

Deliberation of the *Commission de régulation de l'énergie* (French Energy Regulatory Commission) on 15 April 2010 to decide on changes to the balancing rules for GRTgaz's gas transmission network

The following were present at the meeting: Mr. Philippe de Ladoucette, Chairman, Mr. Maurice Méda, vice-chairman, Mr. Jean-Paul Aghetti, Mrs. Anne Duthilleul and Mr. Emmanuel Rodriguez, Commissioners.

In accordance with the CRE deliberation on 7 December 2006, GRTgaz submitted for CRE's approval on 24 March 2010 a proposal on the evolving balancing rules applicable to its gas transmission network, starting on 1 May 2010. This proposal is a result of the proceedings within the "Concertation Gas" working group.

1. Context

The balancing rules for the GRTgaz transmission network have gradually evolved towards a market-based mechanism.

Since 1 December 2009, GRTgaz uses the *Powernext Gas Spot*¹ exchange to cover in part the balancing needs of its network, replacing the *Balancing GRTgaz* platform. A daily balancing price (P_1) is established based on these transactions, and is used to bill a share of the imbalances of each shipper.

The daily balancing price is applied, for each shipper, to the volumes of imbalances exceeding cumulative imbalance mid-range, expressed as a portion of the daily tolerance from which he benefits:

- 55 per cent of the tolerance enjoyed by the shipper in the North zone of H gas and 70 per cent in the South zone for the period 1 May 2009 to 31 October 2009;
- 70 per cent of the tolerance for North zone of H gas and South as of 1 November 2009.

The plenary committee of the "Concertation Gas" working group had noted on its working schedule for the first half of 2010 the feedback on the intervention terms of GRTgaz on Powernext, and on the reliability of the daily balancing price.

As a result of these studies, GRTgaz proposes to the CRE:

- a progression of the cumulative imbalance mid-range level for the summer period in the North and South zones;
- to increase the interventions on the *Powernext Gas Spot* exchange in the North zone of H gas;
- to abandon definitely the *Balancing GRTgaz* platform, in standby since GRTgaz started trading on *Powernext Gas Spot*.

In preparing its decision, the CRE consulted the shippers on the GRTgaz proposal from 26 March to 9 April 2010.

¹ Marketplace for trading products to be delivered on the current day, the following working day or during the weekend.

2. GRTgaz proposal for evolving balancing rules on its network

2.1. Reviewing the shippers' share of daily imbalances billed at the daily balancing price in summer from 1 May 2010

The analyses undertaken by GRTgaz on the exposure of shippers to the daily balancing price show that:

- the shippers' imbalance volume is less considerable in summer than in winter, as consumption and shipper forecasting margins are smaller in the summer, outside of inter-seasonal months (April and October);
- shippers have stronger balancing incentives during winter than in the summer. The tolerance accorded to each shipper is indeed calculated on the basis of the delivery capacities which are constant throughout the year. But the daily balancing price applies to the imbalance volumes exceeding cumulative imbalance mid-range which is proportional to the daily tolerance. Under these conditions, applying the same share during winter and summer alike will not produce a constant balancing incentive for shippers;
- the shippers' exposure to the daily balancing price, as the cumulative imbalance mid-range decreased during the summers of 2008 and 2009, remained lower during summer compared to the winter period, both in terms of average occurrence and volumes.

Therefore GRTgaz proposes to reduce the cumulative imbalance mid-range during summer relative to the winter, in the North and South zones, setting them at:

- 40 per cent of the tolerance held by the shipper instead of the 55 per cent currently used in North zone of gas H ;
- 55 per cent of the tolerance held by the shipper instead of the 70 per cent currently used in South zone.

Considering the difficulties experienced by shippers to forecast customer consumption during mid-season months, GRTgaz proposes to apply these summer shares from 1 May to 31 September, starting on 1 May 2010 as long as no new policies have been established for the target balancing model.

Finally, as in previous summers, GRTgaz proposes to cancel the penalties applied to the cumulative imbalance account, during 7 workdays starting on 1 May, for the variations:

- Between 5 times 40 per cent and 5 times 70 per cent of the daily tolerance in Zone North H ;
- Between 5 times 55 per cent and 5 times 70 per cent of the daily tolerance in Zone South


2.2. Reviewing the intervention volume on Powernext Gas Spot

The analysis of GRTgaz trading on the *Powernext Gas Spot* exchange produced by Powernext t shows that the current needs of GRTgaz are quite adequately covered in Day Ahead², and entirely covered in Within Day³ transactions.

Further, the feedback conducted by GRTgaz shows that with each increase in GRTgaz trading volumes, market depth has increased by a higher proportion.

² for delivery on the following day

³ for delivery during the day



Therefore GRTgaz proposes increasing the volume of its trading in Zone North of H gas on the *Powernext Gas Spot* exchange by:

- 2,750 to 3,500 MWh for the Day Ahead and Week-End sessions;
- 2,750 to 4,250 MWh for the Within Day sessions.

2.3. Abandoning the Balancing GRTgaz platform

The feedback since 1 December 2009 has demonstrated the reliability of the daily balancing price resulting from GRTgaz trading on *Powernext Gas Spot*. Under these circumstances GRTgaz no longer considers it useful to maintain the old platform *Balancing GRTgaz*.

3. CRE observations

3.1. Shipper positions

Eight shippers, including the main shippers active in France and present within the framework of the “Concertation Gas” working Group, have contributed to the consultation led by the CRE, from 26 March to 9 April, on the GRTgaz proposal.

The contributors are very favourable to the GRTgaz proposal.

Some have formulated remarks:

- three shippers would like to freeze the developments until the target balancing model has been defined;
- one shipper would like to see an increase of GRTgaz tradings in the South zone;
- two shippers ask that the summer share be subject to the zero setting of the cumulative imbalance account spread for the first, and for keeping the daily balancing tolerance for the second.

3.2. Analysis of the GRTgaz proposal

3.2.1. Share of shippers' daily imbalances billed at the daily balancing price in summer

The analysis of shippers' imbalances in past years makes clear that the obligation of balancing is less of a constraint for shippers during summer than during winter.

Indeed, forecasting errors during the summer are in terms of volume considerably smaller than during the winter, considering the lower consumption.

In these circumstances, a reduction of the share seems necessary to maintain shipper incentives to minimize their imbalances.

The analyses supplied by GRTgaz reveal that in Zone North of H gas a reduction of the share during the summer period to 40 per cent of the daily balancing tolerance will not increase the balancing constraints for shippers relative to the winter period.

The same statement holds true for the South zone. However, it seems necessary to take into account the special features of the South zone. In particular, the constraints linked to the maintenance program on the North-South connection and the progressive operational use of the LNG terminal in Fos Cavaou justify the


non-reduction of the share beyond the 55 per cent of the daily balancing tolerance in this zone for the coming summer.

3.2.2. Increasing the GRTgaz trading volumes

The analysis carried out by Powernext shows that market liquidity in Zone Nord is sufficient to allow for an increase in the GRTgaz trading volumes in Day-Ahead as well as Within-Day transactions. The GRTgaz proposal to further increase the interventions in Within-Day relative to Day-Ahead transactions is consistent, insofar as this will enable the daily balancing price to better reflect the daily constraints on the French gas system.

The table below shows indeed that only with the current orders (corresponding to the current needs of GRTgaz) the GRTgaz interventions could have been doubled in 37 per cent of the cases in Day-Ahead, and in 61 per cent of the cases in Within-Day, in the North and in the South alike.


Corresponding product	PEG	NB Sessions	NB Sessions 100% satisfied	NB Sessions 200% satisfied	Ratio NB sessions 100% satisfied	Ratio NB sessions 200% satisfied
DA	PEG Nord	71	59	26	83%	37%
WD	PEG Nord	71	71	43	100%	61%
DA	PEG Sud	71	60	26	85%	37%
WD	PEG Sud	71	71	43	100%	61%


 Current situation
 Situation if interventions are doubled

Under these conditions, GRTgaz could also increase its intervention volumes on the *Powernext Gas Spot* exchange in the South zone. A similar development to that in the North zone would bring the volumes to 2,250 MWh for the Day-Ahead sessions and 2,750 MWh for the Within-Day sessions.

Finally, the GRTgaz proposal leads to increased intervention in Within-Day transactions as compared to Day-Ahead. This development is consistent to the extent that it will help to better reflect the tensions within the French gas system. GRTgaz proposes to maintain the weighting of 50/50 between the Within-Day and the Day-Ahead intervention price, i.e. not to take into account – as is currently the case – the volumes actually bought or sold in these sessions. This weighting will avoid putting at risk the quality of the daily balancing price insofar as there is no spread constraint between the offering buying price and the offering sales price for Within-Day GRTgaz interventions. This issue however requires concerted study as the liquidity in Within-Day transactions continues to evolve.

The feedback presented by GRTgaz and based on the Powernext analysis has not found any price spike for Within-Day sessions. However, considering the spikes observed in the past as GRTgaz intervened on the *Balancing GRTgaz* platform and by the paramount share of GRTgaz transactions on the Within-Day market (GRTgaz has a market share of 36 per cent in Within-Day against 7.8 per cent in Day-Ahead transactions), it could prove necessary to add a constraint for GRTgaz interventions. This issue will be subject to analysis within the "Concertation Gas" working group.



The CRE retains the policy option of introducing a rule to contain the price of GRTgaz interventions in Within-Day sessions, should swift action be required.

3.2.3. Abandoning the Balancing GRTgaz platform

The lessons learned on the GRTgaz interventions since 1 December 2009 on the *Powernext Gas Spot* exchange are positive. Indeed the liquidity offered by *Powernext Gas Spot* enables GRTgaz to cover its needs. Further, the daily balancing price resulting from these interventions is reliable and remains close to the market price published by Powernext (Daily Average Price). Greater spreads were registered when the daily balancing price was obtained through the *Balancing GRTgaz* platform.

The feedback from the GRTgaz interventions on *Powernext Gas Spot* and cost linked to maintaining the *Balancing GRTgaz* platform, maintenance costs for GRTgaz and bank guarantees for the shippers corroborate the concertation working group's decision to confirm the abandonment of this platform.

4. Decision

The CRE approves the GRTgaz proposal concerning the reduction of the summer cumulative imbalance mid-range level in the North zone of H gas and the South zone, and the increase of its intervention volumes on the *Powernext Gas Spot* exchange for the North zone of H gas.

The CRE asks GRTgaz:

- To increase its volume of intervention on the *Powernext Gas Spot* exchange in the South zone to 2,250 MWh for the Day-Ahead sessions and to 2,750 MWh for the Within-Day sessions, starting on 1 May 2010;
- To work within the consultation process to introduce by mid-June 2010 a rule for containing the price of GRTgaz interventions for the Within-Day sessions.

In addition, the CRE asks GRTgaz to present by mid-June 2010:

- the principles considered for the target balancing for 2012-2013 on its network;
- the ongoing and future improvements in terms of publishing data to facilitate shippers' balancing;
- the current actions to improve the means of determining its balancing need for the day-ahead and during the day.

Signed in Paris, 15 April 2010

For the *Commission de régulation de l'énergie*
(French Energy Regulatory Commission)

The Chairman

Philippe de Ladoucette