



Dear Madam, Sir,

Gazprom Marketing & Trading Limited Response to CRE Consultation on the implementation of the Annex 1 to Regulation (EC) 715/2009 on the Congestion Management Procedures (CMP)

GM&T is the UK registered wholly-owned subsidiary of Gazprom Group ("Gazprom"), responsible for the optimisation of Gazprom's energy commodity assets through GM&T's marketing and trading network. GM&T Ltd is active as a trader and marketer of gas at various points in Europe, and especially in France. It is also engaged in the Retail business through its subsidiary Gazprom Marketing and & Trading Retail Ltd. Therefore, it has a keen interest in ensuring a workable French gas market on both points of views.

Question 1: Are you in favour of an implementation of the capacity surrender mechanism to IPs with non-EU countries?

This question should be addressed on a case by case basis by NRAs and in cooperation with adjacent NRAs and TSOs. It is not GM&T's role to take CRE's responsibility on this question.

However, it should be noted that extending the scope of the CMP NC to non-EU may have negative impacts on the optimal utilisation of the IP and thus should be carefully looked at. This remark is valid for all tools promoted by the Code including capacity surrender.

Question 2: Are you in favour of the priority rule for the reallocation of the surrendered products?

Yes.

GM&T Ltd agrees over CRE's proposal to apply the time stamp rule to rank capacity surrendered in order when it will be reallocated.

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Question 3: Do you agree with the fact that the surrender mechanism is part of the basic transmission service of GRTgaz and TIGF (thus without associated fee)?

Yes.

The capacity surrender mechanism shall be considered as part of the basic services of capacity sales to network users hence not introducing additional costs when the mechanism is triggered.

Question 4: Are you in favour of charging to the network user surrendering the capacity the difference (if positive) between the initial price and the reallocation price of the capacity?

No.

In GM&T's perspective, this proposal would simply prevent shippers from using the service as they would not capture the opportunity cost of not using the capacity for a specific period, whilst this is achievable on the secondary market. The benefit of a potential premium collected as a part of an allocation process clearing above the regulated price of the capacity shall integrally be transferred to the shippers that have been surrendering the capacity.

Moreover, GM&T Ltd hardly sees how this could prevent from opportunistic behaviours and distortion in the capacity mechanism. On a shipper's perspective, the main interest of the surrender mechanism is to see its capacity reallocated as a part of an administered process similar and complementary to the traditional commercialisation process. Knowing that any premium arising from this allocation would be distributed among shippers will incentivize shippers to use the secondary market only and will be highly detrimental to the effectiveness of the capacity surrender mechanism.

Question 5: Are you in favour of CRE orientation with regards to the treatment of potential over-revenues generated by the surrender mechanism?

No.

Considering the situation described at Question 4, GM&T does not agree with the proposed treatment of the over-revenues generated by the surrender mechanism as this over-revenue should be kept integrally by the primary holder.

Question 6: Do you agree with CRE orientation of non-implementation of the oversubscription and buy-back scheme to non-EU IPs?

Again, the application of the provisions of the CMP to non-EU IPs shall be assessed carefully and take into account the potential negative impact of a non-alignment of the rules on each side of the IPs.

It is CRE's sole decision to implement or not these mechanisms at non-EU IPs on a case by case basis and we advocate cooperation with adjacent NRAs and TSOs.

Question 7: Are you in favour of an implementation of the oversubscription and buy-back scheme as from 1st October 2013 with a temporary simplified buy-back mechanism?

GM&T Ltd is not in a position to assess the impact for France to fail complying with the EU rules and can only propose an opinion on the simplified buy-back mechanism proposed as a part of this consultation.

On GM&T's perspective, an appropriate oversubscription and buy back mechanism should be:

- **Transparent:** It is essential that the calculation of the amount of capacity to be oversold and the conditions for the triggering of buy-back actions is made public and agreed upon by CRE
- **Market-Based:** capacity oversold by the TSO shall be sold at the same time as regular capacity products and according to the same rules (i.e. CAM allocation mechanism in force for the allocation of the capacity products of the same maturity). At the same time, the buy-back mechanism shall also be market-based, as the objective here is to reveal the opportunity cost of not being able to ship gas on a specific day. This could be achieved through a pay as bid auction organised by the TSO when buy-back is deemed to be triggered.
- **Risk balanced:** a successful mechanism shall not incur important risks for TSOs. In this perspective, an accurate risk assessment of the overall functioning of such mechanism must be performed a priori of any overselling action.

In the light of the concepts above, we see that the proposed buy-back mechanism includes:

- Buy-back operations would be based on shipper's nominations at a specific point
- Buy-Back operations would be performed after interruption of interruptible capacity
- The amount of capacity bought back to a specific network user would depend of the share of this network user into the amount of firm capacity sold
- A predefined price for the buy-back of the capacity, on an interim basis before the implementation of a market-based mechanism:
 - Capacity would be bought back at a price of $1/365^{\text{th}}$ of annual firm capacity at the specific point
 - at the price of the spread between the 2 markets, capped at 3 times the regulated price of the capacity
- Once a buy-back action is triggered, network users could not renominate upwards until the end of the considered gas day

Based on these points, GM&T Ltd has several comments:

- GM&T Ltd agrees that the buy-back operation shall be triggered based on the analysis of the feasibility of shipper's nominations at the specific IP where the buy-back action is to be performed. However, whilst the actual buy-back is based on nominations, it is important to assess the risks associated to buy-back operations when overselling the capacity, as these events are directly linked.
- GM&T Ltd agrees that a Buy-Back operation shall be triggered only as a last recourse mean, after interruption of all non-firm products.
- GM&T Ltd believes that the compulsory buy-back from all capacity users according to their share of firm capacity rights could be an interim mechanism that would allow an implementation as of 1st October 2013. However, this mechanism is not satisfying for more than a year and should be quickly replaced
- The buy-back price should be the opportunity cost of not being able to ship gas at an IP for a specific day. It shall be set as a part of a competitive process so that the lowest buy-back cost is found among shippers active at the predefined IP. As a consequence, GM&T thinks that:
 - A buy-back price of $1/365^{\text{th}}$ of the annual price of the capacity is not consistent with the fact that shippers shall receive the opportunity cost of not being able to ship gas as a retribution for its capacity being bought back. In fact, setting the buy-back price at this level has little chance to be seen as satisfactory in a shipper's perspective:

- In case the capacity has been bought as a part of monthly auctions for capacity, the buy-back price would be inferior to the minimum price at which the capacity has been sold (as the reserve price of the monthly auctions is $1/8^{\text{th}}$ of annual price so roughly $1/240^{\text{th}}$ of the annual price), thus not satisfying as resulting in a net loss for the shipper
 - In case the capacity has been bought as a part of auctions for annual / multi-annual products, $1/365^{\text{th}}$ would be a minimum price for the buy-back as it would allow recovering only the costs engaged into the booking of the capacity, but does not remunerate the loss of opportunity implied by the buy-back.
- A buy-back price at the level of the spread should be in favour of shippers when situation of physical congestion appear, which is soft ground for the use of the buy-back, however:
 - Buy-back actions could be triggered without any important price spread between the 2 markets linked by the IP. Under such a scenario, paying the spread to the shipper would not be satisfying as it could be under the regulated price for the capacity and then imply a loss.
- Under explicit circumstances, and in order to manage the risk borne by shippers, a cap could be introduced to the buy-back price. However, 3 times the market price seems to be limited with regard to the potential magnitude of price spreads and the associated opportunity cost of a buy-back operation. Capping at 3 times the price of daily capacity would roughly cap the buy-back price at a level close to 1.2€/MWh. Whilst this level is likely to satisfy some shippers, it is however unlikely that a shipper will be happy about such a low price when the spread
- **Restrictions over renominations shall not be introduced as a result of a buy-back operation.** If a buy-back action has already been triggered for a day, it should not prevent a shipper to renominate upwards within its capacity rights, as the gas day goes on after the buy-back mechanism has been triggered. For example, if a shippers needs to renominate downwards after a buy-back mechanism, then it should leave room for another shipper to renominate upwards without necessarily leading to an additional buy-back action. In any case, if a shipper wishes to renominate upwards, then he should be allowed to perform its renomination and, if no one has been renominating downwards in the meantime, the TSOs would have to engage in an additional buy-back operation.

As a conclusion, GM&T Ltd:

- Disagrees with the provision hampering shippers from renominating upwards in case of buy-back actions performed by the TSO.
- Agrees with the proposal to trigger the buy-back mechanism over nominations performed by shippers
- Would agree with the proposed interim measures for a simplified buy-back mechanism with some amendments:

The price of the buy-back should be the maximum between the spread between the 2 markets and the regulated price for daily capacity capped at a level in line with the magnitude of price spreads between markets, so that shippers being bought back are getting a price close to the opportunity cost of the capacity .

- The pro-rata rule could be seen as a last resort mechanism and the preference, even in an interim basis, should go to a simplified mechanism where TSOs would call upon network users active at the specific IP and ask for the price at which they would sell their capacity. At a later stage, a proper platform shall be created (or a location on current's TSOs platforms) and pay as bid auctions should be organized to find the best buy-back offer from shippers in order to achieve cost-effectiveness.

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The work on the set-up of a specific auction platform should start as soon as possible and integrate the new constraint raised by bundling of capacity.

Question 8: Do you agree with CRE proposal of a buy-back price based on the price differential between 2 hubs?

The true buy-back price should reflect the opportunity cost of the impossibility to flow gas at a specific point on a specific day. The target buy-back mechanism shall achieve this objective. GM&T believes that a pay as bid auction called by the TSO on objective and transparent conditions fits the purpose.

As an interim period before the introduction of such a mechanism, and as discussed at question 7, GM&T would recommend to have a buy-back price set as the maximum between the price differential between the 2 markets and the regulated price of the capacity.

Question 9: Are you in favour of a 50-50 sharing between the TSO and the network users of the revenues and costs related to the oversubscription and buy-back scheme?

Yes.

Question 10: Do you agree with CRE's orientation concerning the triggering of the buy-back by the TSO on an IP depending on the alignment of the firm commercialised capacities on each side of an IP?

Yes.

GM&T Ltd has been several times raising the issue of non-alignment of capacity levels and products nature on both sides of an IP. It is interesting to see that the practical implementation of the EU Network Codes finally bring to light these fundamental issues. In fact, cooperation between NRAs and TSOs remain insufficient despite the key role they will play in the good functioning of the internal market and the achievement of the targets set in the 3rd Energy Package.

CRE's proposal seems logical and GM&T agrees on this point, especially considering that it would incentivize TSO to align both quantities and products offered on both sides of the border. More generally, there is little sense to oversubscribe capacity on one side of a border when firm capacity is inferior on the other side of the border.

Question 11: Do you have any particular remarks to the implementation of the long-term UIOLI?

No.

Question 12: Do you agree with CRE's proposal not to early implement the firm day-ahead UIOLI mechanism at the IP Obergailbach?

Yes.

The characteristics of the Firm DA UIOLI are particularly detrimental to shippers as they limit the ability to renominate and hence reduce the flexibility of network users active at this point, endangering security of supply of their customers. GM&T Ltd has been consistently arguing against the implementation of Firm DA UIOLI and **supports CRE's opinion not to implement this mechanism in France before 1st July 2016.**

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Considering the above and the fact that the early implementation of Firm DA UIOLI at an IP in particular could constitute an unfair discriminatory situation for shippers using IP Obergailbach compared to other shippers using other CMP eligible IPs, **GM&T fully supports CRE's proposal not to early implement Firm DA UIOLI at Obergailbach.**

For any additional details on the above elements, please feel free to contact Maxime Bourgeon, Regulatory Affairs Analyst on +33 1 42 99 73 73 or at maxime.bourgeon@gazprom-mt.com

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