

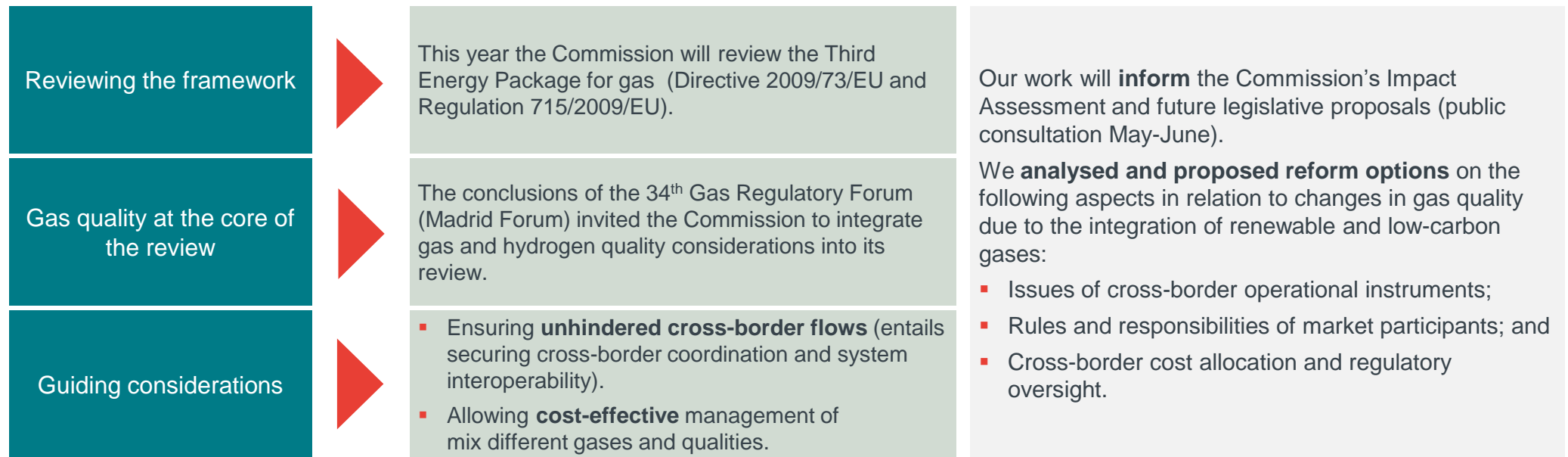
Gas quality management in the European gas networks

Presentation to Madrid Forum

30 April 2021



The purpose of our work is to provide input to the Commission's review of the legislative framework for gas markets

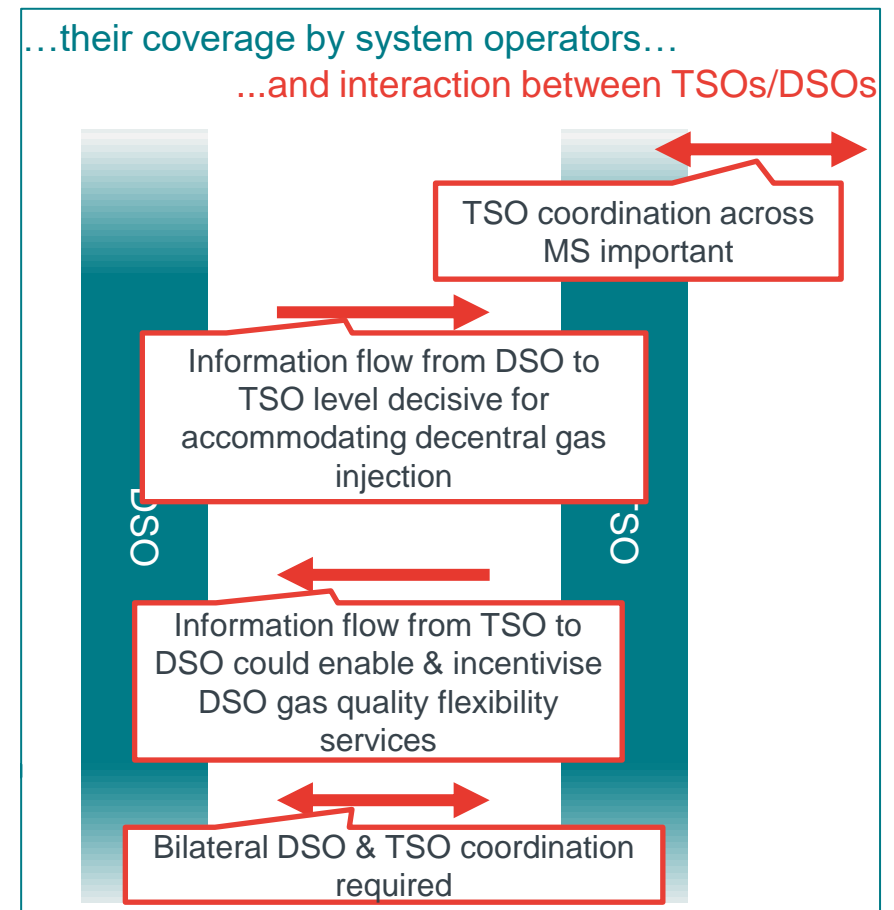
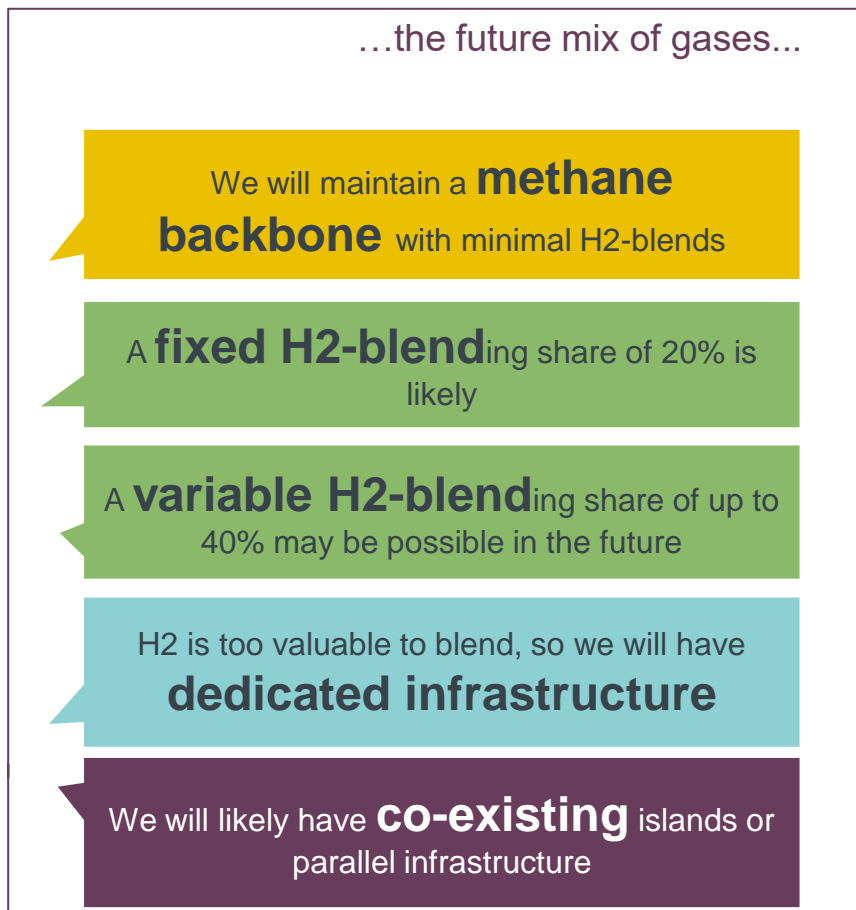


Our approach



Gas quality management may become more challenging going forward

Different models may develop and co-exist in the future, and market participants have different views* on, e.g.:



*Summary of range of views expressed by stakeholders during interviews carried out by Frontier Economics and during workshop held as part of the assignment.

In this context it is worth assessing whether the current framework for gas quality management will be sufficiently robust to future challenges



1. Gas quality harmonisation/ standard-setting

- How adequate is the process in **INT NC Art 15** for resolving cross-border gas quality disputes given the changing context for gases?
- What should be the **governance arrangements** for implementing agreed gas quality standards regionally/across borders?
- To what extent is **more EU-level action** required on the enforcement of harmonised technical standards (e.g. CEN)?

Once high-level guidance is set, questions occur at more operational (“day-to-day”) levels...



...which, in turn, inform high level strategy



2. Cost-effective quality management

- Is **information** on gas quality shared sufficiently among the relevant stakeholders across the value chain?
- How to clarify the **responsibilities** and set the right **incentives** for an efficient quality management and integration of low-carbon gases?
- How to **allocate** quality management **costs** for cross-border flows?

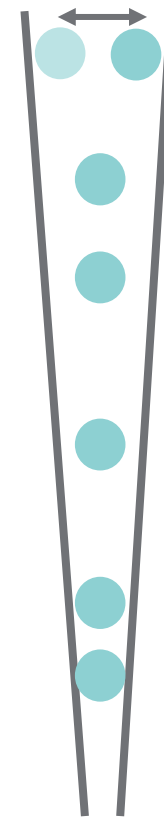
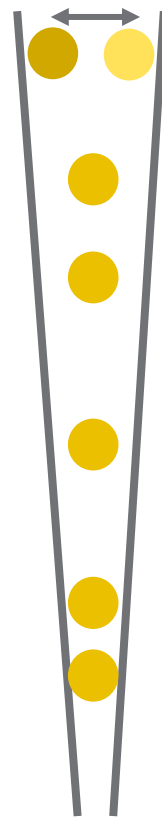
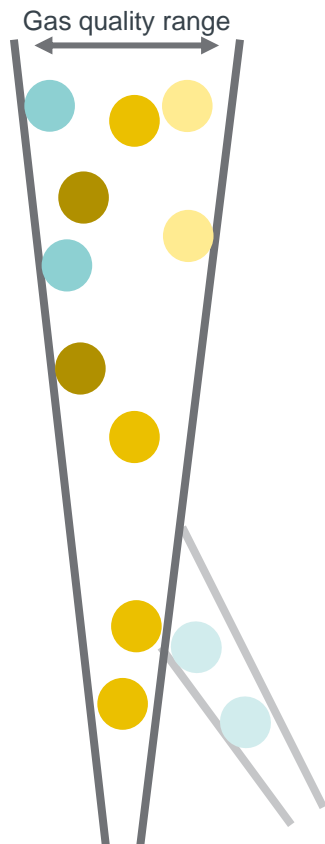
Before answering these questions, we need to recognise that standards cannot be set independently of the view on system design

- ● ● E.g.: Different methane qualities
- E.g.: Hydrogen

A wider gas quality entry range is less restrictive for upstream actors. But it also implies greater responsibility (and cost) for SOs downstream to ensure the right exit quality.

The narrower the gas quality entry range the more the responsibility lies 'upstream'.
If gases remain off specification, they are either **excluded from the system...**

...or need a **dedicated system**



Purely qualitative analysis to illustrate underlying logic of how gas quality standards might affect system design.

There is a case for increased multilateral co-ordination on standards as well as strengthening the existing bilateral process



Governance / Enforcement

Issues with the current framework

- No tool for **enforcing** harmonised gas quality standards (e.g. CEN) across MS
- Current framework focusses on bilateral (as opposed to **multilateral**) co-ordination
- And also leaves issues to be resolved by TSOs, rather than requiring **co-ordination at a higher level** (e.g. when setting policy priorities for renewable and low-carbon gas deployment)

Issues for discussion

- Is more required in terms of EU-wide enforcement of harmonised standards?
- How can MS be encouraged to co-ordinate on policy development, to ensure that national policies do not hinder cross-border trade in gases?



Reinforcing cross-border co-ordination

- The existing dispute settlement process (**Article 15 Interoperability Network Code**) is a 'last resort' process. As such it may not provide sufficient clarity/visibility to producers
- The process itself is considered lengthy (though there is limited experience in applying the process)
- There seems to be a lack of clarity on how the process is triggered and on stakeholders' rights in the process

- How could considerations around gas quality be better integrated with infrastructure planning processes (at both MS and EU-wide level)? How can TSO-DSO interactions best be managed?
- What opportunities are there for streamlining the process?
- How should stakeholder rights be clarified?

This needs to go alongside the right incentives on players across the value chain



Responsibilities and incentives

Issues with the current framework

- To the extent SOs are responsible for managing gas quality, limited elaboration at EU level on what constitutes efficiently incurred costs
- Some support from stakeholders for incentives for grid users to minimise the costs incurred by SOs in managing gas quality...
- ...but concern about what this means in practice for gas quality-sensitive end-customers
- ...who may in many cases also be price-sensitive (as exposed to international trade)
- No EU framework in place for tariffs at DSO level

Issues for discussion

- What additional guidance / requirements could be placed on SOs (e.g. non-discrimination between flexibility sources)?
- Is EU-level clarity required on the potential for 'grandfathering'-type approaches for end-users?
- How to avoid the risk of diverging approaches between MS on recovering costs from users?
- Is greater EU level harmonisation required on tariffs at distribution level?



Cross-border cost allocation

- Lack of clarity in how the **costs** for investments to manage cross-border gas quality issue should be **allocated**
- Lack of clarity in how operational costs incurred in managing gas quality should be allocated between TSOs, e.g. in the event of cross-border flows of gas that are off-specification

- To what extent could the revised TEN-E proposal facilitate cross-border cost allocation for investments?
- What additional clarity is required in legislation as regards cross-border allocation of operational costs?



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