
Commission de Régulation de l'Énergie (CRE – France)

2009 National Report and Indicators

English Summary

July 2010

Major Developments in 2009

The year 2009 was marked by the implementation of new network tariffs in France. The 3rd tariff for the use of public electricity transmission and distribution networks (TURPE 3) entered into force on 1 August 2009 for a 4-year period. This evolution represents an increase of 2% for transmission networks, while distribution network tariffs were raised by 3%. In the gas sector, a whole new regulatory framework has been enforced for transmission and distribution operators since 1 January 2009.

While the electricity and gas markets remain dominated by offers with regulated retail tariffs, significant progress has been made in terms of market shares for new entrants, providing customers with a more competitive market in 2009.

1. Main developments in the gas and electricity markets

1.1. Wholesale markets

Gas

International gas markets have shown significant evolutions since 2008, notably through wide variations of market prices due to:

- A strong decrease in gas demand, as a consequence of the economic downturn
- A violent shift in the trend of oil prices in the autumn of 2008
- The emergence of excessive gas supply, notably due to the development of LNG capacities as well as of unconventional gas sources in the USA.

In this context, since the end of the year 2008, wholesale market prices in France as in neighbouring countries have decreased significantly and, in the average, have evolved below the level of long-term contracts. The persisting de-correlation of oil and gas prices has had a positive impact on the development of wholesale markets, where many buyers have minimised their use of long term contracts in order to benefit from the price differential with spot markets.

Wholesale gas prices in France had followed an upward trend during the major part of 2008, due to their indexation on oil products with a time-lag of several months. The low price levels observed in 2009 reflect the general context of weak demand compared to the quantity of gas available on international markets. Current market prices levels in France are clearly below those of long term contracts indexed on oil.

This evolution of gas prices in France is similar to the situation in Europe, though occasional de-correlations have been observed among European markets. As an example, significant price spreads between the North entry point (PEG Nord) and Zeebrugge occurred in November 2008. CRE has carried out investigations in order to identify the specificities of the French market that

could have contributed to this situation. The main conclusions underline the fact that no market manipulation was detected and that higher prices on the North entry point were due to trade-offs between short-term and long-term supply by market actors as well as to maintenance on the GRTgaz network inducing an occasional reduction of the daily available capacity.

Furthermore, the merger on 1 January 2009 of three balancing zones (East, North and West), and the maintenance of firm entry capacity in the future large north area, led to a significant improvement in market functioning. This enhances in particular competition between suppliers and increases liquidity to encourage new entrants to the French gas market.

Electricity

In its second report on the functioning of the French wholesale markets for electricity and natural gas published in December 2009, CRE analysed the elaboration and relevance of day-ahead prices (EpeX Spot Auction). The main conclusion is that the evolution of day-ahead prices was generally coherent with the supply-demand balance and with the variations of fuels' prices.

A price peak of 3000€/MWh occurred in October 2009, corresponding to the technical limit of EPEX Spot Auction. In the conclusions of its investigations published in November 2009, CRE considers that the severe tension on generation fundamentals as well as on supply-demand forecasts on the day before the 19 October are the actual cause of the price peak observed on the next day.

CRE also published the conclusions of audits that were carried out regarding the method implemented by EDF to appreciate its nuclear and hydraulic generation units. Announced in a deliberation dated 9 January 2009, these audits were launched in May 2009 and completed in December 2009, with the support of external consultants. Their conclusions do not call into question the principles implemented by EDF, which minimise the production costs.

1.2. European market integration and regional initiatives

Gas

Within the North West and the South Gas Regional Initiatives, two open seasons were organised on the French borders in 2009. The open season launched on the French-Belgian border to develop transmission capacities at Taisnières H resulted in the allocation of firm entry capacity for 14 shippers amounting 339 GWh/d for 10 years. This level of demand will result in the creation of 50 GWh/d of firm entry capacity at Taisnières H available in 2013.

Concerning the gas interconnection capacity between Spain and France and after three years of common work between the Spanish and French regulators and TSOs, the open season 2013 triggered the development of the interconnection point of Larrau, amounting 165 GWh/d in both directions in 2013.

Electricity

In 2009, CRE approved new sets of auction rules on French interconnections. The introduction of new mechanisms, such as the "Use-It-Or-Sell-It", has improved congestion management at the French borders. Moreover, the implementation of common and harmonised rules in the Central West region will facilitate trades in the region.

In March 2009, CRE approved the launch of a pioneer project to develop balancing exchanges between France and the UK. Gains in terms of increased competition, economic efficiency and

better system security are already observed, for the benefit of balancing responsible parties and consumers.

At the 17th Florence Forum in 2009, the Project Coordination Group, in which CRE was strongly involved, presented a European target model for the electricity market and a tentative roadmap for its implementation.

1.3. Retail markets

Gas

In 2009, the opening-up of the household market to competition experienced a severe slowdown. As of 31 December 2009, alternative suppliers had a global portfolio of 637 000 customers on a total of 10.8 million consumption sites (5.9%). The rest of the market is shared by incumbents.

The opening-up of the non-household market came to a standstill in 2009. A total of 113 000 customers have opted in favour of alternative suppliers as of 31 December 2009 (19.8%). The rest of the market (570 000 sites) is shared by incumbents.

Electricity

In 2009, the opening-up of the market showed a strong progression. As of 31 December 2009, alternative suppliers had a global portfolio of 1 385 000 household customers, on a total of 29.9 million consumption sites (4.6%). The rest of the market is shared by incumbents.

The opening-up of the non-household market came to a standstill in 2009. A total of 367 000 customers have opted in favour of alternative suppliers as of 31 December 2009 (7.6%), the rest of the market being shared by incumbents (4.85 million).

2. Major issues dealt with by the regulator

2.1. Public service obligations and Consumer Protection

The « Energie-Info » platform is composed of an information website for household as well as professional customers (www.energie-info.fr) and of an information centre to be reached by telephone (0810 112 212) or by any written procedure (e-mail, fax or mail). It is a free service accessible to any French consumer launched on 1 July 2007 and addressing questions or complaints regarding electricity and gas supply. Since November 2009, a free tariff calculator endorsed by CRE and by the national energy ombudsman (Médiateur national de l'énergie) has been added to the website. It allows customers to compare suppliers' offers for electricity and natural gas.

“Energie-Info” is a one-stop service provider for electricity and gas offering consumers all the necessary information regarding their rights, the legal and regulatory framework as well as the available dispute settlement procedures.

In 2009, the “Energie-Info” platform provided an answer to 440 000 consumers, two-third of which being interested in obtaining the contact details of energy suppliers. The internet website was consulted by 491 000 visitors.

2.2. Infrastructure

In the electricity sector

The new tariffs for the use of public transmission and distribution networks (TURPE 3) present several major evolutions compared to the previous regulatory period. Firstly, they have been set up for a 4-year period and will evolve annually according to a formula taking into account inflation, plus a 0.4% premium for the transmission network and a 1.3% premium for the distribution network. In addition, a specific adjustment factor linked to the regulatory account mechanism (CRCP) is implemented in the limits of 2% in absolute value. The whole system provides operators with a significant visibility on tariffs.

Secondly, the perimeter of the CRCP has been extended, notably to protect operators against an incorrect withdrawal forecast. Operators are therefore ensured to remain in the perimeter of their allowed revenue, independently from variations in demand.

Finally, TURPE 3 includes incentive mechanisms aimed at controlling manageable operation costs, at improving quality of supply and service, as well as at minimising the cost of purchasing losses on the networks.

Considering the challenge represented by the integration process of European markets while maintaining the current level of security of electricity supply, and in order to address the high number of connection requests to the network, the transmission system operator will have to face huge investment needs in infrastructure in the coming decade. Therefore, the annual investment level should amount to an average of 1 192 M€ during the 2009-2012 period, representing a 60% increase compared to the 2006-2008 period.

As an example, several projects are currently under development in order to ensure increased exchange capacities with Spain, Italy and the UK. Besides, reinforcement works on the French-Belgium interconnection were completed at the end of 2009.

In the gas sector

The tariffs for the use of public transmission networks of natural gas of GRTgaz and TIGF proposed by CRE on 10 July 2010 entered into force on 1 January 2009, in application of the ministerial order of 6 October 2008. They will apply until 31 March 2013 for GRTgaz and until 31 March 2011 for TIGF. They were designed according to the global structure of the 3 balancing zones (GRTgaz North, GRTgaz South and TIGF) under the “entry-exit” model on the main network. The new tarification framework allowed the merger of the three zones West, North and East into one single North zone, composed of two physical balancing zones corresponding to H gas and B gas respectively.

The principles of assets remuneration and of investment incentives are established on a four-year basis for the two TSOs. The remuneration rate of the RAB is set at 7.25% (before taxes). Regarding the investment incentives mechanism, an additional bonus of 300 base points is granted for a 10 year period to investments aiming at developing additional transmission capacities on the main network, or at reducing the number of balancing zones.

The increase of the investment level of GRTgaz and TIGF in 2009 compared to previous years corresponds to a long term trend, as illustrated by the 10-year investment plans of natural gas operators. These plans foresee €6.4 billion of investments for GRTgaz and €1.1 billion for TIGF. The investment plans for 2009-2018 of GRTgaz and TIGF consist mainly of a strong increase in the number of big-size projects, and greater uncertainty regarding the effective realisation of investments in general, as many investments depend on the results of open seasons procedures or on third parties' investment decisions (LNG terminals).

The GRTgaz plan rises compared to the previous year (+€1 billion) is mainly due to an increased investment effort towards the safety and network fluidity. As for the TIGF program, it shows a significant decrease (-€0.7 billion). This evolution is notably due to the completion of Phase 1 of the “Guyenne arterial pipe” (South-West) and to the cancellation of the connection to the now abandoned gas terminal project in le Verdon.

The new regulatory framework for distribution system operators has been implemented according to a two-step approach. On the one hand, GrDF (ensuring more than 96% of gas distribution of the French market) has been applying new tariffs for the use of distribution networks since 1 July 2008. On the other hand, since 1 July 2009, local distribution companies (ELD) have been implementing new tariffs as well.

These new tariffs set up a regulatory framework that encourages operators to improve their efficiency, as regards costs management as well as quality of service. They include notably:

- A pluriannual tariff established on a 4-year basis, from 1 July 2008 until 30 June 2012 for GrDF and from 1 July 2009 until 30 June 2013 for local distribution companies, including an annual adjustment of the tariff scale on 1 July according to a pre-established mechanism;
- A regulation account for costs and incomes (CRCP), allowing adjustments resulting from gaps between real and foreseen costs and incomes used to calculate the tariffs;
- An incentive to cost management: the evolutions of the tariff scale on 1 July of each year take into account inflation, productivity gains (-1.3% per year for GrDF). The productivity target on the tariff scale of each DSO corresponds to a productivity objective in terms of manageable operation costs;
- An incentive to improve quality of service.

2.3. Security of supply

The first development vector of generation capacity is the development of renewable energy sources, in particular with the establishment of almost 1 GW of wind electricity. Combined heat and power gas units, as well as nuclear power plants are currently under construction or planned.

Electricity

The current and planned investments in new generation capacity are likely to be insufficient to guarantee effective security of supply in France from 2013, under the hypothesis that no cross-border exchanges are realised.

Nonetheless, demand-side management policies contribute to diminish peak consumption and increase security of supply. Furthermore, resorting to imports – of around 2 GW in 2013 and 2014 – should be sufficient to guarantee an adequate level of security of supply.

Gas

In the gas sector, the entry into service of the Fos Cavaou LNG terminal and the realisation of the investments projects to increase the gas interconnection capacity between France and Spain (open seasons 2013 and 2015) will significantly contribute to improve the security of supply in France.

Furthermore, CRE has issued a favourable opinion for the exemption request of Dunkerque LNG terminal, with an annual capacity between 10 and 13 Bcm per year. The final investment decision will be taken in 2010. The terminal is expected to significantly contribute to security and diversification of supplies by increasing the capacity to import LNG.

2.4. Regulation / unbundling

System operators have pursued their efforts to implement compliance programs in their companies. In this respect, a certain level of maturity has been reached.

In view of current criteria, TSOs are operationally independent.

In 2009, DSOs, who became subsidiaries more recently, consolidated their operating procedures and their position as energy market players in their own right was recognised.

DSOs and their roles remain relatively unknown to the general public. This situation exacerbates an ambiguity that is not conducive to market opening to competition. Efforts to raise profiles must be pursued and put into widespread use. Similarly, parent companies should not seek publicity from the assignments entrusted to system operators.