



Dear Madam, Sir

Gazprom Marketing & Trading Limited Response to Public Consultation on the creation of a single gas marketplace in France in 2018

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 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 agree with CRE's analysis concerning the methodology retained in the Poÿry study?

The methodology retained by Poÿry to perform the costs-benefits analysis seems sensible and in accordance with the common practices for undertaking such complex analysis.

With regard to the market scenarios, the decision to explore three distinct views of market developments is acceptable. Indeed, none of the foreseen scenarios will realise fully but it could be expected that the global gas market will evolve between the scenarios put together by Poÿry.

GM&T Ltd welcomes the work performed by TSOs for analysing further the various investment solutions possible and in particular identifying the Val de Saone / Gascogne-Midi solution. This work is valuable in the objective to achieve a merger of the market places in the most cost-efficient way.

Finally, the NPV calculation based on two methodologies seems also a sensible approach, especially considering that one of the two is based on a proprietary algorithm. In any case, the objective of such an exercise could not be to provide an absolute NPV value for each investment scenario but an NPV interval which should allow shippers to form an opinion on the proposed projects.

Therefore, GM&T Ltd agrees on the methodology retained.

Question 2: Do you agree with CRE's analysis regarding the quantitative and qualitative results of the Poÿry study for France?

GM&T Ltd overall agrees with the analysis performed by CRE on the quantitative results provided by Poÿry.

Obviously, each parameter of the modelling exercise could be subject to discussions between shippers. In particular, there are many ways to calculate the level of the liquidity and volatility premiums and each player has its own methodology for performing this task, hence resulting in different appreciations of this specific element. Ultimately, GM&T Ltd believes that the methodology used provides enough ground to appreciate the rationale behind the investment under study.

With regard to the quantitative results, GM&T Ltd observes that:

- Under the “Tomorrow as Today” scenario, the investment results in a strong positive NPV, which is expectable considering the situation the French gas market is facing and the obvious benefits an immediate merger based on investments would generate
- Under the “Middle of the Road” scenario, the investment is generating a negative to neutral NPV, which emphasises the need for a proper analysis of the investment
- Under the “EU Golden Age of Gas” scenario, the investment is generating a net negative NPV equal to the level of investment needed. This was expectable considering that before the rarefaction of LNG deliveries in Europe and in particular France, the spread between GRTgaz North and South balancing zones became neutral to negative once FosMax LNG started operations. Therefore, the investment in such conditions would only result in sunk costs.

Therefore, the quantitative results are confirming expectations.

In addition to the quantitative analysis, GM&T Ltd would like to underline the importance of the quantitative factors raised by Poÿry and CRE. GM&T Ltd believes that such qualitative factors are increasing the expected NPV in the “Middle of the Road” and “Tomorrow as Today” scenarios and make the investment even more viable.

As a conclusion, the results of the study at the French level are already showing that the investment and the subsequent merger would deliver benefits for the French gas consumers and to the wider French economy in two scenarios out of three, and most importantly in the central scenario. This is a strong signal in favour of the merger based on investments.

Question 3: *Do you agree with CRE’s analysis regarding the results of the Poÿry study at the European level?*

GM&T Ltd agrees with CRE’s view on the outcome of the study at the European level.

The increase in NPV between the two scopes of analysis is suggesting that the merger of the French marketplaces will strongly support the integration of the regional gas markets and deliver benefits not only in France but also in adjacent countries such as Spain.

Flows between France and Spain have been consistently directed in the north to south direction. This has led Spain to benefit from more attractive gas prices than what could be found on the LNG market at the moment. Indeed, Spanish players are increasing the number of reloads from local terminals, replacing some of these reloaded volumes with pipe gas from France and Algeria. In turn, this behaviour is further degrading the supply conditions in the south of France and thus participating in the increase in the North-South spread and leading to the non-enviable position in which France is currently stuck.

Considering the increase in NPV noticed when extending the scope of the study to the EU, it seems reasonable to look into the potential opportunities and mechanisms at disposal in order to share part of the cost of investment with the Spanish gas system in accordance with the expected benefits for the countries of the South Regional Initiative.

Gazprom Marketing & Trading Limited

20 Triton Street
London NW1 3BF
United Kingdom

www.gazprom-mt.com

Question 4: *Do you agree with the lines of action envisaged by CRE?*

GM&T Ltd believes that the consolidation of market places in France into a single PEG would widely improve the level of liquidity on the French wholesale gas market and the level of competition on the retail gas market.

The French market is currently subject to externalities linked to the evolution of the global gas markets which are preventing suppliers to grow effectively a business across France. Likewise in any other market, market players in France need a robust market design and a stable regulatory framework in order to operate efficiently and develop their business in France in a sane and competitive environment.

Considering the current situation, a robust market design including a single market place can only be ensured through an investment in additional capacity in order to solve the massive physical congestion in place. Additionally, the past couple of years have been marked by an increasing level of regulatory uncertainty which has been particularly detrimental to suppliers. Both phenomena have specifically materialised around the North-South Link (but unfortunately not only) and it is therefore essential to move quickly with the investment and the integration of the North and South marketplaces.

Therefore, GM&T Ltd supports the lines of action proposed by CRE.

However, while the decision to invest seems natural considering the above, GM&T Ltd would like to underline the importance of an appropriate tariff treatment of the investment at the North-South Link. The investment in the North-South will dramatically transform the gas market in the south of France. Consumers in these areas will be the first to benefit from this investment. Hence, it seems appropriate to consider that the foreseen investment should be recovered through the exit tariffs components of the south of France.

Question 5: *Are you in favour of the early merger of the North and South zones before the commissioning of decongestion investments?*

Considering the low level of details provided so far on the mechanisms to be implemented, **GM&T Ltd believes it is not in a position to provide a firm opinion at this stage on an early merger of the North and South zones.**

However, GM&T Ltd would like to underline the economic impact of such mechanisms on the French market. According to the information included in the consultation memorandum, the early merger of the North and South zones could result in a cost up to €1 billion per year for buying up to 100 TWh of gas, translating into a 60% increase in GRTgaz transmission tariffs.

CRE has recently taken a strong and welcomed decision on the freeze of entry tariffs into France until the start of the next regulatory period in April 2017. The fact of coming back on this decision when dealing with the costs of the merger would be detrimental for the French market and could lead to the marginalisation of the French PEGs in Europe.

Therefore, if a decision on the early merger of the balancing zones based on contractual tools is taken, the possibility to apply a specific split of the costs between cross-border and domestic points. Such a possibility is explicitly mentioned at page 11 of the Framework Guidelines for Tariffs. The opportunity to smear costs in time similarly to the treatment applied to pipelines should also be assessed and subject to further analysis along with the contractual tools to be eventually implemented.

Question 6: *In your opinion, should this merger be based only on purchases of gas in the south by the TSOs or on LNG flow obligations? In the latter case, what type of obligation would you recommend?*

GM&T Ltd will not comment on the proposal to implement an obligation on LNG flows considering this subject is not in CRE's decision power. Therefore, it cannot propose an opinion on which of the two options is the most appropriate.

With regard to purchases in the south by the TSOs alone, GM&T Ltd thinks that some basic principles associated to such tendering process:

- It should be and market-based, transparent and non-discriminatory
- In case of locational deals / flow commitments, the split of volumes and locations should aim at maximising operational efficiency for the TSOs while minimising total costs.
- The treatment of the costs of the mechanism in the TSO's revenues should be carefully addressed and take into consideration past decisions on entry tariffs into France

The terms of the obligation should be presented at Concertation Gaz and subject to a formal consultation process by CRE before being agreed.

Question 7: *Are you in favour of the sale by GRTgaz of additional North to South capacity until 2018 based on contractual tools? Do you support the mechanism envisaged by CRE? If not, in your opinion, what would be the most suitable tools?*

Similarly to the proposal to early merge GRTgaz north and south zones, **GM&T Ltd believes that there are no sufficient details on the contractual tools to be implemented to have a firm opinion on the proposals.**

In addition, such a mechanism essentially means that Public Authorities are intervening on market prices. The impact of such interventions is generally complex with many side-effects. Hence, this must be assessed prior to contracting such tools. However, it should be noted that this proposal seems to be lighter in terms of implementation than the early merger of the north and south zones.

In any case, the contractual tools which would be implemented should respect the basic principles discussed at Question 6.

Question 8: *Are you in favour of the implementation of the tools envisaged by CRE for avoiding congestion in the south-east?*

Based on GRTgaz's description of the phenomenon at Concertation Gaz, GM&T Ltd understands that the appearance of the south-east congestion is linked to a low level of gas available at Fos LNG terminals and at the salt caverns during times of high demand.

As a consequence, GM&T Ltd is mixed about the interest of specific contractual tools to deal with this congestion, especially considering that:

- The recent regulatory changes on the storage obligation, and in particular the creation of an obligation in terms of withdrawal capacity from storage, have resulted in the complete reservation of the capacity available at the salt caverns in the south-east of France. It means that:
 - Gas will be available in the south-east and responding quickly to market signals
 - GRTgaz has little room for contracting more storage capacity
- The implementation of the contractual tools mentioned at questions 5,6 and 7 may lead to an increase in LNG availability in the south of France, thus also releasing some network constraints

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Therefore, GM&T Ltd thinks that it would be reasonable to first update the work on the probability of appearance of the south-east congestion under the actual/future market conditions in the south of France before contracting specific tools.

Question 9: *Do you agree with the lines of action envisaged by CRE?*

GM&T Ltd agrees with the lines of action proposed.

In particular, no decision on contractual tools should be taken before discussions at Concertation Gaz and public consultation from CRE. Again, GM&T Ltd is reserved on the need to opt either for a costly early merger of the north and south zones or an increase in north-south capacity available to the market.