

**Memo**

Our date
2010-02-19

PILOT FRAMEWORK GUIDELINE ON CAPACITY ALLOCATION**EREGG PUBLIC CONSULTATION PAPER**

The following is the comments from Yara International on EREGG's public consultation paper.

General

Question: What are your main views of the proposed measures? Do you think Network codes based on these guidelines can achieve non-discriminatory and transparent capacity allocation and the fulfillment of capacity allocation principles set out in the Third Package of Energy legislation?

Yara's position: The proposed measures are major steps in the right direction. Although EREGG's proposal are only guidelines, we think it could be appropriate to be more precise on some elements. What does for instance EREGG mean by "long term" – 3 -5-10 or 20 years?

Transparency is not covered sufficiently in the guidelines, but we would encourage EREGG to request real time, online measurements of gas flows at interconnection points.

Question: What are your views on the implications of each for the measures for sector in which you operate? In particular, we are interested to understand the nature of the implications in a qualitative way.

Yara's position: We are convinced that the proposed measures will make cross border issues more transparent and uniform throughout Europe. This will make transportation of gas less complicated than it is today. Bundled products, we encourage strongly. We have experienced that transportation of gas from one region to the other has been complicated and time consuming to arrange, due to lack of coordination between TSO's.

Scope of Arrangements

Question: Do you support the scope of the draft framework guidelines proposed?

Yara's position: We think that CAM and CMP should be discussed together as they are to a large extent interlinked. LNG terminals and storages exit points should also have been included.

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Existing contracts

Question: What are in your views of the challenges that existing contractual arrangements create with regard to capacity allocation? What would be the possible ways to overcome those challenges?

Yara's position: It is not clear what ERGEG means by amending existing contracts – does it mean change of tariffs, duration, capacity or quality?

We think that a differentiation should be made between capacity reserved directly for large industrial consumers and capacity reserved for the portfolio for companies like the incumbents

At some interconnection points capacity is fully booked due to long term contracts. Most of this capacity is booked by incumbents. This creates two major problems - impossible to obtain capacity for new comers and low liquidity at the hubs.

When large industrial consumers make investment decisions, long term reservation of capacity is an important part of the decision. For ammonia producers like Yara, gas costs represents 80% of the total costs. We have to secure that we have capacity long term to the same conditions as we had when we signed the transportation contract. This applies to duration, level of capacity and tariffs.

Incumbent companies has a large portefolio and should be in a position to release parts of their capacity at interconnection points.

Question: Should relevant clauses in existing contracts be amended if they contradict the new legally binding set of rules (which will be based on the framework guideline) in order to create a level playing field for all shippers?

Yara's position: Again, it is not clear which clauses have to be amended. As mentioned above, we think capacity dedicated for a large industrial consumer should be treated differently compared with companies having a large portefolio.

Question: Experts have discussed if existing/legacy contracts should be questioned if certain conditions are met, in order to free up capacity, which would then be reallocated. Do you consider such aproposal appropriate?

Yara's position: If companies who have booked capacity do not use it, it is appropriate to to free up this capacity for a certain period of time unless they have a very good reason why they do not use it.



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TSO cooperation

Question: Is the scope of the identified areas of TSO cooperation appropriate to ensure efficient allocation of cross border capacity in order to foster cross-border trade and efficient network access.

Yara' position: It is important that the TSO's have a close cooperation. The aim should be to have uniform rules when it comes to eg. balancing and definition on when the gas day starts.

Contracts, codes and communication procedures

Question: Should a European network code on capacity allocation define a harmonized content of transportation contracts and conditions of access to capacity.

Yara's position: The general rule should be that there are uniform rules for contracts, codes and communication throughout Europe, unless there are specific national characteristics which require special rules. Uniform rules facilitate transportation between the regions.

Question: Should a European network code on capacity allocation standardise communication procedures that are applied by transmission system operators to exchange information between themselves and with their users?

Yara's position: We support this unless there are specific national market reasons which justify specific rules.

Capacity products

Question: What are your views of our proposals regarding capacity products?

Yara's position: We support strongly the idea that the TSOs offer jointly capacity at entry/exit points. This will facilitate crossborder flows. It is important to harmonise the measurement of capacity available. We recommend that the gas should be measured based on calorific value

Question: Do you agree with the idea of defining a small set of standardised capacity products that do not overlap?



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Yara's position: We support that there should be a limited number of capacity products (4-6). When the market become more liberalized, the number of capacity products may be adjusted if the market requires it.

Question: Should TSOs offer day-ahead and within-day capacity products?

Yara's position: In our view both products are important in a liberalized gas market.

Question: Should European TSOs offer the same capacity products at every interconnection point across Europe?

Yara's position: We have to realize that the level of liberalization of the European gas market is not uniform in Europe. This means that capacity products which are appropriate and needed in some countries does not work in others. This must be taken into consideration in the network codes.

Question: Should TSOs offer interruptible capacity also in cases where sufficient firm capacity is available?

Yara's position: We assume that the shippers want firm capacity. Only in cases where firm capacity is not available, interruptible capacity may be attractive. For this reason, Yara can not see the need for interruptible capacity if sufficient firm capacity is available.

Breakdown and offer of capacity products

Question: Should a reasonable percentage of the available capacity be set aside for firm short term capacity products?

Yara's position: "Short term" should be defined. Does it mean less than one month, one year or 5 years? In order to make access to the market easier for new comers, it is important that not all capacity is booked long term. There should be a percentage reserved for short term capacity (10-20%).

Cross-border products

Question: Recital 19 of Regulation (EC) 715/2009 states that gas shall be traded independently of its location in the system. Do you think that cross-border products will facilitate the exchange of gas between virtual hubs of adjacent markets?



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Yara's position: Cross border products will facilitate exchange of gas between virtual hubs. The present situation with booking of capacity from TSOs on both side of entry/exit point is complicated and time consuming. Combined products will enhance competition.

Question: Do you support full bundling of cross-border capacity into one single capacity product, including a limitation of the possibility to trade at the border so that gas is traded at virtual hubs only in order to boost liquidity?

Yara's position: We support full bundling of cross-border capacity. The liquidity is a major problem at many hubs in Europe (eg PSV in Italy). We realize that in some countries in Central Europe there will be difficult to establish a gas hub. An option might be that in such countries flange trading should be allowed in a transition period.

Question: Do you consider combined products to be appropriate interim step towards bundled products?

Yara's position: As mentioned above, this may be appropriate in some EU member states in a transition period.

Question: Should capacity at two or more points connecting the two same adjacent entry-exit systems be integrated into one single capacity product representing one single contractual interconnection point?

Yara's position: We support this idea because it will facilitate cross border transportation of gas.

Capacity allocation

Question: Should auctions be the standard mechanism to allocate firm capacity products?

Yara's position: In a fully liberalized gas market we believe that auction is the right method. In less developed markets it will not work to the best of the consumer. In such markets pro rata will be the best mechanism

Question: What would be the implications of using auctions for capacity allocation in the markets in which you operate? Is there any way in which auctions can be designed to overcome potential issues resulting from their introduction in those markets?

Yara's position: We would like to use Italy as an example. The difference in price between Zeebrugge and the Italian market last fall was up to 15 Euro/Mwh. What would be the price for capacity between Zeebrugge and the Italian border if auction was applied. Traders would be willing to pay 14.5 Euro/Mwh. 0.5 Euro/Mwh would be sufficient margin. The price for the end consumer in Italy would be more or less the same. The profit will end up in the pockets of the TSO.



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In this example, it is also a risk that the incumbent would offer 17 Euro/Mwh in order to avoid competition in the Italian market. They may even use this price as an argument to increase the gasprice in their market. We have a problem to see how to overcome this weakness of an auction process.

Question: Do you support pro rata allocation as an interim step? If yes, should pro rata allocation only be used in given situations or market conditions?

Yara's position: We support pro rata as a model in markets which are not fully liberalized.

Re-Marketing Booked Capacity

Question: Should the network code define harmonized firm secondary capacity products and anonymous procedures for offer and allocation of secondary capacity products in line with those on the underlying primary capacity market?

Yara's position: We support the idea of harmonized firm secondary capacity products. It is very important that the shipper who offers and the shipper who buys are anonymous. The rules should be the same as applied for the primary market.

Booking platforms

Question: Do you think that all capacity connecting systems of two adjacent transmission system operators should be allocated via a joint, anonymous, web-based platform?

Yara's position: We support the idea of booking platforms in order to facilitate transfer of capacity.

Question: do you agree that joint allocation of primary and secondary capacity products on these platforms would strengthen capacity markets?

Yara's position: In order to increase the availability of capacity, we believe that all capacity, both primary and secondary, should be offered at the same platform.

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