

Open letter to CRE on its decision (N° 2019-120) amending the deliberation of 26 October 2017 regarding the operation of the single gas market in France

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The European Federation of Energy Traders (EFET¹) is a federation of more than 100 energy trading companies from across Europe, promoting competition, transparency and open access in the European energy sector. As Europe's largest trading association, we are following the developments on the European wholesale gas market closely and we are an active participant in the discussions around market design of the French gas market. Therefore, EFET has a natural interest in changes to the operational conditions of the French single price zone.

We welcome the intention of CRE to ensure that all booked firm storage capacity is available for shippers to use when congestion occurs, which is the overarching goal of the congestion mechanisms² in the French single price zone.

However, the events of 25 (congestion within the network) and 26 May (network maintenance) and the CRE decision that followed on 29 May have us concerned with regard to the trust that market participants can place in the functioning of the French wholesale gas market.

Indeed, firm exit capacity at storage points booked for SY 19/20 was curtailed on 26 May through triggering of the shared restrictions ("restrictions mutualisées") mechanism. So far, there has been no talk of compensation for the curtailment of these firm capacities which prevents shippers from injecting gas in storages at their contractual nominal capacities.

Second, the regulator took action a few days following this event with its decision 2019-120. We regret the lack of involvement of the industry in this CRE decision that amends the operation of congestion mechanisms. This is all the more regrettable given the high degree of participation of the gas industry before the implementation of the French price zone merger.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We improve the operation of European wholesale energy markets and enhance the performance of traders and their support functions in those markets. We reinforce the markets' functionality and facilitate their liquidity and transparency.

² See CRE's deliberation of 26 October 2017. <https://www.cre.fr/en/content/download/16595/205132>

We understand that the measures decided by CRE are for exceptional congestions situations only (*i.e.* red alert day), and that they only concern capacity linked to additional storage rights (*cf.* “boost offer”) booked outside of the storage auctions³. However, we are of the view that the CRE decision will have a significant impact on market participants holding storage contracts and exit capacity at storage points with nominal levels beyond the thresholds determined by CRE. These additional capacities have been contracted as firm products. However, the CRE decision dated 29 May 2019 will convert them into interruptible products, which has financial implications for holders of those contracts.

We believe that current contracts affected by CRE’s decision should be grandfathered, as they correspond to capacity contracts subscribed before entry into force of the new measure: market participants set their booking strategy for SY 19/20, based on the regulatory framework applicable over Q1 2019, such as the contractual conditions for the use of the products subscribed cannot be changed in a no notice manner within a contractual period.

Looking forward, contractual conditions of new capacity contracts at the storage points should not be impacted within a given commercial storage year .

Moreover it is stated in the CRE’s deliberation of 26 October 2017 that,

“...a cost-benefit balance must be achieved when choosing these mechanisms, their sizing, triggering criteria and player remuneration conditions...”

Given that CRE decided to amend the priority order of the congestion mechanisms by adding the interruption of exit capacities at the storage points, we believe that CRE’s decision should be supported, in addition to a consultation, by an impact assessment integrating a cost-benefit analysis. The real cost (and changes in welfare) of triggering non market-based mechanisms over market-based mechanisms (e.g. locational spread) should be assessed before amending the priority order and operation of the current congestion mechanisms. It is not certain that converting some firm capacity at the storage exit points into interruptible contracts in case of congestion would lead to the most optimal and cost-reflective approach. Should it be the case, we would ask the CRE to publish an analysis demonstrating that such a decision constitutes an optimum for the French gas market.

We hope the comments above prove helpful. We would welcome engaging with CRE further to discuss our proposal for the way forward.

³ Auctions related to the implementation of regulated access of third parties to the underground natural gas storage in France (CRE's deliberation of 27th of September 2018).