

ExxonMobil International Limited
MP 42, ExxonMobil House
Ermyn Way
Leatherhead
Surrey KT22 8UX
+44 (0) 1372 223037 Telephone
+44 (0) 1372 223160 Facsimile
debra.pennington-bick@exxonmobil.com

Debra Pennington-Bick
Manager- Europe Regulatory



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Mrs Fay Geitona, CEER Secretary General
European Regulators Group for Electricity and Gas
28 rue le Titien
1000 Bruxelles

ExxonMobil's Response to ERGEG Principles: Capacity Allocation Mechanisms and Congestion Management for Gas Transmission Networks (E09-PC-36)

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 were keenly interested in the ERGEG Consultation published on 26th January 2009 looking at capacity allocation mechanisms and congestion management principles for gas transmission networks.

We support ERGEG's initiative to encourage TSOs to maximise the capacity offered and provide new entrants with better access to capacity. We believe these efforts will be of benefit to all energy market participants allowing transmission capacity to be optimised and ultimately maximising freedom of choice for customers. To this extent we agree with ERGEG that these principles should focus on gas transmission networks and other infrastructure, with different operating drivers, such as LNG Terminals and storage, should remain out of scope.

Specifically ExxonMobil supports a number of these measures including the focus on improving capacity at congested cross border/interconnection points as well as harmonising the interoperability of adjacent TSO's (e.g. timing of open seasons, technical & operational collaboration). We further agree that TSOs should continue to facilitate the sale/purchase of secondary capacity and should not extract fees from shippers which would unfairly disadvantage either party. To achieve this it is necessary to ensure transparency of capacity availability, including web based platforms for primary and secondary capacity allocation.

When we look at providing a range of opportunities to purchase capacity (2.3.1), >5 years, 1 year, 1 month < 1 month we agree that this provides shippers with increased flexibility and reduces capacity hoarding. In order for this to work effectively, supporting processes would need to be put in place, or example methods to allocate capacity such as auctions, low limits on the amount of capacity held back (propose 10% max), and a clear timetable for capacity release. We do have some reservations about the concept of "long term" UIOLI which allows TSOs to take future capacity bookings away from a shipper because that shipper has failed to utilise that capacity in the past. There may, of course, be good reasons for this and it doesn't remove the future need. . For UIOLI to work, rights to firm capacity would need to be retained by the initial capacity holder and additional interruptible capacity released. The concepts work effectively in the UK as part of the overall capacity management process,

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ExxonMobil House, Ermyn Way
Leatherhead, Surrey KT22 8UX

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implementing any of the concepts in other countries would need to be handled very carefully and viewed as part of an overall programme.

We are concerned though, that some proposed principles may have unintended negative consequences that could restrict the effective functioning of the transmission systems and ultimately the gas market and hindering liquidity and transmission investment. Anything that potentially slows down infrastructure investment will naturally result in a detrimental effect to the consumer.

Aspects of concern

- As a principle, we believe that TSO's should not provide bundled products. Bundling hides the true cost of providing a service and leads to a lack of transparency. It could also mean shippers having to purchase products they don't fully need leading to a lack of optimisation of the system. TSO's should, however, work collaboratively to maximize the capacity released at border points and provide shippers with *the option* of booking corresponding capacities on either side of the border, preferably using a single platform to create 2 transactions via 1 request with full transparency (e.g. Eucabo). We believe that it is important for shippers to have a range of choices for capacity purchase, facilitated by TSOs, in order to maximise cross-border trading activities. Furthermore TSO collaboration should aim to prevent situations where capacity is stranded at one side of the border or the other due to contractual inconsistencies
- Regular reassessment of baselines by TSO's brings with it a danger that capacity congestion points may take away capacity from the market without warning. In cases where baseline reassessment may provide increased capacity at congestion points, the process by which this is done should be thought through carefully and should comply with a published calculation methodology. A number of lessons can be learnt from the recent introduction of the TTSEC in the UK. This now allows shippers to relinquish capacity and for NGG to re-offer capacity to others. In addition NGG evaluate if unused capacity at one location can be used to provide additional capacity at congested points, thus increasing short term utilisation. However there has in the past been experience where, for example, Teesside's baseline was halved in NGG's price control (as part of the TSO's review on capacity buy-back exposure) which significantly impacted the investment incentive to the floating LNG terminal that Excelebrate was building. It is important for all parties to understand on what basis the TSO sets the baselines, whether it is on a physical or theoretical basis, this data should be published.
- If incentive regulations are put in place to encourage TSOs to provide mechanisms to better manage capacity congestion then there is a danger that new capacity holders are at a cost disadvantage to existing capacity holders, hence limiting its effectiveness.
- G2.3 - If TSOs have an obligation to offer to buy-back sold capacity surrendered by shippers, in order to manage a constraint, this may lead to a general practice of overbooking capacity in a speculative manner, again providing a disincentive to primary optimisation of the system.
- G4.1 – We generally have concerns that re-nomination rights might be limited in some way in order to provide a firm day-ahead UIOLI process. There are many reasons (usually offshore shutdowns etc) why a shipper may need to revise nominations and switch delivery point at short notice and these operational requirements should not be limited or penalised when the intention is to provide the TSO with the most accurate and timely information available.

I hope these comments are useful and if you have any questions please do not hesitate to contact me

Debra Pennington-Bick
Manager - Europe Regulatory