

Statoil's responses to ERGEG's public consultation paper on the assessment of Capacity Allocation Mechanisms and Congestion Management Procedures for effective access to storage and proposals for the amendment of the GGPSSO.

Introduction

Statoil owns storage assets both in the UK and Germany and is active in storage services and other flexibility products across Europe.

Statoil advocates a light touch approach to regulation of storage access. In other words, no regulation of storage beyond general competition rules and necessary transparency requirements. Our vision of how storage access should be regulated is a system encouraging transition to market based storage access. It aims to further develop storage as a competitive flexibility service and to enable a fully functioning flexibility market.

Statoil concurs with the results of ERGEG's assessment that Capacity Allocation Mechanisms (CAM's) and Congestion Management Procedures (CMPs') vary significantly across the EU. We strongly believe that these variations should be taken into consideration when establishing if any further rules are required. Making those markets where competition is thriving subject to the same rules as those where it is not will damage the development of those competitive markets.

The added value of amending the current GGPSSO is not immediately apparent as storage access regulation across the EU is too complex to be addressed through a one size fits all approach. Statoil see great value in enabling National Regulatory Authorities to assess the market for flexibility to define if storage facilities are essential to the market. This assessment will inform the degree of regulation required for each national market and as such what needs to be achieved in order to bring that market out of a heavily regulated environment. If facilities are essential, then some form of TPA is needed. If not then there is no need for regulation. Further guidelines need to be considered in this light or risk damaging new markets in order to bring enforcement. The focus should be on enabling gas markets to function and flexibility will be priced from this.

Reply to ERGEG questionnaire

Our replies should be understood as non- applicable until an effective competition test for flexibility services has taken place. We have indicated where this is the case.

(1) To what extent do you agree that auction is the best allocation mechanism for storage and what will be the implications?

Statoil fully support auction as the best allocation mechanism as it is non-discriminatory, transparent and economically efficient where regulated access is required.

However, due to the varying levels of competition auctioning might not be the most appropriate allocation mechanism for all national markets. It may be beneficial to allow for other bilateral arrangements where NTPA is the established access form as in competitive flexibility markets different participants may require differentiated services from flexibility providers.

(2) In your opinion, what are the most important aspects regarding transparency that should minimally be addressed by SSO's for both CAM and CMP?

SSO's should provide transparency data that is consistent with the third package.

Moreover, any decision related to capacity allocation should be communicated in a timely manner so that stakeholders are given sufficient time to comply with internal decision making procedures.

(3) In your opinion, what is most important when designing UIOLI (including products and contracts) as to leave a storage user the flexibility to use its storage capacity when needed?

The extent to which UIOLI is required will relate to the competitiveness of the whole flexibility market and should thus be considered as part of the market assessment.

In a fully functioning liquid storage market UIOLI is unlikely to be needed, as shippers have no desire to miss market opportunities, carry imbalance positions, not deliver on contracts, nor do they wish to pay for capacity, which they no longer require, provided they have the confidence that a proportion of capacity is available to meet shorter term requirements.

Statoil believes that firm long term UIOLI will decrease market stability through a decrease of firmness of capacity rights and will hinder investments through a decreased incentive to book capacity for the long term. In expected cases of abuse of position or hoarding, a case-by-case approach should be applied, through regulatory or competition authorities. This approach maintains the firmness of capacity contracts, whilst addressing specific cases of expected abuse.

In the shorter term UIOLI is complicated to apply to storage facilities as only parts of service are suited to UIOLI. In particular inject and withdrawal capacity might be made available to existing customers but making this open to broader non users could be problematic.

(4) In your opinion, to what extent should offered services and terms & conditions on secondary markets be standardised as to improve secondary trade of storage capacity? Is standardisation a way forward to enhance liquidity of secondary markets? What aspects of secondary markets (products, contracts, etc.) are the priorities to be harmonised?

The focus should be upon the standardisation of tradable units. In other words allowing those buying bundled units to unpack these products and sell the separate component parts (injection withdrawal and space). SSO's should facilitate these transactions as quickly and efficiently as possible.

(5) To what extent do you agree that (next to probability of interruption) pay-as-used can be applied as a pricing strategy for storage prices that are not regulated and what other pricing strategies would be suitable? How can pricing strategies incentivise new investment in storage and efficient use of storage?

Often long term commitments enable investors to underwrite the cost and risk of new developments. However, this area is especially dependant on the level of competition in the market for flexibility and who is undertaking the investment. For example an incumbent with a monopoly storage position should not be allowed to tie up capacity in a new storage facility for several years.

(6) In your opinion, to what extent do you consider that combined products (i.e. storage services offered at virtual hubs) of storage and transport capacities are a useful and efficient service?

Statoil view combined products of storage and transport capacities as a useful and efficient service but it may not be appropriate to force all storage facilities to take positions on virtual hubs. If customers want this service the SSO should be open to providing it.

(7) In your opinion, what market mechanism (incentive) should be in place to stimulate a storage user to offer any unused capacity on the secondary market?

Effective functioning gas markets should enable users to price flexibility. This should provide sufficient signals for users to offer capacity to the market. However, where markets are not functioning there would be less transparency over the price of flexibility. The extent to which incentives should be used should depend on the competitiveness of the storage market and the number of market parties with access to storage.

(8) In your opinion, to what extent is the (cross-border) offering of storage products/combined transport-storage products useful to market parties and what should these products (e.g. minimum requirements) look like?

Flexibility markets should not restrict the access to storage for specific functions. If a market functions correctly, this sort of issue should not arise.

Reserving capacity for specific cross border transactions could artificially constrict the market; greater benefits would be achieved by focusing on allowing gas markets to function properly and price flexibility effectively between markets. Users should then be able to price the relative merits of products both within the market area and nearby.

(9) To what extent do you consider the proposals will facilitate allocation and congestion management of storage capacity? What other measures should be in place?

Statoil would welcome a more detailed assessment of competition in the relevant flexibility markets in each country before any further guidelines or regulations are brought in. As we have stated above the differences between markets and their level of functionality represents complex challenges for regulatory authorities which a European

wide approach is not suited to resolving. While these rules may benefit some countries on the path to liberalisation others would suffer under unnecessary restrictions which would limit customer choice.

(9.1) In particular, what possibilities do you see to enhance efficient use of storage, reserved for public service obligations like e.g. strategic storage or other reserved storage? Under which conditions would additional use of such storage as (interruptible) short-term product or remarketing on secondary market be acceptable? Could you give examples from your day-day experience?

Storage clearly plays a crucial role in maintaining the security of supply in Europe. Statoil does not believe that there is a role for strategic stocks in European supply security and that these facilities could be used commercially within an appropriate framework which would incentivise storage users to be prudent users in the event of an emergency. In many cases strategic storage can represent a significant barrier to entry.

Capacity goes with the customer should be removed because it is not required for PSO. ERGEG should recommend that national governments remove these restrictions.

(9.2) In particular, what best practice for CAM and CMP should be in place for specific cases when parts of LNG terminal facilities potentially function as storage capacity? Could you give examples from your day-day experience?

NA

(10) To what extent would you agree NRAs should be endowed with additional competences in developing CAM and CMP?

Market conditions should determine the level of intervention required by a regulator. Where competition for flexibility is limited then there may be a strong case for imposing strict adherence to the GGPSSO.

It is important that ERGEG recognises the different stages of development of each market and the level of competitive access to flexibility services. Rather than a one size fits all approach ERGEG should take account of the market context dealt with by each NRA.

Each NRA should undertake to study the flexibility market of their country to determine the requirements of CAM and CMP.