

Deliberation of the French Energy Regulation Commission of 28 November 2013 providing a decision on the proposal by GRTgaz for derogatory rules for balancing in the event of an exceptional situation during the winter of 2013-2014

Present at the session: Philippe de LADOUCKETTE, chairman, Hélène GASSIN, Olivier CHALLAN BELVAL, Jean-Pierre SOTURA and Michel THIOLLIÈRE, commissioners.

In application of article L. 134-3 of the French energy code (*code de l'énergie*), the French Energy Regulatory Commission (*Commission de régulation de l'énergie* - CRE) approves "*the technical and financial rules drawn up by operators and which relate to the balancing of natural gas networks and to meeting the needs stated in articles L. 431-4, L. 431-5 and L. 431-8*".

This decision relates to the proposal by GRTgaz for setting exceptional rules for balancing in the event of exceptional situations for winter 2013-2014 (appended hereto). The higher council for energy (*Conseil Supérieur de l'Énergie*), consulted by the CRE about the draft decision, issued its opinion on 26 November 2013.

1. Context

Several times during the course of 2013 has GRTgaz drawn the attention of market players to the risk of a deficit in the supply, in France, required to meet the demand for gas in cold spells during the winter of 2013-2014, in particular in the event of extreme climatic conditions with a risk level of 2% (corresponding to a cold winter encountered, on average, every 50 years). This situation is linked in particular to the decreased level of suppliers subscriptions to natural gas storage capacity and to the consequences of this on the resources available to GRTgaz for balancing its network.

The General Directorate for Energy and Climate (*Direction générale de l'énergie et du climat*) has also made suppliers aware of these risks, whilst reminding them of their obligations in terms of continuity of supply to their end users. On 5 September it launched a public consultation on the conditions for third party access to underground storage. For its part the French energy ministry has informed the corresponding authorities in neighbouring countries of the risk posed to the security of supply in France, in particular in the event of cold spells.

In this context and as part of the "*Concertation Gaz*" consultation process, on 18 September 2013 GRTgaz presented plans for changing the balancing rules in the event of exceptional situations in its network for the period from December 2013 to April 2014.

Following this presentation and after taking the responses from shippers into consideration, on 14 October 2013 GRTgaz submitted a proposal to the CRE for the implementation of exceptional balancing rules for the winter of 2013-2014, in the event of significant risks arising to the physical balance of the gas transport network.

The CRE carried out a public consultation exercise from 25 October 2013 to 5 November 2013 in order to gather contributions relating to this proposal from the market players.

2. Summary of the GRTgaz proposal

For the period from 1 December 2013 to 30 April 2014, in the event of an exceptional situation GRTgaz propose implementing exceptional balancing rules designed to limit the risk of a breakdown in the gas transport system.

These amended rules primarily involve introducing asymmetry to the daily balancing tolerances:

- a shipper whose daily gas balance is in deficit¹ on the network would find it impossible to carry over their imbalance (deficit) to the next day. The quantities of gas involved in the negative imbalance would be systematically invoiced to the shipper at the adjusted daily balancing price (known as P2).
- a shipper whose daily balance is in surplus² would retain the option of carrying over part of their imbalance (excess) to the following day.

These derogatory balancing rules would be triggered if GRTgaz was forced to use more than a pre-defined limit of its security stock in order to ensure physical balancing of its network. To ensure that the triggering of these exceptional measures is transparent, GRTgaz proposes to issue each day to all its shippers, as well as to CRE, the level of its security stock that can be used for needs associated with balancing. In the event of the exceptional rules being triggered, shippers would have three days prior warning before they are actually applied.

In addition, these new rules provide GRTgaz with the ability to intervene in the market to purchase amounts of gas which are greater than those provided for under normal circumstances, and under more flexible conditions.

3. Summary of the public consultation

The CRE carried out a public consultation exercise from 25 October 2013 to 5 November 2013 in order to gather contributions relating to this proposal from the market players.

21 contributions were submitted to the CRE:

- 16 came from shippers and shippers' organisations: ALPIQ (*confidential*), ANTARGAZ, DIRECT ENERGIE, EDF, EFET, ENDESA, ENI, EON, Gaz de Bordeaux (*confidential*), GAZPROM MARKETING & TRADING, GDF SUEZ Commerce, Gas Natural Europe, STATOIL (*confidential*), TEGAZ, TOTAL G&P(*confidential*), VNG (*confidential*);
- 2 came from associations: AFG, UPRIGAZ ;
- 3 came from infrastructure operators: GDF SUEZ Infrastructure Branch, STORENGY, TIGF.

Non-confidential responses are published on the CRE website.

a) Summary of responses on the contribution of the GRTgaz proposal to security in the gas supply system

The majority of the contributors consider that the GRTgaz proposal is likely to improve the security of the gas supply system in the event of a cold spell.

Nevertheless, only a few shippers are in favour of implementing it. Most respondents point out that the current situation is the result of dysfunctional access to underground gas storage and ask that this issue be dealt with by governmental institutions as soon as possible.

¹ The consumption by their clients on a given day is greater than the gas volumes they introduce into the network on that same day.

² The consumption by their clients on a given day is less than the gas volumes they introduce into the network on that same day.

The players who are not opposed to the principle behind this proposal consider that recourse to this mechanism must remain the exception rather than the rule and offer amendments to the operational actions proposed by GRTgaz.

Those who are opposed to the GRTgaz proposal consider that it is too late and that implementing it:

- would lead to the letting balancing problems to be addressed by the TSO being passed onto the shippers;
- would disrupt the proper operation of the market and lead to higher prices, on the grounds that shippers would be encouraged to hold a structurally excess gas balance at the end of the day;
- would result in all shippers being penalised, irrespective of whether or not they have met their obligations in terms of continuity of supply to their end users;
- would not be necessary if the GRTgaz rules for intervention in the market were modified (volume, time intervals, types of products).

Finally, certain players point to a decrease in the quality of regulatory visibility in France and are also critical of the lack of communication or of a concerted approach on several subjects, such as the rules for allocation of capacities at the North-South link, conditions for storage access, the gas emergency plan (*Plan d'urgence gaz*) and analysis of the gas balance for winter 2013-2014.

b) Summary of responses relating to the operational actions proposed by GRTgaz

Regarding GRTgaz interventions in the market for balancing purposes, many shippers are requesting greater flexibility in the GRTgaz intervention rules: increased volumes, extension of or increased numbers of intervention windows, relaxation of constraints associated with bid-ask price gaps, intervention on futures products etc. Furthermore, two contributors consider that GRTgaz must be prevented from selling gas on the market before restoring its security stocks or even before restoring its flexibility stock.

Regarding the triggering of the derogatory balancing rules, the majority of shippers ask that more complete information be published by GRTgaz, in particular relating to the use of flexibility and security stocks, on the systems pressure, and ask that the prior warning be more than 3 days. These shippers want information to be made available to all market players from November onwards (on the SmartGRTgaz website for example). In addition, 7 shippers pointed out that the 3 calendar day advance warning is problematic when the warning period includes a weekend. One of them suggests using a prior warning period which is equal to the maximum of 3 calendar days and 2 working days. Another shipper proposes the use of effective temperatures as criteria for triggering the exceptional balancing rules.

Regarding the exceptional rules for managing imbalances, several contributors think that the penalty levels in the event of a gas deficit is too high, given the level of the P2 price (30% greater than the daily balancing price P1) and that it is applied from the first kWh of gas deficit. Four of them point out that these rules are particularly restrictive for shippers with small portfolios and those who supply profiled customers for whom it is difficult to forecast consumption. One player raised the instance of gas combined cycle plants which may be penalised for their imbalance on the gas supply system when they are involved in the compensation contracts to meet the needs of the electricity system. Three shippers think that these rules could result in abnormal behaviour on the part of the shippers, who will have to achieve a positive imbalance and would therefore not offer their gas to the market. Finally TIGF proposes aligning its penalty for imbalanced gas volumes beyond the tolerances in the event that the derogatory balancing rules are triggered, in order to prevent shippers exporting their imbalances into its zone.

4. CRE Assessment

a) On the contribution of the GRTgaz proposal to security in the gas supply system

The CRE is careful of the message from certain shippers regarding decreasing levels of visibility provided to players about the operating rules in the French market.

Nevertheless, it reiterates that the proposal from GRTgaz was made after several warning messages from GRTgaz and the government, from spring 2013 onwards, which only had limited effect. Under these circumstances GRTgaz in fact has a responsibility to propose these additional measures relating to

balancing, once it saw that the French gas supply system does not always have the capacity to cope with a cold spell this winter with a risk level of 2%.

The CRE takes the same position as most of the contributors, who consider that the situation for this winter is primarily linked to the drop in subscriptions for underground gas storage capacity. To this end, it emphasises to the government that there is a need to rapidly launch a basic discussion, in partnership with all market players, of reforms to the access to storage by third parties, and more widely still, a review of the rules to ensure security of supply in France. The reform of access and of obligations associated with storage must be implemented quickly in order to prevent a recurrence of a similar situation in the winter of 2014-2015. The CRE published its assessments and proposals on this matter in its response of 26 September 2013 to the public consultation carried out by the general directorate for energy and climate (*Direction générale de l'énergie et du climat*).

Furthermore, as pointed out by certain players, the primary aim of the rules for balancing the transport networks is not to ensure security of supply in France. Nevertheless, the CRE believes that they can contribute towards this end. Moreover, although one of the tasks of TSOs (*gestionnaires de réseaux de transport* = GRT) is to ensure a physical balance in the networks they operate, the CRE reiterates that the obligation for continuity of supply and for balancing is primarily the suppliers' responsibility. The TSOs must only intervene marginally in order to compensate for residual discrepancies associated with errors in consumption forecasts. This principle is the basis of the European network code relating to balancing.

The proposal by GRTgaz arises from the specific context of uncertainties in the ability of the French gas supply system to cope with an extreme cold spell next winter. This context is reiterated by GRTgaz in its publication "*Winter Outlook*" published on 7 November 2013. The purpose of this proposal is to minimise the risk of breakdown of the gas transport network during the 2013/2014 winter period, by encouraging shippers to be long rather than short in terms of gas supplies in the event of pressure on the physical balance of the gas supply system. The CRE considers that this proposal is, in fact, likely to enhance the ability of the gas supply system to cope with a cold spell.

b) On the GRTgaz interventions in the market for the purposes of balancing

The CRE reiterates that the exceptional rules proposed by GRTgaz already envisage the option of intervention on a given day in day-ahead, a doubling of the ceiling relating to amounts of intervention on the market on a given day for the next day and within-day, and a relaxation of constraints related to bid-ask price differences.

The CRE considers that these changes must be accompanied by an increase in the time period for the GRTgaz within-day intervention window.

The ceilings for the intervention amounts at purchase may be tripled in-day in order to restore the GRTgaz security and flexibility stocks more quickly, if there is sufficient capacity for introduction into storages.

Finally the CRE reiterates that the rules proposed by GRTgaz envisage that in the event of exceptional rules being triggered it can only intervene in the purchasing-side market.

c) On the triggering of derogatory balancing rules

The CRE states that the GRTgaz proposals in its publication "*Winter Outlook*" will work towards meeting the shippers' demands for more information, through a public website accessible to all market players and with a visibility over 5 days.

As a supplement to the vigilance indicator envisaged in "*Winter Outlook*" the CRE consider that GRTgaz might also publish on its website daily security stocks used for balancing and its flexibility stock levels as well as an explanation for every use of security stock for balancing purposes.

In addition, the CRE looks favourably upon the request by some shippers to remove weekends from the prior warning before triggering of the derogatory balancing rules. To this end the prior warning must be set at 3 calendar days, which include at least two working days.

As regards the proposal to use the effective temperature as a parameter for triggering of the derogatory rules, this option has been examined by GRTgaz. In the end it was not adopted, since temperature alone does not adequately reflect the pressure on the network. Thus a very low, but isolated, temperature may

not require triggering of the derogatory rules. Conversely, low temperatures over a long period at the end of winter could, if gas levels in storage are low, lead to triggering of these rules.

d) On the exceptional rules for management of imbalances

The exceptional rules proposed by GRTgaz may prove to be more restrictive for small portfolios and for suppliers who supply to profiled customers.

However, considering the lead times and the short period for which the rules apply, no definition of rules can be envisaged which takes the specific features of supplier portfolios into account. Furthermore, the fact that GRTgaz has made hourly consumption data available from June 2013 will facilitate the coordination of balancing for shippers and for electric power plants. The significant increase in tolerances in the event of a positive imbalance will also facilitate balancing management, in particular for suppliers who supply profiled clients.

In order to minimise the financial consequences that these rules might have for shippers, the P2 price must be set at 120% of the P1 price for deficit quantities of gas, and at 80% of the P1 price for surplus quantities of gas when the derogatory balancing rules are triggered. This change will enable the imbalance prices to be aligned between the GRTgaz and TIGF zones.

5. CRE Decision

The CRE approves the proposal by GRTgaz for implementation of derogatory rules for balancing in the event of exceptional situations between 1 December 2013 and 30 April 2014.

The operational procedures proposed by GRTgaz must incorporate the following modifications:

- the time period for within-day intervention by GRTgaz is to be extended from December 2013 on in the event of activation of the exceptional rules;
- the GRTgaz within-day purchase intervention volumes may be changed to up to 3 times the normal ceiling to restore the operator's security and flexibility stock levels during the period in which the exceptional rules apply ;
- GRTgaz will publish daily, on its SmartGRTgaz website, the levels of its security stock that can be used for balancing purposes and the level of its flexibility stock, together with an explanation of each change of security stock for its balancing purposes. It will also publish the planned dates for activation of the derogatory balancing rules and for the return to the normal balancing rules;
- the prior warning before triggering of the exceptional balancing rules is 3 calendar days, to include at least 2 working days;
- the P2 price is to be equal to 120% of the P1 price for the volumes of gas in deficit and 80% of the P1 price for volumes of gas in surplus during the period of activation of the derogatory rules.

GRTgaz will carry out and present, as part of the "*Concertation Gaz*" consultation process, a report on the overall experiences in managing the 2013-2014 winter.

Paris, on 28 November 2013.

For the *Commission de régulation de l'énergie*,
Commissioner

Olivier CHALLAN BELVAL

Appendix:

- GRTgaz proposal of 14/10/2013

Link to the documents which present the balancing rules in force on the GRTgaz network:

- GRTgaz: http://www.grtgaz.com/fileadmin/clients/fournisseurs/acces_contrats/fr/Section-D2-PEG-Equilibrage-1er-avril-2013.pdf