

Groningen, Gasunie and the gas market

G.H.B. Verberg

General Managing Director, NV Nederlandse Gasunie

When the Groningen field was discovered, 40 years ago, the public attention was mainly drawn to the size of this legendary field. During the years, estimations about its content rose from 60 billion cubic meters at the time to 2,900 billion cubic meters now. In the perception of the general public these impressive figures symbolized first and foremost the country's energy position in terms of long term security of supply. Within a short period of time, the Netherlands changed from a small-sized country, that had average Western-European worries about its energy independence to a king-size gas country that only had to worry about the way it should utilize its newly disclosed energy wealth. A government policy was carefully designed to manage Holland's natural gas reserves in a way that would serve national economic interests at best and to safeguard security of supply for a long-term period. In 1963 Gasunie was established to perform this task.

Right from the start it seemed obvious to link the price of gas to energy alternatives, such as heating oil and heavy fuel oil ('market value principle').

Apart from its size a second aspect characterized the Groningen-field as a unique field: its flexibility. Unlike the size of the field, this aspect was not that much a front-page topic for the national dailies, but it was nevertheless recognized by the professionals within the gas industry as a matter of great importance: the field's flexibility. This meant that a complete market could be developed: not only industries and power stations, but also millions of households, a market sector that would require a highly flexible supply pattern. Thanks to its impressive capacity, 'Groningen' could meet any peak or low in domestic household demand, thus providing short-term security of supply. Today, natural gas accounts for over 50% of the Dutch primary energy consumption.

It is this same flexibility that would contribute to the meaning of the Groningen field in the development of the Western European gas market. In the portfolio of Gasunie export customers the flexible contracts with Gasunie represent a source of flexibility, needed to enhance short-term security of supply in Europe. At this moment Gasunie has a share of 24% of total EU gas consumption.

During the seventies a government policy was put forward to bring on stream other gas fields apart from Groningen as far as possible – a move, which became known as the 'small fields policy'. The idea behind it was to enable the Groningen field to continue performing its balancing role of accommodating demand fluctuations for as long as possible.

Over the years 'Groningen' has determined to a great extent Gasunie's profile in the European gas market. The field's image of flexibility provided, as an 'ingredient brand', Gasunie with a strong 'corporate brand' in the market. Today, at the eve of the 21st century the European gas market is in a state of flux. The arrival of gas via the Interconnector pipeline and from other sources marks the beginning of an era of competition, also on Gasunie's home market. Gasunie has anticipated this: among other measures, Gasunie recently introduced a new tariff system (CSS), which offers customers a made-to-measure package whereby gas, transmission services and capacity services are supplied as separate components. Looking at the future, it is to be expected, that flexibility will continue to be a crucial asset for a successful market performance on the increasingly competitive European market. The outlook for the European gas market is one of steady growth. To meet future demand, additional gas will have to be brought to Western Europe from remote sources in Russia, Norway and North Africa. As a result there will be mention of an increasing share of inflexible long-distance supplies. This will bring along an increasing need for flexibility in the market.

Fluctuations in the market demand can not be counterbalanced by high load factor suppliers such as Norway and Russia, and must therefore be purchased from other sources, for instance Gasunie, creating market opportunities for Gasunie as a service provider.

The position of the Groningen field as a swing supplier may be declining, due to its decreasing reservoir pressure. At the same time the importance of artificial capacity in the form of underground storages is increasing. Thus, Gasunie will be able to maintain its position as a flexibility provider. It is safe to say that Groningen has enabled Gasunie to establish a reputation, with which the company can continue its role as a major player in the European market.