

REPORT OF THE HEARING May 14 2018, 13.00 – 14.30

Case number: ACM/14/023224

Subject: NC TAR

Present on behalf of Board of Directors ACM:

Mr De Wildt	DE, chairman of the hearing committee
Ms Langedijk	DE, member of the hearing committee
Ms Van der Zande	DE, member of the hearing committee
Ms Ter Telgte	DE, member of the hearing committee

Present on behalf of market parties:

Ms Spijkstra	GTS
Mr Jonk	GTS
Mr Kleinhout	GTS
Mtr Van Heumen	GTS
Ms Stirnberg	Nuon Vattenfall Energy Trading Netherlands BV
Mr Meuzelaar	Utility Support Group BV / VEMW
Mr Van de Worp	VEMW
Mr Tiktak	Gate Terminal
Ms Bolhoeve	TAQA/VGN
Mr Van de Vegt	TAQA Energy
Mr Joustra	TAQA Energy
Ms Frans	ENGIE
Mr Dales	NOGEPA
Mr Stolk	Essent
Mr Alfring	Essent
Mr Frank	OMV Gas Marketing & Trading GmbH
Ms Kosinova	Gazprom Export LLC
Ms Bronina	Gazprom Belgium
Ms Lipkouskaya	Gazprom Belgium
Mr Braun	Uniper
Ms Steckhan	Uniper Energy
Mr Bilstoft-Jensen	DONG Energy
Mr Rahls	BP
Ms Boots	Energie Nederland
Ms Geerts	Energie Nederland
Ms Sykes	Shell

Mr Oosterling Gunvor International BV

Ms Vahley VGN

Ms Fikkers VGN

Ms Boost Statoil

Mr Van Giesen PZEM

Report:

Mr Janssen ACM Report Services

The Chairman opens the hearing and welcomes everybody present. The hearing is on ACM's draft decision on the implementation of NC TAR. During the hearing all parties are allowed to express their views on ACM's draft decision that was published on March 3 in an oral statement. The uniform public preparation procedure as described in Dutch administrative law applies to this decision.

ACM decided that all parties are allowed to express their view on the draft decision.

ACM asked all parties, that registered for this hearing, whether they would like to make an oral statement, and if so how much time they will need for their statement, and if so how much time they will need for their statement. He sums up which parties will make such a statement. He asks if there is another party present that wants to make a statement.

He points out that all statements are recorded for writing the hearing minutes. The minutes will be sent to all parties involved. Any comment on the minutes will not change them, but the comment will be added to the case file. He asks those present not to bring forward new arguments or information in the comment on the minutes. Just react to what was said during the hearing.

He points out that the hearing is public. If a speaker wants to use confidential information, he asks him/her to say so in advance, so appropriate measures can be taken.

He introduces the members of the hearing committee.

He invites Dong Energy to speak first.

In these minutes the statements of parties are written down as they were spoken

Mr Biltoft-Jensen:

Thank you very much. Actually we changed our name to Orsted. But nevertheless thank you for this opportunity to make the oral intervention. Orsted, former Dong Energy, is a long term participant in the Dutch gas market, and you are well aware. Let me turn to the issue of the draft proposal for the NC TAR. We commented on the GTS-proposal back before Christmas, which we were quite happy and pleased with. So I will not go into the points we made in that regard, but that was most related to the market and how a 0/100 entry/exit base could support the market. Rather I would focus on the proposal now, the 50/50 entry/exit, and I'll do that mostly out of legal, or mostly legal aspects.

First of all ACM uses cost reflectivity as the main argument for the 50/50. ACM assumes, but they have done no real analysis, that entry and exit costs are equal and should be equally divided between entry and exit. This brings us to the first comment. If you look at the GTS-system, then it includes both a high pressure grid and a medium pressure grid. They are called HTL-grid and RTL-grid. The RTL is supplied from the HTL-grid and RTL-grid. The RTL is supplied from the HTL-grid by a measuring and control station, where you lower the pressure to the medium level. So when you have gas in the RTL-grid, it cannot move into the HTL-grid. So we just keep that in mind. To take the ACM view that then you should divide everything 50/50, I think that is reasonable to say that the RTL can be considered like distribution, because you cannot move from there into the high grid. So they should be allocated to the exit-zone. And if you take at face value that the HTL-grid should be divided

equally, then that would lead you to a separate, or to another distribution of the GTS costs. Because RTL is fully related to the exit, whereas the HTL is divided 50/50 between the two. Either though of course you can argue that that is the right division, you can also do (*one word unintelligible*) on the capacity, but let's just keep for that. Because the RTL-grid was separated into a separate company in 16 and 17 as you look at the annual reports and you take the comparable numbers for what are the costs for the RTL and the HTL and you summarize what I just said 50/50 HTL and 100% exit for the RTL, you actually arrive at a cost reflective level of around 35/65 like the one we have today. Sort of summing that up just by having a desktop analysis, you can easily arrive at another distribution than 50/50 if you use cost reflectivity as the basis. That is well worth noting.

So what is the impact of this then? After we have booked capacity at the Gate terminal, at that point it was about 1 euro per MW/h. And now the cost is 1.4. If we were to move to a 50/50-regime, that cost would move up to around double of what was originally booked, so just around 2 euro per MW/h. And that leads us to the next legal observation. In the 2009 Regulation, it is stated in article 13, that tariffs should provide incentives for investments. For having those incentives, it is important for the TSO that there are shippers, who are willing to take on long term commitments. For shippers to take on long term commitments, you need to have a certainty around the stability of the system. And changes should only be made for what you could call good cause. We have already seen an almost 50% increase in the tariffs, and this based on an offhand assumption of a 50/50 split of GTS. That would bring us up to doubling our costs. We do not see that this is in line with the principle of supporting investments in infrastructure, simply because for that to happen you need an understanding that the regulator will support a stable framework.

Then the last point. That is perhaps touching on the work that is behind making the 50/50 split. It touches on the Dutch principle for good public administration in the Awb. It has several sections. Section 3.2 deals with the careful preparation. I think here it is fair to ask if the 50/50 is a result of careful preparation. Article 3:4 deals with proportionality. And here it is fair to ask if it is proportional to increase costs of single shippers by 50%. Article 3:46 deals with proper reasoning. And here it goes back to if the assumption on a cost split taken offhand is proper reasoning.

So just to sum up we think that there are really strong arguments that say: even if we only in our cost reflectivity as the guiding principle – and there are other principles in setting up the entry/exit split – you should arrive more at a 35/65 split than at the 50/50. We hope that more analysis will go into this from ACM-side.

The Chairman:

Thank you. I have a question just to understand what you just said. You mentioned that there is a split between the high pressure grid and the RTL-grid, and you used this as an argument for a different entry/exit split. But exit-point are either on the high pressure grid or in the regional grid. So should there in your view be a distinction between those two types of exit-points?

Mr Biltoft-Jensen:

What I did was a high level look to what the GTS-system is constructed of, so I haven't really been around that. It is more saying that there is a system here that consists of a high pressure. Then you lower the pressure moving to a medium pressure from where you cannot move back into the high pressure. It sort of resembles a distribution grid and distribution will normally be allocated 100% to the exit costs. So why not take the RTL costs and follow into the distribution? That is an answer as good as I can give.

The Chairman:

One other question. It wasn't entirely clear whether you propose that ACM should use 35/65 as an entry/exit-split or that we should further investigate.

Mr Biltoft-Jensen:

I think you should further investigate basically, cause what I've done is a desktop analysis in my chair back at the office. There is a need maybe to look into some of the issues you just raised whether that should call for another fine tuning of it. But certainly I think it needs to be taken into account so it would move to a 35/65 split.

The Chairman invites Energie Nederland to speak next.

Ms Boots distributes speaking notes dated May 14 2018. A copy of those notes is added to this report as Appendix 1. She delivers her speech as it is written in the notes.

The Chairman:

Thank you. I have a question about the ex-post discount for interruptible capacity. You mentioned that Energie Nederland thinks that interruptible capacity has a different economic value and therefore should still have an e-ante discount. In our draft decision I think we have stated that the chance of interruption or the possibility of interruption is near zero. So in your view what would this mean for ex-ante discount? Would you prefer a very small ex-ante discount over more substantive exposed discount?

Ms Boots:

Yes, because important is that the optionality or the flexibility is there. So it is up to the market parties, who can think for themselves or analyze the risk of being interrupted. While exposed as it says, they can't do anything anymore and they don't have any options anymore

The Chairman:

Then I have a question about backhaul capacity. I think what you are trying to say is that backhaul is always interruptible. But how should we relate that to the over subscription and buy-back mechanism, that can be used to buy back capacity rights? GTS can offer backhaul-capacity on a firm basis because she has to buy back those capacity rights through an auction mechanism. I am just wondering whether this is one of the reasons why it may be the case that backhaul is offered as firm capacity in the Netherlands, where it is not offered in the same way in other countries. Maybe this is a too detailed question.

Ms Boots:

For me it is too detailed. But at the moment it is offered interruptible.

The Chairman:

It can be offered both as firm and as interruptible. And it will still be the case, but the only difference is that there is no ex-ante discount according to our draft decision on the interruptible capacity. I am just wondering if this is a separate argument? Or is this basically the consequence of not having an ex-ante discount for interruptible capacity?

Ms Boots:

I think we have to think about that further. We will return to that.

Ms Van der Zande:

I have one more question on the ex-post discount for interruptible capacity. You say that it provides more transparency on the drivers for interruption. Can you explain that a little bit further?

Ms Boots:

We will leave that for now. We will return to it later.

The Chairman invites ENGIE to speak next.

Ms Frans:

First, ENGIE would like to welcome the opportunity provided by the ACM to state its view on the draft code amendment decision for the implementation of NC TAR.

Secondly, ENGIE will share its position on the topics, which will or could have big impact when the current system is compared to the system in place after implementing the NC TAR on January 1 2020.

ENGIE does not support the option 0/100% suggested by the GTS, because in the precise case of the Netherlands it is against better integration with other EU-countries. We share the analysis of the ACM that a 0/100 entry/exit-split will not attract additional transit flows. Gas, which enters the Netherlands, should partly exit the Netherlands as well. If a 0/100 entry/exit-split would be introduced, the exit-tariffs on the border points would increase dramatically, which would even result in less transit flows.

In general ENGIE supports the multipliers and seasonal factors proposed by the ACM. The shorter the capacity bookings, the higher the multipliers should be. In the proposal of the ACM there is no distinguish between multipliers at the border points and the domestic exits. For the gas consumers connected to the distribution grid, no multipliers are currently applicable at all. Therefor we would like to request low or no multipliers and seasonal factors for all domestic gas users. This will support the level playing field position of the gas fired power plants in the Netherlands, which is essential for the security of supply in the context of the energy transition. Low multipliers and seasonal factors are required to allow them to run in a flexible way. This will also stimulate the integration between the gas and the power markets.

Backhaul capacities cannot be considered as firm as they depend on forward flows and can be renominated to zero any time during the gas day on which GTS has no control. In such a case the backhaul capacity would be interrupted without any technical option to avoid the interruption. Therefor it seems pretty obvious that GTS cannot guarantee the firmness of these capacities and then an ex-ante discount reflects the risk value associated to the interruptible characteristic of the capacity.

The competitive disadvantages of Dutch storages is significant compared to the storages in surrounding countries, as underlined by the KYOS in its report 'Assessment on the level of transport costs for gas storages in the Netherlands', published on September 26 2017. The gas storages currently have a competitive disadvantage compared to German storages. The tariffs there are much lower. This difficult economic situation is in particular due to the high transport costs in the Netherlands. With the decrease of the Groningen production the available flexibility will further decrease. To meet security of supply measures should be taken to avoid the closure of the storages, in which case it would take years to rebuild some. ENGIE advocates for a storage discount of 100%. ENGIE supports the fact that this service will be remunerated only via the entry/exit-tariff. However, the description of the service must be detailed to avoid any misunderstanding. In particular the condition to invoke a shift of capacity being exceptional, temporary circumstances of an operational nature is too vague and could lead to different interpretations.

With regard to accelerated amortization periods in recent years we noticed less capacity bookings. And based on the goals of the Dutch government to phase out gas, this trend will continue in the next decade. To accelerate the amortization period is not the solution, because such an option would result in sky rocketing tariffs and means a further unjustified transfer of risks from TSO's to shippers holding long term transmission capacity bookings and final gas consumers. It would further deter short term capacity bookings and triggering a concentration of costs on the last holders of capacity bookings and remaining final gas consumers at an absurdly high unitary tariff with no mitigation

solution for shippers and final consumers, who cannot afford to switch to power or cannot do so for technical reasons. The policy of the Dutch government should not have a negative impact on the gas TSO's, shippers and consumers. It's costs should be socialized more widely. And a demand also for ACM to take that into account.

And finally the implementation of the NC TAR changes the Dutch tariff-system dramatically. These changes are no simple tariff-changes and can have a big impact on the business-activities of network users. Therefor ENGIE requests to have the right to adjust its capacity bookings.

The Chairman:

Thank you. I have a question about the multipliers and seasonal factors. You first said that you thought that the multipliers and seasonal factors as proposed by ACM are OK in general. But then there was a remark that the multipliers and seasonal factors are not applied on certain points. Could you repeat that?

Ms Frans:

The capacity bookings for the customers, who are connected to the regional grids, they are allocated to the shippers and they pay one time the yearly tariffs. So there are no multipliers. There is a seasonal impact, but in total they pay one time the tariff per year. Only the customers who are connected to the national grid paying multipliers and seasonal factors if they have short term bookings.

The Chairman:

Just to see if I understand it correctly. This is about the allocation and the pricing of capacity on exit-points to local distribution companies.

Ms Frans:

Yes.

The Chairman:

And on those points tariffs are calculated on a monthly basis by multiplying the monthly fraction which uses the multipliers and seasonal factors.

Ms Frans:

But the sum is always one hundred.

Ms Van der Zande:

You spoke about the effect of the Dutch policy to decline the use of gas and that it should not have effect on shippers, TSO's and consumers. Can you maybe elaborate on what exactly we should change in the NC TAR decision to take this into account?

Ms Frans:

A good question, but also a difficult question to answer in this hearing. But we can elaborate on it more in detail in our return position.

Ms Van der Zande:

That would be great, thank you.

The Chairman invites GTS to speak next.

Mr Kleinhout distributes speaking notes dated May 14 2018. A copy of those notes is added to this report as Appendix 2. He delivers his speech as it is written in the notes.

The Chairman invites TAQA to speak next.

Mr. Joustra distributes some slides dated May 14 2018. A copy of these slides is attached to this report as Appendix 3. He then speaks.

Mr. Joustra:

I've only got a couple of slides and not enough copies for everybody, so I will share the three spares if somebody wants to.

First of all, thank you ACM for putting a lot of work and effort and keeping to the timeline of NC TARR. That is quite a task, and it is a real opportunity for a fairer, simpler and transparent system, which is needed. And maybe it is also time for something that we in the business would call a settlement or a compromise, but for governmental institutions maybe an 'integrale afweging' or other word-type, I don't have it in English.

It has been mentioned we have some big challenges and big changes ahead. Groningen will be reduced or brought to nil, and the government policy is 'van het gas af' or 'stop using gas'. That is also a discussion for NC TAR we believe. It will have dramatic effects on the tariffs. And volume risks – and this is a volume risk – should not be offloaded NC TAR says, so this is an opportunity to bring tomorrow into today.

Talking about gas storages – we are here for gas storages. TAQA is the operator of gas storages Bergermeer and Alkmaar as you know. We do a turnover with GTS of some sixty million a year, so we are sort of at par with VEMW I think in size. Not that we like that of course; it rather be a bit lower.

We thought the 0/100-split was this opening and opportunity. It has as been said by GTS many fair and reasonable elements, like the 84 entry-points against over a 1.000 exit-points. It can't be that they all cause the same costs, if you look at capital costs, which is a large element of tariffs. Of course it costs more to build 100 points than 80, and we think operational will also a noticeable difference between the 80 entry-points and over a 1.000 exit-points.

The RTL versus the HTL-grid has been discussed with also points at a different split, and of course electricity has this example.

If we talk to the current policy, which has been referred to by others being 'less Groningen and less gas usage', then it would be in line with that policy to charge at the people who burn the gas, which is an incentive not to do it, which is apparently what the government wants, and not to charge at the additional supplies, that we would need to fill up the gap left by Groningen. For instance small fields and green gas and what have you, we need more gas in the system.

We also think that the extra transit streams as proposed by GTS would be a good idea, cause we split the bill over more users. We don't think this is an illegal distortion of gas streams. You had some questions and we will come back to that in our written statement. We think this is GTS wants to sell its product and has a tariff structure in mind that fits it. It is not a distortion of trade.

Finally we think that our gas storages deserve a little bit of recognition and payment for the things that aren't paid by the current users, like the security of supply and flexibility. A 0/100 would be helpful for us.

Would that hurt everybody else? Not necessarily. We haven't done a full calculation, but the end-user will pay both entry and exit in any case. And the extra gas transported through the system may reduce the costs in the Netherlands and that would be good for all.

There are many elements and many levers in this system, which can be used, and they all have different effects. So we sort of were thinking: is there a simpler and easier solution that ties back into what most people are saying. We can see that in the 0/100-split. Then we'll swallow our demands for a higher rebate on gas storages. That is between 100 and 50% and then we will just accept that is 50. We can also swallow then the stamp-tariff rather than the capacity weighted distance, which is – if

we calculate it for our facilities – maybe not the best solution. And we won't argue about the seasonal factors and the other day and week and sort of off year products. And then the other point that we can then may also rest our case is that there can't be a uniform capacity-tariff for big users, because – it is very easy to visualize – if you build a pipe line that is twice as big, it won't cost you twice as much because the construction costs are not really in the size of the pipe. And the capacity goes at least times 4, which is if I am not mistaken because of the square in the calculation of the service area. So the service area goes times 4, the price goes maybe times 1.2, so there isn't a direct relation for a very big user between capital costs and capacity booked.

The Chairman invites Uniper to speak next.

Ms Steckhan:

Thank you first of all for the opportunity to give a statement regarding your draft decision. We are going to comment on the entry/exit-split, as this is the most crucial point for Uniper as a shipper importing gas to the Netherlands. As Uniper we do not support the proposed entry/exit-split of 50/50, as this proposal is not in line with the criteria of cost reflectivity and cross subsidization. First, there is no formal obligation in the NC TAR to apply a 50/50-split for the postage stamp, but only for the counterfactual model. Also, the 50/50-split does not lead to equal and balanced allocation of costs, because the current entry/exit-split seems to be more cost reflective. And introducing a 50/50-split leads to a huge shift of costs to the entry points. An increase of cost allocation of 10 to 15% for entry tariffs has a huge impact on shippers importing gas to the Netherlands. Also a shift from the current system leads to cross subsidization from exit points to entry points, because the increase of the entry/exit-split leads to an even higher tariff for entry points. And my final general remark: attracting gas to the Netherlands to maintain the competitive position of the Netherlands is on the one hand of general public interest and is also explicitly foreseen in the NC TAR in the benchmarking tool in article 6.4. Thank you.

The Chairman:

Thank you. I have a question. You stated that the proposed entry/exit-split of 50/50 is not a balanced allocation of costs. I was just wondering if you could explain why you think so. Or will you do that in your written statement?

Ms Steckhan:

We will do so in our written statement.

The Chairman:

Thank you. Then I have one more question. In your last sentence you mentioned the benchmarking tool in article 6.4. Do you mean that this tool should be used to attract gas?

Ms Steckhan:

It refers to the discussion we had when GTS presented the 0/100-split and the discussions we had about the general issue about attracting gas to the Netherlands. I seemed to us the ACM-opinion is to not have this considered as this is not foreseen in the NC TAR. In our view there is an argument that in the benchmarking tool it refers to not attracting gas in itself, but this is at least something that has to be considered as a general interest for the Netherlands and for shippers in the Netherlands.

The Chairman invites Vattenfall to speak next.

Ms Stirnberg:

Our presentation will focus on four items, which are most important for Nuon Vattenfall: the entry/exit-split, the seasonal factors and multipliers, the discount of storage tariffs and the pricing mechanism of interruptible capacity products.

With regard to the entry/exit-split of 50/50 we welcome the ACM to introduce the 50/50-split. This is also because Nuon Vattenfall is an owner of gas fired power plants. And regarding the role of gas fired power plants in the Netherlands in general, they can be used as a flexible back up source for renewable energy production. They have the ability to be quickly started and stopped and they can be used as a baseload and a back peak load plant. Currently, gas fired power plants experience a lot of challenges. A future decreasing annually utilization, meaning the transport tariffs may become a significant part of the costs of operating a plant. Hence, that could lead that it is questionable when it continues this way about the further operation of such a power plant, and even considering mothballing or even the closure of such a power plant. Whereas the proposal by ACM with regard to the fifty/fifty shows a regulatory arrangement, which actually makes the use of a gas fired power plant more efficient. And it supports the role of gas fired power plants with regard to the flexible back up for energy transition. I am meaning that it can be used, gas can continue to be back up as a storage facilitator for renewable energy in the Netherlands for the transition phase for instance.

Secondly, the seasonable effects and the multipliers. Overall, we see a ratio why multipliers and seasonal factors should be introduced. However, we believe that the multipliers and seasonal factors, in particular multipliers for day ahead and within day capacity should be decreased as they are picked at the outer edge of the possibility given by the network of tariffs. ACM states in the title 80 that there should be a necessary balance between short term trading and long term contraction of capacity. We believe that setting the multipliers of 2.5 as proposed at the moment for daily and within day, there is the question whether there will be a balance with such a high multiplier. What is the risk of a high multiplier for within day and daily capacity products? It particularly hurts the flexibility of the portfolio in terms of managing a balanced portfolio. Meaning that gas fired power plants have less incentive on a short term basis to power imbalances. If you are asking what kind of multipliers we should propose, we say OK, the same as the monthly multiplier which is a 1.5.

Thirdly, the discount for storage tariffs. We are highly in favor of the proposed 50% as proposed by the ACM. However, we (*one word unintelligible*) the possibility proposed of an extension for seasonal factors for storages. What is the role of a storage? A storage is a seasonal asset itself, so why should they have a seasonal multiplier or seasonal factor anyway? Cause I mean there is a higher end use on demand in the winter time for such a storage. So therefore seasonal factors for gas storages should not be applicable. There might even be a risk of premature closing of such a gas storage and that should be avoided. What are the advantages of gas storages in general for the Netherlands and also for Europe, and now I am also talking about the security of supply discussion within Europe. Security of supply first place. The balancing of GTS is also secondly. And last the system of flexibility for both intraday and also inter seasonal variation is demanded. We urge the storage facility should not be closed prematurely, and also that unreasonable costs should be burdened on storages.

Last point about the price mechanism when it comes to interruptible capacity. We favor an ex-ante pricing mechanism and therefore oppose or do not support the ACM-proposal with regard to the ex-post mechanism for interruptible capacity. What is the nature of an interruptible capacity product? Well, one thing, it is less valuable compared to firm capacity, so that should also be mirrored in the tariff. And it is offered any way only when there is no firm capacity available by GTS. If it is ex-ante shippers can take the costs of booking such capacity in consideration beforehand not afterwards in order to see what capacity flows will be interrupted. Ex-post discounts make interruptible capacity even less attractive than they already are at the moment and might even lead to the elimination of such an interruptible product on a general basis. So hence, we see that ex-ante discounts should be introduced mirroring also the likeliness of being interrupted. So how many days have been interrupted in the past, that should also be mirrored in the final tariff of such an interruptible product. Thank you.

The Chairman:

I just have one question just to be clear. You are proposing that we apply the same seasonal factors as in the draft decision, but that seasonal factors are not applied on entry or exit-points to gas storages.

Ms Stirnberg:

Correct yes.

The Chairman invites VEMW to speak next.

Mr Meuzelaar distributes undated speaking notes in the Dutch language. A copy of those notes is added to this report as Appendix 4. He delivers his speech in the English language.

Mr Meuzelaar:

Thank you mister Chairman for giving us the opportunity to express our vision. I have to apologize that the statement is distributed in Dutch, but I will try to present it in English.

On March 1 the ACM published its provisional decision on the implementation of the European Commission Regulation 2017/460 with regard to the harmonized transmission tariff structures for gas. This Regulation aims to contribute to market integration, to improve security of supply and to promote the interconnection of European gas networks.

Increasing transparency for network users about the revenues for transmission system operators is crucial in this respect. The aim is to let the gas flow the most efficient way with the rates having to reflect the most efficient costs. The scope of these allowed revenues for the transmission system operator is determined on the basis of the well-known Regulation 715/2009, which regulates the conditions for access to the gas transmission networks. So the network code in question does not deal with the amount of the permitted income, but it is about the distribution over its network users.

European market integration through harmonized products promote efficient, competitive prices and better services. VEMW emphasizes that the efforts of the TSO's to give substance to this international harmonization is seriously inadequate at this moment. This observation is confirmed by the members of our international sister organization IFIEC. This is the international organization for energy intensive customers in Europe. This also applies to GTS, that wants to use this Regulation to improve its own position in relation to the other TSO's, for instance via the 0/100 entry-exit split of the allowed revenues, in which the entry-tariffs are all in fact completely abolished and all costs will be charged on the exit side.

This free provision of transport capacity to importers and shippers will be at the expense of course of the exit-users and will lead to cross subsidization in favor of suppliers, shippers and transit parties and will of course be at the expense of the domestic exit-users. A 0/100 split is also in conflict with the 'causer pays principle', since the aforementioned exit-users can in no way influence the transport costs. One consequence could be for example even that shippers book less storage capacity, with the result of a decreasing security of supply.

VEMW endorses the analysis of ACM in its paper 'The effect of the entry/exit split'. The ACM concludes that the attraction of gas is not an aim of the present European Regulation and that a 0/100-split can lead to an even contractual congestion, hoarding of capacity and perverse incentives regarding investments. VEMW supports the 50/50-distribution proposed by the ACM, which also best matches the intended harmonization and is explicitly mentioned in the Regulation. Gas prices are determined by supply and demand and the European market integration with liquid virtual market

places offer the best guarantee on low market prices for gas and the realization of necessary investments in the infrastructure. There is no proved relationship between the gas price that is generated at the TTF on the one side and the transport costs incurred to deliver gas on the TTF on the other side. Transport costs differ per supplier and transport is only one of the cost components that have to be recouped in the market price.

VEMW is neutral with regard to the distribution income on the various domestic exit points. We are neutral about a weighted average distance or a post stamp. We don't have fundamental objections to the post stamp as a method to determine de reference price. In principal we think this methodology fits well with a decoupled entry/exit-system, whereby the trading places and interconnection points are becoming more and more virtual. An all-in rate as proposed as a post stamp is OK for us. However, this all-in tariff may not be at the expense of transparency of tariffs. After all, transparency is the heart of the Regulation. However, VEMW likes to emphasize that due to the change of choice with regard to the reference price methodology, there will be large differences on a regional level compared to the current distance related method. This means that some exit-users may have other considerations about transport cost optimizations. Individual services for which there was no interest in the past, can be attractive in the new tariff constellation. So VEMW regrets that the short haul option had disappeared and requests ACM to restore this possibility.

With regard to multipliers and seasonal factors VEMW argues that the level should be in such a way that it prevents free riders behavior and cross subsidization. As with railways an annual contract per trip should be cheaper than an occasional ticket. So by keeping annual contracts attractive, TSO's have more certainty in their income so that any risk premiums are limited and transport costs could not become more expensive than necessary.

We conclude that harmonization is *the* method to promote market integration, increase security of supply, and reduce costs for end-users. ACM's proposal for a 50/50-distribution of the entry/exit-split minimizes cross subsidization and is in line with the principle of cost orientation, as a result with the basic principles of the current European gas Regulation.

VEMW opposes a zero tariff for, let's say only for the entry, because it does not end up with the costs of gas transport with the parties that can influence the costs. So it is very important that incentives for shippers and other suppliers and GTS itself are missing. This will certainly go to the expense of the efficiency of the gas transport system and possibly lead to additional investments in the future. VEMW is of the opinion that must lie with parties that can influence the costs, so gas end users on exits have no influence on transport costs at all and are exposed in the GTS-proposal to a tariff system in which they pay considerably more for a less efficient transport system.

VEMW concludes that harmonization is the means to promote market integration, increase sustainability and security of supply of the exit users.

The Dutch copy is the official version.

The Chairman:

Thank you. I just have a question about short haul. It is stated that VEMW would like to see the option of booking short haul maintained. But it wasn't said why. Could you explain that or will you do that in your written statement?

Mr Meuzelaar:

There are some members who calculate also in the new tariff constellation that it could be much more interesting when they could make an opportunity to have the option of short haul, especially some companies in the north of the Netherlands. And I realize that up to now this short haul option

has not been used many times, maybe even zero. However, in the new situation this could be a very attractive option, which is also cost reflective. That is why there were proposals and questions from our members to reintroduce or to let this short haul in place.

The Chairman invites VGN to speak next.

Ms Vahley distributes some slides dated May 14 2018. A copy of these slides is attached to this report as Appendix 5. She then speaks.

Ms Vahley:

We want not to step too much in detail, because our position is well known and presented last year during the workshop, we highly appreciated to participate in. Today we would like to have a wider scope, just to remember where we are coming from and where we currently are with storages.

Last year in September there were two reports that we want to mention shortly. That was the Brattle report, ordered by GTS, and the KYOS report, ordered by ACM. The Brattle report comes to the conclusion that generally it is more efficient to import at a higher load factor and to use the storages nearer to the final customer to provide flexibility. And using the Dutch storages, then they have benefits both for TTF-flexibility and also for security of supply. They also run model calculation, so the Brattle says OK, the transport costs are making up two-third of the value of a storage at the market. The opportunities Brattle sees at the moment, and they refer then to NC TAR or what NC TAR perhaps might adapt for the future: lower the entry/exit-tariffs for storages to encourage storage operators to stay in the market and even to build up new storage sites. And use the possibilities NC TAR is offering with the reduction of a minimum 50% for storage sites. And they come to the conclusion or even see the opportunity: the entry/exit-tariffs for storages shall be at an equal level to cover the fixed and the variable costs a storage site has, so they are still interested to run their business.

The other report, published on the same day, was the KYOS report. And KYOS looked at the level of the transport costs between Dutch gas storages and German gas storages. They come to the conclusion that storages themselves are not in a favorable situation at the moment, because of the low summer/winter spreads. That the investment costs currently in the market could not be re-earned. But they come to the conclusion that it does not harm the market too much, because the storage operators are currently stuck in long term commitments for the transport capacities. And they don't see risks that storage operators, due to their low income, will step out of the market and will remain, because they have these long term commitments. But they say, OK, there might be an issue for the future, but not earlier. What they see, the only thing that they definitely see for the future of supply: there might arise something for L-gas. Not for H-gas but for L-gas, but they could not foresee that they, let's say added it to the Groningen production.

So, those were the reports of last year. What has happened now already in 2018? In 2018 we see that there was a proposal of the Ministry of Economics to amend the Gas Act with regard to the production out of the Groningen fields. In this draft they pointed out that gas storages are delivering daily and seasonal capacity and flexibility, and that Groningen is not able anymore to deliver peak supply, or even balance the system in peak situations. So that this balancing function would definitely decline in the future. And in that case the storages will definitely play an important role in flattening the Groningen production and take over the responsibility. Within their proposal GTS, the national grid operator, should propose among other things the optimal use of the gas storages of market players. And this optimum use may be an available measure to reduce the Groningen production. Therefore they pointed definitely out that storages play a very important part within the gas market. And further on, in this winter, in February and March, we see that it was a very, very cold winter for a long period. The view we have presented (*see slide 1 on page 4 of Appendix 5*) is very small. But we

just did a short comparison over one month, starting end of February to end of March. The red one is the production, the dark blue is the import, and the turquoise is the volumes in percentages of the market that are coming out of storages. So in this month we see that 30 to 40% of the gas is coming out of storage sites. It turns out that storage sites are very important.

You know our position from last year about the NC TAR. We are not so glad about the draft you made now. We see three things we would like to discuss further on, perhaps also in bilateral talks. And we definitely want to hand in some more detailed writing, depending of the discount, the entry/exit-split and the multipliers, with regard to this background that storages should stay in the market and that they go on playing that important role, even if the market changes with regard to the production. We just wanted to point out that we need to discuss or even to refresh our thought about what is written down in the draft of the NC TAR issues. Just keep storages alive. And we don't talk about purely L-gas storages, because Groningen is an L-gas production. We are talking about both. We are talking about H-gas storages and L-gas storages, because of what we have seen during the cold-spell. H-gas storages are usually withdrawing during that time, because we have a disruption of the H-gas supply, so the conversion of gas could go on into H-gas. And the L-gas storages also contribute for they are directly injecting into the grid. The market needs storages. Please pay attention to that in the NC TAR implementation. Thank you.

The Chairman:

Thank you, we don't have any questions.

I think we have all the statements. Is there anybody else who would like to make a statement?

Ms Boots:

I have a question more of a procedural kind. What happens next? We can bring in written statements. And then?

The Chairman:

There will be written statements. And then we will work on the final decision. Regarding the timing: the NC TAR states that we should take a decision within five months of publishing the consultation. So that would be October 28 to be precise. We are aiming that the GTS-tariffs for 2020 will be in line with NC TAR.

Ms Geerts:

Is it stated five months after the draft decision of ACM or after the publishing of the NC TAR? Because five months after the publishing of NC TAR is within the end of August instead of the end of October.

The Chairman:

There is an obligation for ACM to consult in article 26 and 28, and there it is stated that five months after concluding the consultation she should take the final decision.

Mr Kleinhou:

I have one more practical point. I noticed that the percentages I wrote in paragraph 8 of my speaking notes are the other way around. Where I said that there was 45% costs for HTL costs to the exit, it should be 55, whereas in regard to entry it should be 45. So the 45 and 55 are the other way around.

The Chairman:

Thank you very much.

Any other remarks of statements?

Then I hereby close this hearing.

- Appendix 1: Speaking notes Energie Nederland, Ms Boots
- Appendix 2: Speaking notes GTS, Mr Kleinhout
- Appendix 3: Slides TAQA, Mr Joustra
- Appendix 4: Speaking notes VEMW, Mr Meuzelaar
- Appendix 5: Slides VGN, Ms Vahley