

9 June 2022

Proposals to adjust the marketing arrangements for Storage Capacities

Introduction

The terms and conditions for marketing the French storage capacities are defined in Deliberation n° 2018-202 of the Energy Regulatory Commission of September 27, 2018, concerning the terms and conditions for marketing natural gas storage capacities as of October 2018.

They have been implemented by storage operators since that date and are the subject of regular feedback established during consultation meetings with the market.

At the consultation meeting of June 29, 2021, the feedback concluded that the stakeholders were satisfied with the rules in place, in particular because of the existence of a satisfactory participation and consistency between the auction prices and the spreads. More specifically, it was noted that reserve prices were not a blocking factor. As regards the auction rules for conventional products, neither the storage operators nor the suppliers had identified any areas for improvement.

Moreover, Storengy had proposed at this consultation meeting to make the terms of marketing of short-term products more flexible, with the aim of optimising the auction process for these short-term products only. Terega had associated itself with this proposal, which had received generally positive feedback from the participants at the consultation meeting.

Moreover, during the last consultation meeting on May 17, 2022, the storage operators expressed their wish to see the marketing rules evolve towards greater flexibility, following a marketing campaign that had taken place under very unfavourable market conditions.

Indeed, the current rules do not allow storage operators to adapt to changing market conditions, which can be problematic when these conditions are not an incentive to purchase storage. The current rules are also very rigid and severely limit the possible reactivity of storage operators in the event of unsold stocks close to the storage year.

These various proposals were also the subject of generally positive feedback from the participants at this consultation meeting.

They should be viewed with the following proviso: in order not to make the marketing rules unnecessarily complex, the storage operators are proposing to set very flexible limits (e.g. minimum notice of 2 working days), in order to be reactive in the event of a critical situation (e.g. for the re-marketing of unsold products close to or even at the beginning of the storage year), even if in

practice these flexibilities are less called upon by the storage operators when the situation is less critical (longer notice).

Consequently, and with the main objective of avoiding the activation of the safety net provided for in Article L421-6 of the Energy Code in the event of marketing leading to an overall subscription below the level set by order of the Minister in charge of energy to ensure security of supply during the winter, the storage operators propose to CRE the following adjustments to the marketing methods.

Proposal for greater flexibility in marketing procedures for the initial sale of Capacities

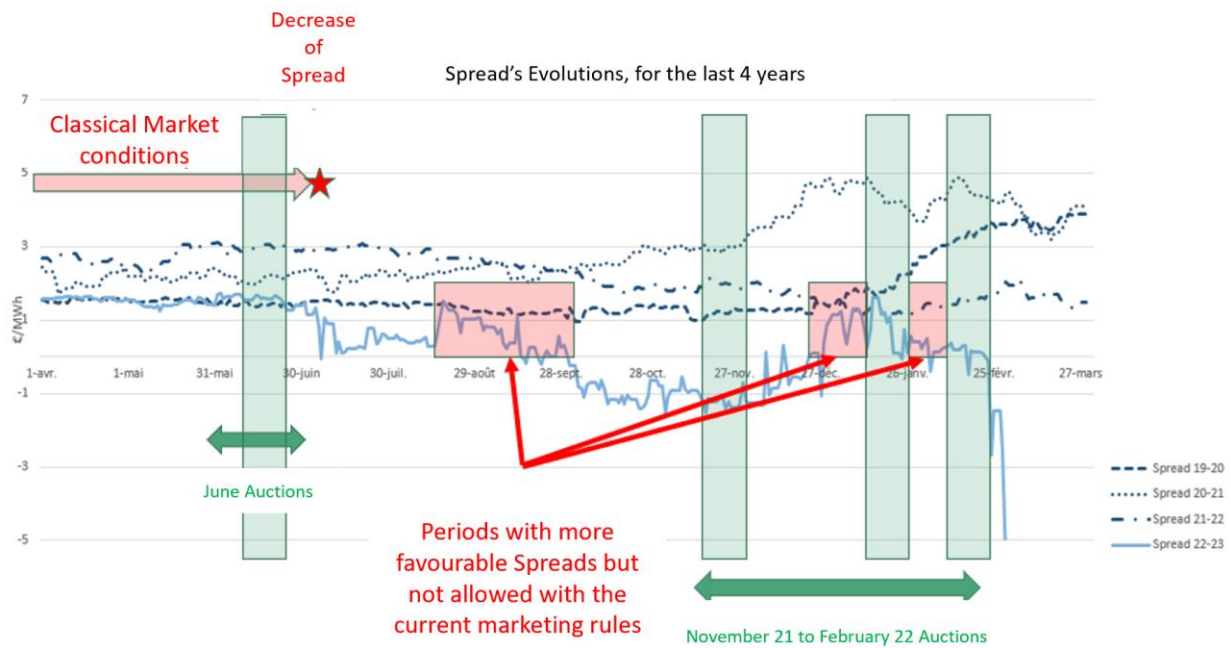
The operators note that the current procedures are not very flexible, and do not allow storage operators to optimise their sales and adapt to difficult market contexts: the obligation to sell everything in the form of four single windows announced in October does not allow sales to be optimised according to market conditions and therefore to minimise compensation. In a difficult market situation, these constraints increase the risk of unsold products at the beginning of the storage year, and therefore create a risk for the security of supply. They therefore suggest that, during the initial marketing, stockholders should be given the option of departing from the principles of the four windows announced in October and allowing themselves some flexibility, while retaining the two windows in January and December¹.

a- Feedback of the Nov21-Feb22 campaign

The graph below shows that market conditions were classic until the end of June 2021, but that from the beginning of July the spread dropped to around 0 €/MWh, before rebounding above 1 €/MWh for almost two months (pink rectangle in the graph). It is unfortunate that at that time it was not possible to offer volumes for sale.

The situation then worsened, falling below -1 €/MWh. Then before the Jan-Jan window and between the two windows in January and February 2022, the spreads were comparatively better. It is therefore also regrettable that we were not able to market during these periods.

¹ These windows are important for suppliers of end customers in France who only have the consumption characteristics (profile, etc.) of their portfolio of customers delivered from 1 April at the end of December/beginning of January. It is therefore necessary to reserve part of the storage capacities for the first quarter of the calendar year, so that these suppliers can participate in auctions to complete their storage capacity purchases if necessary.



b- Storage Operators' Proposals for the Initial sale of Capacities

The operators therefore propose to:

- To keep the January N and February N windows for a marketing of at least 30% of the capacities of the year N/N+1 starting on April 1 N on these 2 windows (instead of 50%), and by publishing the calendar relating to these windows at the latest one month before the beginning of the January N window.
- Eliminate the fixed windows of November and June in order to be able to market more freely the rest of the capacities of the year N/N+1 before the window of January N, with publication at the latest on working day D for working day D+2. The storage capacities of the year N/N+1 can be marketed from November N-4, with at least 95% remaining to be marketed from November N-3, 80% from November N-2 and 30% from January 1, N. In October of each year, the operators will publish the capacities they plan to offer for marketing for the coming year (until the following October).

For auctions scheduled before the January gate, the storage operators continue to have priority on their dedicated days (cf. Deliberation 2018-202), but they may use other sales slots (in this case all the working days of the week) if these are not used by the other storage operators. If a storage operator wishes to organize an auction outside its dedicated days, it will coordinate with the other storage operators to guarantee that no two auctions will be organised in the same sales slot², and that the overall quantity offered on the same day will not exceed 10 TWh³ (if necessary, CRE will arrange this). This coordination is also valid for the possible re-sales (see below).

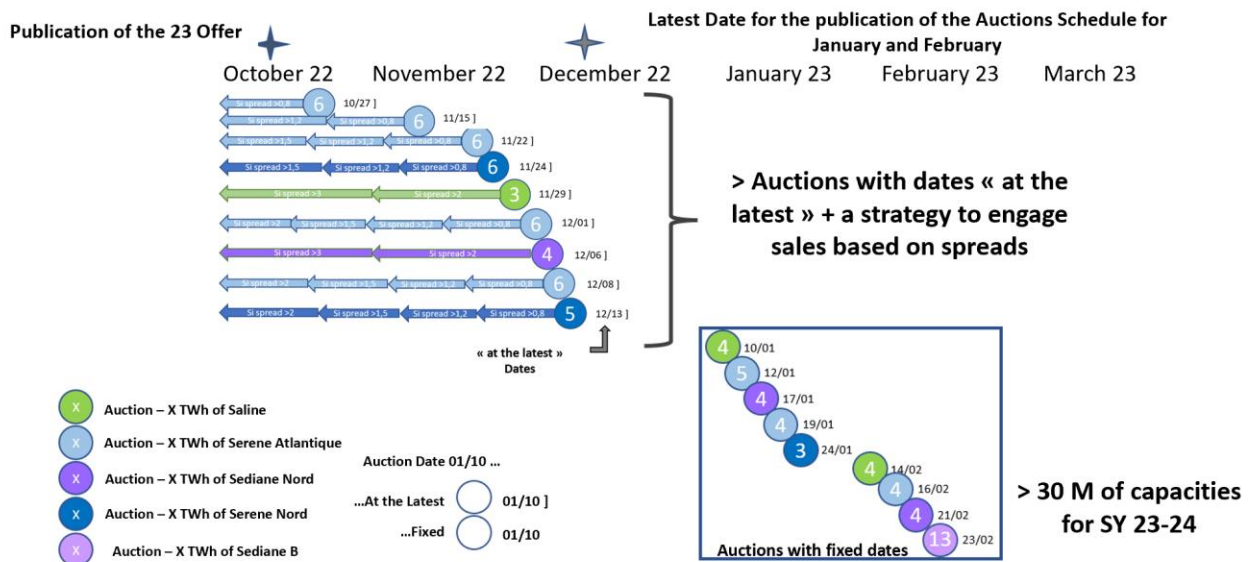
² Same hour, same day

³ Except for L-gas storage

Figure 1:

The image below is a non-binding illustration of what Storengy's information to the market for the commercialisation of 2023-24 capacities could look like in the coming campaign. This information could contain:

- on the one hand, an auction calendar with sale dates at the latest, and indications on the criteria that could be used to anticipate these auctions according to market parameters (indicative auction commitment strategy),
- and on the other hand, the January/February calendar, with capacities on fixed dates: auction participants will therefore have the certainty of having access on these dates to at least the level of capacities proposed for each product (the quantity proposed could be higher in the event of unsold capacities on the latest date auctions).

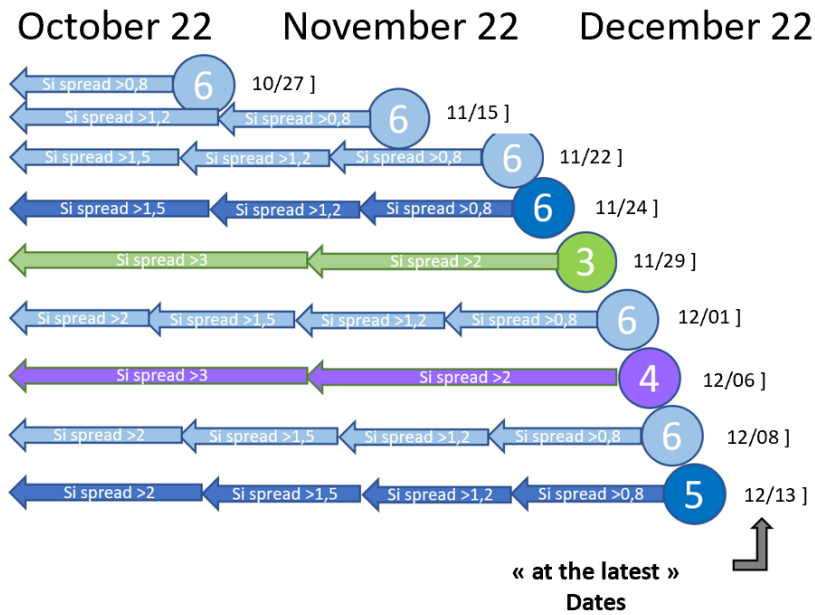


The auction schedule with “at the latest” date sales would indicate capacity auctions for the coming year (2023-24 in the example above) and subsequent years (not shown in the illustration above).

For the auction commitment strategy, the example here is based on spread levels and the following logic: "the further away from the “at the latest” auction date, the higher the spread must be for the storage operators to anticipate the auction, and the closer to the “at the latest” auction date, the less demanding on the spread the operator is.

Each storage company will be free to adapt its auction commitment strategy according to its own needs and the context. This strategy must give visibility to the market on the storage operators' intentions while being flexible enough to allow him to adapt if necessary to market conditions.

In the example given here, the idea is rather to give a maximum of opportunities of sales windows according to the market conditions to secure here mainly the sale of Serene products as early as possible in the campaign:



This illustration should be read as follows:

Storengy will organize 5 auctions of 6 TWh each of Serene Atlantique products over the last quarter of 2022. For each of these sales, a date is indicated at the latest (October 27 for the first one). This date corresponds to the date on which the auction will take place if it has not been anticipated. The anticipation criteria are symbolised by the horizontal arrows. For the second sale whose date is November 15 at the latest, the auction could be anticipated by the storage operator as early as October if the spread exceeds 1.2 €/MWh at this period, or as early as October 27 if the spread exceeds 0.8 €/MWh after this date (etc).

If there are any unsold items in these auctions on or before⁴, the storage operator can reoffer them for marketing in the following ways:

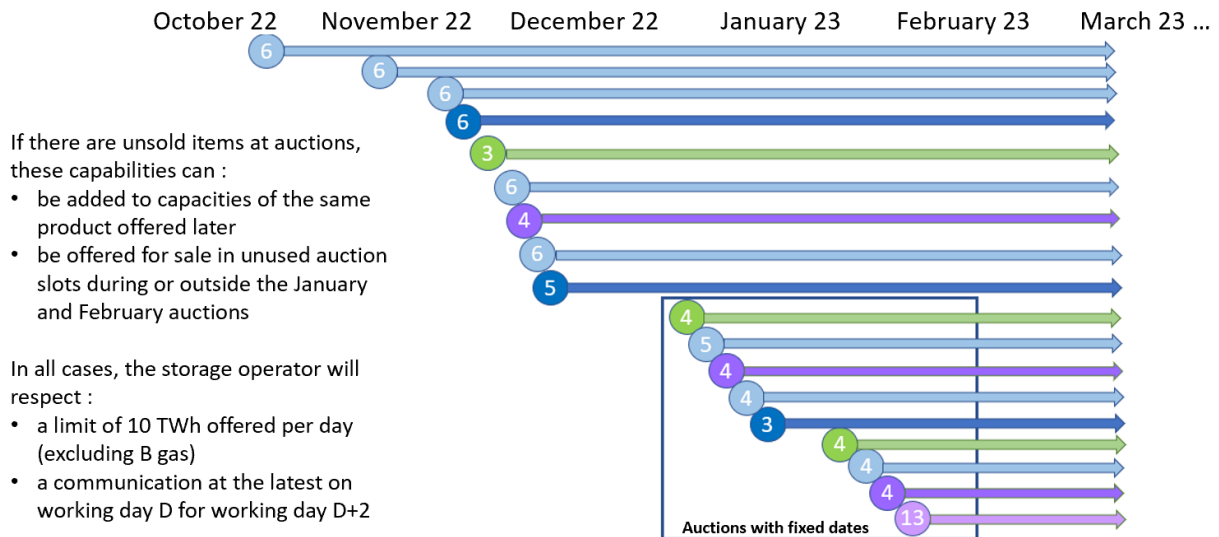
- by adding these available capacities to the capacities marketed during the auctions of the same product scheduled in its calendar for the 2 windows of January and February,
- by using one or more unused auction slots on any working day of the week during or outside these two windows (i.e. before the January window, between the January and February windows or after the February window).

In all cases, the storage operators will coordinate (under the possible arbitration of the CRE) to respect the fact that they cannot organize 2 simultaneous auctions, as well as the limit of 10 TWh proposed per day. The storage operator will communicate at the latest the working day D for the working day D+2.

⁴ Or in the case of short-term products as provided for in Deliberation N° 2018-202, such as capacity made available following a long maintenance release

Figure 2:

The image below illustrates in a non-binding way what could be the range of re-marketing of possible unsold capacities by Storengy for the marketing of 2023-24 capacities during the coming campaign:



Proposal to relax the terms of remarketing of unsold goods for the year N/N+1 from the start of the January N window

The constraints related to the rules of re-marketing unsold goods also seem unnecessarily restrictive when we are close to the beginning of the storage year.

a- Feedback of the Nov21-Feb22 campaign

A total of 6 auctions were planned on the windows from November 2021 to February 2022 for the marketing of the Serene Atlantique product by Storengy.

The first 4 auctions went well, with each time a demand higher than the offer and a non-zero auction price. During the 5th and 6th auctions, scheduled for the February 2022 window, the demand was lower than the offer, which led to partial no-sales and a zero auction price for these 2 auctions.

Subsequently, Storengy organised 9 new auctions of the same product, and then after a one-week notice, 5 successive auctions of a new product Serene Atlantique Plus (slightly different from the initial product because with less constraints of door on the summer end).

These 14 additional auctions allowed to market the totality of the proposed volumes, but always at a zero price.

b- Storage Operators' proposals concerning the remarketing of unsold goods near the beginning of the storage year

The operators wish to be able to reoffer for sale any unsold capacities on all the working days of the week, under the conditions stated above.

For the resale of capacities for the year N/N+1 which would not have found takers on auctions organised as from the start of the January N gate, they also wish to be able to replace the unsold annual products by the same products but on a contractual duration of 2, 3 or 4 years.

Concerning the reserve price during the auctions of these multi-year products, the storage operators propose to keep the logic currently in force defined in Deliberation n° 2018-202 of September 27, 2018, and thus that the reserve price of a multi-year product be equal to the average of the reserve prices that would be defined over each of the contract years by application of this Deliberation.

Once the storage year has begun, the operators also want to be able to adapt their commercial products that have been unsold so that they can continue to be marketed even if the minimum natural gas thresholds necessary to guarantee security of supply are not reached.

Indeed, product adaptations may be necessary in order to allow any actor to participate in the auctions (without having prior capacities and quantities of gas in stock at this point), for example regarding gate constraints as was done in May 2022 with the Serene Atlantique Plus product, less constraining in terms of minimum filling gates over the beginning of the summer than the original Serene Atlantique product

Finally, for the resale of these unsold capacities, and **only after 3 partially or totally unsuccessful sales**, the operators ask for the possibility to offer these capacities in **iterative auctions** for which the storer would indicate the slots used and the global quantity offered for sale. The auctions would be organised, on successive slots, as long as capacity remains available for sale, with the quantity offered (which could, by exception, be greater than 10 TWh) decreasing as the quantities allocated during the previous auctions increase. The communication would be made by the storage operator at the latest on working day D for working day D+2 (D+2 being the day of the first auction).

As an illustration, the storage operator could thus offer 12 TWh of product P capacities at 3pm every working day of the week from March 1st to April 15th. This announcement must be made at the latest 2 working days before March 1st. If 0.5 TWh are sold on March 1st, the quantity offered at the next auction will be 11.5 TWh.

Proposed relaxation of marketing requirements for short-term products only

These procedures are governed by CRE deliberations n° 2018-202 and 2018-039:

- Each year, storage operators offer 100% of the available capacity for one year of storage at standard auctions.
- "Short-term" products that meet additional market needs may be marketed if capacities are technically available.
- The storage operators must publish the precise characteristics of the products offered and the volumes of capacity that will be allocated to them at least one week before each sale. The auction procedures are identical to those of the initial marketing phase.

a- Feedback on past "short term" sales

Such "short-term" sales have been organised by Storengy on several occasions since 2019 in the context of sites undergoing work that were brought back into service during the year, counter-seasonal offers, or available storage capacities greater than those anticipated during sales of standard products following optimizations of the injection campaign made possible in particular by the storage customers.

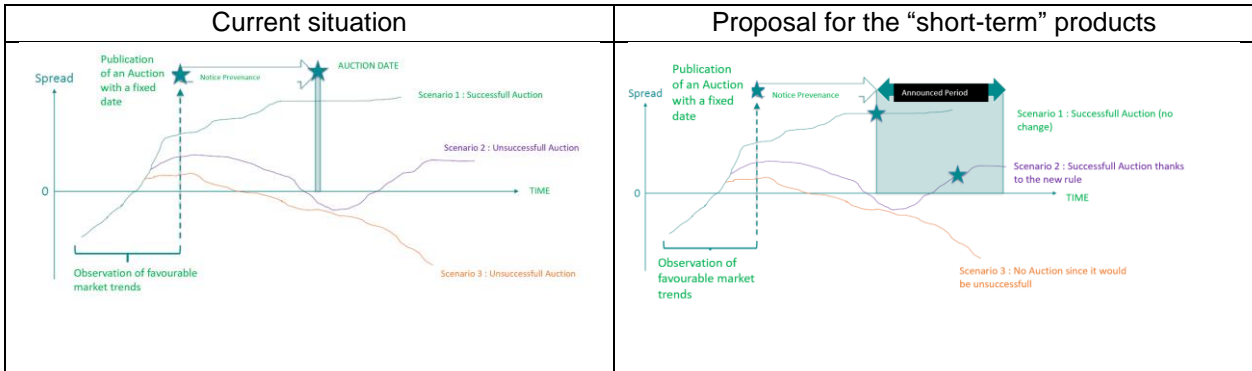
These sales have generated an additional income of nearly €20 million without being at the expense of standard sales, for a total of 6.15 TWh of storage capacity.

b- Evolution proposals for "short-term" sale

Since market conditions change rapidly, especially when short-term capacity is involved, fixing a specific day could prevent storage operators from seizing a sale opportunity (see illustrations below). Thus, the storage operators propose:

- that when a potential sale is published, the day of sale is not fixed but that a period of sale is,
 - that the sale is then confirmed before 10am on D-1 for a closing on D at 11am or 3pm, thus with a confirmation period of more than 24 hours,
 - that the initial communication (including all the information on the product as well as the quantity which will be proposed to the sale) is made at the latest on the working day D for a beginning of the sale period starting on the working day D+2
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Figure:



The proposal allows to maximise the opportunities to conclude a sale in case of volatile market. When the announced period comes, if the operator notices that the spread is positive, he will hasten to organize the auction, without trying to delay the sale. This is the example described in scenario 1, where nothing changes compared to today. However, if the market conditions are unfavourable on the day the auction is supposed to be held, the operator will not hold the auction because he knows that it will not be successful. However, as soon as the auction becomes positive enough to trigger a purchase, the storer will trigger the sale: this is the case in scenario 2
