

ERGEG
Regional Initiative, North–West region
Attn. secondarymarkets@ergeg.org

Secondary Markets – the way to deal with contractual congestion on interconnection points

Dear Sir, Madam,

We welcome the opportunity to comment on your consultation regarding secondary markets and the way to manage contractual congestion on interconnection points. Statoil ASA ("Statoil") is an international oil and gas exploration and production company which markets its own and the Norwegian States gas to Europe. With our reserves on the Norwegian Continental Shelf (NCS) and deliveries to a number of different European countries the development of European capacity markets is of significant interest to us.

In general Statoil supports the efforts of ERGEG to improve secondary capacity markets and to optimise the use of capacity.

The first subject in the consultation document states the problems and suggested solutions to resolve liquidity problems on the secondary capacity markets. With reference to consultation questions C and D, we would like to state that Statoil agrees with ERGEG that the secondary markets are currently not very liquid, to some extent due to the lack of capacity being offer in these markets. Also we recognise that on some points there is congestion in the primary market, due to the capacity being sold under long term capacity contracts with new capacity taking a long time to be built. It is our view that the focus of ERGEG's efforts should be to improve the liquidity of the secondary market by improving the trading environment and suitable commercial and voluntary capacity measures. Resolving the issues on the primary market should be based on changes in allocation methodologies, instead of focussing on the existing long term contracts and mandatory solutions.

In Statoil's opinion long term capacity contracts are a valuable and useful asset to the gas market. Therefore, long term booking of capacity should have its place in the range of products offered by TSO's. Opening up existing long term contracts through the use of firm Use It or Lose It (UIOLI) can have legal implications and provides uncertainty regarding all capacity contracts that are concluded on both primary and secondary markets.

More fundamentally firm UIOLI provides the market with the same firm product as a shipper can purchase on the traded market, but the TSO often offers this capacity product at the same price as all other primary capacity. The possibility for shippers to get the same product through two different mechanisms will fragment the capacity market. It is Statoil's

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opinion that the use of firm UIOLI acts as a disincentive for the use of the secondary capacity market.

It is Statoil's view that optimisation of the use of capacity should take place through voluntary capacity markets and that interruptible UIOLI is used by the TSO's to incentivise shippers to offer their capacity on these secondary markets. That way the firm capacity offered through the secondary market should be more attractive and valuable than the interruptible product offered by the TSO.

In combination with the provision of Interruptible UIOLI TSO's also need to improve the information provided about booking and utilisation of capacity. This would enable the shipper to make an informed risk assessment of the likelihood of interruption and therefore place a value on both the interruptible UIOLI product and the products in the secondary market. TSO's need to increase the level of capacity information on all relevant entry and exit points, so that parties can get better indication of the chance of interruption. It should be possible for all shippers to view current information on booked, used and available capacities, aggregated per entry or exit point. Historical data should provide an overview of seasonal or daily fluctuations.

The second solution that ERGEG offers to offset the liquidity problem is based on the establishment of a traded platform for capacity auctions. Regarding consultation question B, Statoil highlights that as a member of EFET we support their views on the capacity auctions pilot. It is imperative that such an auction pilot starts as soon as possible, so that the results can be assessed to determine the use of such auctions to the market. A pilot can assist in determining the way forward, as it will show the interests of the market and can point out possible bottlenecks.

Even though we support the auction pilot plans, Statoil also stresses the need for a broader solution which will ensure that all European TSO's facilitate the secondary capacity market in a harmonised manner. This is a prerequisite for any secondary capacity market to function; TSO's must facilitate the transfer of capacity rights between shippers. This solution should ensure that capacity rights are transferred by the TSO in the shortest possible time, after a trade is concluded. We would like to focus the attention of ERGEG to the work that has been done in this respect by EASEEgas. As the chair of the secondary capacity trading task force of EASEEgas Statoil fully supports the Common Business Practice (CBP) which is has recently been submitted for approval and will hopefully be made public by the end of this year. This CBP describes the processes surrounding the transfer of capacity rights by the TSO through a web based system, which allows for very short transfer lead times. This web based system is to be implemented by all TSO's in Europe and will function as a basis for all capacity trades, whether they take place through auctions, on a continuously traded platform or on the basis of bilateral deals between shippers. We would like to ask ERGEG to take the views of this EASEEgas CBP into account when dealing with the issues surrounding the secondary capacity markets.

As a final comment on the way forward for the secondary capacity markets Statoil would like to state that voluntary capacity measures should always have a preference above

mandatory measures, like UIOLI. And although we do appreciate the need in some situations for the use of mandatory measures, purely to act as an incentive for parties to use the secondary markets, we stress that these measures should never hinder the use of voluntary measures. It is Statoil's view that the secondary capacity market can develop in a commercial manner, supported by European harmonisation and transparency on capacity information. We envisage an active role for the regulators in encouraging TSO's to facilitate the trade of capacity.

On the subject of confidentiality, we appreciate ERGEG's wish for transparency and do not object to the use of our comments. Statoil trusts that our remarks and observations will be taken into consideration. Should you have any questions or comments, please contact undersigned via phone (+44 7824 303 828) or email (Helga.Franse@Statoil.com).

Yours faithfully,

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