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Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen
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Statoil response to the consultation on the conversion system

Berlin, 22 April 2016

Dear Sir or Madam,

Statoil ASA welcomes the opportunity to participate in the consultation on the future of the German conversion system and the decision to review the KONNI Gas decision.

We welcome the decision to openly discuss the future of the conversion system and the situation in the German L-gas market. The “stress test” of the recent months has shown that the current system has its weaknesses that need to be addressed. The consultation document prominently points to the fears regarding the future availability of L-gas. To us, the best answer to these concerns is accelerated physical conversion of end-consumer exits from L-gas to H-gas (especially of the largest consumers) and increased capacity of conversion facilities.

As the largest gas producer on the Norwegian Continental Shelf, a significant supplier and importer of H-gas to Germany and a shipper with substantial capacity bookings with German TSOs, Statoil is directly affected by all changes to the German conversion system and their impact on transport tariffs.

In our view, the main weakness of the current system is that all shippers can be forced to pay a significant conversion charge on their entry flows, without however getting any tangible advantage in return. The current situation in the NCG market area, with a conversion charge of 0.15 EUR/MWh and a conversion fee of 0.453 EUR/MWh, means that a shipper without a L-Gas portfolio (own production or import contract) needs to pay the charge, but is still unable to make competitive offers in the L-Gas market area.

We therefore believe that the future conversion system should consist of either a fee or a charge. A recovery of all conversion costs via a fee would keep the L-Gas market separate from the H-Gas market and liquidity at low levels, but arguably also keep the overall conversion volumes and costs faced by NCG and Gaspool lower.

Recovering all conversion costs by a socialised charge would allow for real integration of each German market area, but would have many negative consequences if it is levied at the entry level.

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From the perspective of an international producer and trader, an on-top charge on entries makes the German market areas less attractive in comparison to neighbouring markets in North-Western Europe. As a result, flows from the Norwegian Continental Shelf to the German market areas could be reduced, while flows to neighbouring markets are likely to increase.

Ad-hoc charges on top of regular transport tariffs (like the conversion charge under KONNI Gas or the market area conversion fee) are not helpful if the regulator and TSOs wish to incentivise long-term capacity bookings. As a large gas producer, Statoil commercially plans some of its gas flows a couple of years in advance and would therefore normally be inclined to make longer term bookings. However, the current German experience of increases of ad-hoc charges at short notice – which do not give companies the right to cancel long term bookings – act as a clear disincentive to enter into long-term capacity bookings. We therefore strongly urge the regulator to enforce earlier announcements of changes in top-up charges and fees. Shippers should know the level of the conversion charge before they book capacity at least with regard to yearly products for the next gas year. Increased transparency with regard to publication of the conversion account is also needed – the balance of the conversion accounts should be published five work days after the end of each month, using preliminary data where needed.

Ad-hoc charges on top of regular transport tariffs also make storage bookings and storage use less attractive. The current ad-hoc charges on entries (conversion charge on NCG) and exits (market area conversion fee) counteract the intention of BEATE to grant discounts at storage entries and exits.

This is why we believe there are only two possible ways forward: recovery of all conversion costs via a conversion fee applied to converted volumes, or recovery of conversion costs via a charge applied to all end-consumer exits, but not at entries nor IP and storage exits.

We understand that security of supply considerations and concerns regarding future Dutch L-gas production are an important background to the proposed changes to the conversion system. It is however questionable if a high conversion fee will really have significant security of supply benefits and can keep L-Gas availability at the necessary levels. Beschlusskammer 7 points to the link between earthquakes in the Groningen area and reduced L-gas production. It seems counterintuitive to argue that a conversion fee can be an effective tool to uphold production in such a situation.

Statoil believes that the answer to concerns regarding future L-gas availability should be accelerated physical conversion of end-consumer exits from L-gas to H-gas and increased capacity of conversion facilities. Regulator and network operators should look at opportunities to quickly convert the largest L-gas consumers to H-gas while in parallel continuously converting household exit points and distribution networks. It seems that the opportunities for quickly converting the largest L-gas consumers to H-gas have not been fully exploited in the conversion timetable (“Marktraumumstellung” process) so far, especially where this implies a switch from TSO A (offering the existing connection to the L-gas network) to TSO B (which could offer the alternative connection to the H-gas network). Such physical conversion measures seem much more effective to guarantee security of supply than an “optimised” system of conversion fees and charges, which

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would prolong the physical problem of L-gas demand surpassing L-gas supply. Lower L-gas consumption from industry and power plants would leave more L-gas available for households and small businesses, increasing the security of supply of the latter and reducing the pressure to speed up the onerous process of changing burner tips in each household.

Statoil also believes that it is doubtful from a competition point of view if the regulator aims to protect long-term import contracts from certain producers while those of other producers have not and do not receive such protection.

Finally, and with regard to high costs of commercial conversion in recent months, we believe that a review of the balancing gas procurement procedures of NCG and, to a lesser extent, Gaspool, is needed. We support the proposals made by association EFET on that matter, like the introduction of within-day capacity products at storage entries and exits.

We would be happy to discuss any of the abovementioned points in further detail in a bilateral meeting.

Yours sincerely,

Vice President Government and Regulatory Affairs, Head of Berlin Office
Statoil ASA