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Dear Sirs

Assessment of Capacity Allocation Mechanisms and Congestion Management Principles for effective Access to Storage and Proposals for the Amendment of the GGSSO

Thank you for the opportunity to respond to the above consultation document. BP wishes to make the following comments. These comments are not confidential.

The issue of Capacity Allocation Mechanisms (CAM) and Congestion Management Principles (CMP) is rightly seen by ERGEG as an important process that has to be functioning correctly to enable shippers to operate in a liquid European gas market. BP welcomes the work ERGEG is doing in this field and hopes that its continued efforts will lead to a level playing field for all market participants.

Although we are supportive of ERGEG's ongoing work, we are concerned that some of the amendments being proposed to the Guidelines for Good Practice for Storage System Operators could be seen as being detrimental to a free market. It would appear that for most markets, access to storage is functioning well. Only a few countries seem to experience problems, these being the countries that have CGWC allocations. It may therefore be more efficient for NRAs in affected member states to tackle these issues at a local level, than to risk disrupting arrangements elsewhere. This would also allow specific local considerations to be taken better into account.

Consultation Questions

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

Auctions and open seasons should both be seen as efficient ways of allocating storage capacity. Where capacity is not congested then allocating short term capacity on a first come first served basis should not be an issue, provided the capacity has previously been offered for sale in an auction/open season. CGWC should not be allowed as this allocation method only allows shippers that have end users to have storage rights. This method of allocation is discriminatory to shippers that do not supply end consumers, and as such goes against the principles of the 3rd package. Nevertheless, we recognise that some transitional arrangements may be necessary to ensure that there is confidence that public service obligations in respect of domestic customers continue to be met.

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

For facilities under negotiated or regulated third party access, being able to see what capacity is available on a facility by facility level, what has been sold and for what duration, in aggregate so as not to expose a shipper's individual position. It is important to respect the confidentiality of users at facilities where there are fewer than 3 shippers; regional aggregation would be acceptable in these circumstances. Where this is the case at a storage facility they should not be exposed to greater commercial risk by obligation being placed upon the SSO to publish data on individual sites. At a regional or member state level, there should also be published aggregate data on total space capacity, injection capacity, withdrawal capacity and gas held in store, based on all facilities, including exempted and excepted facilities, those used for production, and those reserved for system or strategic use. Tariffs plus injection and withdrawal rates are also an important element that should be considered when looking at transparency. SSO's should also publish standard terms for access.

(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?

Before making a decision on how to apply UIOLI, the definition of what capacity would be seen to qualify for UIOLI has to be answered. What constitutes "use"? A great deal of the value of storage lies in the flexibility that it offers to the shipper. By restricting usage through placing a gate closure for UIOLI you are removing that flexibility which places a different, and most probably a much lower, value on the product. Shippers need the security that they can access their capacity at short notice, if UIOLI were to be applied when is the decision made that capacity is unused? If UIOLI is to be applied to storage then in our opinion it can only be applied as an interruptible day-ahead, within day product.

It would seem a far more reasonable option to encourage the development of an active secondary market for storage capacity and to facilitate construction of new storage capacity.

(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?

If the systems are easy to use and allow for certain condition to be set by the shipper, then secondary trading should take place.

Standardised terms & conditions can only apply to certain parts of the contract. Each storage facility is different and these differences will need to be taken into account when setting up individual secondary trading platforms.

The SSO is obliged under Article 22 of Regulation EC 715/2009 to facilitate the trade of capacity. As long as systems and information are in place and are clear then if there is a

market for secondary capacity it should become apparent, liquidity in the secondary market will follow liquidity in the primary market.

(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?

We do not agree with pay-as-used being applied to storage pricing. If the demand is there then the storage facility will be built / enlarged. In a liquid market the demand will set the price. In a competitive storage market it would not be appropriate to constrain pricing options if this type of pricing is demanded by customers. Where a market is not competitive, or where storage is regulated, this should not be the only pricing option available. When considering incentives to invest, it is important to distinguish between those building infrastructure in order to provide services for third parties, and those who build storage for their own use to support market entry.

(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?

The offering of this kind of product would enable new entrants to purchase storage and become active at the hub. We do not see this service as the only option that should be made available as shippers should still have the right to manage their storage portfolio as they see fit. But it should be seen as one of the products that an SSO could offer in a portfolio of products.

(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?

As shippers use storage as one of their main flexibility tools it is difficult to see what incentives could be used. A shipper will offer the capacity back to market if they are certain they do not require it. But to do so they need to have the appropriate systems in place to offer the capacity on. Access to platforms that are easy to use and meet the requirements of the shipper i.e. being able to see the counterparty should be a pre-requisite. If you have a liquid market then different products will be used by shippers to optimise their position. The offering and use of secondary capacity is just one of the products that could be available to market participants. Care should be taken that a mechanism designed to reduce market dominance does not impose unacceptable restrictions on smaller investors, thereby discouraging independent investment in 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?

The same requirements apply here as to question 6. It is also important to ensure that within-day renominations across borders are permitted in ways that allow storage in one member state to be used in another.

(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?

As stated above in most markets the access to storage is working without problems. The problem lies with a small number of countries and efforts should be concentrated there using the powers of the local NRA's.

(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?

Where member states allow strategic or other reserved storage, clear definitions of what it is, how it is to be used, and the amounts of gas and capacity held should be published. Where possible, there should even be competitive provision of the services. From that you can then design secondary products that take account of the obligations placed on that capacity.

(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?

These guidelines should not apply to LNG facilities. Storage that is constructed as part of an LNG regasification terminal should be subject to the same regulation as the rest of the terminal i.e. regulated or exempted as appropriate. Where gas is not physically removed from the system for storage, but provision of storage is reliant on turndown of production flows, this is a service which can be offered by terminal users on a virtual basis. It would be unduly complex and controversial to establish an arbitrary limit for the amount of storage that is necessary for production and to treat another part of the same tank under a different regime. This complexity may just discourage construction of additional storage at new terminals, which would be an undesirable outcome.

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

NRAs should be monitoring the market to make sure that it is functioning and that there are no obstacles to access. Article 26 of Regulation 715/2009, Rights of Member States to provide for more detailed measures, would seem an appropriate tool for the NRAs to deal with issues surrounding CAM and CMP.

We hope that you find these comments helpful. If you wish to discuss further please don't hesitate to contact me on the number above.

Yours sincerely

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