

## **VOEG reaction on market consultation on the Research into gas flexibility services**

VOEG would like to react on the market consultation on the research into gas flexibility services by The Brattle Group report.

There are some of the questions we can and will give you our views and or questions, but there are also questions that are not relevant for an representative organization such as VOEG and we will leave this to individual reactions of our members, if they wish to react individually. The issues on which VOEG will not comment as a representative organization are questions 2, 3, 4, 5 and 6 as they involve confidential information or are only relevant for an individual company. VOEG is not in the position to make a detailed analysis on the accuracy of the numbers used in the report nor is it the task of VOEG.

Overall VOEG agrees with the study, methodology and the study outcome, however, there are some points which we would like to bring to your attention.

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

Overall VOEG agrees with the methodology used in the determination of the dominant position of GasTerra. But we have some comments on the calculations and allocations of control of flexibility. We understand that you cannot publicly react on these comments as a result of confidentiality. Taking into account our comments will contribute to better conclusions.

Referring to the assumptions of underlying conclusions, in our opinion Brattle Group exaggerates the amount of available flexibility. The assumption that electricity generators can interrupt 20% of the hourly gas consumption might be correct for an individual power plant, but in our view quite unrealistic for the whole sector. The assumed available 624000 m<sup>3</sup>/h represents some 2500 to 3000 MW of electricity generation capacity, which is unlikely to be available as spinning reserve of coal or biomass production capacity.

We agree with the allocation of control of flexibility to the customers of the export contracts, since in most of the cases, these parties controls the flexibility and we agree that re-importing of this flexibility is not economical. However, the allocation control over flexibility of the export contracts to the contract parties is not necessarily the case for all export contracts. In the traditional business environment gas flows from A to B, according to a contract. This is changing more and more as a result of liberalizing markets and trading hubs like TTF and NBP. An export contract to Germany or the UK for instance, is not necessarily sourced from the Netherlands all of the time. The gas is bought at the delivery point from GasTerra, in this case, GasTerra can source the gas or parts of it, also on the local hub in Germany or the UK in this example. This option creates flexibility in the control of GasTerra and has an impact on the availability of backhaul in the transportation system. There is a split between control of flexibility and the demand for flexibility. This distinction is not clear in the report or the calculations. Therefore we do not agree that the flexibility of export contracts is fully in the hands of the receiving party, unless this is already accounted for. If this distinction is not made in the allocation of control of flexibility, we suggest adapting this methodology to reflect the flexibility control. If the distinction is made, we ask you to include a reference of this in the report.

In the methodology, Brattle makes no distinction between the costs of storage from the various depleted gas fields. We believe this is not correct. The cost of these facilities differs as a result of the cost for cushion gas and the volume of cushion gas in the facilities. VOEG finds it strange that the cost for Bergermeer and Kalle are the same as the costs for Grijpskerk and Norg. In our view, the different volumes and cost for the cushion gas make a very strong distinction between the costs of the facilities. Therefore Bergermeer and Kalle are not within the 10% price difference criteria.

Furthermore, the depleted gas fields are generally seasonal storages, except for Norg and Grijpskerk and Alkmaar as a result of the high quantities of cushion gas. We agree that a seasonal storage is able to provide flexibility on the short term market, but at a cost. Using a seasonal storage with a cycling period of 300 days for short term flexibility is a possibility, as optimisation of the storage. The use for short term flexibility will impact the income of the facility on the seasonal spread in the market, the driver for the storage contract can therefore not be seen as a structural solution for the demand in short term flexibility. We have some questions regarding the proposed methodology that long term flexibility, seasonal storage, is within the 10% price range criteria as an alternative.

In the methodology Brattle splits the demand and the supply of flexibility into 52 separate weeks and also looks at the seasonal character of the demand and the supply. This approach presumes the possibility to contract weekly flexibility from sources as a result of a merit order. A normal market with supply and demand, where the price increases rises as the demand increases. We agree that this methodology creates insight in the market concentration, but also gives an even more positive view of the market than the actual reality. In reality there is no flex market for supply and demand, other than the commodity market on the TTF, which is a daily market, and not an hourly market, required for the flexibility products. Even if there is a flexibility market, such as the emerging intraday hourly market of the APX, the liquidity, depth and resilience of this market depend on the availability of physical flexibility. In reality, the flexibility market is an annually contracted market or even multi-annual in some cases. Weekly liquid markets for flexibility products are not on the horizon as far as we know. Adjusting the report to reflect the reality of the market, will be an improvement of the report.

In the cost calculation of the flexibility costs of the Groningen field, Brattle makes the distinction between free flow gas and gas as a result of compression from the Groningen field. On one hand, we see that the new capacity of Groningen seems to be included in the flexibility control, but on the other hand we have some questions on the costs allocated to this flexibility. We ask this question to be sure of the correct allocation of costs in this matter. In our view the cost of the compression of the Groningen field should be allocated to the commodity. Without the compression, the extra commodity could not be produced, and without the demand peak in combination with the commodity, the gas would only be produced at the end of the lifetime of Groningen, which has an enormous impact on the economics of the field. We therefore believe it is not correct to allocate these costs to flexibility, but these cost should be allocated to the production of Groningen, otherwise the methodology allows for double counting. This adjustment of the methodology will have an impact on the alternative sources for flexibility, taking into account the 10% rule.

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

We see the short term flexibility market as a concentrated market. Due to the applied cumulative hourly balancing regime, the access to hourly flexibility is still essential for supplying customers in the Dutch gas market. The flexibility market is concentrated and requires the GasTerra flexibility offer via GTS for the functioning of the market. We find new entrants see the structure of the market with its cumulative hourly balancing regime and its need to access hourly flexibility as an hurdle to entry. The access to hourly flexibility via GTS reduces the entry barrier. Nevertheless new entrants are depended on the outcome of this kind of studies which lead to uncertainty and do not bring transparency. The application of a daily balancing regime instead of a cumulative hourly balancing regime will remove this barrier.

**Question 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 hope that the introduction of these products will improve the market for short term flexibility. But the fact remains that the Dutch market requires access to hourly flexibility, which is a concentrated market. Therefore we hope it will significantly improve, but realistically we do not expect significant improvement in the near future.

**Question 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)?**

A daily balancing regime, in which GTS manages the intraday flexibility (the shaping from a daily baseload entry to a daily profiled exit) via contracted flexibility. The application of article 10 of the gas act, where GasTerra provides GTS with the necessary flexibility, gives GTS the resources to fulfil its role for the residual balancing. This however is a security for GTS that the flexibility is available. GTS should initially use the market for sourcing the required flexibility and use the art10 possibility as a security. The dominance is here not an issue.

The concentrated market of hourly flexibility is now a matter for the TSO with an obligated support form GasTerra. As we know and can see, the daily, monthly and seasonal markets on the TTF and other markets are already becoming more liquid. The intraday end of day market which will arise as a result of the daily balancing regime, will have more liquidity and will not require trading of separate intraday profiling flexibility in a concentrated market anymore.

**Question 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.**

A liquid short-term flexibility market could reduce the need for GTS flexibility. However, the question is; if the liquid short term flex market is the result of the availability of the indirect flexibility via GTS . The test for the requirement of this flexibility is the use of the product. If the product is offered, but not sold, the short-term flexibility market is functioning stand alone and works without the GTS product. For as long as there is a demand, the product is required.