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## **Market consultation on the Research into Gas Flexibility Services**

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DONG Energy is thankful for the opportunity to make our comments to Energiekamer's consultation on the Research into Gas Flexibility Services composed by the Brattle Group.

Your ref. NMa ref. 103650  
Our ref. PETGK20110708-01

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### ***General remarks***

DONG Energy generally believes that the situation for gas flexibility services in the Netherlands has improved significantly in recent years. Following, it is a question whether we now have come to a turning point as regards prolonging the obligation on GasTerra to offer access to flexibility services. As argued below, DONG Energy finds that a more market based approach will be more in accordance with the development, also recognising that regulation has a price.

According to the in general substantiated work made by the Brattle Group there are reasons for continuing the obligation during the full period 2012-2016. However, it seems that the Research is underestimating the positive development and, particularly, circumstances to become reality during the obligation period.

In conclusion, we find that the positive aspects of the market development are better reinforced without a prolonged obligation on GasTerra. However, if a prolongation of the obligation is evaluated to be appropriate after all, DONG Energy shall suggest that lengthen of GasTerra's obligation is limited to two years, i.e. only to end-2013.

### ***Questions raised by Energiekamer***

#### ***Dominance study***

**1. Do you have any comments on the methodology that The Brattle Group has used to determine whether or not GasTerra is dominant?**

The Brattle Report provides in general a substantiated description. However, we find that the developments in relation to circumstances

helping the Dutch flex market are underestimated. Particularly, the following circumstances are not to our mind fully reflected:

Our ref. PETGK20110708-01

- a) The new balance regime and market model will imply a significant change of the need for flexibility services. Firstly, this is due to the shift away from hourly dependencies to a 'rolling' balancing system. Secondly, the new balancing regime contains mechanism that reduces flexibility need, such as the damping element.
- b) The level of liquidity on the TTF. Flexibility can increasingly be bought at the hub without any need for contracting directly to specific flex tools (mentioned in the Report but not evaluated on the right level/importance).
- c) Implementation of the 3<sup>rd</sup> Energy Package will via a number of Framework Guidelines implemented through Network codes, e.g. on congestion management procedures and capacity allocation management, remove or limit obstacles for easier handling of balancing needs.
- d) Flexibility originating from storages has changed. The European storage market now offers a multitude of storage capacities short as well as long term. The products are readily available with some operators having to adjust their prices to sell their products.
- e) The Bergermeer Gas Storage project will almost double the Netherlands' total storage capacity and thereby create one of Europe's largest open access gas storage facility (start of operations in 2013 and full commercial operations in 2014).

Further, the Etzel storages (dedicated pipeline to GTS in Oude) will increase flexibility available for the Netherlands (delivered by many new stakeholders). Despite the Etzel storages being smaller than Bergermeer (Bergermeer 6 bcm and Etzel 2 bcm) the withdrawal capacity will be at least as large and doubled over the following years.

Among the foreign storages – however with dedicated connections to the Netherlands – only the Epe storages are mentioned in the Research. Nevertheless, the market power of GasTerra will be considerably influenced (limited further) by these investments in the period to come.

This significant improvement of access to flexibility services shows that the market forces work and should not be interfered

by regulation – perhaps other than regulation securing a level playing field.

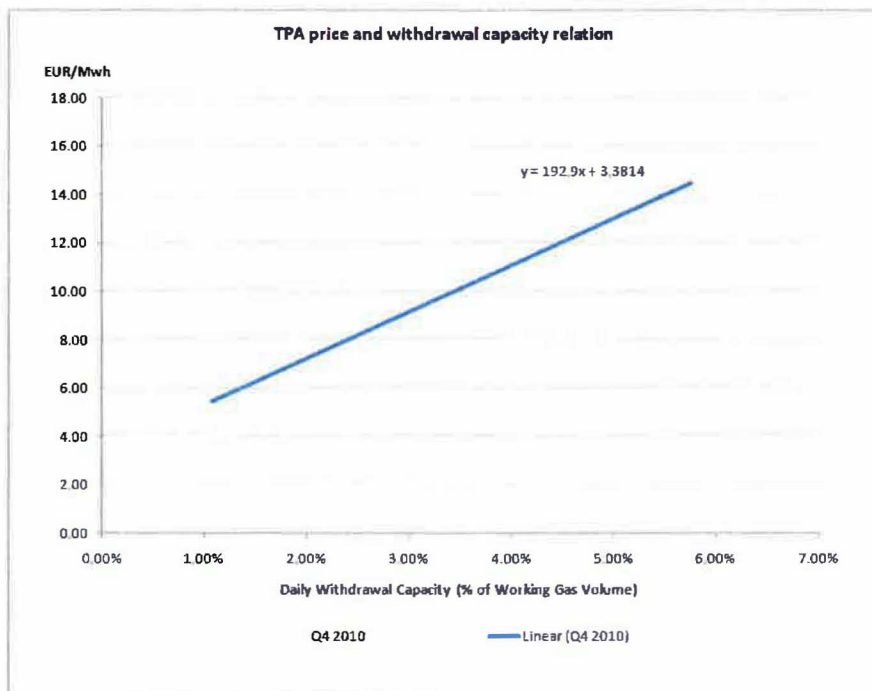
Due to these facts/circumstances not taken sufficiently into account the Research seems to overestimate the dominance of GasTerra in the years to come (2012 – 2016). While there have been reasons so far to conclude that GasTerra has been dominant in the period 2009 – 2011, it is DONG Energy's assessment that the picture has change significantly in a forward-looking perspective. On this background, DONG Energy finds that it is time to let a market based approach take over, i.e. no regulatory intervention is needed.

**2. Do you think the costs assumed seem reasonable, and if not, do you have alternative suggestions for the costs of various flexibility sources? Can you provide any support for these costs in the form of publicly available documents?**

In general we find it important to see flexibility tools not only as originated from storage facilities. However, if you are assessing the cost of acquiring storage capacity it will provide a better picture if you take an "alternative cost" approach, i.e. determine what the cost for having access to alternative storage would be.

For reference we would include storages in North West Europe (NL, D, F, B, UK and DK) and use public available prices of Standard Bundled Units (SBU's) from the SSO's web-pages. The value driver in storage is the relative withdrawal capacity (withdrawal capacity relative to working gas volume). Following, the cost can be illustrated as a function of "cost per volume of working gas" vs. daily withdrawal capacity (in % of working gas volume).

An example of this for 40 NWE storages is shown below (note below figures does not include variable cost or transport charges). In the graph you will find storages for seasonal flex in the beginning/lower of the correlation line and storages for hourly flex in the (upper) end of the correlation line.



3. **Do you think the market prices for storage are accurate, and if not, do you have additional information on the market price of specific storages? Can you provide any support for these prices in the form of publicly available documents?**

On the German storages we find the stated market prices (fixed costs) in the Brattle Group study to be in good accordance with our own study based on public available tariffs. On Grijpskierk we find the stated market price (fixed cost 44.4 €/m3/h) to be considerably lower than the (2010) published price for storage SBU of app. 78 €/m3/h (based on a SBU price of 4.5 mill € and the SBU consisting of 9,661,836 m3 WGV and 14,493 m3/h withdrawal capacity).

4. **If you are a trader active in the gas and power markets with own generating capacity, how often do you reduce generation output so as to balance demand from your gas customers? In other words, to what extent do you use interruptible demand to manage your flexibility needs?**

Given our portfolio DONG energy has so far no experience in use of interruptible demand to manage our flexibility needs in the Netherlands.

5. **If you are a customer of GasTerra's buying flexible gas for use outside the Netherlands, how difficult and expensive would it be for you to find alternative sources of flexibility and to re-import the flexibility provided by GasTerra into the Netherlands?**

DONG Energy does not buy GasTerra's flexible gas for use outside the Netherlands.

**6. Do you have any other comments on the study of the Brattle Group?**

No.

*Flexibility Market***7. How do you perceive the functioning of the market for short-term flexibility in the Netherlands?**

It is DONG Energy's experience that the Dutch flex market is progressively more liquid. Following, the hub/TTF is increasingly able to act as the trading facility also in relation to balancing gas profiles. For this reason, DONG Energy finds that there is not the previous strong relationship between flex needs and access to specific flex tools; hence the hub seems to be able to act as point of assembly for the different underlying flex tools.

**8. Do you think that the recently introduced day-ahead and within-day products on TTF will significantly improve the market for short-term flexibility on TTF in the foreseeable future?**

The introduction of day-ahead and within-day products on TTF will contribute to the market for short-term flexibility. However, as mentioned in question 7 DONG Energy already experiences TTF as a rather liquid hub. Accordingly, the contribution is not to be seen as a *major* step forward in itself, but, nevertheless, a step forward in an already positive development.

**9. In your opinion what is still needed in order for the market to source their short-term flexibility needs from TTF (without having to resort to the GTS flexibility product)?**

DONG Energy has a strong believe that the market forces are able to uphold and refine the ability of the market to source its short-term flexible needs. Further, all regulation has a 'price' one way or another, and upholding a regulatory intervention needs good reasons. DONG Energy does not see the necessary reasons for prolonging the obligation on GasTerra to offer flexibility services.

**10. With sufficient availability of short-term flexibility in the market would you still have a reason to use the GTS flexibility product?**

With sufficient availability of flexibility in the market DONG Energy does not see a particular need of using GTS' flexibility products. GTS' flexibility products might be taken into account as an opportunity; however, any use will be based on commercial considerations reflecting the current alternative options.

If Energiekamer wants the above remarks elaborated or have further questions,  
please do not hesitate to contact DONG Energy on these matters.

Yours sincerely  
DONG Energy



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