

Main developments in the gas and electricity markets in France in 2012

Commission de Régulation de l'Énergie (CRE)

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1. Major Developments for the regulator in 2012

The year 2012 was marked by the implementation of the 2010 act introducing a New Organisation of the Electricity Market and of the 2011 transposition act of the 3rd energy legislative package. Both significantly increased CRE's duties and powers, notably in the fields of network tariffs, investment, certification of TSOs and regulated access to nuclear power generation of the incumbent.

In 2012, the Board of CRE adopted 222 deliberations (+8% compared to 2011), realised 256 hearings (+208% compared to 2011) and undertook 23 public consultations (+156% compared to 2011). In addition, the Standing Committee for Dispute Settlement and Sanctions (CoRDIS) of CRE dealt with 32 referrals and took 115 decisions.

At the same time, the resources of the French national regulatory authority (NRA) declined: on the one hand, CRE's staff limit, which was still set at 131 full-time equivalents in 2012, will slightly decrease from 2013. On the other hand, the reduction of its operating budget has significantly affected its financial resources available for external studies and audits. CRE is concerned that cuts in its resources could affect the quality of the way the French energy regulator discharges its duties.

2. Main developments in the electricity market

2.1. Network regulation

One of the major developments concerning **unbundling** in 2012 was the certification of the French Transmission System Operator (TSO), RTE, as an Independent Transmission System Operator (ITO). As a follow-up on this certification decision, CRE approved 11 commercial and financial agreements between RTE and EDF during 2012. In addition, CRE considers that the functional and decisional unbundling of the 5 Distribution System Operators (DSOs) serving more than 100,000 customers in France has improved. However, their independence still needs to be consolidated. As a consequence, the NRA has asked all concerned DSOs to submit an action plan to further improve their independence and remove any remaining factor of confusion with the VIU.

Another important development in 2012 was the decision of the State Council to cancel the 3rd **tariff** for the use of the public electricity transmission grids (TURPE 3), which came into force on August 1st, 2009 for a four-year period. The State Council considered that the methodology used by CRE to determine the returns on capital of the biggest DSO in France, ErDF, was not relevant due to the treatment it applied to the specific accounting characteristics of electricity distribution concessions. A new version of TURPE 3 is effective since June 1st, 2013. It will retroactively apply

to 2009-2013. While this revision has no impact on the level of distribution tariffs, financial incentives aimed at encouraging ErDF to minimise the costs for covering its losses as well as control its operational expenditures will not apply.

In parallel to its contribution to the joint work of European energy regulators towards the achievement of a fully integrated electricity market by 2014, CRE actively promoted the **implementation of the European target models** relating to capacity calculation and the functioning of forward, day-ahead and intraday markets at French borders. During 2012, CRE issued a decision stating its support to maintaining an explicit continuous access to intraday capacity during the transition to the target model. In addition, CRE approved the implementation of a transitory intraday capacity allocation mechanism at the border with Italy and asked for quick improvements of the implemented mechanism enabling the convergence towards the target model. CRE also approved the evolution of the intraday interconnection capacity allocation rules for the French-German and French-Swiss borders in order to reinforce their efficiency.

In 2012, CRE also amended its decision concerning the conditions of connection and access to the public transmission grid of **new interconnectors**. This decision notably covered the technical requirements for connecting a new interconnector, the procedure for handling connection requests for new interconnectors as well as the conditions for connection and access to the public transmission system for new interconnectors, including tariff mechanisms.

Finally, CRE assessed the **first ten-year investment plan** of the French TSO and considered that it was consistent with the Community-wide ten-year network development plan as published by ENTSO-E. Nevertheless, CRE recommended that several improvements should be included in the future versions of the plan, including explanations of the project selection process and the range of hypotheses considered with regard to generation.

2.2. Promoting competition

CRE analysis of the **wholesale power market** shows that the average spot price slightly decreased in 2012 compared to 2011. Trading volumes decreased both on organized markets and over-the-counter, with the exception of the – still limited – intraday exchanges on organized markets. The most notable decrease concerned forward transactions.

CRE analysed separately the **electricity price spikes** that occurred in the first semester of 2012, during which peak prices reached 62.4€/MWh on average, representing an increase of 4% compared to the same period in 2011. Pursuant to its investigations, CRE concluded that the French energy wholesale market had correctly reflected market fundamentals during the cold spell. It furthermore identified that some operational aspects of the second fixing procedure triggered by the French power exchange in this context should be further examined.

Finally, the analysis of the **concentration of the French power market** showed that the French electricity generation sector remained highly concentrated in 2012. As far as cross-border exchanges are concerned, the highest concentration levels were observed at the borders with Germany (imports and exports), Belgium (imports and exports) and Switzerland (exports). Alternative suppliers' needs were largely covered by the nuclear power generation of the incumbent sold at regulated prices (ARENH, 46%) and the Virtual Power Plants sold by the incumbent (21%).

On the **retail market**, the opening-up of the household market continued with 307,000 additional sites in 2012 (+17% compared to 2011) having contracts at market price. In contrast, the opening-up of the non-household market segment declined further in 2012 (-5% of non-household

customers with contracts at market prices compared to 2011). As of December 31st 2012, 2,145,000 residential sites out of 30.6 million sites and 657,000 non-residential sites out of 4.9 million were supplied at market prices (31% of electricity consumption). Nevertheless, the French power retail market remained a highly concentrated one: the market share of alternative suppliers in terms of number of sites reached on average 8% of the market.

In its opinion on the **evolution of end-users regulated tariffs in 2012**, CRE recalled that they should a minima cover the incumbents' accounting costs and demonstrated that the 2% increase applied in 2012 did, on average, not allow to ensure the contestability of end-users regulated tariffs.

2.3. Security of supply

Power consumption in France amounted to 489.5 TWh in 2012, representing an increase of 2.1% compared to 2011, mainly because of the colder weather conditions observed during the year. Still, industrial power consumption decreased significantly during 2012 (-4% compared to 2011). Power generation slightly decreased (-0.3% compared to 2011), reaching 541.4 TWh.

During 2012, the French market was a net exporter to Belgium (12.0 TWh), the United-Kingdom (6.5 TWh), Spain (1.9 TWh), Italy (15.1 TWh) and Switzerland (17.5 TWh) and a net importer from Germany (8.7 TWh).

Estimates on the evolution of **supply/demand balance** indicate that the prolonged impacts of the economic crisis should translate into lower domestic demand in the short term. On the supply side, significant developments expected in the next five years include, the EPR commissioning and the closure of Fessenheim nuclear power plant by 2016; growing uncertainties concerning the operation of combined-cycle gas turbines; a marked decrease of fossil fired generation capacity; growing capacities in the fields of combined heat and power and renewables. Finally, the decrease in the use of critical peak pricing tariffs, which is estimated to reach 10% annually, should continue in the short run. This decline should however be compensated by the development of new demand response capacities sustained by new rules facilitating valuation of those resources on wholesale markets, as well as specific tenders on the balancing market that support the development of additional capacities.

As far as **infrastructure development** is concerned, the major projects scheduled for the next five years include the strengthening of interconnection capacity with Spain, Italy and the United Kingdom. Other projects which are also considered concern the interconnection with Germany, Luxemburg and Switzerland. The average level of investments in transmission infrastructure reached €1.177 million/year over the 2009-2012 period, representing an increase of about 60% compared to 2006-2008.

Several mechanisms have been established in France to help cover **peak demand**. They include tariff options and local (voluntary) programmes encouraging demand reduction as well as capacity developments triggered by the multiannual investment programming and the capacity obligation introduced in France by the NOME act. Furthermore, increased demand-side participation in the balancing market is promoted by CRE in order to help maintain the supply-balance in the short run.

3. Main developments in the gas market

3.1. Network regulation

The certification of the French TSOs, GRTgaz and TIGF according to the ITO model was one of CRE's major decisions in 2012 in the field of **unbundling**. Subsequently, CRE approved all but one commercial and financial agreements submitted by GRTgaz and TIGF in accordance with the commitments they had taken for the purpose of their certification. The functional and decisional unbundling of the 3 DSOs serving more than 100,000 customers in France has also improved, notably in terms of corporate identity, communication and branding. In order to consolidate their independence from the VIU, these DSOs were notably requested to submit an action plan to ensure that they no longer share premises with companies being active on the non-regulated segment of the market.

Several important decisions were taken by CRE in 2012 in the field of **tariffs** for the use of the natural gas infrastructures. In its decision on a new tariff for the use of GrDF gas distribution network (ATRD4) from July 1st, 2012, CRE updated the quality of service monitoring applied over the previous regulatory period. It also introduced a mechanism encouraging GrDF to control the costs of its investment programme. This tariff revision led to an increase of 8.0% at current prices on July 1st, 2012. The new tariff for the use of natural gas transmission networks (ATRT5), which was approved by CRE in December 2012 and is effective since April 1st, 2013, also includes financial incentives aiming at improving further the quality of service provided by the French TSOs and at encouraging them to control the costs of their investment programmes. In addition, TSOs financial incentives to control their operating expenses were strengthened. This revision led to tariff increases of 8.3% for GRTgaz and 8.1% for TIGF on April 1st, 2013. Finally, CRE defined a new tariff for the use of regulated LNG terminals (ATTM4) for the 2013-2016 period.

During 2012, CRE actively promoted the implementation of the European rules concerning **capacity allocation mechanisms** in France. In this respect, an important step was the adoption of revised rules for the allocation of pluriannual transmission capacity according to the CAM network code. In line with CEER's Gas Target Model conclusions, CRE adopted in July 2012 guidelines on the evolution of the number of gas market areas, setting out the objective of a single marketplace in France in 2018 at the latest and, as a first step, the implementation of a common Gas Exchange Point between GRTgaz (South) and TIGF by April 1st, 2015. A cost-benefit study of the investments needed to achieve this single French hub is on-going. CRE supported several adjustments of the market coupling mechanism applied by GRTgaz between the North Gas Exchange Point and the South Gas Exchange Point since 2011 to further ensure its effectiveness. Finally, CRE started to work on the implementation of the European congestion management guidelines with the French TSOs, in coordination with adjacent national regulatory authorities and in consultation with stakeholders. The way to implement European congestion management procedures guidelines has been decided by CRE in 2013.

In terms of **investment**, CRE considered that the ten-year development plans communicated by GRTgaz and TIGF for the period 2012-2021 were consistent with market needs and with the first Community-wide ten-year network development plan published by ENTSOG in February 2011.

3.2. Promoting competition

Day-ahead prices on the **gas wholesale market** increased by 16% between 2011 and 2012. This price increase can be partly attributed to the cold spell in early February 2012, which caused a price spike of the French spot market prices at the Nord Gas Exchange Point. In addition to the spread observed between the French and neighbouring wholesale markets during this period, 2012 was marked by a sharp increase of the spread of spot prices between the North and South Gas Exchange Points. CRE therefore opened an investigation on price formation conditions in this region. Finally, the on-going disconnection between oil-indexed prices of gas and the wholesale gas market prices encouraged gas providers to pursue their efforts to renegotiate the market indexation in their long-term contracts. This trend has motivated CRE's recommendation to increase market indexation of end-user regulated gas tariffs in 2013.

While volumes traded on organized spot markets increased by 48% in 2012, the trading of futures products decreased by 32% compared to 2011. Volumes traded over-the-counter recorded a decline of 13% in spot products and 24% in futures products. Still, the volume of gas deliveries to the Gas Exchange Points accounted for 508TWh in 2012, representing an increase of 16% compared to 2011.

The opening-up to competition of the **retail market** increased in 2012. On December 31st, 2012, 1,197,000 residential customers out of 10.6 million and 154,000 non-residential customers out of 675,000 were supplied by an alternative supplier at market price (thus 169.9TWh representing 33.3% of natural gas consumption). 1,704,000 residential sites and 309,000 non-residential sites had contracted natural gas supply at market prices (thus 316.8TWh representing 62.0% of natural gas consumption), representing an increase of 4% compared to 2011. On overall, the level of concentration of the French gas retail market remains high, although it is significantly lower for professional and industrial customers compared to residential customers.

3.3. Security of supply

Natural gas primary consumption amounted to 493.9TWh in 2012, representing an increase of 3.2% compared to 2011. This increase can be partly attributed to the cold weather conditions observed at the end of the winter 2011-2012. During the cold spell which affected Europe in February 2012, the total consumption in France reached historical records of 3.5 TWh on February 3rd, 2012 and 3.7 TWh on February 8th, 2012.

The most important sources of supply in 2012 were physical deliveries through pipelines, which reached 440 TWh (+7,6% compared to 2011), and storage withdrawals, which reached 120.2 TWh (+41% compared to 2011). 107 TWh were supplied by the three LNG terminals currently in operation in France, representing a decrease of about 32% compared to 2011.

It should also be noted that exports from France to Switzerland decreased by 33% compared to 2011 (reaching a volume of 30.2 TWh). In contrast, exports from France to Spain reached a volume of 35.2 TWh, representing an increase of 39% compared to 2011.

CRE's investigation concerning gas price spikes showed that a number of technical and economic constraints had distorted shippers' behaviours with respect to the use of cross-border interconnections. The fact that no reference price was in place in Spain, the interruption of capacity at the exit from Germany to France and the decision of the Italian authorities to oblige shippers to maximise their imports have undermined the effectiveness of the price signal. CRE considers that the implementation of the European network codes and enhanced cross-border coordination will remove some of these obstacles in the future. CRE is however concerned about the decisions of the German TSOs to decrease the level of firm capacity at the exit point from Germany to France in late 2012. These decisions, which were taken without prior discussion with the French counterparts, may have a negative impact on the functioning of French market.

Important investment projects have been decided by GRTgaz in order to connect to the network, by 2015, a fourth LNG terminal in Dunkirk with a capacity of 13bcm/year, and to develop interconnection capacities with Belgium (from Belgium to France in Taisnières by 2013 and from France to Belgium in Veurne by 2015). They include, amongst others, the building of the "Arc de Dierrey" pipeline. Another important investment project decided over the past years aims at doubling the size of the main Rhône pipeline (ERIDAN) as a first step towards the merger of zones. The increase to 165 GWh/day of interconnection capacities between Spain and France in both directions by 2013 has been carried out in time and with no cost overrun.

4. Consumer protection

1.2 million of electricity customers and 457,000 gas customers benefited from a social tariff in 2012. During the year, the secondary law applicable to the protection of vulnerable energy customers was modified, thereby making the allocation of social tariffs automatic and extending eligibility criteria and the period of benefit. For 2013, the costs of these protection measures are estimated to reach €145.5 million in electricity and €50.3 million in gas.

All customers benefit from the application of the protection measures introduced by the 3rd energy package and transposed in the French legislation. Their queries can be answered through the information website on energy issues (energie-info.fr) jointly managed by CRE and the energy Ombudsman (MNE), which provides information on the opening-up of energy markets and a comparison tool for electricity and gas retail prices. In addition, 371,000 consumers were given information through the [energie-info](http://energie-info.fr) hotline in 2012.