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Secondary Markets Consultation
Paper (Ref: E07-GFG-22-14a)

Dear Mrs. Geitona,

Thank you for the opportunity to respond to ERGEG's public consultation paper "Secondary Markets: the way to deal with contractual congestion on interconnection points". ExxonMobil International Limited (EMIL) provides advisory and other services to members of the ExxonMobil group of companies. Accordingly, EMIL is responding to this consultation paper on behalf of the members of the ExxonMobil group of companies active in various segments of the gas business within Europe. References to "ExxonMobil" in this response may refer to any or all of such companies.

Consultation question A:

Please comment whether you feel the outcomes of the qualitative and quantitative study on the performance of the secondary market in the North-West gas Regional Energy Market of the Gas Regional Initiative reflect the performance of the secondary markets in the whole of Europe.

ExxonMobil participates in the NW region and supports the Gas Regional Initiative as a stepping stone towards achieving a common internal European market for natural gas. We see no reason why the findings from a study in the NW region would not also be relevant for a large number of interconnection points elsewhere in Europe. However, it is important to recognise that the study in the NW region has its shortcomings. The qualitative part was based on interviews with a small number of stakeholders and the "findings" of this study should be handled with some reservation, especially when applied to the whole of Europe.

We do however support the recommended actions to improve the performance of the secondary market in the NW region by setting up a pilot for daily, day-ahead auctions of short

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term capacity. The main purpose of this pilot would be to identify and resolve potential practical problems with establishing secondary trading of capacity on interconnection points before implementing solutions on a larger scale. We support the ongoing effort and commitment by regulators, operators and stakeholders involved to overcome any barriers in order to start the secondary capacity pilot. A successful pilot could be a considerable step forward towards improving the secondary markets in the whole of Europe.

Consultation question B:

Please advise on how you suggest to improve the secondary market design for transportation capacity products (e.g. week/month/season/year(s)).

ExxonMobil believes that establishment of the secondary market is fundamental to increasing the flexibility of the transportation system. It allows access to transportation services in the event of congested systems. It increases the utilization of infrastructure and therefore reduces the cost of transportation. Proper mechanisms should be in place in order to incentivise both the TSOs and the shippers to sell unused capacity on the secondary market, especially in the event of congestion. We support a flexible process to acquire capacity on the secondary market that includes day-ahead, week-ahead and month-ahead capacity products. This would ensure sufficient flexibility to shippers to better manage their portfolios.

At the moment the pilot concentrates on day-ahead capacity. We recommend that when this first step is completed successfully, the trading of other transportation capacity products (e.g. week/month/season/year(s)) is considered as potential further enhancement.

Consultation question C:

Please comment on the possible ideas to enhance UIOLI provisions. Which possible (positive) incentives are there for shippers to offer capacity on the secondary market?

We agree that the interruptible capacity product is an important instrument to ensure a higher degree of flexibility of the transportation system and facilitate maximum utilization of the infrastructure. Interruptible capacity should be offered under clear and transparent conditions with prices determined through market clearing mechanisms like day-ahead, week-ahead and month-ahead allocation processes. The availability of information on system congestion and probability of interruption facilitates quite openly the determination of the market price for interruptible capacity.

With reference to the “possible ideas to enhance UIOLI provisions”, ExxonMobil strongly believes in the need for anti-hoarding mechanisms, but further believes that these should incentivise both the TSO and the shipper rather than impose capacity re-sale obligations on the secondary market. Where there is contractual congestion it is in our view an essential task of the TSO to maximize utilization of existing infrastructure where there is demand. To the extent that the TSO generates additional revenue from the sale of interruptible capacity this should not be part of the regulated revenue.

Consultation question D:

Please comment on the further thoughts on the way forward

We agree that the way forward should focus first of all on the day-ahead auction pilot. In addition we suggest that mechanisms are developed to incentivise both TSOs and shippers to sell unused capacity either as (interruptible) primary capacity or as capacity products on the secondary market. Furthermore there are other factors that - when improved - could act as enablers for the development of a secondary market for capacity on interconnection points, such as:

- + availability of information on capacity and flows, consistently across the network;
- + compatibility of procedures for bookings, nominations, allocation and reconciliation;
- + compatibility of gas balancing procedures.

Consultation question E:

Please feel free to provide us with additional comments

We would also like to take this opportunity to comment briefly on the draft recommendations included in the ERGEG working paper on the “Secondary Market Design related input to the 3rd package”:

- Obligatory offer of back-up service by TSO
We share ERGEG's concerns that such an arrangement is mixing the role of TSOs as carrier and supplier and therefore conflicts with Directive 2003/55/EC. Also when shippers have contracted transport capacity as a back-up to be used in case of supply distortions, shifting the responsibility for back-up to the TSO would not free up this capacity. For these reasons we do not support this recommendation.
- Limit the re-nomination right
This suggestion would not allow re-nomination rights to cover back-up needs. We believe that shippers who feel the need to contract back-up capacity to manage their risks should not be restricted in using the re-nomination rights.
- Primary capacity is offered on the same online platform as the secondary capacity
We agree that the market should be encouraged to facilitate an efficient trading platform.
- Harmonize product
We support the recommendation to harmonize products and contracts and encourage the regulators to request the services of EASEE-gas, an existing industry body, to develop and promote common business practices across Europe.
- TSOs should keep making clear that they are maximizing primary capacity
We support that TSOs are encouraged to maximize the utilization of the transport system. It is the responsibility of TSOs to establish the maximum capacity of their systems and to make this available to the market. Applying the “two % rule” to the maximum capacity established by TSOs is not supported as it interferes with the responsibilities of TSOs.
- ... more regulatory incentives to make use of the interruptible capacity products
We agree that improving both the primary interruptible product and the secondary market should be pursued as both serve to increase the utilization of existing infrastructure.

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- Operational design of the secondary capacity market

The recommendation that every form of trade of capacity has to be conducted over a single platform, including subletting of capacity and commodity swaps, is considered an undesirable restriction of the flexibility of market participants. This is likely to be counter productive in trying to improve the performance of the secondary market.

This response to the consultation has been sent by e-mail to secondarymarkets@ergeg.org and to fay.geitona@ceer-eu.org. If you have any questions, please do not hesitate to contact me or Kees Bouwens (telephone +31 76 529 2228 or e-mail kees.bouwens@exxonmobil.com).

Yours sincerely,



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