



Dear Madam, Sir

**Gazprom Marketing & Trading Limited Response to CRE Public  
Consultation on the allocation of transmission capacity between  
GRTgaz's North zone, GRTgaz's South zone, TIGF's zone and Spain as  
from 1<sup>st</sup> April 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 shipper, trader and marketer of gas at various interconnection points in Europe, and especially in France. It is also engaged in the Retail business through its subsidiary Gazprom Marketing and & Trading Retail Ltd ("GM&T Retail"). Therefore, it has a keen interest in ensuring a workable French gas market.

GM&T Ltd welcomes the opportunity to comment over the rules for the future allocation processes at GRTgaz North-South Link. The physical congestion identified at this point is dramatically altering the functioning of the French market, and the latest process for the determination of the rules have brought discredit over the Concertation Gas and revealed France as a country of potential regulatory uncertainty. This issue must not stay without response from CRE and a new momentum must be given to the development of a workable market design. At the moment, GM&T Ltd and GM&T Retail cannot but notice that competition in the South of France is extremely limited as a result of the difficulty to access physically the zone and the national perequation of gas regulated tariffs that are giving the wrong signal to customers.

***Question 1:*** *Do you share the need for visibility expressed in Concertation Gaz? Do you think that the four-year duration envisaged by CRE for North-South capacity is adequate?*

GM&T Ltd shares the need for visibility expressed by most market participants at Concertation Gaz. The current situation is highly detrimental for the French market and its position in the European Single Gas Market.

In addition to raising concerns about the legitimacy of the Concertation Gaz as a place to exchange and develop a sustainable market design along with CRE and the TSOs, the last allocation process for capacity at the Link has only been allocating capacity for a year ending on 30 March 2014. For shippers in the process of

**Gazprom Marketing & Trading Limited**

20 Triton Street

London NW1 3BF

United Kingdom

[www.gazprom-mt.com](http://www.gazprom-mt.com)

developing an activity both on the wholesale and retail markets in France without the possibility to book long-term capacity at this key interconnection point, the lack of visibility dramatically hampers the potential to develop a business in the South zones and brings regulatory and operational risks to an undesirable level.

On the trading side, the South market is currently characterised by a low level of liquidity, a volatile spread with PEG North, and little visibility on forward prices. This situation results in a decreasing interest for trading at PEG South. Even though the future allocation process will not resolve the congestion, it must provide the necessary visibility to address the worrying situation described.

On the retail side, the impact of the low visibility over the access to the zone translates into a situation where competition cannot develop. In addition to the difficulty to access physically the zone, high prices at PEG South are preventing new entrants to compete against historical market players if they need to source part of their gas at market prices. In particular, it must be noted that the cross subsidy through national perequation of gas regulated tariffs give the wrong signal to the consumers about the real costs of gas, and the need for new investments. In the mid-term this is clearly detrimental for the development of competition, hence the welfare of consumers is more limited.

Considering the target to merge GRTgaz North and South zones by 2018, GM&T believes that the proposal to allocate all or some of the capacity available through annual products running until 2018 is adequate.

***Question 2:*** *Are you in favour of allocation proportional to physical delivery commitments for the six-month readjustment product as from 1<sup>st</sup> April 2014 at the North-South Link?*

GM&T Ltd has been strongly advocating against the last allocation process based on a pro-rata rule according to delivery capacity in the South zone, including exit capacity from France into Spain. GM&T Ltd believes that such an allocation process is highly unsatisfactory as it restricts the ability to access south zones and is the origin of the decreasing interest of shippers to participate in a market where competition is hardly possible.

This proposal is surprising at several levels.

First, CRE stated in its decision over the last allocation process that auctions should be implemented for capacity starting from April 2014. This signal has been assimilated by some market participants and it is now surprising to see that the implementation of auctions at this date is not the preferred solution. This adds to the increasing regulatory uncertainty identified across Europe after the implementation of the Network Codes.

Secondly, CRE has already taken a positive decision for the early implementation of the provisions of the CAM Code at Interconnection Points with Germany and Belgium, which is considered as a positive step forward by GM&T Ltd. It would be legitimate to start the same process at the North-South Link, and take necessary arrangements with PRISMA to allow the allocation to take place on the platform.

Thirdly, GM&T Ltd views the start of auctions for capacity at the Link for the readjustment product as an opportunity for market participants to gather experience before participating in annual auctions for capacity starting on 1<sup>st</sup> October 2014. Experience is crucial in order to ensure annual auctions will run smoothly.

**As a consequence, GM&T Ltd is not in favour of the proposal to allocate capacity proportionally to physical delivery capacity in the South of France and would recommend allocating capacity through auctions on PRISMA.**

GM&T's opinion over a differentiated allocation process in 2 phases with a first phase with a priority to shippers also end-customers will be discussed at Question 4.

***Question 3: Do you support the allocation rules envisaged?***

Considering GM&T Ltd supports the implementation of auctions as of 1<sup>st</sup> April, the proposed rules should not be implemented.

If CRE finally decides over the same set of rules as last year's allocation process, GM&T Ltd would welcome the increase in the development coefficient retained for taking into account the growth of the supply portfolio.

In any case, an allocation of the readjustment product shall happen as soon as October 2013, whether through auctions or with last year's allocation mechanism, in order to bring visibility to the market.

***Question 4: Are you in favour of the allocation rules proposed by CRE for the commercialisation of capacity from 1<sup>st</sup> October 2014?***

GM&T Ltd welcomes CRE's proposal to implement auctions for annual capacity products at the Link. Such a proposal is a positive signal sent to the market on the decision of the French authorities to take up the challenge that constitutes capacity allocation at the North-South Link and address market concerns about the ability of the French market to rise as a major component of the EU internal gas market.

GM&T Ltd also agrees on the proposal to allocate capacity until the end of 2018 as well as on the percentage of capacity to allocate for each maturity, which leaves room for further allocation processes and not freeze the market until the merger.

However, GM&T Ltd would like to raise the attention over the proposal to allow shippers serving supply points in the South zones to be allocated in priority 23 GWh/d on a pro-rata process. We understand that such a proposal is mostly politically driven and it is part of a set of policy measures to protect the French industry in the current challenging economic environment

GM&T Ltd thinks that measures aiming at providing a support to industrial activities in France should not enter into the scope of prerogatives of CRE such as capacity allocation, and must be addressed via specific and separate legislative provisions by the State. CRE must ensure that TPA to the transmission network is non-discriminatory and that it will not result in distortions for the market.

Given the above, the proposed allocation process that would allocate a certain set of capacity to shippers titular of a supply point, at the regulated tariffs, whilst other "classic" shippers would have to pay the regulated price plus a substantial premium **is not satisfactory**, as it will definitely introduce discrepancies and potential distortion in the market.

For example, some of these players source part of the gas they supply in the same market area of PEG South, thus not using the Link capacity which they will resell at a premium on the secondary market and retain the congestion rent. This opportunity could also arise from the arbitration of suppliers offers against PEG South prices.

Moreover, such a mechanism dramatically complicates the method that would be used to redistribute auction premiums, as these shippers could potentially benefit twice of such a mechanism: one time with the advantage of buying the capacity at the regulated price, and a second time with a potential share of the premium they would gather through the redistribution.

**As a conclusion, GM&T Ltd thinks that the allocation process must consist in a single phase of auctions for all shippers in order to set a common level playing field on the market.** Any support to Industrial Customers should not be materialized in the allocation process but, for example, this can be done with the redistribution of the premium and for a limited period only.

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20 Triton Street

London NW1 3BF

United Kingdom

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**Question 5:** *Are you in favour of the rule for limiting individual requests to a third of the capacity sold?*

In the general case, GM&T Ltd would not support any cap on bids made by shippers during auctions as it could alter shippers behaviour and lead to inflationist effects during the auction.

However, it appears that this measure is, in CRE's perspective, a prerequisite for a positive decision on auctions. If this is the case, then GM&T Ltd would accept such rule for the next allocation processes at the Link, recommending that the possibility to run auctions without cap is readdressed before each round of auctions for annual capacity.

**Question 6:** *Are you in favour of CRE's proposal to sell in March 2014, capacity available from 1<sup>st</sup> October 2014?*

Considering that this proposal is in accordance with the regular CAM calendar, GM&T Ltd is in favour of an allocation process in March 2014.

**Question 7:** *What do you think of Elengy's proposal? What do you think of GRTgaz's proposal? Are you in favour of the proposal to reserve 50 GWh/d of interruptible capacity in the form of monthly products?*

On a general note, GM&T Ltd welcomes any proposal from infrastructure operators that would lead an increasing availability of interruptible capacity at the Link. This will obviously help the cause whilst not changing the patterns of the physical congestion signal identified at this specific Interconnection Point.

Regarding both Elengy and GRTgaz proposal, GM&T would follow CRE's position. At the moment, both proposals are first thoughts and have not been opened for discussion at Concertation Gaz. GM&T Ltd agrees that such tools must be studied in the framework of the potential contractual tools to implement at the Link in order to mitigate the effects of the congestion, discussed as a part of Concertation Gaz and subject to public consultation by CRE.

As a consequence, GM&T Ltd thinks that GRTgaz and Elengy's proposals shall not be implemented in the short term and must follow first the regular consultation process described above.

**Question 8:** *Are you in favour of the allocation rules envisaged by CRE for the allocation of South to North capacity?*

GM&T Ltd is not in favour of the proposed allocation process for the readjustment product and would recommend to implement auctions for allocating South to North capacity as soon as for capacity starting on 1<sup>st</sup> April 2014, and not 1<sup>st</sup> October 2014 as proposed in the Memorandum.

**Question 9:** *Do you think that the interruptible capacity devoted to market coupling must be maintained as from 1<sup>st</sup> April 2014?*

The market coupling initiative has received positive feedbacks from some market participants and GM&T Ltd understands that such a mechanism still have an interest for the market, despite the fact that it is unable to fill its initial role to bring closer market prices in the North and the South.

However, GM&T Ltd remains sceptical about the interest to keep the market coupling mechanism during the period used for the determination of the EOD settlement prices at the PEGs. This leads to constraints over the mechanism and unnecessary risks over the validity of the EOD references. Analysis and prospects over the development of liquidity on the French market often forget to mention that the objective must consist in increasing liquidity during all the trading hours, and not only at the end of the day during a 1h window.

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As a consequence, GM&T Ltd agrees to continue devoting 30 GWh/d of interruptible capacity for the market coupling and would recommend amending the timing of the market coupling to take into account the remark above.

**Question 10:** *Are you in favour of the allocation rules proposed by CRE for capacity at the PIR Midi as from 1<sup>st</sup> April 2014?*

Considering that to implement auctions, the development of a specific IT tool would be required and used only a few times before the merger of GRTgaz South and TIGF zones takes place, GM&T Ltd agrees with CRE's proposal to continue allocating capacity at the PIR Midi according to an OSP mechanism and avoid an unnecessary investment.

GM&T Ltd also agrees with the CRE about the interest on a shipper's perspective to allocate the capacity after North-South allocation rounds, in order to take wise decisions for allocation at the PIR

**Question 11:** *Are you in favour of the allocation rules envisaged by CRE for capacity starting on 1<sup>st</sup> April 2014 at Larrau and Biriattou?*

GM&T Ltd is in favour of the allocation rules proposed at Larrau and Biriattou. GM&T Ltd thinks also that TIGF and Spanish TSOs should sign up to the PRISMA platform which now the norm for capacity allocation across Europe.

Regarding the creation of a virtual interconnection point between France and Spain, further work needs to be presented regarding this potential regulatory evolution before giving any sort of opinion on this measure.

**Question 12:** *Do you agree with CRE's unfavourable analysis of the transfer of surplus revenue from auctions to the CRCP?*

GM&T Ltd agrees with CRE's unfavourable analysis of the proposal to include these revenues in the CRCP.

**Question 13:** *Do you agree with CRE's unfavourable analysis of the transfer of surplus revenue to a regulated account for investment funding?*

Considering that this proposal would lead to the loss of a non-negligible part of the auction premium revenue, GM&T Ltd agrees with CRE's unfavourable analysis.

**Question 14:** *Are you in favour of the full redistribution of the surplus revenue at the North-South Link on an annual basis to shippers delivering to customers in the South of France?*

Until the Tariff Network Code is developed, it seems that this solution is the most appropriate among the proposals made by CRE.

**Question 15:** *Do you prefer a redistribution in proportion to the downstream capacity booked or volumes delivered?*

GM&T Ltd sees a decrease in the exit charges in the South zone as a good solution to compensate for the increase capacity due to the introduction of auctions.

It would allow all customers in the South to benefit on the same basis of the congestion rent, without discrimination between market players. It is also legitimate here, and in the perspective of an investment at the Link, to focus the tariff impact on the exit components of the transmission network, as customers in the zone are the first to suffer from the current situation and will be the first to benefit from the potential investment.

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However, the question of the redistribution largely depends on the final allocation mechanism retained by CRE. If the proposed solution to keep part of the capacity for an allocation round with a pro-rata rule and a priority allocation to shippers titular of a delivery point, CRE must be careful not to propose redistribution rules that would allow some players to benefit twice from the system.

***Question 16:*** *Are you in favour of TIGF's and GRTgaz's surplus revenue being pooled from 1<sup>st</sup> April 2015?*

This proposal is not detailed enough to give a sensible and reasoned opinion on this proposal. As a consequence, GM&T would reserve its response for a later consultation.

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](mailto:maxime.bourgeon@gazprom-mt.com)

Yours sincerely,

**Alex Barnes**

**Head of Regulatory Affairs**

(unsigned as sent per email)

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20 Triton Street

London NW1 3BF

United Kingdom

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