Shell Energy Deutschland GmbH
Postfach, 22284 Hamburg
Suhrenkamp 71-77, 22335 Hamburg
Germany
Internet http://www.shell.de/erdgas

Bundesnetzagentur für
Elektrizität, Gas, Telekommunikation, Post und
Eisenbahn
Beschlusskammer 7
Tulpenfeld 4
53113 Bonn

Via email: Marktgebiete@BNetzA.de

Hamburg, 24.08.2016

**Re: The procedure for amending the regulation of a conversion system in cross-quality gas market areas (Az: BK7-16-050) - 2nd consultation**

Shell Energy Deutschland GmbH (SEDG) welcomes the opportunity to provide comments in response to this consultation. For the avoidance of doubt, please note that this response is not confidential.

The KONNI Gas Regulation in 2012 was aimed at facilitating and enhancing competition in cross-quality market areas. Beginning 2016, L-gas balancing energy purchases have significantly increased in the market area of Net Connect Germany (NCG) leading to high volumes of balancing energy. KONNI « 2 » targets the cross-quality balancing difficulties and the costs encountered by NCG.

BNetzA proposes two possible options to recover the Market Area Managers' costs: an ex-ante approach and an ex-post approach. SEDG believes there are two key principles that should guide consideration of which proposal is preferable:

a) The '*Polluter Pays*' principle to ensure that market participants'efficient behaviour minimizes overall system costs: costs should be levied on parties who cause them and avoid the distortive effect of the alternative, ie. being socialised across all market participants.

b) Avoiding unnecessary regulatory risks and subsequent adjustments: ensuring cost recovery for the Market Area Managers to reduce the need for a subsequent smearing of any revenue shortfall.

While we do not consider it to be entirely free of any shortcomings, SEDG would favour the ex-post rather than ex-ante approach as being more in line with these two principles and the overall objective of the reform. The reasons for such a view are detailed below.

<u>The proposed ex-ante option would deliver less efficiency and have unintended negative implications</u>

The ex-ante option would effectively appear to represent a continuation of the current conversion cost recovery mechanism. In combination with the proposed capping of the conversion fee this approach will most likely lead to an under-recovery for the Market Area Managers, thus leading to uncertainty for system users regarding the scale of a subsequent conversion neutrality charge. Such a charge would also represent a socialization of costs rather than any attempt at cost-targetting to drive efficent behaviour and lower overall costs.

Moreover, this option would likely prove problematic for a number of other reasons. The issues are detailed below.

System users shipping L-Gas volumes from other markets into Germany, who could help resolve the underlying issue of the scarcity of L-Gas, will be burdened with the conversion neutrality charge and may face problems recovering the costs of conversion. In particular, their contractual arrangements might not readily or easily allow for recovery of a charge that could change over the period of the supply contract. This issue is exacerbated in the case of longer term contracts.

Equally there would be a negative impact on storage. Under the ex-ante approach storage would have a double exposure as flows would have to pay the conversion neutrality charge at the entry into the market area and at the entry from the storage facility, raising concerns regarding:

- the competitiveness of German storage facilities versus storage located in neighbouring countries and other sources of flexibile gas; and

- the negative impact on incentives for long-term bookings.

Further to the above:

- due to the neutrality charge NCG would also become less attractive for transit flows to help in case of congestion; and

- the uncertainty of the conversion neutrality charge could also be a barrier for new market entrants who would not know more than a year out how the conversion neutrality charge might change.

Considering the combined impact on storage, transit flows and attactiveness of the market for new entrants, the overall effect on security of supply in Germany would be negative. Given the recent focus on this area, we believe this is something that BNetzA would be looking to avoid.

However, under unspecified circumstances it may be that the Market Area Managers will need levy a conversion neutrality charge. If so, such a charge should be allocated at all exit points rather than on physical entries. More fundamentally, it is not immediately clear how the ex-ante option will address the root cause behind the increase in costs incurred by the Market Area Managers, which we believe is a lack of timely within-day L-gas deliveries.

Such an approach would therefore have to be accompanied by additional measures to ensure:

a) more efficient balancing behaviour by system users; and

b) that any market participant causing an imbalance is not able to profit by virtue of subsequent Market Area Manager balancing actions.

Finally, we note that an ex-ante approach will require a greater market monitoring role for the BNetzA. In particular, the BNetzA will need to be satisfied that the balancing market is operating efficiently and not unduly leading to costs that have to be recovered by a subsequent socialised neutrality charge.

<u>The ex- post approach would deliver better cost targetting and more certainty, while not solving all issues</u>

We believe that this approach, together with transparency in the demand of quality specific balancing energy and status information regarding the conversion requirement, has several advantages over the ex-ante option:

a) it would provide a more precise steering effect on minimizing conversion volumes and balancing energy volumes;

b) cost-targetting would be enhanced as costs could be more accurately recovered from those parties who give rise to them;

c) cost-recovery would be more certain as the overwhelming (if not all) costs would be recovered by the conversion fee, thereby significantly reducing the need for a separate neutrality charge, if one at all (any residual conversion costs could be integrated in the balancing levy); and

d) cross-border trade or flexibility of gas storage facilities would correspondingly thus not be charged and the attractiveness to supply quality-specific gas would increase.

An additional and practical advantage is that reimbursements would not be an issue with this option. In the ex-ante option market participants who have paid the conversion neutrality charge would need to be reimbursed first, while those who paid the conversion fee would be reimbursed afterwards. This misalignment would be avoided in the case of the ex-post option: as no separate conversion neutrality charge is required, no reinbursement will be needed.

Conclusion

SEDG believes that the ex- post approach would deliver better cost targetting, more certainty and avoid some of the unintended negative implications of the ex-ante approach. However, we are not entirely convinced that either of the proposals will address all and potentially more fundamental issues regarding cross-quality trading and the balancing energy market. In particular, we note that both proposals focus on re-allocating additional costs, whilst we consider that measures that might reduce these costs should be developed.

While supporting the ex-post approach, SEDG would, therefore, encourage the BNetzA to consider developing alternative means and proposals aimed at enhancing the efficiency of the balancing energy market. We are at your disposal for further exploration of other options.

I trust that you have found the comments in this response valuable. Please do not hesitate to contact me should you require any clarification or have any questions.

Yours sincerely

[redacted]

Vorsitzende der Geschäftsführung der SEDG

Regulatory Affairs Lead Germany