

Questionnaire

Q1. Do you think that the technical analysis by GRTgaz is sufficient to justify a change of transmission and balancing rules for gas fired power plants? If not, how should it be complemented?

We think that the technical analysis carried out by GRTgaz is not complete and fails to present a case for the suggested balancing regime change:

- The case presented to justify the regime change does not reflect the need for flexibility that will exist when all or part of the currently authorised new power plants are in place. The projected need for flexibility is rather the result of a rough approximation made by multiplying the flexibility picture emerging from a case study that bears limited similarities with the situation that will result at the end of the period taken into consideration.
- The proposal is made without due consideration for all existing flexibility sources within the GRTgaz balancing area or in the adjacent areas, in relation to the existing flexibility needs on the GRTgaz network. Nor does it seem to include reference to the impact of planned investments in the gas infrastructure on within-day profile in the future. Only a complete picture could tell if the GRTgaz system is ready or not to accommodate end users' needs.
- We share the opinion of the CRE in that it is important to assess the overall capacity of the French gas infrastructure in order to find out whether it is possible to mobilise the necessary flexibility by amending the operating conditions or the interface contracts agreed between gas infrastructure operators, including storage operators and LNG operators.
- If the new regime is introduced, hourly bookings and hourly nomination interface with Storengy and Elengy should be set up in parallel. Postponing such coordination to a later stage would unduly discriminate between suppliers.
- Any proposal should be completed by information on the entirety of the balancing regime. The consequences of being out-of-balance must be clear and any costs resulting from the system being out-of-balance must be targeted at those shippers causing the imbalance. Any proposal should be grounded on a solid cost-benefit analysis.
- The development of the secondary market and in general the interaction between the overall gas market and the needs of the power plants should also be studied and taken into account as they represent a further potentially available source of flexibility.
- Not all power plants will be ready at the same time. The flexibility picture will thus evolve during the next years. Any proposal should take into account such evolution to avoid any disproportionate measure.
- An impact assessment of the effects that such regime change would have on the existing supply contracts as well as on the profitability of the power plants projects that have already been authorised is also missing.

- further would expect a study of the required investment in the GRTgaz network as an alternative to a regime change to provide the required within-day profiling needs of the CCGT projects.

A response to the issues listed above should be a prerequisite for any such fundamental reform proposal either to the transmission access condition or to the balancing regime.

Any proposal should be accompanied by a set of medium or long term measures – i.e. investment in new infrastructure – that will make the network able to provide the flexibility needed by the market. The urgency in suggesting a new balancing regime showed by GRTgaz, whether justified at all, signals at least that better planning of new capacity should have been made before granting any authorisation to tie-in new power plants to the French grid.

Q2. Do you think that it is desirable to maintain a daily balancing on the French gas system?

StatoilHydro fully supports the retention of daily balancing for the French gas market. We are of the opinion that hourly balancing can create significant barriers to entry in the market both for new entrants and relatively smaller players for a number of reasons including that:

- Many new entrants would not have the capacity to deal with the frequency of data or the higher risk of imbalance and cost;
- The arrangements tend to be overly complex and lead to low liquidity. In a daily balancing regime, a player would be able to buy gas at the hub to meet his daily load, and remain in balance at all times. He would therefore be able to offer a more competitive price to his customers.
- Daily balancing offers the possibility to trade continuously throughout the day and still contribute to the balance of a shippers position. This is a significant contribution to the liquidity of the spot market.
- There is greater exposure to cash-out penalties;
- There is an inability to access flexibility tools and services to match the balancing period and efficiently manage risk exposure;
- It requires costly changes to metering, collection of data and provision of information to the market and hourly nomination;
- Hourly balancing in a country bordering another one that has adopted a daily balancing regime creates distortions on cross border flows and hampers further European harmonisation of gas markets.
- ERGEG has already indicated that daily regimes should be the way forward in the European harmonisation process.

Q3. Do you think that gas fired power plant operators should be required to provide the TSO on the previous day with their hourly programme of natural gas consumption for the following day?

It is important that large loads such as power stations communicate effectively with the TSO, either directly or through their shipper. Power stations should therefore have to submit their profiled off-take plan on the previous day. The more info the TSO has the better it can manage the system.

Q4. What are your views on the GRTgaz proposal to introduce an hourly balancing requirement for gas fired power plants?

Referring to our answer to Q1, we repeat our opinion that the grounds for the introduction of an hourly balancing regime are yet to be provided by GRTgaz.

A system that introduces a daily or an hourly regime according to the consumer class is unduly discriminatory. Equally a differentiated tariff for power plants suppliers would make gas power generation less competitive and it would also create an artificial segmentation within the gas market.

We believe that the regime suggested by GRTgaz could have the effect of importing flexibility from other countries. Alternatively it could make less interesting for shipper to supply French power plants or at least more expensive and less efficient, as flexibility sources would be far from the consumption area. Increased investment and better upfront planning coordination between GRTgaz and power producers are better solutions than restricting the ability and freedom to operate of commercial players.

Finally, we are convinced that the regime change would have a substantial impact on the terms of existing contracts regardless of whether the intra-day flexibility will have to be provided directly by shippers or power plants.

Q5. What are your views on the model in which “*Intraday flexibility is provided by gas TSOs, as part of their regulated transmission offer*”, described in paragraph 4.4.2 of the Consultation Document? If TSO’s offer of intraday flexibility is not free, do you think that the offer should be optional?

The model suggested has the benefit of clearly stating the responsibility of TSOs to keep the system in balance at a cost which is equivalent to the actual operational cost incurred in when transferring flexibility.

In addition, GRTgaz is the only actor that has an overall and dynamic view of its own network’s imbalance status and therefore has the means to make the most cost-efficient and optimal changes to keep its system in balance.

We share CRE’s view that such solution would be a mere evolution of the regime already in place and we would support further work in this direction.

We believe that the system would have to be complemented by a regulatory environment that is conducive to investment in new flexibility sources within the French market, in particular with respect to new investment in storage facilities. Inter alia this would avoid that commercial flexibility sources are crowded out by the flexibility needs for physical balancing of the TSO. Similarly debottlenecking cross-border capacity would enable the system to import flexibility when necessary, ultimately enhancing liquidity within French borders.

A system that recognises priority access to storage capacity for sellers to end users is also appropriate, where a need exists in this respect and as long as it does not turn into a barrier to entrance and sufficient consideration for competition is given.

Q6. Irrespective of which model is selected, are you in favour of different treatments based on a gas fired power plant's geographical location, or based on a project's state of progress? If so, what differences and according to what criteria?

Irrespective of any model being in place, no undue discrimination or different treatment between different categories of players or class of users should exist. This is so in order to create a level playing field as well as to maintain the regime simple. Moreover, differentiating would imply that some network users would find themselves having two different portfolios, one serving daily balancing users and one serving hourly balancing users, with the end result of limiting the efficient use of the capacity available at the entry point. In addition, the issue of how to differentiate existing plants, and projects dependent on their state of progress is yet to be tackled and is set to create further discrimination.

There could be scope for future consideration of a signal given by GRTgaz through differentiated pricing of capacity to new loads on the grid which could indicate ideal locations for connection enabling investors to assess both electricity connection and transmission charges and gas supply costs in the location of their sites.

Q7. Assuming that hourly balancing obligations are introduced, do you think that they should apply to shippers just for supplies to gas fired power plants, to shippers for supplies to all the largest consumers (based on thresholds to be defined), or to all shippers for all their customers ?

See answer to Q4.

Q8. What are your views on the follow up to the public consultation and the further work of the Working Group as set out in paragraph 4.5 of the Consultation Document?

We hope this consultation will clarify the downsides and the difficulties related to GRTgaz proposal and set a new and more appropriate pace for any potentially required reform. No serious discussion on the proposed amendment to the existing system can start unless clarity on the points mentioned above is given.

As we share your concern about the need to avoid uncertainty we suggest that, unless a thorough cost-benefit analysis proves the need for the contrary, no change should intervene in the existing system.

As StatoilHydro aims to increase its business in France, we expect the level of bilateral, bespoke opportunities to increase further. Hence we look forward to receiving a report on the outcome of the CRE's consultation exercise and, where possible, we would welcome the possibility to be involved in the future activities of the working group.

Q9. Have you any other comments or suggestions?

GRTgaz proposal is to be considered immature in that it lacks a thorough analytical backup and suggests a regime change whose implication are at least difficult to predict when not

disproportionate and inappropriate. It appears pre-mature to push for a regime change when the necessary studies, hard facts and cost-benefit analysis are missing.

We equally stress that any potential and appropriate alternative new proposal shall:

- Be complemented by a network development plan;
- Provide a complete picture of all flexibility sources available in the French gas market;
- Present the entirety of the elements necessary to establish a new regime, including the flexibility offer by storage and LNG operators, the system of penalties and the tolerance levels.

In any case a daily balancing regime should stay in place.