



European Commission
DG Energy - ENER.DDG1.B.2
'Electricity and Gas'
Rue De Mot 24-26
B-1049 Bruxelles
Belgium

Shell U.K. Limited
Exploration & Production
Shell Centre
London SE1 7NA
United Kingdom
Tel +44 (0)20 7934 8918
Internet <http://www.shell.com/eandp>

EU REGISTER OF INTEREST REPRESENTATIVES ID: 69545381134-55

September 2011

Dear Sir / Madam,

STUDY ON INTEROPERABILITY - GAS QUALITY HARMONISATION - COST BENEFIT ANALYSIS

Thank you for the opportunity to respond to the consultation on the GL Noble Denton / Poyry cost-benefit analysis of gas quality harmonisation within the European Union.

As a major operator of indigenous gas production and a key supplier of Liquefied Natural Gas (LNG) the Royal Dutch Shell Group of Companies make a significant contribution to the security of gas supply in Europe. We consider that natural gas has a number of distinct advantages that will ensure it continues to play an important role in Europe's energy mix for many years to come. It is globally abundant, with recent estimates from the IEA indicating that there are sufficient global gas resources to continue meeting demand, at current levels, for the next 250 years. As the cleanest burning fossil fuel it offers the prospect of significant and immediate emissions reductions through coal to gas switching in the power sector, and still further reductions longer term when fitted with CCS. And it offers very significant cost savings relative to other forms of power generation, with capital costs of as little as half of that of coal-fired generation, 20% of nuclear and at least one tenth of offshore wind.

The continued ability to deliver gas as efficiently and cost effectively as possible to a broad range of industrial, commercial and domestic users requires a framework of arrangements for national transmission systems that enables producers to readily deliver gas into Europe and to move that gas easily across the Continent. It is therefore appropriate that attention should be given to any misalignment in these

arrangements that impose barriers to the free movement of gas across borders or leads to additional costs. In this regard we welcome the work of the European Commission to explore means of harmonising the various, often incompatible, national gas quality specifications throughout the Union.

Whilst we acknowledge the challenges faced by the consultants in obtaining sufficient and reliable data for undertaking the cost-benefit analysis we would like to offer the following comments on the findings. As our expertise in appliance manufacture is limited we have restricted our observations to the calculation of consumer benefits and those of the gas processing option.

- It appears that the calculated benefit to consumers of removing cross-border constraints in the transmission system related to mismatches in gas quality specifications was based on an assumption that even where barriers to gas flow occur demand can always be met. Higher prices result solely from supply being met by alternative sources/routes. However, this ignores the effect of physical bottlenecks in the system that may hamper, or prevent altogether, the supply of gas from elsewhere in these circumstances. In extreme cases the resulting shortfall in gas supply may lead to the physical interruption of consumers, for which it is reasonable to expect an associated economic cost of loss. Whilst acknowledging that such instances may only occur infrequently it would be informative to understand how much of an impact this may have on the results.
- The consultants have taken a very methodical approach to examining the costs of introducing additional processing capability at cross-border points in order to meet a harmonised European gas quality specification. This has resulted in a very high cost that, notwithstanding the comments above in respect of the costs of an interruption in gas supply, would appear to significantly outweigh the consumer benefit. However, we wonder if more modest costs might be incurred (for which the consumer benefits are justified) if the following alternatives are considered:
 - a) Opportunities to blend (commingle) gas streams from different sources may be possible where there is a confluence of supply infrastructure (pipelines and/or LNG). Subject to the individual flow rates and the precise specifications of the different gases, this could enable a more cost effective means of dealing with any mismatches in quality.
 - b) On the basis that the relationship between gas processing costs and consumer benefits may not be linear, depending on the gas quality parameter in question and local market specificities, then establishing regional gas quality zones might enable some of the larger (potential) mismatches in national gas quality specifications to be managed at national level whilst providing a possible interim step to more complete harmonisation across the Union.

Full consideration of any of the above issues is likely to require more data than the consultants have been able to obtain to date. However, since achieving a degree of harmonisation at more modest costs could offer significant consumer benefits we would welcome further attention be given to this, perhaps as part of a separate, second study.

I trust you have found these remarks helpful. Don't hesitate to contact me should you wish to discuss them further.

Yours sincerely

A handwritten signature in black ink, reading "Chris Mansfield". The signature is written in a cursive style with a horizontal line underneath the name.

Dr Christopher Mansfield
UK Regulatory Affairs Manager
Shell Upstream International - Europe