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By E-mail: EK-CODATA_NG@nmanet.nl

Dear Sir/Madam

Reference: 103650 - Market consultation on the Research into gas flexibility services

Thank you for the opportunity to provide feedback on the report on gas flexibility services by The Brattle Group, dated 6 June 2011.

Centrica is active in the Dutch gas market as a gas producer, wholesale trader at the TTF hub and producer of electricity via a long-term tolling agreement for the Rijnmond II gas-fired plant. Via the Open Seasons Centrica has made long term capacity reservations in the GTS and BBL pipeline systems, through our subsidiary British Gas Trading Ltd. We have a close interest in any measures that would help improve gas market competition and the efficient use of gas infrastructure.

Summary

- GasTerra remains highly dominant in the market for short-term flexibility
- Market participants need access to competitively priced within-day flexibility for balancing purposes
- Continued dominance in the short-term flexibility market ultimately leads to higher costs for Dutch gas and electricity consumers.
- GTS should continue to offer a flexibility service as required by the Gas Act, but this has not been sufficient to address the lack of competition
- Although the GasTerra virtual storage service is a positive addition to the market it does not meet shippers' main requirements.
- The NMa should require GasTerra to offer an additional virtual storage product providing a within-day service with a fast injection rate and withdrawal rate.

Dominance study

Centrica broadly agrees with both the methodology used by The Brattle Group to determine the dominance of GasTerra and the conclusions of the report. Flexibility is not a homogeneous product. In particular we consider that GasTerra is highly dominant in the short term flexibility market that shippers need in order to manage their positions under the GTS balancing regime. Within-day flexibility cannot be obtained from the TTF and the Dutch market has very few physical storage facilities that offer both the rapid injection and withdrawal that power producers in particular need. As Groningen production is readily flexible in both directions, GasTerra is uniquely positioned in this part of the flexibility market. We also support the Brattle Group comments on pricing and note that GasTerra's dominance can also allow competitors to maintain pricing at a higher level than in a fully competitive market.

Centrica is a trader active in the gas and power markets with its own generating capacity. In principle it is possible to reduce generation output in order to balance changes in demand or loss of supply. We have experience of using this option in the GB market. Whilst, gas-fired power generation can be used in this way, it is unlikely to provide sufficient volume, or be used frequently enough to challenge dominance in physical gas storage. The potential contribution of power generation to gas flexibility is overestimated in the report. Choosing to use power generation as demand response for gas is a complex economic and operational decision, depending among other things on the spark-spreads and the plant already operating near peak capacity.

Flexibility market

There have been some positive developments in the Dutch wholesale and flexibility markets. Liquidity has improved both at the TTF for standard wholesale products and in the flexibility market, with more competitors offering storage products and additional transmission capacity at cross-border points should support greater hub-to-hub trading. Nevertheless, wholesale market liquidity remains low relative to the NBP and flexibility products offered by storage operators, including those other than GasTerra remain expensive. Liquidity at the TTF is not deep enough for market participants to use this as their main source of flexibility. We believe that the solution for this would be for GasTerra to act as a market enabler, which would create a strong downward pressure on competitor's prices. In addition, expanding the Virtual Storage service could also help achieve this.

The Nomflex and previous Combiflex products have ensured a minimum level of flexibility is made available to users, independent of GasTerra. Nevertheless, these products have still been an expensive option as the price is based on the costs incurred by GTS in securing the underlying flexibility. If there was sufficient economically priced short-term flexibility available to the market, in particular fast response flexibility, there may not be a need for GTS to offer a flexibility product. However, we do believe this will be the case during the regulatory period covered by the consultation.

We would like to take this opportunity to make some comments on GasTerra's virtual storage service that went live on 1 April 2001. The independent auction mechanism managed by APX-ENDEX led to a better priced product. However, the Standard Bundled Unit offered does not provide the storage service that we need to support our Dutch operations and does not address the problem of GasTerra's dominance in the market for fast response flexibility. The current virtual storage product allows injection only at a slow rate over the summer and nominations for withdrawal can only be made up to 11:00 am Day Ahead. The bidding process was complex and further improvements could be made to this.

We believe GasTerra should be required to offer an additional virtual storage product with significantly faster injection and withdrawal rates, a later day ahead nomination time of 14:00, and including the right to nominate within-day. This would be more useful for market participants. In particular this would support the activities of network users with less predictable demand such as for gas fired power generation and small consumers. Improving the product in this way would be good mitigation for GasTerra's dominant position in the within-day market.

We hope that this response has been helpful. If you would like any further clarification please do not hesitate to contact me on +44 7979 567785 or helen.stack@centrica.com

Yours sincerely,

Helen Stack
Commercial Manager