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27 September 2005

Mrs. Una Shortall
CEER
Rue le Titien 28
1000 Brussels
Belgium

ERGEG public consultation on
Gas Balancing

Dear Mrs. Shortall,

We welcome the opportunity to respond to the public consultation on the ERGEG Discussion Paper on Gas Balancing on behalf of our respective affiliates. ExxonMobil International Limited provides services and advice to European affiliates of Exxon Mobil Corporation on gas regulation and market liberalization issues. Those services include consultation with ministries, regulatory and cartel authorities within EU states on gas regulation and gas market liberalization issues.

We believe that the dialogue between the European Regulators Group for Electricity and Gas and all members of the gas industry is essential to establishing market rules that best facilitate the development of the European gas market.

We welcome the well balanced ERGEG discussion paper for public consultation on gas balancing. We agree with ERGEG that the balancing principles should take into account both the shippers' and network operators' interests.

In our view balancing rules should be consistent with the development of an effective open market, provide appropriate incentives for both the pipeline operators and the shippers and facilitate the appropriate sharing of risk and reward.

We agree with ERGEG's view that it is the primary responsibility of network users to balance their input and offtakes whereas it is the network operator's responsibility to maintain physical balance to ensure the efficient and safe operation of the system.

The European gas market currently utilizes a wide range of services to facilitate the shipper's responsibility to balance input and offtake of gas, e.g. daily versus hourly balancing, the ex ante and ex post trading of imbalances, online flow control services and certain tolerance levels offered by network operators. Given the current range of services and systems it is vital that appropriate interoperability mechanisms are put in place to ensure there is no hindrance

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to transportation across systems and across Europe. In this regard we believe the development of a common framework which encourages harmonized balancing mechanisms and rules for all transportation systems across Europe is to be welcomed.

We agree with ERGEG that balancing rules need to be designed in a fair, non-discriminatory and transparent manner and based on objective criteria. In our view, the set-up of each system's balancing regime should take into account the technical design and operation of the respective pipeline system, the needs of shippers, and local producers' existing and future gas production requirements. It must be recognized that overly restrictive pipeline balancing regimes may lead to an unnecessary increase in demand for production flexibility. This in turn may result in negative impacts on the performance of the reservoirs and an overall reduction in the ultimate gas recovery which corresponds to an impact on the overall security of supply.

We believe that it is important that market participants are provided with sufficient, well timed and reliable information about their pipeline balancing positions that allows shippers to manage their balancing risk and to renominate in due time to avoid imbalance charges. Additional publication burdens should be carefully analyzed. Shorter balancing periods are more challenging both for the transportation operator and the shipper because the pipeline operator needs to publish more detailed and specific information almost on a real time basis and the shipper must be able to analyze and utilize this information within the balancing period. This complexity and increase in IT costs may make it increasingly difficult to justify shorter balancing periods given the lack of tangible benefits to the market.

Although we see a need for a common framework solution robust to multiple systems care must be taken when designing a balancing framework. We consider the following aspects as being essential when designing a harmonized framework:

- Reduction of number of balancing zones where technically feasible;
A large number of balancing zones in some cases may hamper the development of a liquid European gas market. In our view the number of balancing zones should be decreased where technically feasible.
- Implementation of market based balancing systems;
Whereas in our understanding shippers should have an appropriate incentive to exercise their responsibility to balance their input and offtakes we are of the opinion that in some cases charges for imbalances go well beyond this aspect. In our perspective any harmonization of balancing regimes should therefore aim in the direction of market based balancing systems. The charges for imbalances should be allocated in line with the marginal actions taken by the transporter to maintain the system integrity.
- Implementation of ex-post pooling of imbalances;
We agree with ERGEG that it is the primary role of shippers to balance their inputs and offtakes. However, it is important that the balancing of input and offtakes can be done by the shippers after the balancing period, e.g. by trading of imbalances.

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We hope that these comments prove useful in the further development of the ERGEG discussion paper on gas balancing and we would be very happy to discuss our comments in more detail directly with you. If you have any questions please do not hesitate to contact myself or Gabriele Haas (+44 20 7412 2911).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Peter P. Clarke', is positioned above the printed name.

Peter P. Clarke