

Public consultation by the French Energy Regulatory Commission (CRE) dated 20 December 2012 on the changes to GRTgaz's and TIGF's balancing rules

This public consultation is issued as part of the evolution of the balancing rules on the natural gas transmission networks in order to achieve the target balancing system defined by the French Energy Regulatory Commission (CRE) in its Deliberation dated 1 December 2011. This target aims to ensure the implementation of balancing rules that cover France as a whole and are in compliance with the ACER¹ framework guidelines on balancing adopted on 11 October 2011.

On 4 November 2011, the European Commission requested ENTSOG² to write a network code based on these framework guidelines. ENTSOG submitted the draft network code on balancing to the European Commission and ACER on 26 October 2012. This code will apply to the French gas transmission system operators (TSOs) as of 2015 if the code is adopted in 2013 through the comitology process.

In addition, the implementation of standard balancing rules for the GRTgaz and TIGF networks is necessary with a view to creating a single marketplace for the TIGF and GRTgaz South zones as of 1 April 2015.

Following work conducted as part of the "Concertation Gaz" working group, GRTgaz and TIGF have submitted to CRE proposals to supplement and set out in detail the planned changes to balancing rules applicable on their networks as a step towards the target balancing system. These proposals, which are appended to this consultation, focus on:

- Information provided to shippers,
- The conditions for the settlement of shipper imbalances,
- The TSOs' market interventions to ensure physical balancing on their networks.

This public consultation aims to obtain market players' opinions on the proposals of both TSOs, for the preparation of CRE's next Deliberation, which will set the stages of implementation of the changes to each TSO's balancing rules to reach the target system.

CRE would ask all interested parties to answer the questions in this consultation, by 21 January 2013 at the latest.

¹ Agency for the Cooperation of Energy Regulators

² European Network of Transmission System Operators for Gas

Contents

- 1. INFORMATION PROVIDED TO SHIPPERS 3**
- 1.1. PROPOSALS BY THE TSOS 3**
- 1.2. CRE'S PRELIMINARY ANALYSIS..... 4**
- 2. THE SETTLEMENT OF SHIPPER IMBALANCES BY THE TSOS..... 4**
- 2.1. GRTGAZ'S PROPOSAL..... 4**
- 2.2. TIGF'S PROPOSAL..... 5**
- 2.3. CRE'S PRELIMINARY ANALYSIS..... 6**
- 3. CHANGES TO THE TSOS' MARKET INTERVENTION CONDITIONS TO MEET THEIR
BALANCING REQUIREMENTS..... 7**
- 3.1. GRTGAZ'S PROPOSAL..... 7**
- 3.2. TIGF'S PROPOSAL..... 8**
- 3.3. CRE'S PRELIMINARY ANALYSIS..... 8**
- 4. RESPONSE TO THE PUBLIC CONSULTATION 9**

1. Information provided to shippers

1.1. Proposals by the TSOs

The TSOs plan to supplement the information made available to shippers so that they may improve their customer consumption forecasts and act within the gas day to mitigate imbalances on the system. The proposed improvements concern in particular customer consumption data, for customers directly connected to the transmission networks and those connected to the distribution networks.

a) Customers connected to the transmission networks

The consumption of customers connected to the transmission networks represents 40% and 18% of total annual consumption on the GRTgaz and TIGF networks respectively.

GRTgaz currently publishes five times a day the within-day consumption of industrial customers connected to its network (LI). It proposes to publish, as of the 2nd quarter of 2014, the remote-read hourly consumption for these customers each hour.

TIGF indicates in its proposal that all industrial customers directly connected to its network (PIC) are subject to remote reading, with this data being transmitted to shippers at least every four hours. TIGF proposes to transmit the hourly consumption of all customers connected to its network every hour as of the end of 2013 at the latest.

b) Profiled customers on distribution networks

The consumption of profiled customers (daily readings) connected to the distribution networks represents 50% and 70% of total annual consumption on the GRTgaz and TIGF networks respectively.

As regards these customers, GRTgaz and TIGF, in partnership with the distribution system operators (DSOs), will publish before 2015, and in principle as of May 2014, the consumption forecasts for day D, transmitted the day before at 1pm and updated twice during the day, per balancing zone and per shipper.

As of mid-2013 for GRTgaz and 2014 for TIGF, the TSOs will publish a coefficient k_0 (similar to the coefficients k_1 and k_2 already used to allocate quantities of gas between suppliers at the transmission-distribution interface points or PITD) in order to reconcile, in the perimeter of distribution grids and per balancing zone, the consumption forecasts from the profiles with the overall TSO forecasts. In order to calculate these coefficients k_0 , each shipper must submit per balancing zone, as of 1 June 2013 for GRTgaz and 1 January 2014 for TIGF, an additional non-binding nomination on the consumption forecasts of its non-profiled customers on the distribution networks.

c) Non-profiled customers on the distribution networks

The consumption of non-profiled customers connected to the distribution network represents 10% and 12% of total annual consumption on the GRTgaz and TIGF networks respectively.

As of the end of 2014, the TSOs intend to publish twice a day the within-day consumption per balancing zone and per shipper provided by GrDF, Régaz-Bordeaux and Réseau GDS for these customers:

- Consumption read remotely from 6am to 10am will be published at 1pm,
- Consumption read remotely from 6am to 2pm will be published at 5pm.

d) End-of-day network imbalance indicator

In addition to the publication of an imbalance recorded the previous day, GRTgaz has published hourly since the summer of 2012 the forecast for end-of-day imbalances on its network for the current day and for each balancing zone. GRTgaz also publishes each hour as of 3pm the forecast for end-of-day imbalances on its network for the next day. In its proposal, GRTgaz stresses that it has also recently started to publish separate consumption forecasts for distribution and transmission networks and, on the transmission network, for highly modulated customers and the others. This information could also improve shippers' visibility.

Since March 2011, TIGF has published imbalances recorded the previous day. The hourly publication of the forecast for end-of-day imbalances on its network is planned as of 1 January 2014.

These indicators are intended to give shippers more visibility of stress on the network, as an incentive for them to reduce imbalances on the networks. They will also enable the TSOs to optimise their market interventions to ensure physical balancing on their networks, should shippers' actions prove insufficient.

1.2. CRE's preliminary analysis

At this stage, CRE welcomes the work conducted by GRTgaz and TIGF, in consultation with market players, to improve the information made available to shippers in order to help them to balance their customers' consumption and their sources of supply more effectively.

CRE observes that GRTgaz's and TIGF's proposals are in accordance with the provisions of the draft European network code. These proposals even go beyond the draft code for customers on the distribution networks thanks to the partnership set up by the TSOs and DSOs: publication of the coefficient k_0 to improve the forecasts of profiled customers and the early publication of within-day consumption for non-profiled customers.

The quality of data published by the TSOs is key to the proper operation of the balancing system. CRE has decided, in the next tariff for the transmission of gas by GRTgaz and TIGF, to further consolidate the incentive-based regulation mechanism for service quality with regard to the following data:

- introduction of a financial incentive concerning the quality of within-day consumption readings for customers connected to the transmission network of TIGF,
- evolution of the financial incentive concerning the quality of within-day consumption readings for customers connected to the transmission network of GRTgaz,
- strengthening of financial incentives concerning the daily consumption readings, transmitted the following day, of customers connected to the transmission networks and of the quantities of gas delivered to the PITD,
- introduction of a new indicator to measure the quality of the TSOs' consumption forecasts,
- extension of the indicator concerning the availability of the TSOs' business portals to data publication platforms and monitoring of complaints with regard to the reliability of data published on these platforms.

CRE also plans to incorporate monitoring of the quality of data provided by DSOs to TSOs in the DSO service quality incentive-based regulation mechanism. This change is set to be rolled out as of 1 July 2013.

CRE will ensure that TSOs and DSOs comply with the schedule announced for the provision of data. In the event of delays that put shippers at a disadvantage, it may implement an incentive system for TSO and DSO compliance with schedule dates.

Question 1: Are you in favour of GRTgaz's proposals with regard to the information made available to shippers?

Question 2: Are you in favour of TIGF's proposals with regard to the information made available to shippers?

2. The settlement of shipper imbalances by the TSOs

2.1. GRTgaz's proposal

In the system in force, GRTgaz calculates each day, for each balancing zone and for each shipper, the imbalance between gas entering and leaving (including customer consumption) its network:

- part of the daily imbalance above the mid-range is billed at the day's balancing price (called P1 price corresponding to the weighted average of GRTgaz's market interventions to meet its balancing requirements). This price is subject to an uplift (or reduction where necessary) of 30% for the part of the imbalance above the daily tolerance (called P2 price)

- part of the daily imbalance under the mid-ranges is cumulated in a Cumulative Imbalance Account (EBC) up to five times the mid-range levels. Above this limit, the excess volumes are subject to a penalty (called P3) equalling 20% of the daily imbalance price P1.

For the period from 1 April 2013 to 30 April 2014, GRTgaz proposes to change the mid-range level³ to 15% of the daily tolerance in the North zone and to 30% in the South zone until 30 September 2013 and thereafter to 25% in the North zone and 30% in the South zone.

In line with this decrease, GRTgaz proposes as of 1 April 2013, to lower the P3 reference price, by reducing the penalty to 10% of the P1 price.

For the period from 1 May 2014 to 30 April 2015, the proposed changes are as follows:

- the average reduction of the daily tolerance by half,
- the reduction of mid-ranges to 10% and 25% of the daily tolerance in the North and South zones respectively,
- the replacement of the P1 price with an average price (average P) corresponding to the weighted average of the prices of all transactions on the exchange on a given day. The P3 price would then be set in reference to the average P price,
- the replacement of the P2 price with a marginal price (marginal P) corresponding to:
 - for a shipper's long position, the minimum between (average P– discount) and the minimum of GRTgaz's intervention prices on the exchange,
 - for a shipper's short position, the maximum between (average P + premium) and the maximum of GRTgaz's intervention prices on the exchange.

The discount and premium are provided for in the European network code in order to encourage shipper balancing. GRTgaz proposes to set the level of these parameters following further discussions in the "Concertation Gaz" working group. These levels may not exceed 10%, in accordance with the provisions of the network code.

GRTgaz proposes to keep the maximum level of the Cumulative Imbalance Account (EBC) at five times the mid-range levels in force until 30 April 2015.

GRTgaz also proposes that the overall balancing account be cleared on a monthly basis as of 1 January 2014 by using a redistribution scale between shippers based on daily delivery capacity subscriptions.

Lastly, GRTgaz proposes, after 2015, to carry over the daily tolerance levels, for which the level and distribution among the various shippers will be defined as part of the "Concertation Gaz" working group.

2.2. TIGF's proposal

TIGF's current imbalance settlement system provides for:

- The accumulation of imbalanced daily quantities of gas below the daily discrepancy tolerance (TEJ), in an account settled at the end of the month at price P2. This P2 price corresponds to the arithmetic average over the last seven days of the reference month of end-of-day prices at the South Gas Exchange Point (PEG), increased by €0.39/MWh⁴,
- The balance of imbalanced gas quantities above the daily discrepancy tolerance and above the total discrepancy tolerance (TEC, three times the TEJ). These quantities are both settled at a P1 price equivalent to TIGF's average market intervention price for its balancing requirements or, if no interventions are made, to the end-of-day price reference at the South PEG increased or decreased by 30% depending on the direction of the imbalance.

TIGF plans to upgrade its current system in line with the target system by gradually reducing the tolerances granted to shippers:

³ Mid-range expressed as a percentage of the daily tolerance level allowed by GRTgaz

⁴ This charge corresponds to the cost of transmission between the South PEG and the TIGF PEG

- As of 1 April 2013, the total discrepancy tolerance is reduced from three times to two times the daily discrepancy tolerance,
- As of 1 May 2014, the daily tolerance is reduced on average by half and the total discrepancy tolerance is reduced from two times to once the daily discrepancy tolerance,
- As of 1 May 2015, the total discrepancy tolerance will cease to exist.

At the same time, TIGF proposes to modify the imbalance settlement prices to ensure that they are in line with the European network code:

- The P1 price will change as follows:
 - As of 1 April 2013, the increase or decrease will fall from 30% to 20%,
 - As of 1 May 2014, the P1 price will be replaced by a marginal price defined according to the network code and a discount/premium set at +/- 10%,
 - As of 1 May 2015, the discount/premium will be aligned to a level that may be lower than +/- 10%, depending on the work of the "Concertation Gaz" working group and CRE's decisions,
- The P2 price will be replaced as of 1 April 2013 by a weighted average price calculated in the same way as the average P for the network code.

Like GRTgaz, TIGF proposes that the overall balancing account is cleared on a monthly basis as of 1 January 2014 by using a redistribution scale between shippers based on daily delivery capacity subscriptions.

Lastly TIGF proposes, after 2015, to carry over the daily tolerance levels, for which the level and distribution among the various shippers will be defined as part of the "Concertation Gaz" working group.

2.3. CRE's preliminary analysis

ACER's framework guidelines dated 11 October 2011 and the draft version of ENTSOG's network code on balancing provide that all imbalances recorded each day must be charged at a market price that reflects stress on the network.

CRE has observed that the drop in mid-ranges and/or tolerance levels proposed by the TSOs is consistent with the European guidelines. It is part of the gradual shift that will enable shippers to adjust and consider the new information made available by the TSOs. This drop will also strengthen the financial incentive for shippers to optimise their flexibility tools and to be active on the wholesale market to keep their imbalances to a minimum.

In addition, the modelling conducted by GRTgaz shows that the application of the new mid-ranges it proposes for 1 April 2013 to imbalances recorded over 2011/2012, on average, only moderately changes shippers' financial exposure.

CRE has noted that the implementation date for the target systems, 1 May 2015, selected by both TSOs is not consistent with the creation of the joint PEG for the TIGF and GRTgaz South zones on 1 April 2015. The balancing rules must be the same on the networks of both TSOs for the proper functioning of a marketplace shared between the two zones.

CRE has also noted that TIGF does not specify in its proposal the future of the daily balancing service currently offered to shippers with storage capacity in its zone. At this point, it believes that TIGF should conduct, in consultation with market players, an in-depth analysis of the compatibility of this service, as it is currently offered, with the European network code. This analysis must take into account the creation of a single marketplace in the south of France as of 1 April 2015, which will lead to the presence of the two current storage operators on the same marketplace.

With regard to the conditions for clearing the financial amounts in relation to the balancing account, CRE believes that the changes proposed by the TSOs will give shippers at the earliest visibility on their financial statements for the balancing item. In order to ensure transparency for all market players of the costs related to the balancing system, CRE believes that the TSOs must present, at least once a year, a report of their main costs for network physical balancing to the "Concertation Gaz" working group.

Lastly, CRE finds that the proposed changes to the balancing rules must comply, as of 2015, with the balancing limitations defined in the target balancing system. For this purpose, CRE does not intend, for

the present, to carry over daily balancing tolerances after 2015. The draft European network code sets out the possibility, by special dispensation, to maintain tolerance levels for a transitional period of up to five years. These transitional measures, which must be applied over a short a period as possible, must be duly justified and are subject to approval from the national regulator, an opinion issued by ACER and an annual report from the TSO.

Any carrying over of daily tolerances after 2015 may, if necessary, be studied in the period prior to the entry into force of the European code but must not be included in the planned shift towards the target balancing system.

Question 3: Are you in favour of GRTgaz’s proposal on changes to the settlement conditions of shipper imbalances?

Question 4: Are you in favour of TIGF’s proposal on changes to the settlement conditions of shipper imbalances?

Questions 5: Are you in favour that the planned shift of the balancing system provides for compliance with the European network code after 2015, without any dispensations being planned for the moment?

Question 6: Are you in favour of the date of 1 April 2015 for the implementation by GRTgaz and TIGF of the target balancing system, so that the target balancing rules are the same when the joint PEG is created?

3. Changes to the TSOs’ market intervention conditions to meet their balancing requirements

3.1. GRTgaz’s proposal

In application of CRE’s Deliberation dated 21 June 2012 on the approval of changes to balancing rules on the gas transmission networks, GRTgaz has given priority to within-day and weekend products for its balancing requirements since 1 August 2012.

The trading volumes are as follows:

Balancing zone	Daily trading volume during sessions		
	Optional Day-Ahead ⁵ session	Within-Day session(s)	Weekend session
North Zone	0 (base case), trading up to 2,000 MWh if large imbalance expected	From 0 to 7,750 MWh	From 0 to 2,000 MWh
South Zone	0 (base case), trading up to 1,500 MWh if large imbalance expected	From 0 to 5,500 MWh	From 0 to 1,500 MWh

GRTgaz proposes, as of 1 April 2013, that its market interventions are directly linked to the end-of-day imbalance forecast published on Smart GRTgaz, as follows:

- In the South Zone, GRTgaz would trade each day in the Within-Day session only if the end-of-day imbalance volume forecast is greater than 2.4 GWh. This intervention would concern a volume of gas equal to 10% of its projected end-of-day imbalance, capped at 7 GWh,
- In the North Zone, GRTgaz would trade each day in the Within-Day session only if the end-of-day imbalance volume forecast is greater than 10 GWh. This intervention would concern a volume of gas equal to 10% of its projected end-of-day imbalance, capped at 10 GWh.

Trading for the Week-End and Day-Ahead sessions remain capped at 1.5 GWh in the South Zone and 2 GWh in the North Zone.

⁵ The day before for delivery the next day

Beyond 2013, GRTgaz requests that its market intervention rules for balancing requirements are less controlled, with a view to finding improved responsiveness and to encouraging shippers to manage their balancing through an imbalance settlement price that reflects actual stress on the network.

Lastly, in response to CRE's requests set out in its Deliberation dated 20 September 2012, GRTgaz believes, at this stage, that human interventions would not result in considerable benefits in comparison to the interventions currently conducted automatically and would lead to significant additional costs. Moreover, GRTgaz does not currently see any point in opening a second Within-Day trading slot for its balancing requirements. It states that the opening of a second slot would generate significant additional costs.

3.2. TIGF's proposal

Up to 30 April 2014, TIGF will trade in Day-Ahead products depending on shipper imbalances recorded the previous day, carrying over the trading limit of 3 GWh.

As of 1 May 2014, Day-Ahead trading will be proportionate to the imbalance forecast at the end of the current day calculated and published by TIGF.

As of 1 May 2015, TIGF's market interventions for its balancing requirements will be focused on the Within-Day session for volumes proportionate to the imbalance forecast at the end of the current day calculated and published by TIGF.

3.3. CRE's preliminary analysis

The TSOs' proposals will bring about greater coherence between their market trading and their actual requirements for the physical balancing of their networks. As such, these proposals are in line with the objectives and provisions set out on a European level.

CRE is not sure whether GRTgaz should or should not trade systematically on a daily basis, for at least 240 MWh in the South Zone in order to drive the zone's within-day market, given its lower level of liquidity. In the North Zone, the sufficient liquidity on the PEG does not require the TSO to trade systematically and the proportionate trading level of 10% of the forecast end-of-day imbalance is considered, at this stage, to be sufficient but must be increased throughout the gradual shift towards the target system.

CRE believes that the elements provided to date by GRTgaz with regard to the option of shifting to human trading and opening a second Within-Day trading slot are insufficient. GRTgaz must submit to CRE a more detailed analysis of the advantages and disadvantages with cost estimates for these changes.

With regard to TIGF, imbalances are currently covered with a two day lapse. For its market trading to meet its balancing requirements, TIGF uses as a reference the imbalance recorded the previous day then trades on the Day-Ahead market. This type of intervention does not cover the physical balancing of the network and is not consistent with the balancing network code. CRE believes, however, that this situation is acceptable as the operator is still in a learning phase. This period must be as short as possible. CRE notes that TIGF must trade on the Within-Day market as of 1 January 2014, the publication date of its network's end-of-day imbalance forecast indicator. CRE believes that these interventions should be conducted, if necessary, on the South PEG in the event of insufficient liquidity on the TIGF PEG.

Question 7: Are you in favour of GRTgaz's proposals on changes to its market intervention conditions to meet its balancing requirements?

Question 8: Are you in favour of TIGF's proposals on changes to its market intervention conditions to meet its balancing requirements? Do you think that TIGF should bring forward the date of its Within-Day trading to 1 January 2014, if necessary by trading on the South PEG?

Question 9: Do you have any other comments on the changes proposed by the TSOs in order to implement a target balancing system in compliance with European legislation?

4. Response to the public consultation

CRE asks all parties concerned to submit their contribution, by 21 January 2013 at the latest:

- By email to the following address: dirgaz.cp5@cre.fr ;
- By submitting their response directly on the CRE website (www.cre.fr), in the section "Documents / Public consultations",
- By post to: 15, rue Pasquier - F-75379 Paris Cedex 08,
- By contacting the Division of Gas Infrastructures and Networks: + 33.1.44.50.42.12.

A summary of the contributions will be published by CRE, in accordance with the legal confidentiality requirements.

Please state in your contribution whether you would like to **remain anonymous / have your response treated as confidential**. The parties concerned are asked to answer the questions, justifying their responses.

Appendices:

- GRTgaz's proposal dated 17/12/2012
- TIGF's proposal dated 17/12/2012

Links to the documents on the balancing systems currently in force (in French):

- GRTgaz: <http://www.grtgaz.com/fr/accueil/acheminement/equilibrage/>
- Intervention conditions of TIGF since 1 December 2012
<http://www.tigf.fr/fr/nos-publications/publications-transport/reglement-des-desequilibres.html>