



## CRE consultation on the creation of a single gas market area



### EFET response – 15 September 2017

The European Federation of Energy Traders (EFET) thanks CRE for the opportunity to react to its proposals related to the creation of a single market area in France. EFET also greatly appreciates the initiative of CRE drafting the documents in English language.

#### **Question 1: Are you in favour of the proposed conditions of use of the networks within the framework of the single zone?**

EFET welcomes the initiative creating a single market area in France. Strengthening the infrastructure with selected pipeline projects and addressing potential remaining bottlenecks with market-based mechanisms is a cost-effective approach to manage potential congestion.

#### **Question 2: Are you in favour of the distribution of the imbalance within the TRF between the TIGF and GRTgaz balancing zones?**

EFET would prefer not having only a merged trading region for France, but also having a fully integrated balancing zone similar to the Belgium-Luxembourg project. This would reduce complexity for shippers and TSO as well as increase the liquidity in the intra-day market. However, EFET nevertheless supports the chosen trading region concept.

**Question 3: Are you satisfied with the quality and publication dates of the TSO work programmes?**

The quality and publication dates of the TSOs related to maintenance seem to be fit for purpose.

**Question 4: Are you in favour of the rule proposed by GRTgaz for the distribution of mutualised restrictions upstream or downstream of the congestion?**

EFET supports the concept of superpoints and the definition of up- and downstream limits to address congestion and the impact of maintenance in a cost-effective manner. However mutual restrictions should be applied as a last resort mechanism after market-based mechanisms have been exhausted.

**Question 5: Are you in favour of no mutualised restriction being applied a priori on days when maintenance works have little impact?**

See Question 4

**Question 6: Are you in favour of the 30 GWh/d threshold beyond which the works would no longer be dealt with by congestion removal mechanisms?**

EFET believes that a 30 GWh/d threshold is reasonable. However, the number should be revised after one or two years of experience.

**Question 7: Do you agree with the TSO and CRE analysis of the likely direction of congestion within the single market place?**

Yes, historical flow patterns support this interpretation.

**Question 8: Does the baseline scenario proposed by the TSOs to size the mechanisms for easing congestion seem relevant to you?**

EFET thinks that the “pessimistic” baseline scenario describes well a constraint situation that could happen, even if it never has. Limited LNG availability in the South did happen in the past. However, EFET expects that after the creation of a single market area, the unique price signal for the whole French market will more easily attract LNG vessels to France compared to today (reducing the volume effect compared to today’s TRS size).

**Question 9: Does the extreme flow scenario proposed by the TSOs seem relevant to you?**

EFET thinks that a crash test scenario should be studied for the sake of having an idea of what could happen in extreme cases. The extreme scenario should not be used to justify any investment decisions in the natural gas infrastructure or as the basis for any decisions on storage obligations.

**Question 10: Do you agree with the TSO and CRE conclusions for filling storage facilities in the summer, downstream of congestion limits?**

EFET expresses some concerns regarding CRE's statement on the low availability of injection capacity for storage facilities in the South in the extreme scenario, which would be capped to the overall volumes injected in 2016. In any case, the merging of the two current balancing zones should enable shippers to inject more gas in the South than during the summer of 2016, thanks to the investments in new infrastructure to be completed by TSOs for that purpose.

**Question 11: Are you in favour of interrupting interruptible capacities before triggering any other decongestion mechanism that has a public cost?**

Yes, EFET supports the proposed ranking of mechanisms.

**Question 12: Are you in favour of not trading unsubscribed capacities when congestion occurs, which would be exacerbated by rising flows to the points concerned?**

Yes, EFET supports the TSOs' proposal.

**Question 13: Are you in favour of the operational measures concerning calls for locational spreads as proposed by the TSOs? Do you have any comments to make them more effective?**

Yes, EFET supports the TSOs' proposal.

**Question 14: Are you in favour of TSOs notifying shippers about the risk of reaching a limit from D-1 and offer them the possibility to submit an offer at the time of this notification? What would be the best time for such a notification?**

Yes, EFET supports the TSOs' proposal.

**Question 15: Are you in favour of CCGTs taking part in calls for tenders on locational spreads?**

EFET supports the inclusion of CCGTs in the calls for tender.

**Question 16: Are you in favour of investigating industrial sites connected to the transmission network for calls for tenders on locational spreads?**

EFET is not in favour of including industrial sites into the scope of the calls for tender on locational spreads. As locational spreads consist in adjusting initial nominations, we actually do not quite understand how industrial sites, which do not have nomination obligations, could participate in these calls for tenders. Industrials should use the mean of interruptible capacity to optimise their costs. Large industrials also holding a shipper licence are in scope anyway.

**Question 17: Are you, like the CRE, not in favour of storage operators taking part in calls for tenders on locational spreads?**

EFET supports the view of CRE.

**Question 18: Are you in favour of setting a price cap? If yes, what level do you consider appropriate?**

EFET strongly opposes the idea of setting a price cap. The market should be enabled to give the key signal that is the price without artificially set restriction in that regard, and the French market is sufficiently liquid these days to do so. Experience with “locational products” seems to support this view. If market signals are restricted, the risk of more frequent bottlenecks will increase.

Moreover, although a price cap may shield GRTgaz from a very expensive one-off transaction, the effect of forced renominations on shippers will undoubtedly be strong on the TRF, as shippers struggle to rebalance their positions at the hub.

Hence, because of the nature of marginal pricing, the trade-off for having a price cap and forcing renominations is going to be a much higher price for all market participants in France. The total cost for French consumers will increase, and negatively affect overall welfare. Therefore, rather than establishing regulated price restrictions in the market, CRE should ensure that GRTgaz has sufficient cash flow to perform locational transactions.

**Question 19: Are you in favour of using locational spreads to remove residual congestion?**

EFET is very much in favour of using market-based means first to remove residual congestion. The locational spread mechanism is such a mean.

**Question 20: Are you in favour of using optimisation arrangements with adjacent operators to resolve certain congestion situations?**

Collaboration and cooperation with adjacent operators is a prerequisite to having a functional natural gas market. This is even truer when it comes to issues related to congestion. Furthermore, European regulation obliges neighbouring TSOs to cooperate in certain situations (NC INT, NC CAM).

**Question 21: Are you in favour of using mutualised restriction when other mechanisms fail to reabsorb congestion?**

EFET opposes the use of forced renominations if these are triggered by a price cap on the locational market. Therefore, EFET agrees that mutual restriction should be applied as a last resort mechanism if other, market-based mechanisms fail to resolve congestion. Should such mechanism be triggered, shippers facing mutualised restriction should be allowed to charge induced costs to the TSOs.

**Question 22: Do you consider, like the CRE, that swap storage must be ruled out at this stage?**

EFET supports the CRE view to rule out this mechanism.

**Question 23: Do you consider, like the CRE, that the nomination buy-back mechanism must be ruled out at this stage?**

In general, EFET supports capacity buyback as a market-based mean for the TSO to absorb congestions. However, and considering the local specificities and overall architecture of the current proposals made by the TSOs, EFET supports CRE's view not to implement this mechanism at this stage. The establishment of a buy-back mechanism should however not be ruled out indefinitely.

**Question 24: Do you consider, like the CRE, that converting firm capacities into conditional or point-to-point capacities must be ruled out?**

EFET supports the CRE view to rule out this mechanism. Nevertheless, the conditions which are likely to precipitate the interruption of capacity should be transparent and understood.

**Question 25: Are you in favour of the decongestion mechanisms and their prioritisation envisaged at this stage by the CRE?**

Yes, EFET supports the proposed decongestion mechanisms and their prioritisation.

**Question 26: Are you in favour of the proposal to deliver actions related to alert levels on the day before and same day?**

The proposed schedule seems to be fit for purpose.

**Question 27: Are you satisfied with the information system proposed by the TSOs?**

The proposed schedule seems to be fit for purpose.

**Question 28: Are you in favour of monitoring downstream storage filling levels during winter?**

Market participants already monitor downstream filling levels during winter as these inform their trading strategies and market price formation. However, we are not against such information being monitored and published in a pre-defined form as an indicative measure of supply security.

We are particularly interested in getting regular updates on the location and size of GRTgaz's strategic stocks as well as Storengy's storage inventory, especially for performance gas.

**Question 29: Are you in favour of the mechanisms that the CRE proposes to select and study?**

The trigger for such mechanisms being applied are dependent on projections made by the TSOs at the beginning of winter (the minimum flow to be withdrawn from storage to deliver gas downstream of congestions) and during the course of winter (projected stored gas volume). Both projections include assumptions based on extreme events which have a low probability of occurrence. Should such mechanisms be applied, it should not be based on scenarios more stringent than the risk standards set by the existing public service obligations (i.e. residual 2% cold winter). In this context, the time horizon for such monitoring mechanism should be consistent with the time requirements for LNG rerouting. The pre-defined form of monitoring and the application of the mechanisms themselves should also be explained in the context of the congestion fronts.

**Question 30: Are you in favour of the proposed priorities to make use of them?**

See Question 29

**Question 31: Do you, like the CRE, want flow commitment to be studied in the event of threats to continuity of supply in the medium-term, particularly due to filling levels in storage facilities downstream of congestion being too low?**

EFET supports the CRE view to study the flow commitment mechanism as a mean to address the risk of medium-term (months) congestion.

**Question 32: Are you in favour of covering costs in the ATRT6 tariff?**

EFET supports the idea to cover related costs via the ATRT6 tariff. In particular, we believe that the beneficiaries of this mechanism should be the ones to cover the costs. Any other application would lead to inefficient trading, reduce liquidity and even higher costs to French consumers.

For example, applying a neutrality cost (especially at M+2) to exit points at storage points will increase the cost and risk of using storage. Given next year's storage reform, this is a cost that will be considered by shippers, which can only be addressed by storages operators reducing their product price and recovering it from consumers (the scope of these consumers still need to be determined in the reform proposal).

All downstream consumers, either in France or in adjacent countries, benefitting from the limited costs of the North-South contractual merger (i.e. compared to a full merger without any residual physical congestion) should fairly bear the costs of the – potential – local congestions which may appear.

**Question 33: If an ad hoc neutrality account is introduced, do you find the proposed distribution key between shippers suitable?**

Notwithstanding EFET's preference not to introduce a neutrality account, especially on a highly unpredictable M+2 basis, such a measure would only make sense if the cost is recovered by the prime beneficiaries of these mechanisms.

As mentioned in Q.32, any costs imposed on storage will reduce its attractiveness and if the French storage system is reformed as proposed, be recovered by consumers anyway.

Finally, imposing this neutrality charge on entry points will increase TRF and PEG prices, but would also impact hub prices of any countries who import gas through France (e.g. PVB and PSV).

**Question 34: Are you in favour of using locational spread buying and selling in the event of congestion in winter 2017-2018?**

Yes, EFET supports the idea of early implementation of the locational spread mechanism.

**Question 35: Are you in favour of maintaining trials on locational products in the long-term?**

EFET welcomes sustaining of locational products, therefore phasing out the current experimentation stage.

**Question 36: Are you in favour of including locational product buying and selling prices in the imbalance settlement price?**

EFET is open to the integration of locational product buying & selling prices in the imbalance settlement price, provided the need of the TSO for such locational product is linked to the imbalance position of shippers.

On the contrary, should this need for locational product exclusively come from a within-zone congestion (i.e. while all shippers are balanced at the balancing zone level), such inclusion should not be applied.

**Question 37: Are you in favour, like the CRE, of ending the gas circulation system?**

EFET approves the CRE proposal to end the gas circulation system.