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SMART REGULATION FOR SMART METERING

Dominique JAMME – Director of Network Regulation
Commission de Régulation de l'Énergie



Presentation of “Commission de Régulation de l’Energie” (CRE)

French independent energy regulator, created in 2000

Missions : Regulating electricity and gas...

...wholesale and retail markets

... networks ⇒ third-party access right (TPA, including tariffs)

⇒ system operators independence

⇒ functioning and development of infrastructure

Collège

- Decisional body

CoRDIS

- Dispute settlement body

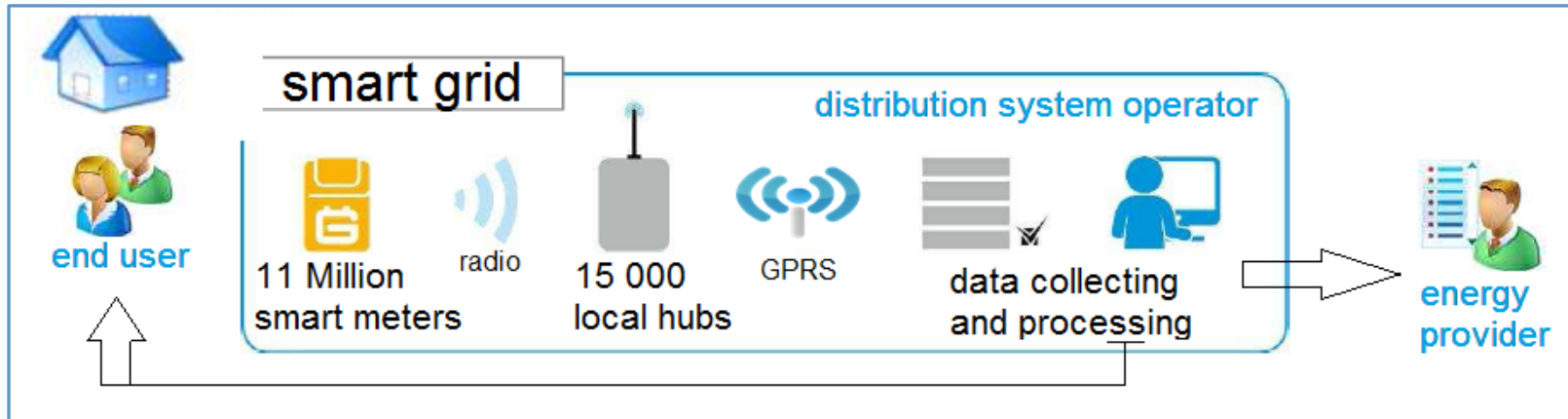
Services : 130 dedicated experts

Incentive regulation of gas distribution in France

- Gas distribution network in France :
11,5 Million customers, 200 000 km network
1 main Distribution System Operator (GRDF) + 25 local DSOs
- Performance-based regulation : « revenue cap » over a 4 years regulatory period
 - CRE sets tariffs
 - GRDF annual regulated revenue ≈ 3 Billion €

« Gazpar » project : smart meters for the gas network

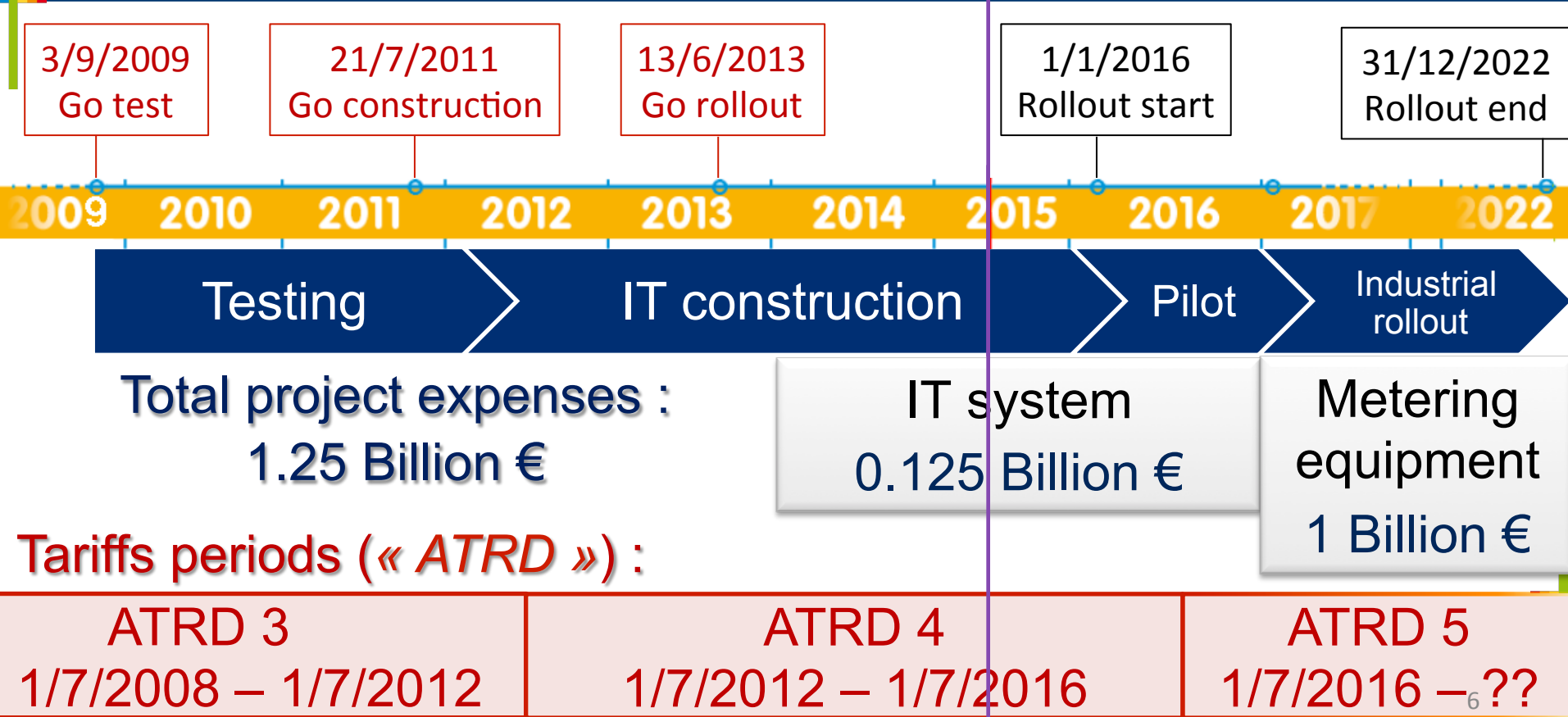
- Project carried out by GRDF
- Installation of AMR (*automated meter reading*) replacing half-yearly reading for 11 Million customers (residential customers and small businesses < 300 MWh/year)



Gazpar expected benefits

- Information for customers through a dedicated website
 - Better control on consumption → cost savings
- More frequent and reliable billing based on actual data
 - Improvement of service quality
 - Easier contract modification (supplier switch...)
- Optimisation of grid management by the DSO
- According to the 2013 study commissioned by CRE,
project NPV = 835 Million €

Gazpar project planning VS gas distribution tariff periods



Gazpar : a challenge for regulation

- A long Timetable
- Exceptional technical, industrial and financial challenges
 - ✓ Total investment of 1.25 Billion € (GRDF annual invt = 700 M€)
 - ✓ 11 Million new meters to install in 6 years (2017-2022)
 - ✓ A whole new IT system to create (2014-2017)
- High stakes for the future of the distribution network
- A specific regulatory framework decided by CRE
17/07/2014

Gazpar specific incentive regulation

- Incentives to meet deadlines, to control expenses and to achieve high service performance
- Special mechanisms for items assessed at different stages
 - ❑ Pilot : penalties if industrial rollout start-up delayed > 1 year
 - ❑ Rollout : specific incentives on deadlines, unit costs of smart metering equipment and service performance
- Operational expenses regulation integrated into the next tariff period

Gazpar regulation rationale

Two-sided incentives : a reward/penalty scheme

- Periodical assessment of each indicators
 - Target values (deadlines, costs, performances) :
Progressiveness to take into account the learning effect
 - Addition of individual items incentives but a global reward ceiling and penalty floor
- this reward/penalty scheme applies to the project return on capital

Gazpar regulation main features (1/2)

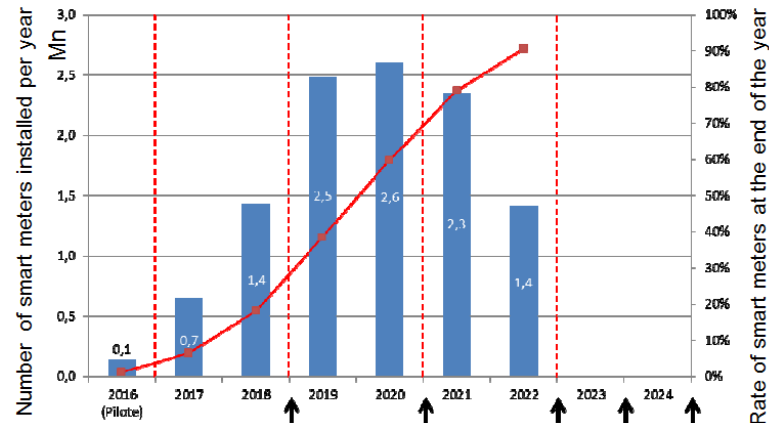
- GRDF earns a +2% bonus on Weighted Average Cost of Capital of installed equipment (smart meters + local hubs) if targets are met on 3 items :

➤ **Deadlines = Installation rate (% of total active meters)**

19,7% end of 2018

64,1% end of 2020

95% end of 2022



Gazpar regulation main features (2/2)

- Unit costs baseline of installed equipments

- Performance indicators such as...

 - ...rate of data availability for consumers

 - (96% per semester in 2017, 98% per month in 2019)

 - ...rate of smart meters index publication to gas suppliers

 - (95% per semester in 2017 ; 99,5% per month in 2019)

Conclusion on GAZPAR regulation

- A specific regulation designed for an exceptional project
- Incentives for the DSO to efficiently carried out a successful industrial rollout
- Main aim is to make the DSO accountable for most of the industrial risks of the project