

Amsterdam, 26 October , 2015

Dear Sir/Madam,

Vattenfall would like to thank the Ministry of Economic Affairs for the opportunity to contribute to the online consultation ‘A different approach to gas production’.

With this response, we aim to provide our view on the findings of the report ‘A different approach to gas production’, in particular with regard to security of supply and competitiveness.

Vattenfall is 100 percent owned by the Swedish state and is one of Europe's largest generators of electricity. Our main products are electricity, heat and gas. Vattenfall supplies gas to nearly two million European customers, from households to large industrial clients, all over northwestern Europe. Of our electricity generation portfolio of 40.000MW, 7000 MW is attributed to gas fired power plants. Vattenfall is both a user (booker) of several European gas storages, as well as an owner of a gas storage in Epe, Germany. Finally, we conduct energy trading in all established and several developing European markets.

Considering the above, we consider ourselves a key stakeholder and trust the Ministry finds our views and suggestions valuable.

Due to the European nature of our company and its employees, we have preferred to write our response in the English language. If this in any case results in difficulties, please come back to us and we will provide you with a response in Dutch.

Kind regards,

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Online consultation ‘A different approach to gas production’

The online consultation focusses on a study initiated by the Dutch government entitled ‘A different approach to gas production’. The report deals with the possibilities and effects of maximum quality conversion, to reduce the gas production from the Groningen field whilst ensuring security of supply. The aim of the study is to determine whether or not another market model is achievable, resulting in exploiting the conversion capacity to a maximum.

In this study, five scenarios have been drafted that inverse the current system, with the aim to maximize quality conversion. Scenario 1-3 look at the possibility of 100% quality conversion and scenarios 4-5 look at less (say 85 %) quality conversion .

1. Separate the market, auction conversion capacity;
2. Make use of GasTerra portfolio;
3. Market based system;
4. By law secure a certain percentage of quality conversion;
5. Set a temperature dependent production cap.

Position Vattenfall Maximizing Quality Conversion

In general, Vattenfall believes that security of supply is ensured by a functioning European gas commodity and flexibility market and a suitable level and capability of gas infrastructure. As the study states on page 13 too, the Dutch / North Western gas market is a functioning gas market, that allows supply and demand to find each other. However, we believe transparency should be increased.. Moreover, our home market (North Western Europe, respectively the Netherlands and Germany) has a sufficient level of infrastructure to ensure security of supply and a well-functioning market.

Vattenfall believes that maximizing quality conversion does not ensure security of supply in an optimal way. Besides, we believe the viability of all five scenarios in the study depends on the still expected safety study by SodM. In general, we consider it the responsibility of the Minister to set a production cap to the Groningen field, keeping in mind safety whilst ensuring security of supply. Subsequently, the market will demand the level of conversion that is needed.

Therefore, Vattenfall supports the current market model. Moreover, Vattenfall believes it is not necessary to change the market model to increase conversion, as GTS already holds the responsibility to convert. Setting a production cap on Groningen will increase market demand for conversion. As long as GTS is transparent about the usage of the conversion installations, the NAM is transparent on the gas offtake and all parties comply to REMIT, the market should work efficient and security of supply is secured.

For a well-functioning trading market it is crucial that GTS provides 100% transparency to the market. Vattenfall believes that GTS should publish the following information:

- Total installed quality conversion capacity in NL;
- Near to real time availabilities of all the quality conversion units;
- Near to real time usages of the quality conversion capacities;
- Near to real time outages that interrupt.

Concerning the gas extraction in Groningen, it could be worth considering what the maximum production per hour could be, and not primarily the m3.

The study refers to the flexibility of gas storage. Regarding commercial storage, Vattenfall believes this to be essentially commercial. This will lead to the usage of the storage as efficient as possible. However, to increase the flexibility of the storage, transportation costs could be lowered to in turn increase operation and security of supply.

A final comment from our side, it would help us if the study (and any other government communication) could be transparent in the use of gas years.

Vattenfall remarks to the study ‘A different approach to gas production’ and its five scenarios

The study itself concludes that scenario 1 and 2 could lead to a tension with European law, which prescribes a mandatory split between operator and producer and prescribes market based balancing. Vattenfall supports this analyses and therefor will not comment on these scenarios specifically.

Vattenfall renders the market based 3rd scenario, the most realistic at first hand. However, this scenario too suggests a statutory duty for GTS to use 100% quality conversion capacity.

Scenario 4 sets a responsibility on GTS to convert, however GTS already has the responsibility to convert (may it not be to a certain percentage). Scenario 5 establishes a temperature-dependent cap. We believe that this would bring a lot of uncertainty to the market.

As Vattenfall cannot support either of the scenarios, we have chosen not to contribute to the questions of the consultation, as they mainly consider the setup or conclusions of the study itself.

Consultation questions

- 1. Are there relevant questions missing that should be addressed in the research?*

Answer Vattenfall: Check attached consultation reply.

- 2. Are all relevant scenarios described in the research or are there (workable) scenarios to be created that aren't presented now?*

Answer Vattenfall: Check attached consultation reply.

- 3. Are the effects that we mapped indeed the effects that are to be expected; are there aspects that are not imaged, but that could be relevant to the question; or are there any incorrect assumptions?*

Answer Vattenfall: Check attached consultation reply.

4. *Are the assumptions regarding the functioning of the market parties justified; or do market parties see a role for themselves that is not described in this report?*

Answer Vattenfall: Check attached consultation reply.

5. *Are the assumptions and choices that lead to a commitment of 85% of the nitrogen plants justified?*

Answer Vattenfall: Check attached consultation reply.