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Consultation response of Gazprom Marketing & Trading Ltd. to the Consultation Document under Commission Regulation (EU) 2017/460 for the implementation of the Network Code Tariffs in the Czech Republic.

To whom it may concern

Gazprom Marketing & Trading (GM&T) is a UK registered wholly-owned subsidiary of the Gazprom Group active in the marketing and trading of energy commodities worldwide including power, gas, oil, LNG and carbon allowances.

First of all, we would like to take this opportunity to express our appreciation to be able to share our views on the provided consultation document under Commission Regulation (EU) 2017/460. It is our belief that the Tariff Network Code offers supportive instruments and the adequate regulatory framework to achieve transparent, non-discriminatory and reproducible tariffs that foster efficient gas trade and competition, avoid cross-subsides, provide incentives for investment and are cost-reflective. However, it has also the potential to negatively disrupt market dynamics and liquidity, if its inappropriate implementation attempts to fundamentally change the existing market design.

GM&T believes that there is one major element that the Energy Regulatory Office (ERU) should consider regarding the practical implications of market design choices impacting the Czech gas market and have outlined this element below.

Excessive increase of tariffs at storage facilities

From the provided consultation document it becomes clear that ERU proposes to implement only the discount under the Commission Regulation (EU) 2017/460 which is 50% to transportation capacity tariffs at entry and exit points of storage facilities. According to our belief, and as a principle, the application of any form of tariff at storage points is double counting and hence unnecessarily burdening the facilities and the flexibility market, which they are commercially active in. Therefore, we are of the view that



storages should be exempted from transmission services to allow storages to efficiently fulfil its key roles of providing seasonality, flexibility and security of supply to wholesale gas markets.

We have noticed that ERU has aimed to benchmark major decisions within their tariff decision, specifically in regard to the level of multipliers and their comparability with other European markets. We welcome the same exercise to compare and, if necessary, adjust domestic tariff settings. Moreover, we believe that this is an exemplarily approach of a good consultation document and regret that other European regulators have not done comparable efforts to justify the made policy choices in a transparent manner. Yet, we would have also liked to see a similar analysis by ERU on set storage discounts across Europe to generate more evidence for the need to increase the storage discount in the Czech market. Many countries such as Denmark, Sweden, Spain, Germany or Belgium have already or are currently proposing to establish storage discounts of 100% or substantially higher than the 50% minimum. Taking into consideration the interdependencies among European gas markets, we believe that the comparably low storage discount places Czech storages at a competitive disadvantage to facilities located in bordering markets.

As a last point, we would like ERU to also consider the proportionality of the currently proposed increase of exit tariffs at storages by +750% (assuming that the +1500% is estimated before the discount is applied). According to our view, ERU shall consider that changes in tariff levels need to be carefully considered when readjusting the applied reference price methodology under the TAR NC as it has the potential to jeopardize existing and future long-term activities in the Czech market. Moreover, we believe that the unpredictability of these tariff changes have the potential to disrupt current market dynamics, liquidity and security of supply in the Czech gas market, which will negatively impact hub prices and thus social welfare. In order to quantify these impacts, we encourage ERU to offer the market an extensive line of argumentation based on a thorough economic analysis.

We hope the comments above prove helpful. Please do not hesitate to contact me on jan-niclas.gibbert@gazprom-mt.com or +44 2077 569729 in the first instance should you have any questions.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "M. Cepeda", written over a horizontal line.

M. Cepeda

A handwritten signature in blue ink, appearing to read "J. Gibbert", written over a horizontal line.

J. Gibbert

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