

CRE
15, rue Pasquier
75379 Paris Cedex 08
France

Sent by e-mail to: dr.cp5@cre.fr

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Consultation on the review of the French price zone merger

Gazprom Marketing and Trading Limited ("GM&T") welcomes the opportunity to comment on CRE's consultation on the review of the French price zone merger. GM&T is a UK registered wholly owned subsidiary of the Gazprom Group ("Gazprom") active in the marketing and trading of energy commodities worldwide including power, gas, oil, LNG and carbon allowances. In the France, GM&T is present in both the wholesale and the retail gas markets and it has therefore an active interest on changes in the market design of the French gas market.

We set out below our answers on the questions addressed in the consultation document.

We hope the comments above prove helpful. Please do not hesitate to contact me on 020 7756 9428 or at mauricio.cepeda@gazprom-mt.com in the first instance should you have any questions.

Yours sincerely,

Dr. Mauricio Cepeda
Regulatory Affairs Manager
Gazprom Marketing & Trading Limited

Unsigned as sent by e-mail.

General comments:

GM&T welcomes the opportunity to comment on CRE's consultation on the review of the French price zone merger.

Generally, GM&T is of the view that any potential change should be supported by a comprehensive cost benefit analysis. CRE's analysis regarding the management cost of the congestions after the merger should not be isolated. This cost analysis should also include costs that market participants face (e.g. capacity interruptions to solve congestions), and benefits for the consumers such as the avoided cost of investment in further capacity to remove congestions in the network.

GM&T also believes that volume caps (and price caps) prevent the market from reflecting the reality of both market and physical fundamentals of the network. Volume caps applied to offered firm transport capacity act as an artificial barrier for location spread prices to reflect the real scarcity of flexibility in the network and send a right price signal to participants in the locational spread mechanism.

Finally, given the current scheduling for the upcoming storage auctions (first storage auction takes place on 12 November 2019) combined to the timeline for this consultation (closing date is on 15 November); GM&T believes that any decision should not impact market participants withholding contracts awarded in the storage auctions in November 2019. A level-playing field in the storage auctions requires the minimum level of regulatory uncertainty. This level might not be ensured if market participants would have to bid in the upcoming storage auctions without any certainty as to the implementation of the changes proposed by CRE, and particularly those changes related to caps on firm capacities at the PITS points. GM&T also believes that a good practice aiming to reinforce transparency and reduce regulatory uncertainty would be that CRE makes public final tariffs for the next regulatory period¹ before launching another consultation with interrelated topics and impacts. This would have facilitated the assessment by market participants of the impacts related to the proposed changes in this consultation, and particularly those changes in relation to changes at storage points.

Question 1 Do you share CRE's positive feedback on the setting up of the Trading Region France?

GM&T shares CRE's view as to the reduction of gas supply cost for the consumers located in the South of France. This stems from a lower spread TTF/PEG after the merger compared to the spread TTF/TRS before the merger.

Regarding the benefits of the merger in terms of security of supply, admittedly, there were no major issues. Congestions in the winter were much lower than in the summer. However, it is worth noting that temperatures were fairly mild for the winter 18/19 and gas consumption was lower than in the previous

¹ See ongoing [consultation n°2019-013 of 23 July 2019](#) relating to the new tariff for the use of natural gas transmission networks GRTgaz and Teréga

winters. Therefore, the system has not been yet tested against more extreme situations. Thus, more tighter scenarios with empirical evidence should be needed to assess the robustness of the new market design vis-à-vis security of supply.

In the conclusion of the section 1.5, CRE does not include the maintenance as a cause of the congestion in the summer. Small works (lower than 30 GWh/d) and long periods of significant works in the network have also given rise to congestions in the summer 2019.

GM&T is also of the view that a cost benefit analysis is required to assess the performance of the merger. The management congestion cost associated with the Locational Spread is not the only cost to be taken into consideration. Shippers also face costs when firm capacity is interrupted (with no compensation) and this cost should be also factored in the analysis. Ultimately, the price of the locational spread should reflect the need for flexibility in the system. The cost associated to the locational spread, along with other costs, should be compared to the theoretical cost of building dedicated incremental capacity to manage the underlying congestions in the network.

Question 2 Do you share CRE's analysis of the actual firm capacities available at PITS Sud-Ouest and Atlantique?

GM&T shares CRE's view regarding the direct impact of the maintenance (small works lower than 30 GWh/d) on the increase of the congestions in the summer. There is clear evidence that small works have largely contributed to increase congestions during the summer.

As to CRE's analysis on the firm capacity available to the market at PITS Atlantique and SouthWest, GM&T believes that this analysis should take part in a more holistic cost benefit assessment, as described in question 1.

Question 3 Do you have any comments to make on the consequences of the emergency measures taken by CRE in its decision of May 29, 2019?

We welcome the intention of CRE to ensure that all booked firm capacity is available for shippers to use in case of congestions, which is the overarching goal of the congestion mechanisms² in the French single price zone. However, we regret the lack of participation of the industry in the last CRE's decision in May 2019 regarding the amendment of the operation of congestion mechanisms. This is all the more regrettable given the high degree of participation of the gas industry before the implementation of the French price zone merger. As stated in the CRE's deliberation of 26 October 2017,

² See CRE's deliberation of 26 October 2017. <https://www.cre.fr/en/content/download/16595/205132>
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“...a cost-benefit balance must be achieved when choosing these mechanisms, their sizing, triggering criteria and player remuneration conditions...”.

Given that CRE decided to amend the priority order of the congestion mechanisms by adding the interruption of exit capacities at the storage points; we believe that CRE’s decision should have been supported, in addition to a consultation, by an impact assessment integrating a cost-benefit analysis.

GM&T would like to stress that CRE’s decision in May 2019, on making interruptible firm capacities linked to the Booster service without any compensation, has negatively impacted the trust of market participants in the current regulatory framework and particularly in the products offered by the System Storage Operators.

Question 4 Are you in favor of setting the level of firm capacity at the outlet of the network at PITS Atlantique at 340 GWh / d?

GM&T is not supportive of any form of intervention in term of volume cap (or price caps) which prevents prices from reflecting the scarcity of flexibility of the system.

Question 5 Are you in favor of setting the level of firm capacity at the outlet of the network at PITS Sud-Ouest at 300 GWh / d?

GM&T is not supportive of any form of intervention in term of volume cap (or price caps) which prevents prices from reflecting the scarcity of flexibility of the system.

Question 6 Do you have any other comments on the output capabilities at the PITS?

No

Question 7 Do you support the publication by the TSOs of the impact of maintenance below 30 GWh / d on the volume of gas that is lacking downstream of the congestion fronts?

GM&T is supportive of an enhanced transparency regarding the small works (less than 30 GWh/d) and their impact on the gas flows when congestions occur. Also, we are supportive of a “*ex ante*” publication of the small works which would reduce uncertainty to shippers.

Particularly GM&T is supportive of creating an indicator based on the number and volume of small works to be introduced in the TSO’s initiative regulatory framework in the ATRT7 tariffs.

Question 8 Are you in favor of publishing a single annual joint maintenance program for all operators of gas transmission networks, storage facilities and LNG terminals?



GM&T is supportive of publishing a joint maintenance plan for all the operators in France TSOs, SSOs and LNGOs. Particular attention should be paid on avoiding impacting the current timeline of the maintenance publication to not affect market participants in the storage auctions in November 2019 and January and February 2020.

GAZPROM MARKETING & TRADING LIMITED, REGENT'S PLACE, 20 TRITON STREET, LONDON, NW1 3BF, UK

T: +44 (0)20 7756 9428 E: RegulatoryAffairs@gazprom-mt.com www.gazprom-mt.com