

## **EFET Statement on Gas Quality**

**September 2006**

### **Conclusion**

*Gas from a variety of locations, including LNG, may require increased levels of treatment in order to maintain safe supplies to European consumers. The gas quality issues this raises should not be allowed to affect wholesale trading within the single market.*

*Artificial barrier to trade include:*

- *obligations on parties with no control over quality,*
- *restricting capacity on the grounds of quality but without suitable transparency,*
- *applying unduly discriminatory conditions to the acceptance of off-spec gas particularly when the gas can safely be blended.*

*Obligations on gas quality must clearly reside with those parties who have the information and capability to take action.*

*A shared gas quality specification setting out clearly defined parameters will help to facilitate greater cross border trade. Gas meeting this quality specification that is delivered at any cross-border point within the EU must not be refused on grounds of quality. The responsibility for investment to ensure that this can be achieved lies clearly with the TSOs overseen by their national regulators.*

### **Gas quality issues in perspective**

Europe currently deals with different qualities of natural gas and the advent of a competitive market in gas supply does not fundamentally change either the physical requirement to maintain safe gas supplies nor the responsibility of the TSOs to manage the gas quality within and between their networks.

The gas supply position in Europe continues to develop, with an increasing proportion of imported gas, including LNG from a wider variety of sources. The issues of a) fair and open access to infrastructure and b) recovery of costs for gas blending or treatment need to be addressed to ensure that they neither hinder the development of traded gas markets nor delay investment that is necessary to maintain secure delivery of supplies.

### **Gas Quality Conversion and Variation.**

In considering gas quality issues from a wholesale trading perspective it is helpful to split the topic into two separate elements, namely: **quality conversion** (H-cal

to L-cal, or vice-versa), and **quality variation** generally relating to issues arising from the use of different sources of gas (including LNG) in one system.

### **Gas Quality Conversion**

Explicit facilities will be required to allow the conversion from H-gas to L-gas. These are likely to have been sized to accommodate all necessary flows for a particular market. It is the responsibility of the TSO/DSO to make the necessary investments in time to be able to accommodate all reasonable capacity requests from the market.

The market rules for use of the facilities should be such that long-term contracts do not prevent competing suppliers (for the same customers) from accessing the necessary services. If access to these services were to remain restricted to a dominant player then this would be a serious barrier to entry. As an alternative to UIOLI arrangements there could be discussion on whether it would be appropriate to deliver gas to a hub rather than the "city-gate" and then "deem" the conversion to occur by the relevant TSO.

Charges for quality conversion could therefore be levied on a throughput basis to ensure that costs fall ultimately to the customers needing the service. It is therefore likely that any investment decisions associated with this type of situation will need to involve the relevant system operators (Transmission and Distribution) who fully understand the load connected to the network in the relevant area, rather than relying on system users estimates of future demand.

### **Gas Quality Variation**

EFET accepts the need for a requirement on whoever puts gas in to the European gas grid to meet the relevant quality specification. If the gas supply is outside the relevant quality specification then the party providing the gas would normally be responsible for negotiating blending or treatment of the gas with service providers.

EFET supports the use of an agreed gas quality standard for the High Pressure European Grid, such as that developed through the EASEEgas process. A shared gas quality specification setting out clear and defined set of parameters under which **gas that is delivered at any cross-border point within the EU must not be refused on grounds of quality** will help to facilitate greater cross border trade.

Local gas quality specifications can still be narrower or wider than the European standard but if gas at a cross-border point is within the European gas quality standard then it must be the TSO who is responsible for any treatment (if required) of gas to meet the more specific requirements of its system. The benefits of enhanced security of supply and more competitive prices should accrue to all consumers. Costs associated with treatment of gas by the TSO could also be socialised and recovered through regulated transportation tariffs.

In general the costs of provision of gas quality treatment services should be market related or subject to regulatory or competition authority oversight to ensure that the charges are fair. Pre-project consultation will normally involve a wide range of parties as well as co-ordination between the infrastructure operators; TSOs, connected system operators, terminal operators (including LNG etc.) to ensure that timely and optimal investment decisions are taken.

### **Information Transparency**

Information needs to be shared not only to facilitate gas treatment investment decisions (whether for conversion facilities or for blending or processing) but also on a continuous basis to provide network users with the level of information they need.

If a gas quality issue might affect the transportation or storage capacity that can be used or offered to the market, then sufficient information must be provided for traders and shippers to assess the opportunities and risks associated the possible outcomes.

Information release regarding the potential capacity available for blending and gas treatment services, combined with sufficient unbundling of TSOs to reassure the market that there is fair allocation of such services would help mitigate some current concerns.

There are other operational issues regarding information transparency, for example to ensure equality of treatment in the case of occasional or minor deviation of gas quality outside the agreed range. This issue is included in the recent EFET publication on Gas Information Transparency, August 2006 ([www.EFET.org](http://www.EFET.org))

### **Fundamental responsibility for gas quality in the European grid**

It remains unclear whether or not all TSOs accept that it is their responsibility to maintain gas quality within their system. Shippers and traders cannot accept responsibility because they have no control of the gas quality once it is in the TSO's system. **TSOs must remain responsible for managing the gas quality within their grids and the gas quality interface with connected systems.**