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

2008 National Report and Indicators

English Summary

July 2009

Major Developments in 2008

The year 2008 was marked by an intense activity regarding tariffs, focussed along two lines. Firstly, considerations involved almost all networks, which now have new tariffs, or soon will.. Secondly, these new tariffs will benefit from an important innovation: the introduction of incentives to encourage system operators to provide customers with more efficient services at a better price.

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 2008.

1. Main competences of the regulatory authority

Power to propose tariffs:

- for the use of electricity and gas transmission and distribution networks and access to LNG facilities;
- for the complementary services provided by electricity system operators.

Power to propose cost levels:

- for electricity public service charges;
- related to the transitional regulated tariff (TaRTAM) applicable only in the electricity sector;
- related to costs assignable to the social tariff for electricity and the special solidarity tariff for gas.

Power to approve:

- investment plans defined by electricity and gas transmission system operators;
- rules concerning to account unbundling in the electricity and gas sectors:
 - o between supply, transmission and distribution activities
 - o between supply to customers who have exercised their eligibility and those who have not
- rules for presenting ex-ante supply and demand programmes, as well as the balancing proposals submitted to the electricity transmission grid operator;
- rules of electricity cross-border capacity allocation;
- billing tariff scales for connecting users to the public electricity distribution grids;
- templates of contracts on access to the electricity transmission network (since 18th December 2008);
- connection procedures to the electricity transmission network (since 18th December 2008)

CRE:

- **deals with ancillary regulatory power** in electricity and gas sectors regarding conditions for connecting users to networks and conditions for using networks;
- **monitors wholesale markets** as well as system operator's independence ;

- carries out inquiries on operators as necessary to accomplish its duties;
- **organises calls for tenders** decided by the French Ministry for Energy to develop new electricity generating facilities ;
- provides its opinion on companies submitting bids and on regulated tariffs for electricity and gas.

2. Main developments in the gas and electricity markets

2.1. Wholesale markets

The main challenge alternative suppliers face remains that of access to resources under competitive conditions. The market is still characterised by a high degree of concentration. The French wholesale electricity and gas markets are displaying an increasing level of liquidity and a raise in transactions volume on the gas and the electricity markets in 2008 in comparison to their level in 2007. However, additional improvements on transparency still need to be undertaken. These structural characteristics of the French market explain why legislators have entrusted CRE with the responsibility for monitoring wholesale markets. A first market monitoring report, was published in December 2008.

The French market being closely correlated to the German and Belgian market, Regional Initiatives launched by ERGEG are a key driver to improving market integration at the European level. CRE is actively involved in 4 out of 7 them in electricity and in 2 out of 3 in the gas sector. CRE co-chairs the Regional Initiatives working group responsible for monitoring progress on the different regional electricity initiatives, ensuring the coherence and convergence of the different regions and defining a common vision for the future European energy market.

2.2. Retail markets

While the market for professionals remained quite stable in 2008 for electricity and a bit more dynamic for gas, the household customer market displayed a significant trend towards greater competition. The main reason for this evolution lies in the Law of 21 January 2008, which allows specific consumers, depending on their situation, to contract regulated tariffs for recently connected sites (before 1 July 2010), and, for electricity household customers who have chosen a market price, to return to regulated retail tariffs until 30 June 2010.

Market opening statistics for residential customers

On the household retail market, the market share of alternative suppliers considerably increased in 2008:

- for electricity, out of a total of 29.7 million sites, 692,000 were customers of an alternative supplier as of 31 December 2008, compared to 31,000 on 31 December 2007;
- for gas, out of a total of 10.8 million sites, 416,000 were customers of an alternative supplier as of 31 December 2008, compared to 54,000 on 31 December 2007.

Market opening statistics for non residential customers

On the non-household customer market, demand for market-based contracts has stabilised as regards electricity, due essentially to the deterring effect of the transitional regulated tariff (TaRTAM), but has continued to increase as regards gas:

- for electricity, alternative suppliers held a portfolio of 354,000 customers as of 31 December 2008, compared to 333,000 on 31 December 2007, which corresponds to 3% of the market in terms of both the number of sites and annual consumption; sites under a TaRTAM contract represented 19% of total annual consumption
- for gas, alternative suppliers held a portfolio of 96,000 customers at the end of 2008, compared to 72,000 at the beginning of 2007, corresponding to 4% of the market in terms of the number of sites (512,000) and 14% in annual consumption (72 TWh).

2.3. Infrastructure

Access to network tariffs

The year 2008 was marked by the preparation of new tariffs for access to both electricity and gas transmission and distribution systems and by the move towards a multiannual incentive-based tariff scheme. As a result, new methods were proposed to ensure return on investment in networks and grids.

Tariff proposals are based on forecast expenditure assumptions for the period up till 2012. Differences may therefore appear between forecast and actual figures. For several cost items, including capital costs, these expenditures are eligible for the expense and revenue clawback account, a system for correcting errors. This implies that future tariffs will cover expenditures actually made related to these cost items, and not the assumptions in the initial pricing programme (pass-through principle applied to investment).

Incentives to invest

The tariff regulation framework adopted by CRE is designed to avoid insufficient investment in grid and network infrastructures and ensures that users will only pay for investments actually made by operators. In the context of the current economic downturn, this framework also provides operators with a return on employed capital which is appropriate for a limited-risk profile. These features are intended to enhance the reliability of forecasted financial flows. Nonetheless, certain safeguards are necessary: the regulator should now be in a position to ensure that decisions taken by shareholders do not jeopardise the operators' financial strength nor their ability to carry out investment plans.

3. Major issues dealt with by the regulator

3.1. Monitoring of market opening

By the end of 2007, CRE has carried out a first investigation on the occurrence of spike prices observed on the Powernext exchange in October and November 2007. The results of those investigations were published in April 2008, and stated in the 2008 Annual Report addressed to the European Commission.

Following this investigation on a specific occurrence, CRE published its first report on Wholesale Market Surveillance in 2008. The conclusions drawn from the report has lead CRE to undertake a number of complementary analysis and audit in the gas and electricity sector.

In the electricity sector, CRE for instance is auditing the methodology applied by EDF to manage its production plants, specially those valued on an opportunity costs, such as the nuclear or hydro units.

In the Gas sector, CRE is examining suppliers' procurement conditions in the South part of France (PEG Sud)

3.2. Infrastructure (Article 22 of Directive 2003/55/EC, tariff methodology)

In the electricity sector

In June 2008, CRE published its second annual report on the management and use of electricity interconnections. It assessed interconnection management in 2007 from the viewpoint of economic efficiency in cross-border exchanges over each timescale (long-term, daily, intraday and balancing). CRE also identified target models for interconnection management in the different timeframes. During a public consultation on this report, stakeholders insisted on the need to harmonise rules for allocating capacity and requested that priority should be given to drawing up a European roadmap to coordinate market coupling projects.

The year 2008 was marked by a considerable harmonisation effort and significant improvements to the rules for allocating capacity at French borders. For instance, the automatic resale mechanism of long-term capacity for the day-ahead market will be extended to all French interconnections. The automatic resale mechanism avoids significant transaction costs associated with the on-demand resale mechanism previously in effect for both market players and TSOs.

EREG's second compliance report stressed the necessity of setting up incentives to encourage system operators to maximise interconnection capacity. The introduction of ad hoc incentives to maximise the level of interconnection capacity and accelerate the introduction of target mechanisms is therefore currently studied by ERREG. Work is being carried out by a sub-group of ENM Task Force, which is co-chaired by CRE.

In the gas sector

CRE asked GRTgaz and TIGF to set up a formal discussion group on the rules governing gas transmission to consider issues such as the overall structure of gas transmission, the rules applicable to gas power plants or the balancing system. This consultation group involves all market players (CRE deliberation of 18 September 2008). CRE is taking part in this consultation to ensure that the process runs smoothly. The plenary committee met for the first time on 7 November 2008, where all represented interests from the industry expressed their positions. At the request of customers and new suppliers, the first issue considered in November 2008 was improving supplier access conditions in southern France. The working group submitted its first conclusions to CRE in April 2009.

Regarding LNG terminals, the open season on the LNG terminal of Montoir-de-Bretagne ended in December 2008. Consequently, Gaz de France (GDF-Suez since July 2008) decided to maintain the terminal's capacity at 10 Bcm/year beyond 2021 and allocated the capacity for the 2011-2019 period. This decision was notified to CRE by the operator on 29 December 2008.

Moreover, a terminal with a technical capacity of 8.25 bcm per year, managed by the *Société du terminal méthanier de Fos Cavaou* (STMFC), a joint subsidiary of GDF-Suez (69.7%) and Total (30.3%), is currently under construction. Commissioning, initially planned for 1 April 2008, has been pushed back because of construction delays. CRE proposed a tariff for use of this terminal to the government in the second quarter of 2009.

Four new LNG terminal projects in France have been announced. They are located at Antifer (Gaz de Normandie, together with CIM, E.ON Ruhrgas, Poweo and Verbund), Dunkirk (EDF), Fos (Shell) and Verdon (4Gas). The public debate procedure has already been completed for the Antifer, Dunkirk and Verdon projects and the three investors announced in 2008 their intention to carry on with the projects and apply for the operating licence. Given the context surrounding the new terminal projects, on 2 July 2008 CRE published its position on exemption issues relative to the application of Article 22 of Directive 2003/55/EC.

CRE considers that exemptions granted on a case-by-case basis may favour investment in LNG terminals.

3.3. Energy efficiency and RES

The European directive on Renewable Energy Sources (RES) sets an ambitious target for France, with an objective of 23% of electrical power to be generated from RES by 2020. These provisions have already been partially integrated into a new French law (the “Grenelle 1” bill) in 2009.

This will require substantial development of all the related sectors. CRE’s role is to ensure that the development of renewable energy sources is carried out under reasonable economic conditions. Given that situation and upon request of the government, CRE notably carries out calls for tenders for new generation capacities from biomass. CRE also delivers opinions on the level of feed-in tariffs applied to the power generated from renewable sources.

3.4. Consumer protection

Two annual surveys were conducted to measure customer’s perception of market opening to competition. At the end of 2008, while 85% of professionals were aware of their right to change electricity suppliers, only 39% of household customers were aware of this possibility.

In order to better inform consumers, the www.energie-info.fr website set up on 1 July 2007 has been improved. The *énergie-info* customer service desk provided help to 241,000 customers in the second half of 2008:

- 65% of these customers consulted the list of electricity and natural gas suppliers on the interactive voice server (available 24 hours a day)
- 35% of the customers asked for a personalised response to their questions to an *énergie-info* counsellor and were replied by phone, mail or e-mail at their own discretion.

Since September 2008, the section dedicated to household customers has been updated with information on energy-saving tips, in partnership with the French Environment and Energy Management Agency (ADEME).