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2011-07-08

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Bedrijfsvoering en Informatiemanagement (B&I)
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Statoil reply to market consultation on the research into gas flexibility services

Reference number 103650

Dear Sir or Madam,

Statoil would like to thank you for the opportunity to provide feedback on the research into gas flexibility services and the topic of gas flexibility services more broadly.

The methodology and conclusions of the research by The Brattle Group seem sound and coherent to us. We would share the view that GasTerra is likely to have a dominant position in the market for flexibility services in the period 2012-2016.

As we are in no position to comment the study by Brattle in more detail – this would have needed more in-depth research which we were unable to undertake in the short time-frame –, we have chosen to reply to questions 7 to 10 only. Please find our replies below.

Kind regards
Statoil ASA

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Statoil replies to questions 7 to 10

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

Statoil perceives that the market for short-term flexibility in the Netherlands has seen significant improvement over the last years, mostly thanks to new products that were introduced following action by NMa Energiekamer. Products like combiflex / nomflex have had a clearly positive impact on the functioning of the market.

However, the market for short-term flexibility is still not liquid and deep enough, as too little flexibility is available in the market. As the study by Brattle finds, the flexibility market is concentrated with one dominant player and only a handful of other companies offering flexibility.

The flexibility products offered by GTS are hence crucial for market players like Statoil that do not have their own storage in the Netherlands and hence no direct access to flexibility in the market. The new virtual storage product offered by GasTerra on APX-ENDEX is another useful addition to the flexibility services market, even if the storage product offered is very slow and hence not suitable to churn volumes to and from it.

In Statoil's experience, even with the products currently on offer, it is still very challenging for a market participant without own flexibility to supply non-flat customers like power plants. We believe that the ability of such market participants to offer competitive products to non-flat customers will be the key test for the functioning of the market for short-term flexibility.

We would like to add in this context that a proper daily balancing regime would be likely to inherently provide the market with better within-day flexibility.

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?

Statoil believes that it is still too early to assess with certainty the impact of the recently introduced day-ahead and within-day products on TTF. We welcome the introduction of these products and expect that they will have a positive impact on the short-term flexibility market, notably following the introduction of the new balancing system. The next winter period, when the gas system might come under stress on cold days, will show more clearly the usefulness and price development of these products.

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)?

In our opinion, it is rather difficult to imagine that the market will be able to source all short-term flexibility needs from TTF in the short- or medium-term. Besides the GTS flexibility product, there are not many other products offered currently. Therefore, we believe that the development of a liquid and deep market for short-term flexibility with a significant number of market participants is more of a long-term perspective. Such a market can only be achieved gradually; in the meantime,

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it will be essential to keep and further develop products introduced following action from NMa like the GTS flexibility product or the GasTerra virtual storage product.

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.

Future choices of flexibility products mostly depend on prices of these products. Statoil believes that the market should drive the value of flexibility and the more value there is, the more people will want to participate and thereby provide competition in flex services – if no barriers to market entry exist.

However, Statoil would not want to exclude using the GTS flexibility product once short-term flexibility would be sufficiently available in the market. Statoil uses a mixture of all available flexibility, including our own production, storage, trading and supply contracts. Our preference is to maintain as large a variety of flex sources as possible, as this provides the highest chance of supply security and portfolio optimisation. Depending on prices and liquidity in the market, the GTS flexibility product could continue to constitute a useful element in our objective of achieving a broad flexibility portfolio, in which products that provide quick and flexible storage play an important role.