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ExxonMobil Gas & Power Marketing

8 October 2010

European Regulators' Group for Electricity and Gas
28 rue le Titien
B-1000 Bruxelles

ERGEG Consultation concerning
CAM and CMP for storage
Ref: E10-GST-09-06

By E-mail: CAM_CMP_storage@ergeg.org

Dear Sir/Madam,

ExxonMobil is a longstanding participant in the European gas business involved across the supply value chain including upstream production, storage and processing, LNG receiving terminals and marketing. As such we highly appreciate the opportunity to comment on the proposed amendment of the Guidelines of Good Practice of Storage System Operators (hereafter: GGPSSO).

ExxonMobil welcomes initiatives that improve the functioning of the European gas market and promote further gas market integration in order to facilitate cross-border trade, increase market liquidity and enhance security of supply. We support measures which are market based and ensure a level playing field for all market players and aim at the harmonization of gas regulations across the EU.

General comments

In this context we have appreciated the GGPSSO as a reference or benchmark for good practice in support of the implementation of the European Directive 2003/55/EC. However with the coming into force of the 3rd Package in March 2011 the GGPSSO have become legally binding in the form of Regulation (EC) No 715/2009. We refer to recital 27 of this regulation: "*Monitoring by the European Regulators' Group for Electricity and Gas concluded that the voluntary guidelines for good third-party access practice for storage system operators, agreed by all stakeholders at the Madrid Forum, are being insufficiently applied and therefore need to be made binding*". Considering that the tenets of the GGPSSO are now incorporated in a binding regulation, we do not see the added value of keeping with the GGPSSO post March 2011, and are surprised that ERGEG comes forward at this stage with a proposal to amend the GGPSSO.

We believe that it is (at least) premature for ERGEG to conclude that the 3rd Package is not sufficient to deal with - what ERGEG considers: "*problems in applying CAM and CMP*". This seems to ignore the fact that the 3rd Package includes important initiatives to improve third-party access to storage facilities. Moreover the 3rd Package aims to achieve a sufficient level of cross-border gas interconnection capacity, and to enhance competition through liquid wholesale markets for gas. We believe this will also benefit third-party access to storage services, both access to physical storage and access to flexibility instruments at the virtual trading hubs.

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We recommend that ERGEG give more consideration to the role that a well functioning liquid gas market can play to provide users access to flexibility. The virtual trading hubs can provide more transparency (through daily price reporting), more standard products (such as daily, weekly, monthly, quarterly, seasonal and annual products) and more flexible products (through continuous trade) than can ever be provided by access to physical storage facilities. Prerequisite for this to function is that storage users and other parties that can supply flexibility, have access to the gas market. This can be illustrated with the UK gas market that has access to (virtual) storage capacity outside the UK through the Interconnector and the BBL pipelines (see attachment).

Consultation questions

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

We support auctions as the best allocation mechanism for transmission capacity. However, we believe auctions are less suitable for storage where there are many competing suppliers offering different products, each tailored to the physical characteristics of the individual facility. We believe virtual trading hubs can play a major role in allocating flexibility services through a more or less continuous auction. Provided that storage facilities can access these trading hubs, the market will select the most efficient way to provide flexibility, either from caverns, pore storage, LNG or other instruments.

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

We support the transparency provisions for SSOs that are included in Regulation (EC) No 715/2009. This would make all relevant data available to all participants. However, in our view this information is more likely to be used by traders than for CAM and CMP by parties that actually intend to contract storage capacity.

(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?

We refer to Article 17(3) of Regulation (EC) No 715/2009.

(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?

In our view secondary storage markets need not be regulated as standard products to meet the demand for flexibility can more efficiently be supplied at the virtual trading hubs. Where liquid trading hubs already exist, users can buy and sell a suit of products on forward markets. In our view it should be a priority of regulators to use the tools available under the 3rd Package to enhance competition through liquid wholesale markets for gas across the EU.

(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?

The pricing strategy for a storage that is not regulated is part of the commercial strategy of the SSO in a competitive market and therefore commercially sensitive information. We believe it should be exclusively up to the SSO to decide whether to apply pay-as-used or any other pricing strategy. In a competitive market, the market itself will determine which strategy is most successful.

(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?

If there is a demand for combined products of storage and transport capacities then we believe the market will respond and make these services available. However bundling of storage and transport products should not be mandatory

(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?

We believe that (access to) liquid trading hubs is the best enabler to stimulate a storage user to make any unused capacity available to third-parties by buying or selling gas on the trading hub. In competitive markets it is in the storage user's interest to monetise unused capacity. The gas flows through the Interconnector and BBL pipelines shown in the attachment indicate that storage users in Continental Europe supply flexibility on the NBP.

(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?

We believe it is more efficient to focus on enhancing competition through liquid trading hubs for gas (see the response to question 4).

(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 explained above, we prefer other measures that help establish liquid trading hubs. We recommend not to introduce the proposed additional CAM and CMP requirements that make the GGPSSO more prescriptive in nature. It is our experience from our worldwide operations that regulations which are cast in general terms, rather than overly specific or prescriptive in language, are more conducive to promote the development of competition. Even well intended regulation is a poor substitute for efficient market solutions.

(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? We are concerned that the release of strategic or reserved storage - outside its intended use - could have unintended negative effects on the functioning of the gas market. When the market would anticipate the use of such storage this could suppress important investment signals.

(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? We refer to Article 17 of Regulation (EC) No 715/2009.

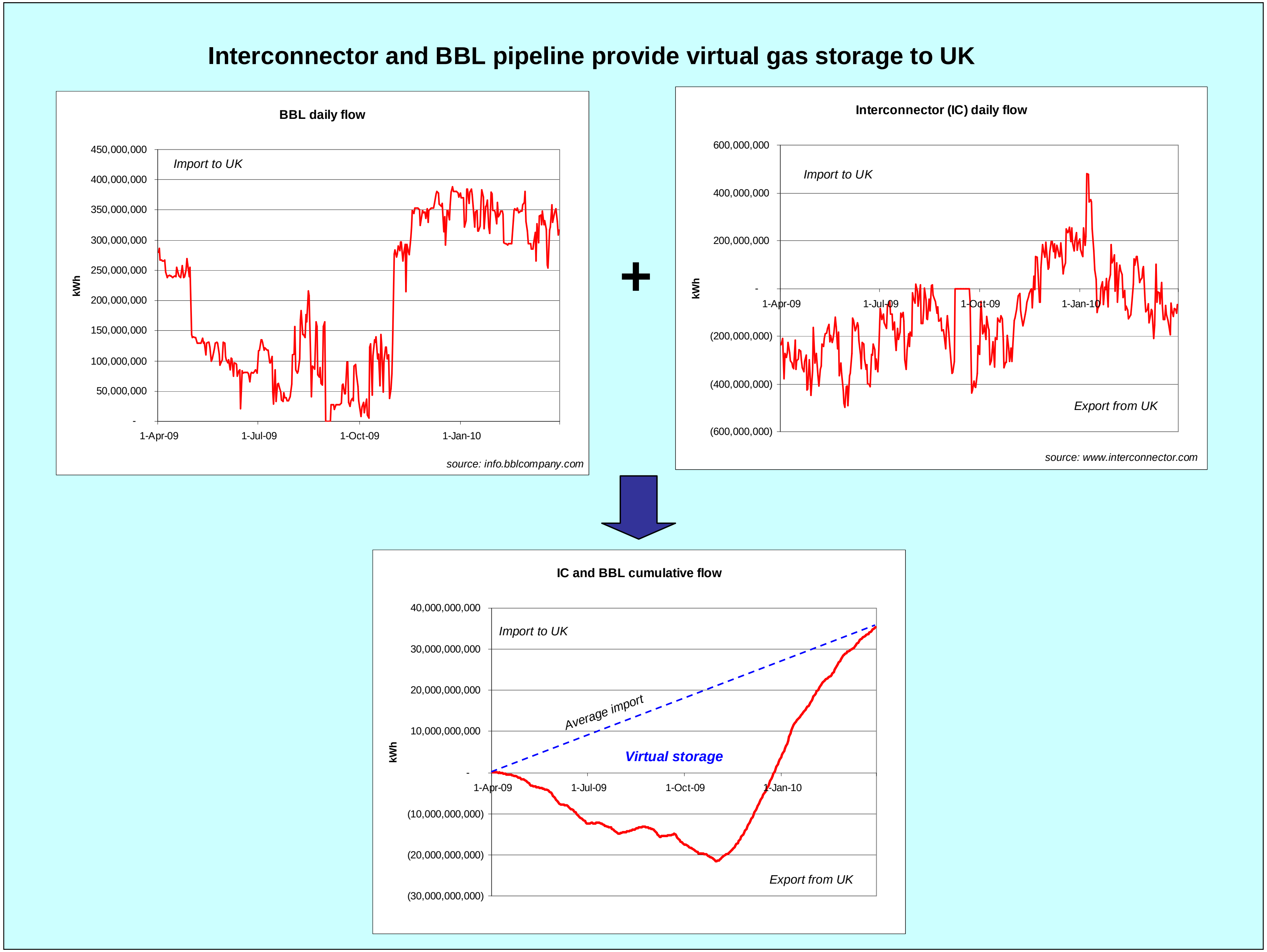
(10) To what extent would you agree NRAs should be endowed with additional competences in developing CAM and CMP? The proposed amendment of the GGPSSO should not be used to grant additional competences to NRAs beyond the powers established under the 3rd Package. In our view the provisions on CAM and CMP included in Article 17 of Regulation (EC) No 715/2009 establish a minimum degree of harmonization and should not require or enable NRA tailoring.

We hope the foregoing comments prove useful in the development of ERGEG's final position on amendment of the GGPSSO. For further information, or if you wish to discuss the above, please contact undersigned me on +31 76 529 2228 or kees.bouwens@exxonmobil.com.

Yours sincerely,

C.J.R. Bouwens

Kees Bouwens
Advisor, Europe Regulatory


Interconnector and BBL pipeline provide virtual gas storage to UK
BBL daily flow
Import to UK
kWh
450,000,000
400,000,000
350,000,000
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
-
1-Apr-09
1-Jul-09
1-Oct-09
1-Jan-10
source: info.bblcompany.com
Interconnector (IC) daily flow
Import to UK
Export from UK
kWh
600,000,000
400,000,000
200,000,000
-
(200,000,000)
(400,000,000)
(600,000,000)
1-Apr-09
1-Jul-09
1-Oct-09
1-Jan-10
source: www.interconnector.com
IC and BBL cumulative flow
Import to UK
Average import
Virtual storage
Export from UK
kWh
40,000,000,000
30,000,000,000
20,000,000,000
10,000,000,000
-
(10,000,000,000)
(20,000,000,000)
(30,000,000,000)
1-Apr-09
1-Jul-09
1-Oct-09
1-Jan-10