



## GM&T Comments on Workshop of 13/10/2017 on proposed storage capacity allocation under the new French Storage Reform framework.

### **AUCTION RESERVE PRICE AND PRICING METHODOLOGY:**

The risk of setting the price too high is that a non-market based intervention occurs in which Storengy and/or downstream suppliers, as buyers of last resort, are forced to buy storage at non-market prices due to insufficient sales during the marketing period. It would be safe to ensure that capacity sales are maximised and the best way to guarantee this is by offering capacity with a zero reserve price. The current proposal is that capacity is gradually offered to the market over multiple auctions, GMT support this approach as it allows shippers multiple opportunity to purchase capacity and dilutes hedging risk.

However, if CRE maintains that the reserve price cannot be zero, we would like the reserve price formula to include the following considerations:

1. The **Beta component** must take into consideration
  - **A liquidity risk discount:** Reflecting the lack of liquidity in the storage year seasons and quarters, and the fact that at the point of bid acceptance multiple shippers will be trying to put on the same trades.
  - **A spread movement discount:** if the reserve price reflects an average spread of the last 5 days that has been consistently decreasing over that period; then the spread at the day of the auction will be lower than the average spread used to calculate the reserve price. Without an additional discount to address this, the capacity price would not be reflective of market conditions at the point of bid submission.

2. The **Alpha product performance coefficient** should have a range from 0 to 1, with the best performing products having a higher value.

3. **Regular review of the reserve price methodology:**

The worst thing that can happen is that a pricing methodology consistently produces unattractive non-market reflective prices. Given the new regime, there will likely be a learning curve for all stakeholders involved. Thus, it would be prudent for CRE to regularly review the price methodology after every auction to better understand if it is conducive to the maximisation of capacity sales. If the first auction reserve price results in insufficient capacity sales, the chances are that the next price will be just as unattractive.

### **CAPACITY PRODUCTS:**

GM&T would like to see more flexibility and more products made available to the market. Firstly, it would be useful for products to be unbundled from TSO capacity as this would allow shippers to profile their capacity utilisation. We would also like to see the sale of separate injection and withdrawal rates.