



## CRE consultation on the implementation of regulated access to underground gas storage in France



### EFET response – 23 January 2018

The European Federation of Energy Traders (EFET) thanks CRE for the opportunity to react to its proposals in relation to the reform of the gas storage obligation in France, in particular the design of the future auction mechanism, the regulation of storage operators' revenues, and the compensation of storage costs.

We welcome the statements made by CRE since 2015 in support of the reform of the existing storage obligation, and its engagement in discussions on the design of the auction mechanism. In this consultation response, our statements reflect the position developed in our responses to the November 2015 consultation of DGEC<sup>1</sup> and the July 2016 consultation of CRE consultation<sup>2</sup> on the subject.

EFET thanks CRE once again for its effort to include foreign market participants in the discussion by providing an English version of the public consultation.

<sup>1</sup> EFET response to the DGEC consultation on third-party access to gas storage, dated 20 November 2015, available at:

[http://www.efet.org/Files/Documents/Gas%20Market/Security%20of%20Supply,%20Storage%20and%20LNG/EFET\\_draft-storage-ordonnance\\_20112015.pdf](http://www.efet.org/Files/Documents/Gas%20Market/Security%20of%20Supply,%20Storage%20and%20LNG/EFET_draft-storage-ordonnance_20112015.pdf).

<sup>2</sup> EFET response to the CRE consultation on the future gas storage capacity auction mechanism, dated 8 July 2016, available at:

[http://www.efet.org/Files/Documents/Gas%20Market/Security%20of%20Supply,%20Storage%20and%20LNG/EFET\\_CRE-consultation\\_gas-storage-auctions.pdf](http://www.efet.org/Files/Documents/Gas%20Market/Security%20of%20Supply,%20Storage%20and%20LNG/EFET_CRE-consultation_gas-storage-auctions.pdf).

1. *Are you in favour of the general principles relating to the determination of the authorized income of the storage operators?*

EFET is in favour of the principles to determine the authorised revenue of the storage operators (“SSOs”). In any case, future authorised revenue should never be higher than the revenues accrued by the SSOs before the reform took place. On the contrary, the SSOs should seek to improve the cost efficiency of their business. To pursue this objective, CRE should establish yearly objectives of efficiency gains, corresponding to a declining slope of authorised revenues.

2. *Are you in favour of the introduction of a CRCP in order to regularize a posteriori the differences between the expenses and the actual revenue, and the charges and the forecast products of the operators?*

EFET is in favour of the introduction of a CRCP similar to the ATRT regulation.

3. *Are you in favour of an initial short regulation period of two years?*

Yes, a short regulation period of two years seems warranted to be able to react more quickly on the experience of the first years of operation of the new mechanism, compared to the usual four-year cycles.

4. *Are you in favour, for the first tariff period, of a tariff framework based on a tariff "100% to the CRCP" and an annual clearance of this CRCP within the limit of +/- 5% of the provisional authorized income?*

EFET supports this approach.

5. *Are you in favour of introducing an incentive regulation on marketing? If so, what shape would you like her to take?*

EFET agrees with the need to introduce financial incentives in this regulation framework. Financial incentives have effectively improved the quality of service provided by TSOs and DSOs. We expect similar outcomes for storage operators. On the contrary, the absence of financial incentives usually leads to slower efficiency improvements, if any.

These incentives should be constructed in a way, that the authorised revenue is capped and revised downward depending on the level of unsold storage capacities.

6. *Do you have any remarks concerning the methods of calculation of the BAR and the levels envisaged by CRE?*

EFET supports in principle the method to calculate BAR. Obviously, the value of cushion gas is not uncontroversial. A comparison of the given numbers with storages in other European countries would have been a helpful tool to get provide a more informed position on this subject.

7. *Do you have alternative ways of calculating the BAR to propose?*

We refer to our response to Question 6.

8. *Do you have any remarks concerning the asset compensation rate ranges envisaged by CRE?*

EFET has no specific remarks with regard to the compensation rates, except the one given in our answer to Question 1.

9. *Do you have any remarks concerning the capital cost ranges envisaged by the CRE?*

No remark.

10. *Do you have any comments on the net operating cost ranges envisaged by CRE?*

No remark.

11. *Do you have any remarks concerning the authorized income ranges envisaged by the CRE?*

We refer to our response to Question 1.

12. *Are you in favour of the base envisaged by CRE?*

EFET understands the CRE approach for continuity in the definition of the customers base, because of the tight timeline for a swift implementation of the reform. However, we call policy makers to open an in-depth discussion with all stakeholders on the exact perimeter to be charged of the financial contribution, once the first year of experimentation is completed.

All French gas end-users being protected (excepted the ones supplied with interruptible contracts and the one individually declared as interruptible (“délestable”)), the design of customers base subjected to taxation should ensure that any protected end-user duly contributes for the protection against security of gas supply risks it benefits from.

*13. Which of the methods do you think is most relevant for defining the compensation base?*

The second methodology, based on the difference between the subscribed capacity and the average daily consumption, better reflects the modulation needs of each user, thus fits the purpose and seems more transparent than the first one.

*14. Do you have any additional remarks on the methods envisaged?*

No additional remark.

*15. Are you in favour of GRTgaz's proposal that each of the two TSOs compensate the three storage operators?*

We agree with the analysis of CRE that the GRTgaz proposal seems fairer to the SSOs and will give more visibility to the market.

*16. Are you in favour of the general principles envisaged by CRE for the marketing of storage capacities for the first year?*

EFET agrees with the four general principles summarised by CRE, which represent the consensus that emerge in the stakeholder consultation process, namely:

- The primary goal of gas storage marketing is to maximise storage capacity subscriptions. In a second step only, the objective of maximising income from auctions is sought;
- The auctions will be organised in a transparent manner, in particular as regards the products offered for sale and the reserve prices;
- Storage operators will offer a simple offer, in line with previous offers;
- The bids will be spread over several days, so as to market the capacities in batches of reasonable sizes.

EFET believes that these general principles are valid beyond the first year of operation of the new mechanism.

*17. Are you in favour of an initial marketing phase of 4 or 5 weeks allowing the marketing of 100% of available capacities before March 31, 2018?*

As a target model, EFET generally supports sequential auctions for storage capacity products to ensure that the offered products and timing matches market participants' needs. We favour a long commercialisation period from 1 November until even after 31 March is in part satisfying: before the end of December, a minimum of 25% of the available capacities should be made available by the storage operators.

However, we believe that the auction period could be extended until even after the start of the injection season (end of April at least): indeed, multiple auctions taking place over the whole winter period, with the potential activation of the safety net mechanism taking place even after the beginning of the injection season, would give more chance to the auctions and allow shippers to adapt their bookings to the evolution of their portfolio. The multiple auctions should be cleared on a daily / within day basis to ensure swift convergence of the clearing price in each session and avoid collateral risks related to market price volatility.

For the first year of operation, and given the tight timeline, a marketing phase concentrating 100% of the storage capacity in one go seems to be the only solution. Once a date for the final confirmation of the rules is known, the marketing phase should open as quickly as possible. As mentioned above, the auction period could also be extended after 31 March. This would be particularly helpful for this first year given the rather short marketing period.

Whether in the target model or for the first year, in case the required level of storage capacity is not reached by 31 March, the SSOs should continue to market their products through auctions even if the process to oblige shippers to acquire storage is launched. Further clarification is nonetheless needed with regard to the procedure when the safety net mechanism has been triggered and post-31 March auctions enable the minimum storage level to be reached considering the cumulative bookings made: in this case, the safety net and all relating rights and obligations should be suspended.

In case the required level of storage capacity is reached prior to 31 March, the SSOs should be free to continue marketing their available products.

*18. Which weekly calendar seems preferable to you?*

We support Option B as it would provide more flexibility for SSOs to organise more auctions, on the condition that the organisation of exceptional auctions on Mondays or Fridays by the SSOs is notified sufficiently in advance to market participants.

However, we believe auctions on Mondays and Fridays should not be optional, especially given the short time frame of the 1<sup>st</sup> phase.

*19. Are you in favour of the rule proposed by the CRE concerning the constitution of the lots sold?*

We support the proposal of CRE.

*20. Are you in favour of CRE's proposal concerning the maximum number of products that can be offered by each operator?*

EFET supports the general approach of CRE to let the SSOs develop the characteristic and number of standard products in close cooperation with market participants to better respond to the needs of the latter.

We are not in a position to recommend a specific number of products to be commercialised by the storage operators. We see merits to storage system operators (SSOs) developing various storage products to ensure that storage in their facilities is attractive enough. We would however warn the regulator and the SSOs regarding the number and size of the products auctioned, i.e. not to propose too vast a portfolio of products or too large products, which could reduce the attractiveness of each product for market participants or which could lead to liquidity constraints on the market for hedging operations if oversized. SSOs should strive to strike an appropriate balance in their product offering after consulting with market participants on which types of products seem most attractive to them.

For the first year, capping the number of products offered by each SSO to what was offered last year seems a good starting point.

*21. Are you in favour of transferring an unallocated capacity from one auction to another auction of the same product or the marketable capacity of another product as proposed by TIGF?*

Yes, we support the proposal of TIGF, as market participants may wish to bid for initially unallocated capacity as time passes. This transfer of unallocated products should however only be allowed to auctions for the same product to ensure full visibility to market participants.

This flexibility should help market participants and SSOs to fill the required level of storage capacity to meet the security of supply standard without resorting to the safety net. We believe that this transfer of unallocated capacities to subsequent auctions should be done automatically for all SSOs.

*22. Are you in favour of no product other than standard products being marketed before the end of the initial marketing phase?*

As mentioned in our response to Q17, we believe that the auction period could be extended until even after the start of the injection season (end of April at least); indeed, multiple auctions taking place over the whole winter period, with the potential

activation of the safety net mechanism taking place even after the beginning of the injection season, would give more chance to the auctions and allow shippers to adapt their bookings to the evolution of their portfolio. The multiple auctions should be cleared on a daily / within day basis to ensure swift convergence of the clearing price in each session and avoid collateral risks related to market price volatility (i.e. to prevent market participants being exposed to financial risk once they have booked their storage capacities).

In case the required level of storage capacity is not reached by 31 March, the SSOs should continue to market their products through auctions even if the process to oblige shippers to acquire storage is launched. Further clarification is nonetheless needed with regard to the procedure when the safety net mechanism has been triggered, and post-31 March auctions enable the minimum storage level to be reached considering the cumulative bookings made: in this case, the safety net and all relating rights and obligations should be suspended.

*23. Once the initial marketing is over, are you in favour of the terms proposed by CRE?*

In case the required level of storage capacity is reached prior to 31 March, the SSOs should be free to continue marketing their available products, including specific products. SSOs, under the scrutiny of CRE, should be attentive to the coherence of the auction specifications before and after the minimum level of storage bookings is reached in order to avoid significant discrepancies between the auctions, e.g. with regard to the level at which the reserve price is set. For this purpose, EFET would suggest:

- allowing a two-week notice period for the release of the new products before launching the corresponding auctions;
- keeping the reserve price formula unchanged (i.e. same as for the standard products initially auctioned).

*24. Are you in favour of not marketing capacity over several years before the summer of 2018?*

As mentioned in previous statements, EFET supports as a target model the multiannual auctioning for N+1, N+2, N+3 approach and is also in favour of multi-annual products within a limit of approximately 30% for the second and third years. Multiannual products should be offered at the beginning of the campaign and, in case of partial allocation, the remaining capacity should be offered on a yearly basis.

Considering the tight commercialisation phase for 2018-2019, market participants may be very busy with booking storage capacities for that year, and it might indeed be wiser to postpone the commercialisation of capacities for 2019-2020 and 2020-2021 to after the first marketing period. However, return on experience from the first marketing period should not be too complex, so we would support the Storengy proposal to start auctioning N+2 and N+3 capacities as of May 2018.

*25. Are you in favour of a fixing auction for the marketing of the products relating to the 2018-2019 storage year, with a possible re-examination of the type of auction for the following years?*

We still believe that the organisation of ascending auctions, with a pay-as-cleared pricing mechanism, should be the target model for the auctioning system. The duration of an auction should be maximum one day and the outcome should be a fixed (and not a spread-indexed) price.

While we believe that more and more auctions are organised in this manner in Europe and that market participants are gradually getting used to such ascending, pay-as-cleared auctions, we do realise that this change may entail a certain level of complexity for some parties. Therefore, we insist on the need to define clear and simple rules in order to ensure a short timing between the beginning and the end of each auction and avoid any discrepancies linked to important market evolutions.

For the first year, and in case the target solution is not implemented, CRE could consider a more elaborate auctioning system with multiple rounds within each auction, on the model of the framework in place in the Netherlands. Provided that these auctioning rounds would be organised within one day, it could improve competition in the market while guaranteeing higher revenues for SSOs, with the ultimate goal to reduce end-consumers' contribution to the regulated SSO compensation mechanism.

*26. Are you in favour of a hammer price set in pay as cleared?*

Yes, we support a fixed (and not a spread-indexed) pay-as-cleared price.

*27. Are you in favour of the method of expression of each participant's bid proposed by the operators?*

Yes.

*28. Are you in favour of the method of auction fixing and capacity allocation proposed by the operators?*

Yes.



*29. Are you in favour of storage operators being free to commercialize the storage capacities on the platform of their choice for the first year?*

EFET agrees with CRE that, as a target, Storengy and TIGF should be marketing capacities on a common platform. Considering that the auctioning tools did not exist before, it is disappointing to see that the SSOs developed separate platform, without consideration for user-friendliness towards market participants.

For the first year, and given the short timeframe until the start of the marketing period, we can support the marketing of capacities on separate platforms. However, we believe that CRE should be more prescriptive in its request for the establishment of a common platform: a clear deadline should be set ideally for the allocation of yearly capacities 2019-2020 at the start of the next marketing season. Using an existing platform such as Prisma would save time and money in development.

*30. Are you in favour of publishing the reserve price before each auction?*

EFET agrees with the CRE analysis that the publication of the reserve price before the auction would have a positive effect on the participation of shippers to the auction. We believe that the reserve price (and its formula – in a way that can be recalculated by market participants – in case the reserve price is not set at EUR 0/MWh) should be published a few days before the auction.

Market participants spend a lot of time and manpower preparing for storage auctions. Knowing the reserve price in advance would help them avoid bidding for capacity for which the price is not interesting enough.

*31. Are you in favour of CRE's proposal to apply a zero reserve price for all storage products?*

EFET stresses the importance of setting the reserve price at a level sufficient low to incentivise shippers to participate in the auction and use storage capacity on the basis of its extrinsic and intrinsic value. If the reserve price for storage products is in the money, any shippers with an interest in storage for the supply of a customer portfolio or for pure trading activities will enter in the auctions and bid up to the value they are willing to pay for such storage products.

Therefore, for simplicity reasons, we agree with the CRE proposal to set the reserve price at EUR 0/MWh.

*32. If non-zero reserve prices apply, would you like them to consider product performance?*

Should a zero reserve price not be chosen, a formula needs to be drawn up to establish the reserve price.

If so, the storage auctions reserve price formula should be based on live market prices. A coherent reserve price could either be determined very close to the day of the auction to make sure the reserve price is commercially attractive at the time of the auction or be based on quoted market price prevailing on future specified dates.

We believe the same formula should apply to all products, since storage performance will naturally attract more and higher bids – making a performance coefficient unnecessary.

*33. If non-zero reserve prices apply, would you be in favour of Storengy's proposal to take into account the lower attractiveness of southern storage facilities for the year 2018-2019 by lowering the reserve prices of these storage facilities? Or would you be in favour of TIGF's proposal?*

Should a zero reserve price not be chosen, and should storage capacities in the South continue to be less attractive, then we believe that the formula to set the reserve price in the South should reflect this. As we believe that the lower the reserve price, the more chances the market has to fulfil the security of supply standards, we would then rather support the recommendation of Storengy to lower the reserve price in the South.

However, until the merger of the French hubs has been completed, we believe that Storengy's locational discount for TRS storages should be dynamic and reflect the PEG-TRS summer spread, instead of being set at a fixed amount.

*34. If non-zero reserve prices should apply, do you consider that the features of the formula proposed by Storengy are well dimensioned?*

Should non-zero reserve prices apply, EFET calls for a formula based on enforceable and unbiased features for market participants. The coefficients of that formula should be market-based, in order to reflect market value of the auction product. For the first year of implementation, the proposed weighted values (cf. a and b) are acceptable for market participants, but would need to be evaluated and adjusted for subsequent years.

As noted in our response to question 33, until the merger of the French hubs has been completed, we believe that the locational discount should be reflective of the PEG-TRS summer spread. And as noted in our response to question 32, we do not agree with the inclusion of performance-based coefficients since the market will automatically differentiate the products based on their performance.

*35. Are you in favour of Storengy's proposal concerning the marketing of B gas storage?*

No remark.

*36. Are you in favour of the creation of the "Concertation Storage", with a format similar to those of the Concertation gaz and Concertation LNG?*

EFET very much supports this proposal, as the other "Concertation" groups have proved very useful stakeholder engagement fora.

*37. Are you in favour of the proposed stakeholder engagement timetable related to the marketing of storage capacities for the coming years?*

EFET believes that this calendar could be sped up to allow the early commercialisation of capacities for 2019-2020 and 2020-2021 shortly before the summer.

At any rate, the commercialisation in the fall of yearly 2019-2020, N+2 2020-2021 and N+3 2021-2022 capacities should be already aligned on the target model, i.e. with a marketing period starting 1 November 2018.