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Subject: BP 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 April 2014.

BP welcomes CRE consultation on Capacity Allocation Mechanism between France PEGs and between PEG South West and Spain. BP has the following non confidential comments which can be summarized in the following statements:

- The implementation of an Auction Mechanism to allocate capacity between PEG N-S and France-Spain is a welcomed cornerstone to establish a competitive market
- The extension of partial priority access in PEG N-S, will maintain a discrimination between users and is likely to affect consumers in France's Southern markets
- Incentives to release more gas in PEG S are welcomed, but should be explored further by guaranteeing that they do attract the cheapest gas sources by allowing different gas sources to compete
- Surplus revenue should be locked to fund incremental capacity or system management: in case this arrangement proves unsuitable or uneconomical, surplus should be returned proportionally to all users by carrying forward the surplus in CRCP or similar regulatory account

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

BP welcomes the possibility to extend windows over which shippers will be able to book gas transportation products. Such tool will certainly help players in the French gas market in implementing more effectively shipping and marketing strategies.

Question 2: Are you in favour of allocation proportional to physical delivery commitments for the six month readjustment product as from 1 April 2014 at the North-South link?

Question 3: Do you support the allocation rules envisaged?

BP acknowledges the fundamental need to modify the start & end dates of yearly transportation products to accommodate EU regulations. Yet BP sees no point in extending the current prorate allocation. To BP knowledge there are limited problems of technical and commercial nature to allocate capacity through an auction mechanism from 1 April 2014 onwards. CRE itself in 2012 prospected 1 April 2014 as a feasible date to implement an auction based allocation across France interconnection points. Even assuming that problems of varied nature could exist and make preferable extending a prorate mechanism, the physical delivery based priority access that CRE supports would extend the current undue discrimination between users of the network which has undermined the development of liquidity at PEG South. Hence BP does not share the rationale of CRE proposal, which could more likely contribute to extend the status quo, and delay the creation of a key element of a competitive market.

Currently, all gas shippers have at least a fair degree of familiarity with the commercial framework in terms of products available, as well as with the functioning of an auction based allocation mechanism. This eliminates a need to further phase out the migration towards such regime. In this sense, BP sees realistically achievable and desirable to allocate through auction the 126 GWh/d of transportation capacity available between April and September 2014. The auction for the two quarterly products could take place at some point before the end of 2013, while eventual auctioning of monthly and daily products for any unallocated capacity could be scheduled with an appropriate advance every month and day.

In terms of IT/technical infrastructure, GRTGaz strongly supported the PRISMA platform, on which it already auctions bundled capacity on the interconnections with Germany and Belgium, in line with CAM early implementation. GRTGaz has also recently started auctioning an additional volume of day-ahead PEG N-S capacity in trans@ctions. This experience in our view would reduce or eliminate most technical risks associated with a prompt implementation of an auction platform, as well as guarantee to market players familiarity with the operational procedures.

Even in the case CRE objects the lack of material constraints, BP especially consider detrimental extending a prioritary access to capacity based on physical deliveries applied to the very majority of firm capacity. A decision in this direction would extend the current discrimination between existing suppliers and other players, so BP does not really see the point of CRE and would welcome a further explanation on the rationale for such choice. This methodology has achieved poor results in opening the wholesale and retail markets of southern PEGs. Given the current retreat and the 2012 decision change, a decision would represent to BP an inconsistent pursuit of CRE market opening goals.

Hence, BP would welcome CRE reconsidering its preliminary decision by at least removing a priority access and sticking to the previous decision to implement auctions. Assuming CRE engages to guaranteeing that all shippers operate on the same terms across all entry points, if CRE does not support the above principles we would then consider essential that CRE devise a mechanism where all shippers already having capacity access to PEG S-TIGF, have the same priority access to the N-S capacity. Without these measures, it is quite unlikely that a shipper can engage into operating and managing a portfolio in the South, because fundamental assets are by definition uncompetitive in comparison with those of shippers with priority access.

Question 4: Are you in favour of the allocation rules proposed by CRE for the commercialisation of capacity available from 1 October 2014?

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

Question 6: Are you in favour of CRE's proposal to sell in March 2014, capacity available from 1 October 2014?

BP welcomes the auction mechanism that CRE proposes, as well as the timing of the auction and the range of standardized products. CRE decision to allocate 103 GWhd through an auction from 1 October 2014 objectively represent a dramatic improvement in market access terms. BP considers this change a key milestone to achieve a goal to open and improve the functioning of the French gas market.

Conversely, In line with our comments made for the interim period, BP finds unjustifiable to perpetuate a congestion rent by letting some shippers accessing part of the available capacity at tariff cost on a priority basis. The presence of disparity between shippers in accessing capacity could maintain an unlevelled playfield in PEG South, and ultimately slow down the creation of a competitive traded market. BP considers that any type of priority access regime should be an *extrema ratio* to be relied on only once all other means to maximize gas into the system have been put in place. BP understands that there are many opportunities to enhance responsibilities and incentives for GRTGaz to operate the system more effectively and attract marginal gas in a competitive manner. We expect these measures could generate a set of contractual tools and obligations, ultimately allowing gas at more competitive terms and in a way compatible with a levelled playfield.

Like CRE, also BP considers undesirable a scenario where a shipper could control an excessively high share of total capacity offered, although has doubts on the long term effectiveness of the proposed volume cap to tackle the problem. In addition, the potentially beneficial effects of such measure could be vanished by the persistence of a priority principle, as well as by the redistribution of surplus revenue from auctions back to shippers with end customers, (please refer to comments on the latter aspect later in the document). Hence we would call for a review of such mechanism after the 1st tour of auctions, to report on its outcome and impact on the market.

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 in order to implement Elengy's proposal?

BP acknowledges the existence of opportunities to improve incentives to deliver gas at France LNG terminals, which could especially benefit market prospects and ultimately customers in PEG South. In this sense BP welcomes CRE further assessment of the above measures.

With regards to a further assessment, we could share this preliminary observations.
Firstly, being LNG likely to be the marginal source to address shortness at PEG South, both gas incoming from TIGF/Spain and Fos could in principle improve the balance in the hub. This because BP sees the common underlying purpose being which tools could help addressing the structural shortness of PEG South. Hence we would expect any assessment include all other entry points in the eligibility for the extra remuneration given for helping the system balance. This because, from the perspective of an independent TSO like GRTGaz, we would seek to maximize the degree of system stabilization obtainable with a certain expenditure.

Then, with reference to Elengy proposal, BP is not persuaded that offering to holders of Montoir LNG capacity some "bundling" or prioritary access to PEG N-S capacity, is the most effective way to help PEG South balance. Shippers holding capacity at Montoir can currently already subscribe interruptible PEG N-S capacity and – given their privileged visibility over LNG deliveries – possibly access it at a price lower than firm capacity. Even assuming a problem exists, given the strong correlation between MOntoir delivery and availability of PEG N-S interruptible capacity, then BP sees a case for having Montoir becoming part of PEG South, with a LNG regas tariff incorporating also PEG N-S interruptible capacity to reflect the transportation costs. These adjustments in our view would reduce the risk of producing an outcome where little additional gas would be flown at PEG South, with Montoir possibly replacing FOS deliveries and even receiving some part of PEG N-S surplus revenue for gas which would have likely landed anyway.

BP also has doubts on the consistency of GRTGaz proposal. In theory, a guaranteed extra payment could attract a shipper only if big enough to make gas to Asia look less convenient. However, given the amounts and LNG market dynamics it is unlikely that is going to influence significantly decisions. Hence, also in this case there is a risk that the marginal gas could become a token for cargoes already planned at Montoir. Even in the opposite case BP would expect again that an independent TSO operating a gas system, with the right incentives would look directly at finding that the most competitive marginal sources of gas and hence would be interested in having as many offers as possible depending on market situation at the specific time.

Hence BP expects that a review could be particularly beneficial if assessing comprehensively possibilities to bring marginal gas, as well as by decoupling incentives to bring additional gas into PEG South from the entry point where gas will access the system. In this sense BP expects that a competitive tendering process opened to all shippers - possibly offering a varied set of incentives in exchange for additional gas being flown to PEG South, could a achieve more effective outcome. Even if Montoir would always prove to be more efficient, BP would argue that more conclusive evidence is necessary, and even in such case we expect that a GRTGaz acting independently should be interested in an optionality towards other entry points.

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

BP supports the auction mechanism that CRE envisages, and its comments are in line with to those made in previous questions.

Question 9: Do you think that the interruptible capacity devoted to market coupling must be maintained as from 1 April 2014?

BP has no specific views on the coupling mechanism, but has no strong evidence that the mechanism has been effective in reducing PEG N-S spread.

Question 10: Are you in favour of the allocation rules proposed by CRE for capacity at the PIR Midi from 1 April 2014?

BP supports CRE proposals and the underlying rationale, as we also expect limited benefits and significant costs could arise from implementing an auction model on the PEG S- TIGF liaison.

Question 11: Are you in favour of the allocation rules envisaged by CRE for capacity starting 1 April 2014 at Larrau and Biriatou?

BP supports the auction mechanism that CRE proposes for the FR-ES capacity.
In addition BP expects that there could be value in developing a consistent methodology clarifying the volume ratio between capacity offered on short/long term basis. Such clarity could help developing clearer views and planning of capacity booking.

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

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?

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

BP considers that when the auction price for capacity is higher than the reserve price, the most desirable regulatory arrangement would be to somehow channel surplus revenue towards investing in incremental capacity, as long as the additional revenue reimburses a substantial part of the upgrade costs. In the lack of such arrangement, BP supports CRE fundamental principle to return to users – and ultimately to consumers, the excess revenue that TSOs collect via capacity auctions. However, BP is concerned that CRE proposes to implement the principle via rebating surplus revenue to shippers with end customers, as it could distort the auction mechanism, generate risk of cross subsidies and ultimately deliver suboptimal market outcomes.

BP understands to an extent the rationale for CRE to dismiss locking up surplus revenue in order to fund incremental investments. However, BP reckons that the market could benefit from further exploring any possibility to review the fiscal regime of such regulatory account. The current arrangement could indeed potentially interfere with the implementation of the whole EU mechanism on incremental capacity currently under discussion. We consider reasonable to expect that a solution to supersede the current regime or at least to exempt regulatory accounts could be found, on the basis of achieving full compatibility with EU regulation. Such outcome could allow to generate more fiscally efficient funding usable to tackle the shortness in PEG South.

With regards to implementing the redistribution principle, BP is confident that a homogeneous and proportional return of the excess revenue across all tariff charges would deliver the outcome most compatible with a levelled playfield. The key advantage we see in the homogeneous approach is reducing visibility on the amount of rebated revenue each shipper receives. In addition, a proportional rebate of surplus revenue across all capacity holders in PEG South would guarantee lower access costs and hence could provide a marginal increase in the competitiveness of other supply sources. We expect that by renouncing to this embedded incentive resulting from price/revenue regulation, CRE possibly reduces the set of market based incentives through which shippers contribute to system balance.

In addition, BP does not understand the reason for rejecting the CRCP option on the basis of its delay in smearing surplus revenue back to users. We would consider feasible and desirable to amend the current CRCP mechanism, so that it would return excess revenue from auctions back to users in a shorter time span. Alternatively, in line with CRE proposal, we expect that there could be a separate regulatory account dedicated to returning excess revenue back to all users on a yearly basis.

With regards to CRE proposed solution, we are very concerned by the visibility on the rebate it could generate, which could incentivize gaming in auctions, and above all could generate de facto cross subsidies, as well as potentially exacerbate the persistence of PEG South shortness. Visibility on the amount of rebates could incentivize inflated bidding and favour dominant players with end customers, based on the awareness that GRTGaz could return a portion of the auction price offered. Such prospects could vanish the impact of auctions in terms of progressing towards a regime guaranteeing equal access terms to PEG S wholesale and retail markets. Even if CRE has proposed a cap in the capacity volume booked that could rebalance the magnitude of rebates, BP expects such countermeasure is likely to be insufficient.

More importantly, it is well known that PEG South suffers from a structural shortness due to the diversion of LNG cargos into Asia, which reflects market dynamics. Such shortness reflects an interim deficit of existing infrastructure to handle current gas shipping routes. More importantly, such shortness is one key driver of the premium paid in PEG South. BP has a concern that shielding suppliers to end customers by granting rebates and by reducing competition, could distort market practice and could in fact reduce incentives to land LNG into the market. This because the value of rebates and the value of congestion rent (given by the partial PEG N-S priority access) are likely to increase with PEG premium. Hence suppliers relying on LNG could have marginal incentive to divert cargoes, on the basis of PEG N-S capacity holders subsidizing part of their cost to find alternative supplies.

As a consequence we urge CRE to review its proposal and guarantee a rebate which is not discriminatory across shippers, or exploring how to make a revenue surplus efficient from a fiscal perspective.

Question 16: Are you in favour of TIGF's and GRTGaz's surplus revenue being pooled from 1 April 2015?

BP supports in principle the pooling of GRTGaz and TIGF surplus revenue once they merge. We have no specific comments at this stage.

Do not hesitate contacting us should you wish to discuss in more detail our comments.

Yours Sincerely

Antonio Ciavolella