



Gazprom Marketing & Trading Limited Response to

Public Consultation of the French Energy Regulatory Commission dated 24 October 2013 on the proposition of GRTgaz exceptional evolution of balancing rules on its network for winter 2013-2014

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: *Do you consider that the GRTgaz proposal is likely to enhance the security of the gas system in case of a cold peak?*

While this proposal may help GRTgaz to manage periods of uncertainty during winter 2013-2014, GM&T Ltd thinks that it modifies heavily the balancing rules. The introduction of an asymmetric treatment of imbalances is not an appropriate way to solve security of supply issues and indeed affects the very basic principles of balancing.

Firstly, it should be noted that GRTgaz' statement in the first paragraph of the second section of the proposed balancing rules that "*shippers are required under their transmission contract to balance volumes for a given day D*" is in complete opposition to the rationale behind the proposal. Indeed, the introduction of an asymmetric treatment of imbalances is strongly incentivizing shippers to be long on the network, especially when the shipper has a retail portfolio for which there is still little information provided within-day. **Therefore, GM&T Ltd thinks that GRTgaz is proposing to introduce rules in complete contradiction with the fundamental principle of balancing.**

Secondly, in a well-functioning market, a global short position will lead to an increase in prices. This would incentivise shippers with extra flexibility to go to the market and sell it to shippers in a short position. Ultimately, this should lead to a global balance on the market. The proposed set of rules is preventing the achievement of this objective. In fact, a shipper will rather keep its flexibility from the market and avoid a penalty at P2 than selling it to a shipper in a short position. **This will affect the well-functioning of the market and will increase the stress over security of supply, hence achieving the opposite of the objective.**

Thirdly, the behaviour of shippers under such rules could be highly volatile as there is still little information provided in order to balance their portfolio and forecasting models are usually less accurate in times of important pressure on a market. Such alternative balancing rules will reinforce this volatility which will be detrimental to GRTgaz in their objective to balance the network. Thus, it will again affect security of supply and not serve the objective pursued.

As a conclusion, GM&T Ltd does not believe that this mechanism will reinforce security of supply. On the contrary, some elements of analysis show that such an asymmetric mechanism could affect the well functioning of the market, thus further degrading security of supply.

Question 2: *Do you have any comments on the operational modalities proposed by GRTgaz?*

In case CRE decides positively on the implementation of alternative balancing rules, GM&T Ltd thinks that some of the modalities proposed by GRTgaz should be either adapted or removed in order to limit its adverse impact on shippers and the market and improve security of supply at the lowest cost.

Treatment of the cumulated imbalance account

During the period between the notice to shipper and the start of the mechanism, a shipper with a negative value in its cumulated account would need to get in the positive area of the cumulated imbalance as quickly as possible in order to benefit from a short tolerance and not being cashed out at P3. **This clearly means that the shipper must be imbalanced on purpose and be cashed out at P1 in order to avoid a penalty at P3. This provision should be adapted** to give more latitude to the shipper before removing the negative Mid-Range.

Similarly, a shipper which completely or almost completely filled its positive cumulated imbalance during the alternative mechanism will have to be short and hit the P1 area in the negative zone on a daily basis in order to avoid a penalty at P3. Such behaviour could be **detrimental to the balance of the market and may ultimately lead to the trigger of the mechanism again**, while normal operations of the market would not have led to such an end.

As a consequence, we see from now that the treatment of cumulated imbalances during the alternative balancing period leads to discrepancies in the mechanism and eventually to behaviours that could have an adverse impact on the balance of the market, thus achieving the opposite of the general objective of the mechanism.

Therefore, more flexibility around the management of the cumulated imbalance account before and after the alternative balancing rules is needed.

GRTgaz interventions

Even though GM&T Ltd receives positively the initiative to allow GRTgaz to increase the volume sourced from the market for balancing purposes, it is still highly unsatisfactory to see that these actions will be limited to 2 time windows of 30 minutes on the DA and WD markets. This increases the risk to see the balancing price deviate from the market price, especially in stressed market conditions, as most market players will know that GRTgaz will be going on the market, potentially introducing distortions in the market price.

GM&T Ltd thinks that, in times of difficult market conditions, **GRTgaz should be pro-active** in the management of the imbalance and **go on the market when necessary during the day** in order to manage as accurately as possible the network, **instead of waiting for a deterioration of the situation to use the market in the afternoon. It should also be reminded that the target balancing regimes embodies provisions for the TSOs to go on the market when it needs to.** So far, there has been very little progress on this aspect while it is obvious that such improvements would have been extremely useful under the current situation.

Settlement prices

GM&T Ltd thinks that the P2 settlement price is not adapted to a balancing mechanism without any tolerances. The financial burden introduced in the alternative set of rules for shipper short on the market is unnecessarily strong. **GM&T Ltd would recommend that, in case tolerances move to an asymmetric system, the**

P2 settlement price is decreased to a maximum of 10% of P1 as per the draft Balancing network code.

Question 3: Do you have any comments on the GRTgaz proposal?

Several additional remarks should be made with regard to the security of supply concerns raised by DGEC and other French stakeholders including GRTgaz.

The security of supply issue has its origins in the combination of two reasons. The first reason lies in the lack of will from underground storage operators to adapt to the market environment in place. In the competitive environment introduced by the liberalisation of the European gas markets, a shipper is not willing to book underground storage capacity if he knows that he is going to make a loss out of it. **Underground storage operators are unduly relying on the storage obligation to sell their capacity and they are not participating in the creation of a liberalised and competitive market in France.**

This has then leaded some shippers to play a dangerous game with regard to the storage obligation and turned into free-riders of the French market. It is now proposed to have **ALL shippers paying and being constrained** for such behaviour while the alarm has been triggered for a substantial amount of time. The administrative authority had room to use the measures it had at its disposal and take the necessary decisions in order to make all participants compliant with the rules and set a common playing field in France.

Moreover, it seems that the gas needed in order to pass the winter is physically in store in France. This is due to the "Performance Gas" injections performed by underground storage operators in order to keep the integrity of their industrial assets and ensure a level of performance of storages in line with the contractual engagements taken with shippers. **GM&T Ltd considers that this gas, physically in store and available to increase security of supply to the appropriate level, should be made available to GRTgaz in order to secure the network operations.** Again, this is something that should have been taken into consideration earlier and jointly between CRE and the DGEC in order to see how this could have been made possible.

In addition, shippers have so far little view on the real situation of the French market and on the procedures in place to cope with situations of emergency. GRTgaz has still not published its "Winter Outlook" while this would have been a useful document in order to assess the issue and take the necessary decisions for next winter. It is now too late to make it properly useful to market participants.

As a conclusion, GM&T Ltd would like to underline the unstable regulatory framework noticed in France. The regulatory uncertainty first started with the allocation of the North-South capacity last year but is now spreading to others elements of the market design. This situation is highly unsatisfactory and erodes the confidence built over the years in the French market.