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Gazprom Marketing & Trading Ltd.
20 Triton Street
London, NW1 3BF

Danielle Stoves, Commercial Director
Pavanjit Dhesi, Senior Regulatory Economist
Interconnector (UK) Limited
4th Floor, 10 Furnival Street
London, WC4A 1AB

Sent by email to: consultation@interconnector.com

Subject: Gazprom Marketing & Trading Limited (GM&T) response to IUK second public consultation on proposals to seek changes to its application of CAM and TAR NCs from 25 October 2017

23rd November 2017

Dear Danielle, Pavanjit,

GM&T would like to thank IUK for the opportunity to respond to its latest consultation.

Unfortunately, GM&T do not believe IUK's latest proposal addresses the concerns raised in our response to the August consultation, including those relating to lack of transparency and predictability of tariffs and are therefore generally not supportive of the mitigating measures proposed. We provide our reasoning below as part of our answers to IUK's questions.

While we understand that IUK wants to explore the provision of new services and new ways of recovering revenues, we would like to know what IUK's back-up strategy is in the event its proposals are not approved by regulators. It would have been useful for stakeholders to have been consulted on the fall-back regime that would be adopt if part or all of the current proposals are rejected.

Finally, we remain at IUK's disposal should it want to discuss further our response or ask any additional questions.

Yours sincerely,

Gavin Steyn
Head of Commercial Operations

GM&T response to the questions in the IUK public consultation from 25 October 2017

1. **Do you support our proposals to publish binding price ranges for the coming gas year for short term products 30 days in advance of the annual CAM auction?**

As a principle we are against the application of variable multipliers because of the uncertainty they create in predicting transportation costs and in trading. Therefore do not believe that the publishing of binding multiplier ranges will address the concerns raised in our response to the August consultation, for the following reasons:

- **Variable multipliers increase uncertainty of trading the NBP-ZTP spread for shippers:**
  A multiplier range is just another term for variable tariffs. Hence, a binding range will not be able to help shippers accurately price transportation costs and NBP-ZTP/ZEE spreads. This added uncertainty will make trading NBP-ZTP/ZEE less attractive for shippers. IUK should strive to offer shippers maximum certainty on transportation prices. This can only be achieved by fixing multipliers ahead of the gas year for both CAM and IAM products. Fixed multipliers and tariffs will give shippers the certainty they need to trade and are therefore central to promoting liquidity.

- **Variable multipliers prevent shippers from responding to market signals:**
  Changes in spreads send crucial supply and demand signals that shippers respond to by importing or exporting more gas. By making the applicable multiplier unknown until the very last moment, IUK makes it extremely difficult for shippers to accurately price and respond to the spread and may lead to a vicious circle where spreads widen instead of converge.

- **The uncertainty will damage liquidity in the forward market**
  As a result of dynamic pricing, the ZTP/ZEE and NBP will be able to rely less on each other's liquidity, which will make them more volatile and expensive to hedge against. The lack of certainty surrounding the tariffs and multipliers of the Interconnector is already causing a significant lack of liquidity on the Zeebrugge Beach for the Winter 2018 and Summer 2019 products – a situation that will continue if the use of a range of multipliers is allowed. In this context, we would like to highlight the complaints by the Italian Economy Ministry in its National Energy Strategy regarding the effect dynamic pricing applied by Swiss TSOs (who do not have to apply EU tariff rules) is having on the PSV[1].

- **Variable multipliers go against the principles of the internal gas market**
  Variable multipliers that capture part of the spread inevitably interfere with cross-border trade and impede the convergence of hub prices whenever IUK sets the marginal price for NBP or ZTP. This goes against Article 7(e) of the Tariff Code, which requires that tariffs set by

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[1] In its national energy strategy, the Italian economy ministry refers to "the opportunistic behaviour by system operators along the route connecting Italy to northern European liquidity. In particular, this includes the marketing of capacity on a spot spread basis by the Swiss network operator, who does not have to apply EU rules on capacity allocation"
[p.204 http://www.sviluppoeconomico.gov.it/images/stories/documenti/testo_della_StrategiaEnergeticaNazionale_2017.pdf]

TSOs not distort cross-border trade, as well as against the general principles and spirit of the internal gas market. We do not believe IUK should sway away from these principles.

- **IUK would be behaving like a shipper and not a TSO:**
  As mentioned in our previous consultation response, "we do believe it is appropriate for a TSO to respond to changing market conditions in the manner described by IUK". It is the purpose of TSOs to facilitate trade not reduce it, particularly between European hubs.

2. **What are your views of the two pricing options for Day Ahead and Within Day in advance of the annual CAM auction?**

We disagree with variable tariffs as a principle and believe all multipliers should remain within the ranges stipulated by the Tariff Code and should be published in advance of the annual CAM auctions. In this context:

- **Neither of the options addresses our concerns regarding uncertainty and transparency of pricing of capacity:**
  Nevertheless, as mentioned in our answer to Q1 and in our previous response, we have strong reservations against the lack of predictability and transparency of dynamic pricing and believe the uncertainty of pricing will ultimately harm NBP and ZTP markets. Price convergence is particularly achieved on a daily basis. We refer to Article 7(e) of the Tariff Code, which requires that tariffs set by TSOs not distort cross-border trade.

- **We are concerned by how the average multiplier range will be calculated (Option 2):**
  Because of the bidirectional nature of IUK and the way variable multipliers work; a high multiplier would be applied whenever the spread is favourable to moving gas from A to B, while a low multiplier (from A to B) would be applied whenever the spread is favourable to move gas from B to A. This therefore means that shippers could potentially face a very high multiplier in any direction throughout the whole gas year, because a very low multiplier is applied in the opposite direction (against the spread), which is of no use to shippers but which pulls down the average multiplier for that direction to within the given range. At the very least, the average multiplier range should be calculated on using days when IUK is used in the relevant direction.

We therefore do not feel comfortable in supporting either option.

3. **Do you support IUK's commitment to apply the same binding price ranges for Implicit Allocation products?**

GMT is against applying multiplier ranges because of the reasons mentioned in our August consultation response and our answer to questions 1 and 2. In addition, we believe IAM products should be bound by the same tariff and multiplier restrictions as CAM products.

4. **Do you support our proposals for when actual prices are published?**

We believe all multipliers should be published well in advance of the annual CAM auctions as per the Tariff Code in order to promote certainty in cross-border trading.

For the reasons mentioned above and in our previous consultation response, IUK's latest proposals do not address a key concern raised by shippers – the inherent unpredictability of transportation costs and resulting trading risk. The short-time frame for publication is ultimately damaging to liquidity and cross-border trade and may lead to wider spreads.

5. **Do you have any other feedback on the final CM proposals?**

We refer to our comments made above and in our previous consultation response. We do not feel that IUK's latest proposals satisfactorily address the key concerns raised by GM&T and other shippers.

Questions on Implicit Allocation Mechanism:

6. **Do you agree that the limitations to the Implicit Allocation Mechanism are sufficient to ensure that the CAM NC auctions are not undermined?**

We believe the aligning of IAM products with CAM in terms of their running period is a step in the right direction to prevent any undermining of the CAM auctions and available CAM capacities. We therefore welcome this initiative.

However, we do not believe the integrity of CAM auctions and product availability is guaranteed unless IAM products are offered after the CAM auction for the same product duration.

We also welcome IUK's proposal to not allocate day-ahead and within-day products via the IAM for now, and hope IUK will not change this without a future consultation of stakeholders. In this sense, we would like to point out that Balance-of-Week would include a day-ahead product, which would interfere with CAM day-ahead auctions. We therefore do not believe they are appropriate for the Implicit Allocation. Weekend products sold on a Friday would also be Day-Ahead.

7. **Do you support the proposal that IUK publishes on its website an Implicit Allocation Guidance Document outlining the third party involvement, product restrictions and further information relating to the Implicit Allocation Mechanism?**

Given the technical difficulties involved with setting up an IAM, can IUK confirm it will be able to implement the IAM on time? GMT would like to point out that it is not only IUK that faces steep set-up costs, but also shippers. The sum of each shipper's set up costs in order to use the IAM is likely to be very high.

8. **Do you have any comments on the Implicit Allocation rules included in Annex B-3 of the IAC?**

9. **Do you agree with the other drafting changes proposed to the IAC?**