updated regularly on the DATAGAS and SMART GRTgaz websites.

b.) Market action times and method for calculating the marginal balancing price

Under the current conditions, the market is not liquid outside of the time period running from 8:30 a.m. to 6 p.m. on working days. The development of liquidity in the intraday market is a key objective for the proper functioning of the gas market. All shippers may benefit, at any time, from the best price to settle their imbalances, which reduces their costs, but also the system costs in general, since the TSOs' balancing actions are avoided.

⁹ Ofgem follows National Grid actions according to the terms and conditions specified on page 11 of the following document: [supporting information document](#).

The TSOs' interventions play a role in the development of market liquidity. They serve as a meeting point for participants that wish to buy or sell.

Nevertheless, the TSO's interventions outside of working hours present the risk, in the event of insufficient liquidity, that abnormal buy-sell prices increase the financial risk of imbalance charges for all shippers. In order to counter this risk, GRTgaz proposes restrictive and different intervention conditions according to timeframe. These conditions were presented in detail to CRE, which deems them satisfactory. CRE however considers that it would be more effective, initially, to limit the number of intervention timeframes to two during the day and one outside of working hours (10:25 a.m., 5:25 p.m. and 11:25 p.m.) in order to concentrate liquidity: the volume of trades at each timeframe would be maximised. Moreover, keeping three timeframes instead of five would simplify the TSO's actions while creating a gradual signal for shippers, reflecting system tightness. Lastly, the limit on the number of timeframes would enable a larger number of companies to trade, since some of them do not have the human or material resources necessary to intervene in the markets throughout the day.

Moreover, CRE will introduce as from 1 April 2015, two new indicators¹⁰ to follow the prices and volumes associated with the TSO's balancing actions. The first indicator will measure the difference between the extreme price at which the TSO buys or sells and the average price on Powernext of within-day products of the PEG Nord or the TRS for the gas day. The second indicator will measure the difference between linepack at the end of D-1 and that of Day D. These indicators will carry no financial incentive initially, but will be monitored regularly in Concertation Gaz.

c.) Single marginal price for the TRS

CRE is in favour of a single buy and sell marginal price within the trading region.

d.) Other topics related to TSO market actions

CRE is in favour of GRTgaz's proposal to eliminate the optional intervention timeframes for day-ahead and weekend transactions, in order to promote the buying/selling of within-day products.

CRE is not in favour of the creation of an operations committee as proposed by GRTgaz. It considers that the topics related to GRTgaz's actions in the market must be addressed within the framework of Concertation Gaz. Moreover, CRE does not wish to establish the possibility of cancelling with hindsight, the charge for imbalances: this reflects the state of system tightness and is published transparently for participants that may have to pay it.

2.3. Daily balancing service

The daily balancing service is an optional balancing service, offered to holders of storage capacity with TIGF. It enables the shipper that has subscribed to it, to be allocated an input and off-take quantity at the transport/storage interface point (PITS), in order to optimise in hindsight, its daily balancing in TIGF's network.

2.3.1. GRTgaz's proposal

GRTgaz is not in favour of the continuation of the daily balancing service, nor of its extension to the GRTgaz South or Northzones.

It in fact considers that the service does not encourage shippers to intervene in the market to reduce their imbalances, since it allows them to reduce or eliminate the imbalance in hindsight, through an adjustment of their allocations at the PITS. GRTgaz therefore considers that the daily balancing service hinders market liquidity. In that regard, it goes against the principles defined by the European network code, which aims to develop marketplaces.

Moreover, GRTgaz highlights that it could be considered that the service transfers the shipper's balancing

¹⁰ [CRE's deliberation of 17 December 2014 on the draft decision concerning the development of tariffs for the use of the natural gas transmission networks as from 1 April 2015](#)

responsibility to the TSO, which contradicts the provisions of the Network code.

Lastly, GRTgaz states that offering the service could lead the TSO to intervene in the market to balance its system on the basis of intraday imbalances that could be minimised ex post facto, through allocation adjustments at the PITS. For GRTgaz, there is a risk that the service generates inconvenient balancing interventions by the TSO, the cost of which would be borne by the community.

2.3.2. TIGF's proposal

TIGF proposes to continue the daily balancing service beyond 1 April 2015, for the portion of the imbalance calculated within the perimeter of the Grand South zone attributed to the TIGF network. It stated that certain participants expressed their desire for the service to be extended to the entire trading region.

TIGF highlights that the service is complementary to the market products and balancing services provided for by the Network code and that its implementation does not generate any cost for the transmission operator. TIGF also affirms that the operational management mode at the PITS for the implementation of the service is compatible with the nomination and re-nomination procedure laid out in the Network code.

Lastly, TIGF stated that access to the service is transparent and non-discriminatory, open to all shippers with TIGF storage capacity and reduces the financial risks associated with shippers' balancing, in an illiquid market.

2.3.3. Summary of responses to the public consultation

Most contributors, starting with all industrial clients, but also a certain number of shippers, are in favour of the discontinuation of the daily balancing service. They consider that it has a negative impact on market liquidity and goes against the Network balancing code.

Five contributors did not find it to be incompatible with the Network balancing code and did not support its discontinuation. One shipper wished for the service to be maintained until the creation of the single PEG in 2018.

TIGF and one shipper considered that the flexibility services offered by the TSOs must be analysed globally to create a system common to both TSOs prior to eliminating the daily balancing service. In their opinion, the offering of a flexibility service based on linepack must be concerted and precede the elimination of the daily balancing service.

2.3.4. CRE's analysis

In accordance with Article 4 of the Network code, "*The shippers shall take primary responsibility to balance their portfolios in order to minimise the need for transmission system operators to undertake balancing actions [...]*". However, with the daily balancing service, the TSO acts in place of the shippers, to reduce or eliminate their imbalances through allocation adjustments at the PITS. CRE considers that the daily balancing service transfers the shipper's balancing responsibility to the TSO. In that regard, the balancing service is not in line with the goal to make shippers responsible as specified by the Code.

In addition, the Network code stipulates that the TSO must carry out residual balancing actions as required in order to maintain the transmission network within its operational limits. In that respect, under certain conditions, it may use balancing services. However, the daily balancing service is not a balancing service within the meaning of the Network code. On the contrary, it encourages the TSO to more frequently use storage rather than the market to balance its system, while the implementation of the target system aims at developing the marketplaces.

Moreover, CRE considers that, with the goal to create a TRS, continuing the daily balancing service in the TIGF zone alone would be contrary to the objective to harmonise the balancing rules in GRTgaz's and TIGF's networks, as reiterated by CRE in its abovementioned deliberation of 22 May 2014. Therefore, if the service was maintained, it would be necessary to extend it at least to the GRTgaz Sud balancing zone.

Moreover, while the lack of liquidity at the PEG TIGF justified until now the existence of the balancing service to assist shippers present in this zone to cover their balancing needs, the creation of the more liquid TRS will enable them, as from 1 April 2015, to use the market under better conditions. Consequently, CRE

considers that the balancing service will no longer be necessary for shippers' balancing in the TIGF zone. An adaptation period until the mandatory implementation of the Network code can nevertheless be envisaged, as described in section 4.4.

Given all of the elements presented above, CRE is not in favour of the extension of the daily balancing service to other zones and to beyond 1 October 2015.

2.4. Use of locational products for balancing

2.4.1. TSOs' proposal

The TSOs propose, as from 1 October 2015, to set up buying/selling of locational products in compliance with the possibility offered by Article 9.1 of Chapter III of the Network Code on Gas Balancing. The goal is to have an additional means (physical and not only notional products) of changing the flow of gas at entry or exit points to maintain the transmission system within its operational limits.

2.4.2. CRE's analysis

CRE considers that the TSOs' proposal is not sufficiently specified as to allow it to express its opinion on the use of locational products for the time being. It requests the TSOs to discuss this topic within the framework of Consultation Gaz and to submit to it, if applicable, during the first half of 2015, a detailed proposal of the type and operation of these locational products.

3. IMPLEMENTATION OF INTERIM MEASURES IN COMPLIANCE WITH THE PROVISIONS OF THE NETWORK BALANCING CODE

Chapter X of the Network balancing code authorises the TSOs to implement interim measures for a maximum period of five years as from the entry into force of the Regulation, in the event of insufficient liquidity of the short-term wholesale gas market. The Network code provides for, under certain conditions, the possibility of:

- creating a balancing platform (Article 47);
- using contract mechanisms (Article 48);
- applying tolerances (Article 50); the application of tolerances must in no way result in an excessive increase in the overall balancing cost, or undermine the development of the short-term wholesale market.

In particular, the application of tolerances is only authorised in the following three cases:

- if the liquidity in the short-term wholesale market is not sufficient to enable shippers to carry out balancing actions; or
- if shippers do not have access to gas that would enable them to resorb their imbalance; or
- if the information made available to shippers regarding their inputs and off-takes is insufficient.

3.1. GRTgaz's analysis

GRTgaz presented in its proposal to CRE a study of the liquidity at the PEG Nord and at the PEG Sud.

a.) GRTgaz's analysis of the balancing conditions in the North zone

In the spot market, the PEG Nord is the second fastest growing market in Europe, behind Gaspool, with 30% growth in 2013. The projected gas trade volume for 2014 is close to 480 TWh, i.e. more than twice the level in 2009, when the PEG Nord was created. The number of transactions has also more than doubled, totalling 123,000 in 2013, compared to 50,000 in 2009. The estimate for 2014 is about 140,000 transactions, with an average 80 shippers present at the buying or selling each day. GRTgaz has concluded

that the liquidity in the spot market is satisfactory for the PEG Nord.

Moreover, GRTgaz considers that the level of information that it will be able to provide to shippers at the date of entry into force of the target balancing system exceeds the requirements of the Network balancing code: as indicated during Concertation Gaz meetings, shippers will have access in particular to hourly information for telemetered points, and the update of the K0 coefficient at each intraday nomination cycle. In general, the TSO highlighted that it has undertaken an ongoing process to improve the quality of information provided.

Given the satisfactory level of liquidity and the level of information made available to shippers, GRTgaz considers that the North zone does not require the implementation of interim measures as provided for in the Network balancing code.

b.) *GRTgaz's analysis of the balancing conditions in the South zone*

According to GRTgaz, the PEG Sud is structurally less liquid: the market is geographically enclosed, not as deep as in the north, and the prices can be more heavily influenced by the dominant participants. This phenomenon is accentuated by the low number of users of the Fos Tonkin and Fos Cavaou terminals, the frequent saturation of the Nord-Sud link and the large gas exports to Spain.

This observation of lower liquidity could, in theory, justify interim measures; however, GRTgaz is not favourable, since the implementation of such measures would not improve the attractiveness and liquidity of the marketplace.

Moreover, shippers in the South zone have the same level of information, in terms of content and quality, as those in the North zone.

For these reasons, GRTgaz does not wish to apply interim measures in the South zone.

3.2. TIGF's analysis

TIGF based its analysis on CRE's deliberation of 4 April 2014¹¹, in which the regulator observes that the TIGF/Sud spread product did not suffice to improve the liquidity in the TIGF zone, and establishes that "*given the greater liquidity in the adjacent marketplace PEG Sud and the prospect of a common marketplace in the south of France, [...] TIGF must undertake actions for within-day products as early as possible at the PEG Sud*", i.e. by 1 July 2014 at the latest. Although the lower liquidity of the PEG TIGF and PEG Sud compared to that of the PEG Nord is proven, TIGF considers that the creation of a common marketplace for the GRTgaz Sud and TIGF balancing zones should improve the situation and attractiveness of this market; the TIGF balancing zone would not be considered an exception in relation to the lack of liquidity of the wholesale market as provided for by the Network balancing code.

Moreover, TIGF mentioned the changes made to its balancing system since 2012: the operator has included in its handling of imbalances, the buying/selling of standard short-term products on Powernext, and implemented a daily imbalance charge based on a marginal price. These changes anticipated the requirements of the Network balancing code. Therefore, TIGF proposes to implement the target model laid out by the Network balancing code, and discards the implementation of interim measures.

3.3. Summary of responses to the public consultation

With regard to the market situation and the appropriateness of implementing interim measures, contributors presented their view of the two criteria: liquidity of the marketplaces in the north and south and availability of the information necessary for balancing.

- Most shippers consider that the liquidity of the marketplaces is sufficient in the North zone but insufficient in the South zone. Industrial clients stated that liquidity is almost non-existent on evenings and weekends, irrespective of the balancing zone. Consequently, those participants wish for interim measures to be set up for the south zone, until 2019. One shipper stated that it was too

¹¹ [CRE's deliberation of 4 April 2014 approving the evolution of the balancing rules for the GRTgaz and TIGF transmission networks as at 1 May 2014](#)

early to express its view of the level of liquidity at the TRS.

- Several shippers considered that the information transmitted by the TSOs on NDM customers was of poor quality, in particular the projected K0 balancing coefficient, which prevents them from balancing more accurately. Shippers with portfolios comprising mostly NDM clients therefore wished for interim tolerances to be implemented until 2019. One shipper considered that clients that were telemetered only once per day carried the same risk as NDM clients (monthly metering and six-month metering) and wished for any tolerance applied to be extended to them.

3.4. CRE's analysis

Article 50 of the Network code specifies that "*tolerances may only be applied in case network users do not have access: to a short term wholesale gas market that has sufficient liquidity; b) to gas required to meet short-term fluctuations in gas demand or supply; or c) to sufficient information regarding their inputs and off-takes.*"

CRE considers that the network users do not fall under any of the three cases stated above.

The first criteria ("*[Not having access] to a short-term wholesale gas market that has sufficient liquidity*") is not applicable to either the PEG Nord or the future TRS. Following the creation of the TRS for the GRTgaz Sud and TIGF zones, shippers in the TIGF zone and the GRTgaz zone will have the same market conditions. The number of transactions recorded at the PEG Sud is relatively high and is growing (17,600 transactions for day-ahead products in 2013; 16,500 during the first nine months of 2014¹², by over one hundred active buyers and sellers), which indicates that the liquidity at the TRS for short-term products will be sufficient.

CRE also considers that the second criteria ("*[Not having] access to gas required to meet short-term fluctuations in gas demand or supply*") is not applicable to the French market. Since 2005, many cross-border development projects have been put in service following open season procedures in order to meet increasing demand for transmission capacity at the interconnection points (Obergailbach, Taisnières, Larrau, Biriadou, Alveringem). In addition to these cross-border interconnections, there are also storage infrastructure and LNG terminals, thanks to which all market participants have access to gas at any time. The south zone, in particular, has very large storage capacities.

Lastly, CRE considers that the third criteria ("*[Not having access] to sufficient information regarding their inputs and off-takes*") is not applicable to the French market. In compliance with the Network balancing code and CRE's abovementioned deliberations¹³, the TSOs make available to shippers, within the perimeter of their portfolio and in aggregate terms for each of the balancing zones:

- the interim measures (D+1) at the PITDs;
- the system imbalance indicator;
- the K0 coefficient;
- the daily interim measures (D+1) and intraday interim measures (5 timeframes) at the delivery points of transmission clients;
- day-ahead and within-day consumption forecasts.

This level of information, associated with the constant improvement of information quality observed over the last few years¹⁴, and for which the TSOs have financial incentive, meet the requirements of the Network balancing code.

Consequently, CRE is in favour of the TSOs' proposal to not apply tolerances as an interim measure.

4. TRANSITIONAL BALANCING RULES AS AT 1 APRIL 2015

Although the Network balancing code entered into force on 16 April 2014, it will apply only from 1 October

¹² Number of transactions at the GRTgaz PEG Sud, including brokers and the Exchange, for only day-ahead products. Source: CRE.

¹³ CRE's deliberations dated 4 April 2014, 5 February 2013, 20 September 2012 and 21 June 2012

¹⁴ [2013 report on the incentive regulation concerning the quality of service of natural gas transmission operators and ERDF](#)

2015, therefore offering the possibility of introducing transitional balancing rules until 30 September 2015.

4.1. GRTgaz's proposal

GRTgaz considers the period from 1 April to 30 September 2015 as a transitional period, a prerequisite for the mandatory application of the Network balancing code. The operator therefore proposes, from that date, to shift the balancing system towards the model defined in section 2.1., while maintaining a certain level of flexibility through the continuation of optional tolerances for the Nord and South zones. Each shipper may subscribe, as it desires, to an optional tolerance corresponding to a maximum of 3% of its subscribed delivery capacity, and keep for the first six months of application of the new balancing rules, the possibility of modifying, upwards or downwards, its subscription for each month, with one calendar month notice. In the event of a subscription by all market shippers of their maximum authorised tolerance, the tolerance volume would reach approximately 80 GWh/d in the GRTgaz North zone and 40 GWh/d in the GRTgaz South zone. The continuation of optional tolerances over this period would offer shippers an adaptation period during which financial exposure of shippers to imbalances would be partly minimised.

This transitional six-month period could be used to establish feedback on participants' reaction and the effectiveness of the new system balancing arrangements, in particular with regard to the level of the small adjustment applied to the average price, in the determination of the imbalance charge for each of the two balancing zones. If feedback is positive, the operator intends to propose a downward revision of the adjustment as at 1 October 2015.

4.2. TIGF's proposal

As with GRTgaz, TIGF is in favour of the early application, before 1 October 2015, of the new balancing rules, and has not mentioned any operational difficulty that might hinder implementation as from 1 April 2015.

Moreover, the operator considers that the transitional period from 1 April to 30 September 2015 will enable assessment of the impact of the new measures on liquidity and on the behaviour of shippers. Similar to GRTgaz, TIGF plans for the possibility of revising the level of the small adjustment after the first six months.

4.3. Summary of responses to the public consultation

The early implementation, as from 1 April 2015, of a standard tolerance-free system, with a low adjustment and the continuation of the daily balancing service and optional tolerances (3%) draws a large consensus, although the reservations stated above persist but to a lesser extent.

Storengy is opposed to the arrangements surrounding this early implementation. It highlights that the continuation of optional tolerances, proposed by the operator in the GRTgaz zone, and the balancing service proposed by the storage operator in the TIGF zone, do not enable it to propose a similar service, thereby contributing to distorting competition to its detriment for six months with regard to TIGF storage.

4.4. CRE's analysis

CRE wishes for the TSOs' proposal concerning the implementation of the target model to be introduced as from 1 April 2015, according to the terms and conditions described above (ending of tolerances and the small adjustment set at 2.5% in the three balancing zones).

First, CRE considers that changing the balancing system at the start of the gas summer has the advantage of offering less risky adaptation conditions to participants: during a period of lower consumption, the potential exposure of shippers to imbalance risks is reduced. This phase will also enable feedback to be obtained at the end of the period, which will be used to, where necessary, adjust the provisions included in the balancing rules as from 1 October 2015, in particular the level of the small adjustment adopted to determine the marginal price.

Moreover, CRE considers that the TSOs' proposal prevents the addition of another step in the trajectory towards the balancing rules. Several shippers had expressed, during CRE's previous public consultations and during consultation meetings, operational difficulties and costs that could result in an additional stage in the move towards target balancing; the evolution of the balancing system involves, at each stage, a new configuration of projection models and IT systems, representing a significant workload and greater room for

error. Lastly, in order to enable all players to adapt as best as possible to the new balancing arrangements, CRE wishes for the tolerance tools to be maintained until 1 October 2015, i.e. the daily balancing service in the TIGF zone, and optional tolerances in the GRTgaz North and South zones.

5. CLEARING OF THE BALANCING FINANCIAL NEUTRALITY ACCOUNT AS FROM 1 OCTOBER 2015

5.1. GRTgaz's proposal

a.) Reference quantity

Currently, any surplus or deficit in the balancing neutrality account is allocated to the shippers in proportion to their delivery capacity at delivery points and transport/distribution interface points (PITDs). GRTgaz proposes that the account balance no longer be shared based on delivery capacity subscribed, but in proportion to the quantities delivered by each shipper. The new distribution method proposed by GRTgaz would therefore depend on shippers' allocations at exit points (public distributions and clients connected to the transmission network). GRTgaz considers that this development would enable allocation of sums according to the actual use of the transmission capacity, in compliance with Article 30 of the Network balancing code.

b.) Method for clearing the balancing account

GRTgaz is analysing two possible variants for segmenting the neutrality account, aimed at compensating shippers that are exposed to structurally high imbalance risks.

- Variant 1 aims to take into account the advantage of shippers that deliver a wide customer base, enabling them to fuse imbalances. The segmentation of the neutrality account would be according to the volume of annual and monthly delivery capacities subscribed by shippers in GRTgaz's North zone and South zone. Part of the balance of the neutrality account would be shared, in proportion to the quantities delivered, among shippers whose client portfolio exceeds a given annual delivery capacity threshold. The other part of the balance of the neutrality account would be redistributed, in proportion to the quantities delivered, among shippers whose portfolio is lower than that threshold.
- Variant 2 tends to compensate the specific risks of shippers that deliver to NDM clients, for which information is not sufficiently accurate or frequent, enabling them to more precisely forecast their consumption. The neutrality account could therefore be allocated to shippers based on the composition of their portfolio.

However, GRTgaz recommends not applying these neutrality account segmentation variants based on the type of portfolio or the type of delivery point. According to GRTgaz, the balancing system proposed already takes into account the balancing difficulties faced by shippers delivering to NDM clients, by applying only a very small adjustment in the calculation of the imbalance charge.

GRTgaz therefore proposes that the current mechanism (monthly balance of the neutrality account redistributed in proportion to shippers' delivery capacity) be maintained until 30 September 2015, and that from 1 October 2015, the distribution be carried out in proportion to quantities delivered.

Lastly, GRTgaz wishes for the external operating balancing costs, in particular, those paid to the Powernext exchange operator, to be included in the balancing account.

5.2. TIGF's proposal

TIGF proposes, as GRTgaz, that the balance of the neutrality account be shared in proportion to the quantities delivered by each shipper. The new distribution method proposed by TIGF would therefore depend on shippers' allocations at exit points (public distributions and clients connected to the transmission network). It could be implemented as from 1 October 2015.

5.3. Summary of responses to the public consultation

a.) Reference quantity

- Most shippers are in favour of redistributing the balance of the financial neutrality account in proportion to quantities delivered. According to their responses, this reference reflects the use of the network, and since imbalances are related to variations in consumption, there is no reason to keep the subscribed capacity reference.
- However, industrial clients and a shipper wished for the current reference (capacity booked) to be maintained.

b.) Redistribution method

- Most contributors considered that it was not appropriate to favour one category of shippers over another or that such a measure would be difficult to implement. In their opinion, managing and charging any structural imbalances is an integral part of shippers' job, and no sort of bias should be introduced in the balancing system. Industrial clients were of the opinion that NDM clients caused larger imbalances in the gas system and that it was not justified to give them an advantage by changing the distribution rules for the neutrality account.
- Five shippers are in favour of a distribution method that takes into account the composition of shippers' portfolios and, for one of the shippers, also the size of the portfolio. The aim is to favour shippers delivering NDM clients, who do not have sufficient information to be perfectly balanced, and small portfolios for which the possibility of fusing imbalances is reduced.
- In particular, one shipper proposed that the neutrality account balance be distributed as follows:
 - in case of a surplus in the balancing account:
 - higher weighting of the first gigawatt-hours compared to the rest;
 - higher weighting of the quantities delivered to NDM clients compared to quantities delivered to telemetered clients;
 - in case of a deficit in the balancing account:
 - lower weighting of the first gigawatt-hours compared to the rest;
 - lower weighting of the quantities delivered to NDM clients compared to quantities delivered to telemetered clients.

5.4. CRE's analysis

a.) Reference quantity

CRE is in favour of the TSOs' proposal to redistribute the balance of the neutrality account in proportion to the quantities delivered. This new method is in compliance with Article 30 of the Network code, which provides that "*the neutrality charge for balancing shall be proportionate to the extent the network user makes use of the relevant entry or exit points concerned or the transmission network*".

b.) Redistribution method

CRE notes, as the TSOs, that shippers with a small portfolio and those delivering mostly to NDM clients are more structurally exposed to imbalance risks.

With regards to shippers delivering to NDM clients, CRE considers, as do the TSOs, that this risk is inherent to their activity and that the reduction of the level of the small adjustment significantly limits this risk. CRE also notes that these structural imbalances generate costs for the gas system that should logically be borne by the shippers concerned. Moreover, the Network code does not provide for the possibility to redistribute the balance of the neutrality account differently according to the size of shippers' portfolios. Therefore, CRE does not envisage the adoption of a segmentation of the neutrality account balance at this stage.

Lastly, with regard to the external operating balancing costs, CRE reiterates that, within the framework of

the ATRT5 tariff, the operating balancing costs are included in the operating expenses trajectory, which took into account the entry into force of the Network balancing code for the 2013-2017 tariff period. Therefore, the costs borne by the TSOs for evolutions in the balancing system should not be integrated in the imbalance account.

6. CRE's REQUESTS

The TSOs:

- will present, within the framework of Concertation Gaz, during the first half of 2015, their proposals concerning the arrangements for the flexibility service based on linepack as at 1 October 2015, under the most uniform conditions possible, and will study the possibility of making this service accessible first and foremost to shippers whose portfolio is primarily made up of NDM clients, as provided for in the Network balancing code;
- will study within the framework of Concertation Gaz, during the first half of 2015, the appropriateness of using locational products;
- will present, in Concertation Gaz meetings, the evolution of liquidity in the markets and the quality of the K0 balancing coefficient.

In addition, GRTgaz will define and implement operational rules to avoid abnormal prices outside working hours. These rules will be regularly submitted to CRE and feedback will be presented within the framework of Concertation Gaz.

7. CRE's DECISION

CRE approves the TSOs' proposals with the exception of the following sections:

- "*4. Locational products by 1 October 2015*" in GRTgaz's proposal and the associated paragraph in TIGF's proposal;
- "*3. Daily balancing service*" in TIGF's proposal, for which CRE rejects the proposal to maintain the service beyond 1 October 2015;

and subject to the modification of the following sections:

- "*3. Principles for carrying out transactions in the Exchange as from 1 April 2015*" in GRTgaz's proposal in which the number of GRTgaz's transaction timeframes will be limited to three (10:25 a.m., 5:25 p.m., 11:25 p.m.) instead of the five proposed;
- "*5. Analysis of the situation in the South zone*" in GRTgaz's proposal and "*2.3.1 Measures concerning the small adjustment*" in TIGF's proposal according to which the level of the small adjustment should be set at +/- 2.5% in the GRTgaz Sud and TIGF zones instead of +/- €0.1/MWh proposed.

Paris, 15 January 2015,

For the Energy Regulatory Commission,

The President,

Philippe de LADOUCKETTE

Appendices:

- GRTgaz's proposal dated 26/09/2014
- TIGF's proposal dated 19/09/2014