



8 July 2011

NMa Energiekamer  
Bedrijfsvoering en Informatiemanagement (B&I)  
Postbus 16326  
2500 BH Den Haag

Reference number: 103650

**By e-mail: EK-CODATA\_NG@nmanet.nl**

Dear Sir/Madam,

ExxonMobil is a longstanding participant in the European gas business involved across the supply value chain including upstream production, storage and processing, LNG receiving terminals and marketing. As such we appreciate the opportunity to comment on the report Research into gas flexibility services by The Brattle Group, dated June 6, 2011.

#### General comments

We understand that the report and this consultation will be used by NMa Energiekamer to assess whether GasTerra is considered to be dominant in the market for flexibility services – as referred to in Article 10a, first section, sub d, of the Gas Act – in the period 2012-2016. In our view the 2011 report contains serious errors and consequently the conclusions concerning GasTerra's position in the market for flexibility services are not robust. Starting point for the 2011 report is the analysis by Frontier Economics of 2008, which in turn builds on Frontier's 2005 report. In this way the analysis stays too much focused on the past, and does not sufficiently take account of the development of the gas spot markets and progress towards integration of the European gas markets – changes that have been promoted by NMa Energiekamer.

The international dimension is an important factor in assessing the market for flexibility services, assuming a distinct market for flexibility can be identified. Flexibility can be provided by a variety of services and facilities, both national and international, including domestic production, LNG and pipeline imports, storage, peak shaving, spot market and demand side management. Competition for these services is taking place in an international market. This can be illustrated by the good correlation between gas prices at the TTF and neighbouring hubs. We therefore believe that if there is a distinct market for flexibility services it would encompass at least Northwest-Europe, and is progressing to become a global market with the increasing role of LNG-supplies into Europe.

We recommend that NMa Energiekamer give more consideration to the role that the virtual trading hubs can play to provide users access to flexibility. Although trading hubs are not a physical source of flexibility, they can provide more standard products (such as daily, weekly, monthly, quarterly, seasonal and annual products), more flexible products (through continuous trade) and more transparency (through daily price reporting) than is available from access to physical sources of

flexibility. Trading hubs help to allocate flexibility among buyers in an efficient way, including flexibility from sources outside the country. This can be illustrated with the UK gas market that has access to (virtual) storage capacity outside the UK through the Interconnector and the BBL pipelines for both seasonal and short-term flexibility (see attachment). The recent report by NMA and AFM on TTF pricing concludes that gas prices at TTF and NBP show a high correlation (exceeding 90%) and considers that TTF can be seen as a price follower of the NBP. We believe this supports our view that GasTerra no longer can be considered dominant in the flexibility market.

Based on the simple market share analysis The Brattle Group also concludes that GasTerra is not dominant in any of the years analysed. The alternative analysis, in which the available flexibility substitutes are reduced, fails because it uses assumptions on costs and pricing that are derived from the electricity market and do not apply to the gas market. Considering the electricity market, it could make sense to split the power generation market based on significant differences in fuel costs. Generators would be put out of service when power prices drop below their fuel costs and would not be able to compete with low cost generators. However, the variable cash costs of gas flexibility instruments are only a fraction compared to power generation. This implies that at depressed flexibility prices the service provider may not recover the capital investment, but will continue to compete for customers and will not suspend operations (which is evidenced in today market). For this reason the alternative analysis is in error. When applied properly and considering all substitutes the alternative analysis would also support the conclusion that GasTerra is not dominant.

#### Consultation questions

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

Please incorporate our general comments. In addition the geographical market definition (§ 2.5) is too narrow and should encompass (at least) Northwest-Europe.

*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?*

The cost differentiation applied in Chapter 4 to determine the relevant substitutes fails because it uses incorrect cost assumptions derived from the electricity market which do not apply to gas flexibility instruments.

The assumptions on the costs of Groningen flexibility are neither correct nor relevant.

*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?*

No comment.

*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?*

No comment.

*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?*

No comment.

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

See our general comments above.

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

We believe the functioning of the market for short-term flexibility in the Netherlands has significantly improved since the 2008 study due to the increased liquidity of the TTF and more recently with the introduction of the new balancing regime. In our view the flexibility market is well integrated with the North-west European gas commodity market.

*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?*

We support the additional short-term products offered on TTF. However, the new balancing regime may be hindering the short-term market because imbalances are not cashed-out at the end of a gas day. Hence the balancing regime could be used as a source of short-term flexibility.

*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)?*

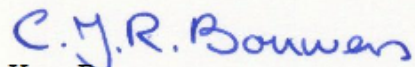
We believe alternatives for the GTS flexibility product are already available.

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

No comment.

We hope the foregoing comments prove useful to NMa Energiekamer for assessing GasTerra's position in the market for flexibility services as referred to in Article 10a, first section, sub d, of the Gas Act. For further information, or if you wish to discuss the above, please contact me on +31 76 529 2228 or [kees.bouwens@exxonmobil.com](mailto:kees.bouwens@exxonmobil.com).

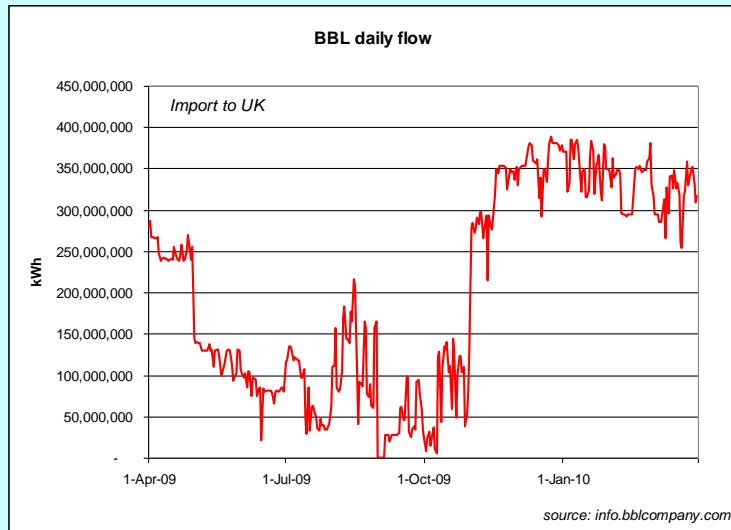
Yours sincerely,

A handwritten signature in blue ink that reads "C.J.R. Bouwens". The signature is written in a cursive style.

Kees Bouwens

Advisor, Europe Regulator

## Interconnector and BBL pipeline provide virtual gas storage to UK



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