

Market consultation

for

Flexibility and Capacity Services in the new balancing regime

Gas Transport Services B.V.

21 May 2010

1. Introduction

Hereby you are invited to respond to the Market Consultation "Flexibility and Capacity Services". By this Market Consultation Gas Transport Services B.V. (hereafter referred to as GTS) would like to investigate availability for Flexibility and Capacity Services and further the need for Flexibility Services in the new balancing regime.

With respect to the availability, GTS wishes to investigate which Parties have and/or plan to make relevant Flexibility and Capacity Services available that can meet the conditions set by GTS and who are interested to deliver these Services to GTS or to the market via the bid ladder (Appendix A).

With respect to need for Flexibility Services, GTS wants to investigate the need for Flexibility Services she offers as part of her legal task (Appendix B).

The responses to this consultation will be used by GTS to furnish future tender plans and documents, if and when required. We may organise individual clarification sessions to further discuss your response.

The requested information from interested Parties is stated in the appendices. Please notice that you may respond to one of the appendices or both, as applicable to you. It will be highly appreciated if this information is provided as far as possible and made available to GTS before **4 June 2010** by sending it to the address as mentioned in section 4. In case a submission is done via postal mail, please include a CD or USB stick with all data in an electronic format.

2. Background and description

The Dutch Gas Act has appointed GTS to be the responsible party for the adequate operation of the Dutch gas grid and to make sure that gas is transported in a reliable, effective and efficient way.

A new balancing regime¹ will be introduced for the GTS grid. A part of the new regime is a bid ladder mechanism for balancing shippers' gas portfolio. Further, GTS is required to manage grid imbalances, whether they are planned, foreseen or unexpected. Other legal tasks are to offer Flexibility Services and Peak Services to the market. Therefore GTS needs to have at its disposal gas flexibility services with sufficient send-in and send-out capacity and working volume either direct and/or via the bid ladder. The Flexibility and Capacity Services have to be in the form of physical gas flows from and to the GTS main gas transmission grid. The introduction of the new balancing regime is currently envisaged in April 2011.

To prepare for the balancing regime, GTS is consulting the market for potential Flexibility and Capacity Services from various sources, with a focus on contract periods in the range of 1-5 years. GTS is interested in Services, and combinations thereof, that can be used for the following purposes:

- Capacity Service – Send-out capacity of minimum 150 MWh/h with a working volume in the order of 10-20 GWh, availability for full Year or per Month.
- Capacity Service – Send-in capacity of minimum 150 MWh/h] with a working volume in the order of 10-20 GWh, availability for full Year or per Month.
- Flexibility Service – Send-out and send-in capacity of minimum 150 MWh/h with a working volume in the order of 25 GWh, availability for full Year or per Quarter.

¹ The new balancing regime is described on the GST website:
<http://www.gastransportservices.nl/en/markttransition/documents>

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- Capacity Services (e.g. Peak Services) – Send-out capacity of minimum 150 MWh/h with a working volume in the order of 30 GWh availability for the winter Months (December, January, Februari) or per full Year, Quarter or Month.

The above services may be available on firm and/or interruptible basis. For one-sided services (e.g. only send-out capacity), a mechanism should be available to settle volume positions to the starting position. Solutions may include non-common sources such as physically reduced or increased flows through entry or exit.

For the Flexibility Services, GTS is investigating the need from her customers to offer these services in the new balancing regime. GTS will contract physical means offered to GTS for this purpose after which the Flexibility Service can be contracted by market parties and used for their short term flexibility needs. The service is meant to be used volume neutral.

In the current balancing regime, the information lag on the final balancing position of a shipper, creates an uncertainty that is solved by the retrospective application of Combiflex. With the introduction of the new balancing regime, this uncertainty is solved by the near real time information that will be made available. Differences between the online information and the fiscal allocations will be settled, but will not lead to imbalance surcharges. The Flexibility Service must influence the real time balancing position and should therefore be a nominated service.

For general background information concerning GTS you can visit the following internet address: www.gastransportservices.nl

3. Conditions applicable to potential Flexibility and Capacity Services:

The following conditions are applicable:

- A minimum total send-out capacity and/or a minimum total send-in capacity is estimated to be in the order of 150 MWh/h and a working volume of 10-30 GWh.
- Parties have to be able to deliver the total or part – while respecting the aforementioned minimum - of the total requested send-in and send-out capacities and working volume during the full or part of the Year as specified above.
- Firm services need to have a very high availability due to the required security of gas transmission. Nevertheless, short term reduced availability due to planned maintenance could be accommodated.
- The flexibility services have to be in the form of physical gas flows from and to the backbone of the main GTS gas transmission grid.
- In case a request for send-in or send-out capacity is received by party from GTS the corresponding physical flow must reach the requested level within 30 minutes at the agreed entry point of the GTS grid and correspond to the GCA obligations
- Interruptible Services may be reserved with a notice period of 12 hrs or 24 hrs dependant on the unexpectedness of the event and called of with a lead time between 30 min and 2 hrs.

4. *Market Consultation address*

Market Consultation "Flexibility and Capacity Services"
Gas Transport Services B.V (GTS)
For the attention of
Mr. René Schutte

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 The Netherlands

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 The Netherlands

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Fax +31 (0)50 521 2303
E-mail flexibility@gastransport.nl

Appendix A Availability of Flexibility and Capacity Services

General information:	Answers:
1. Company	
2. P.O. Box	
3. Address	
4. Contact Name (focal point)	
5. Function	
6. E-mail	
7. Phone work	
8. Fax	

(place)

(date)

(name)

(position)

(signature)

Question 1. Please specify the available max. send-in capacity MWh/h, the available max. send-out capacity MWh/h and the available max. volume without interim refilling [GWh].

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Question 2. Please indicate whether (and which part of) the service is available on firm or interruptible basis.

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Question 3. Please indicate if you would be interested to offer services for a combination of requested service types. This may include a combination of firm and interruptible service for different periods or a differentiation in combined capacity and working volume for different periods.

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Question 4. Please indicate the corresponding Grid Connection Agreement (connection point, pressure, gas quality, lead times, etc).

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Question 5. Please indicate if the Services can be offered for a dedicated temperature profile (e.g. between -17 and -9 °C, above 0°C or otherwise).

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Question 6. Please indicate the reliability of your send-in/out capacity. GTS aims at 24/7 services with – and by exception - maximum ½ hour of send-out (“entry”) and max 1 hour of send-in (“exit”) unavailability. In case of interruptible service please indicate the notice lead time.

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Question 7. Please indicate the minimum time period in minutes you need between the request of GTS and the delivery of the requested send-in/out capacity.

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Question 8. Please indicate to what extend and by what means GTS will have operational control. Please clarify.

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Question 9. Please indicate your minimum and maximum contract duration and possible date of start of services. Please clarify.

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Question 10. Please indicate price (range) and/or price formula for contracted send-in and send-out capacity and storage volume.

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Appendix B Need for Flexibility Services

General information:	Answers:
1. Company	
2. P.O. Box	
3. Address	
4. Contact Name (focal point)	
5. Function	
6. E-mail	
7. Phone work	
8. Fax	

(place)

(date)

(name)

(position)

(signature)

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Changing Combiflex into Nomflex.

Under the Dutch GasAct, GTS is required to offer a service for short term flexibility (up to a week) as long as GasTerra is considered dominant in the flexibility market. Flexibility for the short term translates to a storage with a working volume of 168 (7*24) times the injection or production capacity. Dutch Regulator NMa has decided that GasTerra is dominant in the flexibility market at least until the end of 2011. Thus, GTS must currently offer a short term Flexibility Service. In 2011 NMa will decide whether GTS will be required to also offer such short term Flexibility Service in 2012 and onwards.

The currently offered Flexibility Service, Combiflex, is designed to fit the existing balancing: the calculation of the use of Combiflex is based on the offline allocations. In the proposed new balancing regime which is expected to be effective as of 1 April 2011, the offline allocations are no longer relevant for balancing. In order to fit the new balancing regime, a balancing service that acts on the near real time allocations is required.

Based on the results of last years flexibility questionnaire, GTS aims to introduce a nominated Flexibility Service for use in the new balancing regime, called Nomflex.

One unit of the proposed Nomflex service will consist of four aspects:

1. one unit of injection capacity
2. one unit of production capacity
3. a total volume of 168 units
4. an amount of working gas

By producing an amount of Nomflex working gas, a short position in the program imbalance signal (POS) is solved. Likewise, by injecting an amount into the storage, a long position in the POS of a program responsible party (PV) is solved. Injection and production is arranged by sending a nomination for Nomflex to GTS, taking an one hour lead time into account. The working volume of the storage is 168 (7*24) times the hourly injection or production capacity. At the start of the contract the Flexibility Service storage will be 50% filled with working gas, allowing 84 hours of injection or production from the start. It is up to the PV to make sure that the nominations are within the contracted capacity and that the working gas remains within the contracted volume (between 0 and 168 times the capacity).

Use of Nomflex

Nomflex can be used in different ways:

- By incorporating Nomflex in the day-ahead programs, the PV can match the profile in the offtake. In this way, a PV can combine Nomflex with an entry that is flat over the day to deal with a daily swing in the exit.
- In case of unwanted imbalances in the POS, the PV can solve the imbalance by adjusting the nomination for Nomflex during the day.
- By buying and selling on the TTF and compensating the change in position by adjusting the nomination for Nomflex during the day, the PV can take advantage of high or low prices on the TTF.
- If the PV so desires, the PV can create a position, counter steering the system balance signal (SBS) in order to benefit from the BPL (bid price ladder) prices when GTS call on the BPL.

Settlement

The PV is required to aim for an end position in the storage that is equal to the start position (50% filled). Only at the end of the contract, the difference between the amounts of working gas at the

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start and end of the contracting period will be settled. In accordance with the ruling of the CBB in October 2009, the settlement will include an incentive for volume neutrality (115% and 90% of the neutral gas price on the last day of the contract for respectively short and long positions).

Secondary trade of Nomflex

Nomflex contracts may be traded. If GTS receives a trade request signed by both parties, GTS will facilitate the trade. In case of a trade, all four aspects of the service will be transferred to the buying PV at the start of the traded period and back to the original owner at the end of the traded period.

If the end of the traded period coincides with the end of the original contract, GTS will settle the working gas with the original owner.

If only a portion of the contracted Nomflex is traded, the four aspects are transferred in the same ratio.

Trade example:

PV A buys 10 units of Nomflex, starting 1 April ending 1 January 2012.

1 April PV A has:

1. 10 units of injection capacity
2. 10 units of production capacity
3. a total volume of 1680 units
4. an amount of working gas of 840 units

PV A trades 6 units of Nomflex starting 1 June for two months to PV B.

Let's assume that on 1 June, the working gas is at 800 units (which means that PV A has injected 40 units of working gas less than it has produced between 1 April and 1 June).

after 1 June PV B has:

1. 6 units of injection capacity
2. 6 units of production capacity
3. a total volume of $168 \cdot 6 = 1008$ units
4. an amount of working gas of $6/10 \cdot 800 = 480$ units

after 1 June PV A has:

1. 4 units of injection capacity
2. 4 units of production capacity
3. a total volume of $168 \cdot 4 = 672$ units
4. an amount of working gas $4/10 \cdot 800 = 320$ units

Assume that on 1 August, at the end of the traded period, the working gas for PV A is at 400 units and the working gas for PV B is at 300 units.

after 1 August PV A has:

1. 10 unit of injection capacity
2. 10 unit of production capacity
3. a total volume of 1680 units
4. an amount of working gas of 700 units

The financial settlement for the difference of (in this example 180 units) working gas is the responsibility of the trading parties.

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Question 1. Does the proposed design of the Nomflex service match your expectations and does it fit your needs?

- Yes No

If not, please describe the changes you propose.

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Contracting flexibility for 2011

The process of contracting the Flexibility Service will remain as it is now for the contracting of Combiflex:

1. GTS will offer annual contracts and quarterly contracts, 6 weeks before the start of the quarter or year.
2. GTS will ask the suppliers of flexibility to make an offer for the contracting period.
3. GTS will publish the prices on the GTS website.
4. PV's are invited to subscribe to the Flexibility Service.
5. Based on the subscriptions, GTS will order the Flexibility Service from one or more suppliers. If GTS contracts at different prices, the price for the contracting PV's will be the weighted average of the different prices.

Since the new balancing regime is expected to be introduced on 1 April 2011, GTS aims to offer contracts for:

1. Combiflex for the first quarter of 2011
2. Nomflex for the last three quarters of 2011 (nine months contracting period)
3. Combiflex for the first quarter in combination with Nomflex for the rest of 2011
4. Nomflex for each of the last three quarters of 2011

Question 2. Based on the prices for Combiflex in the past (reference price), how much flexibility do you expect you need (at a minimum and at a maximum)?

		Reference Price per unit	Min	Max
1	Combiflex Q1	€ 90		
2	Nomflex Q2+Q3+Q4	€ 90		
3	Combiflex Q1 + Nomflex Q2+Q3+Q4	€ 100		
4	Nomflex Q2 or Q3 or Q4	€ 45 (Q2/Q3) € 80 (Q4)		

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Question 3. Do you consider these reference prices fair?

Yes No

If not, what do you consider fair prices and what is the basis for your price level?

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Question 4. Would you be interested in a Nomflex service with a longer lead time if the price for this service would be lower?

Yes No

If yes, please indicate what lead time would you be interested in and what price reduction you expect?

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Nomflex and the bid price ladder

In addition to the four uses of Nomflex described above, Nomflex could be offered on the bid price ladder. However, on the bid price ladder only prequalified flexibility sources are accepted. If Nomflex is to be used on the BPL, only flexibility sources that prequalified for the BPL can be offered for Nomflex. This might negatively influence the amount offered and prices.

Question 5. Do you think that it should be possible to use Nomflex on the BPL?

Yes No

Question 6. Do you have comments concerning Flexibility Services under the Dutch gas act not addressed in this consultation?

Yes No

If not, please include your comments below?

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