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Sent by e-mail to: Clement.Perry@ofgem.gov.uk ; Meinoud.Hehenkamp@acm.nl

24th February 2014

Dear Sir/Madam,

Re: Options for implementation of the European Union Network Code on Congestion Management Procedures on BBL Company

Gazprom Marketing & Trading Limited (GM&T), as an active shipper on the GB and Dutch gas networks and through BBL as well as throughout Europe, welcomes the opportunity to respond to Ofgem's and ACM's open letter on applying the Congestion Management Principles (CMP) network code at the BBL pipeline. This response is not confidential.

The general position of GM&T is that FDA UIOLI (restriction of renominations) should not be implemented as a measure of CMP. There are several general reasons for this:

- Oversubscription and buy-back (OSBB) is identified within CMP as the basic instrument to prevent contractual congestions and *de facto* a preferred mechanism over short term use-it-or-lose-it, with the latter only being recommended if contractual congestion still exists following OSBB implementation, surrender of capacity and LT UIOLI. . Then FDA UIOLI may be applied from 1 July 2016 in accordance with Annex 1 to Regulation (EC) No 715/2009
- Neither National Grid nor GTS has any plans to bring about restriction of renominations in their respective grids, favouring at this stage OSBB, surrender and LT UIOLI. As such, when bundling of capacity is mandatory per the Capacity Allocation Mechanisms (CAM) network code, products with different CMP measures will be forced to be bundled together, which is very impractical and risks stranded assets;
- Experience of restriction of renominations applied at the German borders did not provide evidence of improve cross border trading and it is true instead that there are issues of consistency when bundling contracts across borders;
- The other gas interconnecting pipeline to the continent, Interconnector UK (IUK) have laid out their plans to implement OSBB as a part of their implementation of CMP in a very

sensible way, demonstrating therefore that it can be applied in a robust manner to a pipeline TSO and limiting the TSO downside exposure;

- The key point to limit the TSO downside exposure in the design of an OSBB scheme is the identification of the risk appetite of BBL in releasing capacity above the technical capacity available. This can be done on the basis of historical flows and calculated as the number of days/year in which BBL may be required to compensate shippers for buy back;
- The capacity offered as a result of an over-subscription mechanism should not affect the firmness of the normal firm capacity already allocated, therefore the methodology to assess the amount of capacity to be oversold should be made clear and transparent and as such should not include any element of "interruption"
- We do not share the view that FDA UIOLI has provided more accurate profiling and we believe instead that the drawbacks of FDA UIOLI in terms of reduced flexibility for shippers are more difficult to manage compared with a clear limit to a TSO downside exposure even more if we take into account that currently there is no contractual congestion on BBL and restrictions to renomination rights would instead apply unnecessarily.

Below you can find the answers to the specific questions posed by the open letter

1. **Which of the potential options – OSBB or FDA UIOLI – do you prefer? Why?**

GM&T supports implementation of OSBB and strongly opposes introduction of FDA UIOLI.

2. **Which of the potential options discussed in this document would provide the greatest level of flexibility that you are seeking in flowing gas from the Netherlands to GB, subject to the requirements of the CMP Guidelines?**

OSBB is the option providing the greatest level of flexibility for shippers operating on BBL as an implementation of the CMP guidelines. Restrictions to renominations are an unnecessary instrument on BBL as firm capacity is always available; furthermore they reduce flexibility for shippers.

3. **Do you agree with the advantages and disadvantages of each option as presented? Are there any further advantages or disadvantages of each option as presented> Are there any further advantages or disadvantages to be considered?**

GM&T supports the OSBB for all the reasons explained above in the introduction and in the response to question 1.

4. **How would you value the potential threat of curtailment under an OSBB mechanism with a pot, relative to the potential loss of flexibility due to restriction of renomination rights under the FDA UIOLI mechanism?**

BBL should carry out sensitivity scenarios analyses in order to assess the probability for BBL of buying back the capacity oversold. In the very unlikely, but possible situation in which BBL is obliged to buy-back capacity, shippers will have the risk to be cashed out at the imbalance prices in both the Dutch and English markets for the correspondent curtailed volumes. In order to cover the consequences of this case and ensure the financial firmness of the capacity oversold, we believe that BBL should compensate the shippers with the cash out prices at the local hubs during the curtailment period (e.g. a shipper should be compensated in the respective hubs for the forced long and short position due to the curtailment). The above solution provides enough firmness for shippers, at least financial, in case the voluntary buy back process is not successful.

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

Yours faithfully,

Ric Lea

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