



Gazprom Marketing & Trading Limited  
20 Triton Street  
London  
NE1 3BF

Pavanjit Dhesi, Senior Regulatory Economist  
Interconnector (UK) Limited  
8th Floor  
61 Aldwych  
London  
WC2B 4AE

Sent by email to: consultations@interconnector.com

28 October 2015

Dear Pavanjit,

**Gazprom Marketing & Trading Limited (GM&T) Response to Consultation on IUK's Charging Methodology (CM) for Capacity Sales from March 2016**

GM&T would like to thank IUK for the opportunity to comment on its proposed changes to its CM.

This response is not confidential.

**1. Do you agree that the CM, for the sale of capacity from March 2016, is appropriate?**

GM&T is concerned that some elements of IUK's proposed CM are not appropriate. In general, we are of the view that promoting price responsive cross border trade would be better facilitated by:

- Including limits on allowable multiplier ranges
- Publishing price information further in advance than proposed

Please see answers to questions 2 - 5 for further detail.

**2. Do you agree with IUK's proposed approach to determine the short run prices?**

We agree with the proposal to introduce multipliers to set the price of short-term products relative to yearly products, however we are concerned that IUK's proposals place no restrictions on the exact level of these multipliers.



Firstly, if IUK wishes to promote long-term capacity bookings, as it has previously stated, we would suggest guaranteeing the economic advantages of booking longer-term capacity over allowing multipliers of less than 1 to be applied to short-term products. In discussions relating to the development of the Tariff NC, IUK has previously stated its opposition to short-term multipliers of less than 1; we are surprised this is not reflected in the proposed CM.

Secondly, the proposed text allows IUK significant flexibility to change prices as market conditions change and, whilst we understand the drivers behind this approach, we question whether this is appropriate for a TSO.

The proposals allow IUK to assess the spread between markets, on a short-term basis (see question 3), and set the price of capacity based on this. This puts IUK in a similar position to shippers, assessing market spreads and determining the arbitrage opportunities available. We question whether this is a suitable arrangement and note that, if implemented, market dynamics are likely to change.

### **3. Do you support IUK's reserve price publication proposals?**

IUK's proposed approach to setting prices, particularly in relation to daily and within-day products, amounts to introducing a variable tariff with no inherent stability or predictability. GM&T is concerned about the impact of these proposals.

Shippers who trade gas at the key hubs in NW Europe need to be able to factor IUK's transportation costs into their trading decisions. The exceptionally short notice periods for price publication proposed by IUK may hinder cross-border trade if shippers do not have the information they need to trade.

We also believe that price uncertainty could actively discourage new entrants to the market, which may damage liquidity.

We note that IUK's gas interconnector licence, as granted by Ofgem, obliges IUK to publish "prevailing charges for access to the interconnector" within a charging methodology statement "28 days prior to it coming into effect" unless the Authority directs otherwise. Whilst we understand IUK's motivation for proposing a shorter notice period than 28 days, a 1 hour lead time for publishing day-ahead and within-day products is unacceptably short.

### **4. Do you agree that the proposals are appropriate for an interconnector with full market exposure?**

The consultation raises fundamental questions about the treatment of interconnectors by regulators. The IUK and BBL interconnectors link three of the most liquid markets in Europe and we are keen to see appropriate regulatory treatment of these assets to ensure the continued success of these key markets.

Although categorised as a TSO and required to implement the EU Network Codes, IUK highlights that it is not supported by an allowed revenue or under-recovery mechanism, and argues it ought to be granted the right to set prices flexibly to compete with other assets not subject to the same stringent regulatory



requirements. However GM&T believes the flexibility sought by IUK in these proposals is potentially damaging to the market, see questions 2 and 3.

We believe that if IUK were not subject to such challenging market conditions without appropriate regulatory treatment and potentially the support of an under-recovery mechanism, IUK may be able to offer more reasonable provisions for price-setting.

#### **5. Do you have any other feedback on the proposed changes?**

- We are disappointed to note that, whilst not highlighted in the consultation letter, the proposals appear to include the deletion of text referring to the investments made by STA Shippers. We believe that the first paragraph under section 2.1, *Reserve price for Capacity for use during the period to 1 October 2018*, which IUK proposes to remove, ought to remain in the CM until the STA contracts expire on 1 October 2018. Its original inclusion was justified on the basis of arguments which are still relevant, and no arguments are provided by IUK for its deletion.
- Comparing the marked-up and clean versions of the CM reveals that the mark-up does not highlight all the changes that appear to have been made. E.g. 3rd bullet point of Section 2.4, *Principles for price structure of any Subscription Process*, the marked-up version reads "Quarterly products...will be available..." whereas the clean version reads "Quarterly products...can be made available..." . It appears to us that the discrepancies relate to minor points and nothing of material impact, but IUK should clarify which version of the two documents it is proposing to implement and review thoroughly whether any material matters are amended in the clean version but not highlighted as amended within the marked-up version.
- We note from the CM that the reserve price and multipliers will be set with reference to certain key principles including costs incurred by IUK to operate and maintain the facilities. No further information is provided. We understand from IUK's Information Memorandum and other publications relating to IUK's recent sales processes, that IUK intends to respond to the markets' demand for capacity by right-sizing the asset, to minimise unnecessary costs. IUK has held two capacity sales and a reshuffling process in recent months. GM&T would like to seek clarity from IUK on when it will make a decision about the appropriate level of capacity to continue operating and maintaining, given the potential impact on costs and therefore capacity prices.

For any additional information regarding GM&T's response, please feel free to contact me directly.

Yours sincerely,

Lucy Manning

*Regulatory Affairs Advisor*

*lucy.manning@gazprom-mt.com*