

Summary of the main developments of the electricity and gas markets in France in 2013

1. Key developments for the regulator in 2013

The Law of 15 April 2013 amended the composition of the CRE Board for the fourth time in thirteen years. It now comprises six members, appointed full-time for six years, without the possibility of renewal. The composition of the Standing Committee for disputes and sanctions of the CRE (CoRDIS) has also been extended, with the law now providing for the appointment of four alternate members appointed part-time under the same conditions as the members of the CRE's Board. Finally, 2013 saw the incompatibility rules applicable to the latter reinforced and the procedures for separating prosecution and sanctioning powers within CoRDIS specified.

The law of 15 April 2013 also expanded the scope of the CRE's missions, particularly by involving the regulator in the definition and implementation of mechanisms for promoting demand side participation in the power market. However, the CRE's resources have been further reduced, reinforcing the regulator's concerns over its ability to carry out some of its missions.

2. Main developments in the electricity market in 2013

a. Regulating networks

The electricity transmission system operator (TSO) and most of the distribution system operators (DSOs) consolidated their independence from their respective parent companies in 2013. The regulator did not issue any sanctions linked to issues of independence during the year.

With regard to the monitoring of the certification of the French public transmission network, thirteen out of the nineteen contracts that RTE concluded with the vertically integrated company (or companies that it controls) have been approved by the CRE during the period from 5 July 2013 to 4 July 2014. One contract did not fall within the CRE's approval powers. The other contracts were subject of exchanges with the TSO or are being reviewed by the regulator. In January 2013, RTE furthermore submitted the third edition of the ten-year development plan of the French electricity transmission network to the regulator. In early July 2014 the CRE considered that this plan covered the investment needs and that it was generally consistent with the Ten Year Network Development Plan (TYNDP) published by ENTSO-E in July 2012, while adding a number of requests and recommendations regarding preparing the next plan.

In monitoring the implementation of the DSOs' compliance programmes, the CRE reported various breaches of the independence of some DSOs as well as cases of confusion between corporate identity, communication practices or branding of some DSOs and those of their parent companies. It therefore issued a number of recommendations for their attention and will closely monitor their implementation.

For the first time the CRE also exercised its power to fix the rates for using public electricity

networks (TURPE), which were previously approved by the relevant ministers on the proposal of the regulator. However, the process has been strongly marked by the decision of the Council of State of 28 November 2012 to cancel the third tariffs for using public electricity networks (TURPE 3) for distribution. This decision led the regulator to separate transmission from distribution and to issue three successive tariff decisions regarding distribution. For the period 2014-2017, the CRE decided on an average tariff increase of 3.6% on 1 January 2014, with an indexing to inflation each 1 August. As regards transmission, the CRE decided on a tariff increase of 2.4% on 1 August 2013, with an indexing to inflation every 1 August from 2014 onwards. The mechanisms put in place in TURPE 3 to encourage RTE to improve its efficiency in terms of quality of service provided to users have been renewed and incentives to contain its costs, improve the continuity of supply, develop interconnections as well as innovate and modernise networks have been reinforced. Tariffs with a temporal differentiation have also been introduced, marking a break with the previous rates for the use of the public transmission network.

Furthermore, the CRE continued to promote the establishment of European target models for the allocation of cross-border transmission capacities on all French borders. The CRE has contributed, in particular, to the extension of the Central West European market coupling in the north-western and south-western regions of Europe by approving its implementation on the French/British border in February 2014 and on the French/Spanish border in May 2014 in close cooperation with its counterparts. The CRE also initiated a major review of the general methodology that RTE uses for calculating capacity in view of the expected implementation of the flow-based market coupling in November 2014. The extension in March 2014 of the CASC platform for allocating long-term transmission capacities on the French/Spanish border and the progress of the negotiations concerning the regulatory treatment of long-term contracts on the French/Swiss border were two other important milestones reached in the last few months. In addition, the intraday target model in place on the French/German border has been extended to the Swiss border to better meet the need for flexibility. Finally, the British regulator, Ofgem, and the CRE, took a common decision on 6 March 2014 to grant an exemption for a period of 25 years for the interconnection project carried out by the company EleLink, which will increase the France-United Kingdom interconnection capacity by 50%.

b. Promoting competition

The analysis of the functioning of the wholesale market carried out by the CRE in 2013 shows a slight decrease of traded volumes for almost all maturities compared to 2012. It should, however, be noted that the volumes of future products traded on the organised markets recorded an increase of more than 20% in 2013. The spot price of electricity fell slightly to €43.2/MWh for off-peak and €55/MWh for peak, which corresponds to a decrease of 7.8% and 7.4% respectively compared to 2012. In addition, an important episode of negative prices took place during the day of 16 June 2013, during which hourly prices reached extremes at -€200/MWh. The CRE considered that these negative price spikes were consistent with supply and demand fundamentals, i.e. with low consumption on the one hand and significant production availability on the other hand.

The French generation system remains highly concentrated. However, the volumes traded through the regulated access tariff to historic nuclear power (ARENH) and through auctions organised by the incumbent company (virtual power plants) enabled alternative operators to cover 62% and 8% of their needs respectively in 2013. In addition, interconnection capacities between France and its neighbouring countries represent over 10% of the generation capacities installed in France, in accordance with the objective set by the European Council. As the Central-Western European market coupling closely links the French market to the adjacent markets participating in this mechanism, the CRE estimates that its recent extension should significantly reduce France's incremental supply costs, which amounted to €128 million in 2013.

On the retail side, market opening continued with an increase in the number of residential customers with a market offer of 15% (332,000 sites) in 2013. At 31 December 2013, 2,476,000 residential sites out of a total of 31.2 million therefore had market offers, of which 2,466,000 were with an alternative supplier. In the non-residential segment, the opening-up of the market resumed its pace in 2013, with an increase in the number of non-residential sites with market offers of 3% during the year (+17,000 sites). 679,000 sites out of a total of 4.9 million had a market offer, of which 399,000 were with an alternative supplier. The end-user regulated prices therefore applied to 91% of consumption (92% of sites) in the residential segment and 58% of consumption (86% of sites) in the non-residential segment. In its opinion on the evolution of end-user regulated prices on 1 August 2013, the CRE once again recalled that in application of the regulations in force, these tariffs must at least cover the incumbent's accounting costs.

c. Security of supply

According to RTE, domestic consumption, including losses on the distribution and transmission networks, amounted to 495 TWh in 2013, representing an increase of +1.1% compared to 2012. France has been a net importer of approximately 9.8 TWh from Germany and a net exporter to Switzerland (16.7 TWh), Italy (15.3 TWh), Belgium (12.9 TWh), United Kingdom (10.5 TWh) and Spain 1.7 TWh).

Following an already strong increase over the period 2009-2012, RTE's investments are continuing their upward trend with an average annual level planned for the period 2013-2016 of €1647 million, compared to €1177 million in the previous period. In particular, transmission capacities with Spain, Italy and United Kingdom will be strengthened. Other studies on interconnection projects with Belgium, Germany, Luxembourg and Switzerland are under way. All projects of RTE with Italy and United Kingdom and one of its projects involving Spain have been labelled as projects of common interest in October 2013.

With regard to measures to meet peak demand and supply shortfall, the CRE is strongly involved in developing demand-side participation in the power market. In 2013 the participation of industrial and domestic load shedding in the balancing mechanism progressed significantly. The overall load shedding capacity made available on the balancing mechanism reached nearly 900 MW on some days in November 2013. Over the year, the annual load shedding volumes activated rose to 20 GWh, half of which was due to distributed load shedding.

3. Main developments in the gas market in 2013

a. Regulating networks

Like in the electricity sector, the French gas TSOs and DSOs continued the consolidation of their independence from their respective parent companies in 2013. The regulator did not issue any sanctions linked to issues of independence in 2013.

As a result of the change in the shareholding of the second French gas TSO, TIGF, the CRE opened a procedure to review its certification on 5 September 2013. On 3 July 2014, the CRE certified TIGF under the ownership unbundling model. On 1 July 2014, 26 of the 36 contracts that the CRE has received since the certification of GRTgaz have been approved by the CRE in the context of its compliance monitoring with the certification requirements. The others have been the subject of requests from the CRE to put an end to these provisions. The CRE noted other positive developments over the year 2013 with regard to the separation of the information and communication systems of GRTgaz from those of its parent company. Lastly, with regard to the ten-year development plans for the French natural gas transmission networks, the CRE considered that the plans submitted by GRTgaz and TIGF for the period 2013-2022 reflected the needs expressed by stakeholders and were globally consistent with ENTSOG's TYNDP.

The implementation of the DSOs' compliance programmes also moved forward, especially in the light of the efforts they have undertaken to better explain their missions to the general public and concerning the separation of their premises from those of their parent companies. Nevertheless, the CRE notes that a greater convergence of different information systems and different contractual models used as well as better information from suppliers on their developments seem necessary to develop competition between suppliers in the area of local distribution companies.

Changes to the incentive regulation put into place for transmission since 1 April 2013, for GRDF since 1 July 2012 and for local distribution companies since 1 July 2013 have also led to a significant improvement in the quality of the service received by network users. In accordance with the CRE's decisions, tariffs for using networks have increased on 1 July 2013 by 8.3% for GRTgaz, 8.1% for TIGF and 4.07% for GRDF. Tariffs for using LNG terminals have also followed the evolution fixed by the CRE in 2013. The proposal sent by CRE to the relevant ministers to approve the implementation of the widespread deployment of the GRDF smart metering system also constitutes an important development in 2013.

At regional level, the early implementation of the provisions of the European network code on capacity allocation mechanisms and in particular the implementation of auctions for bundled capacity products has been made possible as of April 2013 thanks to the creation of the common capacity booking platform PRISMA, of which the two French TSOs are now shareholders. In addition, the strong cooperation established between the TSOs and regulators has helped to ensure the conformity of the congestion management procedures applied to each of the seven cross-border interconnection points of the GRTgaz and TIGF networks with the applicable provisions of European legislation as of 1 October 2013.

b. Promoting competition

The *PEG¹ Nord* day-ahead prices rose by 8% over 2013 and reached an average of €27.61/MWh compared with €25.47/MWh in 2012. With the exception of the period from February to April 2013, the French prices have remained relatively stable at between €25/MWh and €30/MWh. The price peaks that occurred in France and in Europe between February and April 2013 have reflected the situations of tension in the supply of the European system, which was simultaneously affected by a period of prolonged cold, very low storage levels and a liquefied natural gas supply deficit.

One highlight of the year 2013 was the increase in the day-ahead spread between the *PEG Nord* and the *PEG Sud*, when the price was on average €2.83/MWh (compared with just €1.70/MWh in 2012) above the *PEG Nord* price, while experiencing considerable daily changes. This situation is explained in particular by the congestion of the network between the northern and the southern zones of GRTgaz, the fall in emissions from the LNG terminals of Fos-sur-Mer and strong exports to Spain. However, the exceptional tension of prices at the *PEG Sud* observed from November 2013, with a spread which stayed at record levels for several weeks (a peak of €15.72/MWh was reached on 17 December 2013), led the CRE to remind market players of their obligations, under the European regulation on energy market integrity and transparency concerning the publication of inside information.

Between 2012 and 2013, the volumes traded on the French market rose by 31% on the futures market and 27% on the spot market. Although most of the trading took place on the *PEG Nord*, the share of trade in the *PEG Sud* further increased. The *PEG Nord* remains the least concentrated and the most liquid marketplace in France, a situation which can be explained by its

¹ Within the French gas transmission networks, exchanges on the gas spot market take place on virtual point, the PEGs (points d'échange de gaz). There is one PEG in each of the three balancing zones: in the north "PEG Nord" and in the south "PEG Sud" located on the network of GRTgaz and in the south-west "PEG Sud-Ouest" located on the network of TIGF.

relatively large size and the number of interconnection and supply points in the area. The *PEG Sud* remains relatively concentrated, in particular because of the limited number of stakeholders, despite the development of liquidity on the spot segment. Finally, the *PEG TIGF* shows very high concentration levels, which is explained by its very limited liquidity, the weakness of the volumes traded and the absence of interconnection of the TIGF zone with a sufficiently liquid market.

On the retail side, market opening progressed significantly, with 1,441,000 residential customers out of a total of 10.6 million being supplied by an alternative supplier on 31 December 2013. 2,488,000 residential sites had market offers (58% with an alternative supplier), which represents an increase of 783,000 sites over the year 2013 (+46%). Regulated tariffs still dominate on this market segment (77% of sites and 77% of consumption). The opening-up to competition of the non-residential market has however experienced more moderate progress in 2013. On 31 December 2013, 172,000 non-residential customers out of a total of 673,000 were with an alternative supplier. The 339,000 non-residential sites with a market offer represented more than 50% of the number of sites and 81% of the total consumption of this segment.

All segments combined, on 31 December 2013, the market offers accounted for 66% of total consumption and the market share of alternative suppliers was 38.6%.

c. Security of supply

In 2013, natural gas accounted for 15% of French primary energy consumption (20.5 % of the final energy consumption). Net consumption (excluding losses) reached 501.7 TWh, which represents an increase of 1.4% compared to 2012. Withdrawals from gas storage which increased by 13.1% compared to 2012 continued to play an essential role in covering demand variations, particularly during the first quarter of 2013.

The volumes of gas injected into the French network through pipelines reached 469.1 TWh, an increase of 3.7% compared to 2012. These helped to offset the decline in gas entry through LNG terminals (86.2 TWh), a decrease of 19.6% compared to 2012. The replacement of the import of LNG with land imports, also significant in Spain, resulted in a 20% increase in export flows from France to Spain (42.2 TWh compared with 35.2 TWh in 2012). Interconnections in the northern zone of GRTgaz were also heavily used, including that of Obergailbach/Medelsheim (+23.2%), which contributed to the important congestion observed in 2013 between the northern and southern areas of GRTgaz's network.

Ahead of the winter 2013-2014, the decline in subscriptions of natural gas storage capacities by suppliers led GRTgaz to alert stakeholders and public authorities of the risk of a "reduced availability" of gas during this period. Although no cold wave was recorded in France and the security of supply was ensured during the winter 2013-2014, this experience has enabled GRTgaz to test the robustness of its preventive action plan. The national gas emergency plan, defined by an order dated 28 November 2013, and the modification of the access conditions to storage facilities by the decree dated 12 March 2014 complemented the French scheme for responding to peak demand.

In the medium term, several infrastructure projects will be commissioned. In addition to the LNG terminal project in Dunkirk, which provides for the commissioning of a capacity of 13 Gm³/year at the end of 2015, Shell and Vopak are considering another project, "Fos Faster" located in the southern part of France, with an envisaged capacity of 8 to 16 Gm³/year. Moreover, the renovation of the Fos Tonkin terminal will extend its lifetime until 2020, but with capacity reduced to 3 Gm³/year from 2015. Elengy is also looking into the possibility of increasing the capacity of the regasification terminal in Montoir from 10 Gm³/year to 12.5 Gm³/year, or even 16.5 Gm³/year. Concerning the development of the cross-border transmission capacities, the major projects approved by the CRE will allow the creation, in 2015, of new firm capacities to deliver natural gas to Belgium and from Spain. GRTgaz will also continue to review the project to double the *Artère*

du Rhone pipeline (Eridan) so as not to delay the development of the south-north corridor, and in particular of the *Midi-Catalogne* project, in case of an increase in entry capacity in the southern zone. The other projects being considered relate to the possible implementation of reverse flows between France and Italy and the creation of firm exit capacities to Germany with the aim of reinforcing the south-north corridor in Western Europe. Finally, in line with the European gas target model, the CRE is continuing its work with a view to merging the existing three French marketplaces by 2018. The investment pattern chosen by the CRE in its decision of 7 May 2014 is based on the *Val of Saône* project (doubling of the *Artère de Bourgogne* pipeline), which was identified as a project of common interest and the implementation of the *Gascogne-Midi* project.

4. Consumer protection

a. Consumer protection

All consumers benefit from the protection measures laid down by the directives 2009/72/EC and 2009/73/EC and transposed in the French civil and consumption codes.

The one-stop service energie-info.fr, jointly managed by the CRE and the national energy ombudsman, responds to consumer requests concerning their rights, the legislation in force and the tools available to them for settling disputes. Furthermore, it offers a price comparison tool for electricity and natural gas offers and may provide cost-free assistance in the case of a dispute with an energy supplier and/or a distributor. In 2013, the telephone service assisted 356,000 consumers, while the website had 934,000 visits. In total, 1.3 million consumers have therefore been helped by the Energie-Info service, an increase of 35% compared to 2012.

Approximately 1.7 million households benefited from the social tariff for electricity (TPN) as of December 2013. In gas, approximately 680,000 households received a special tariff for gas (TSS).

b. Dispute settlement

Several decisions taken in 2013 by the Standing Committee for disputes and sanctions of the CRE (CoRDIS) helped clarify the scope of its powers and the procedure applicable to file a case. The CoRDIS has also continued to apply the provisions of the so-called "moratorium decree" for settling disputes over the connection of photovoltaic installations to the public grid. Finally, the interpretation of the concept of a "standard connection solution" has been maintained by the committee in several of the decisions it made in 2013.