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Role of Harmonized Business Practices in Natural Gas Regulations of the Future

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Harmonization Of Natural Gas Business Practices Can Provide Numerous Benefits To Natural Gas Markets:

- strengthens energy supply security;
- increases the interoperability of cross-border natural gas markets and the integration of the various industry segments;
- removes barriers of entry and provides fairer access to natural gas markets;
- improves communications among market participants;
- streamlines operational procedures and ensures systems' compatibility;
- increases the efficiency and/or competitiveness of natural gas markets; and
- increases the reliability and accountability for natural gas customers.



3 Models Of Harmonization Were Examined:

- Voluntary Model of the European Union
- Public-Private Partnership Model of the United States
- Co-Regulatory Model of New Zealand

The role of harmonization of gas quality and interchangeability also was examined in the context of the growing world wide demand for LNG, particularly in markets with local, indigenous or other historical natural gas supplies that are diminishing and/or that are being added to for energy supply security reasons.



VOLUNTARY MODEL OF THE **EUROPEAN UNION**

- Historically, the European Union relied largely on voluntary efforts of natural gas participants and regulatory groups to develop harmonized natural gas business practices.
- The voluntary and non-binding nature of harmonized natural gas business practices has been a barrier to developing a single European natural gas market and has resulted in inconsistent implementation of harmonized business practices.
- The European Commission now supports the development of the Agency for the Cooperation of European Regulators to make cross-border technical decisions, to develop non-binding business practice guidelines, and to work with the natural gas pipelines to develop and review market and technical business rules, with the Commission able to introduce binding guidelines.



PUBLIC-PRIVATE PARTNERSHIP MODEL OF THE UNITED STATES

- Voluntary wholesale natural gas business practices are initially developed by an industry organization, the North American Energy Standards Board (NAESB), but then are generally adopted, either as proposed or revised, by the Federal Energy Regulatory Commission, the U.S. national energy regulatory agency, as binding requirements.
- This approach has led to fewer objections by the natural gas industry to the binding requirements and has resulted in less ambiguous, cost-effective practices based on real world conditions and natural gas industry expertise.
- Recognizing cross-border interconnections, NAESB and the Canadian EDI technical organization (GasEDI) have an agreement to maintain common North American information standards.



CO-REGULATORY MODEL OF NEW ZEALAND

- Initially, New Zealand relied on the natural gas industry's self-regulatory efforts and voluntary agreement.
- However, the New Zealand government decided to change the Gas Act in order to establish a role for a natural gas industry body (the Gas Industry Company). The government sets natural gas policy objectives and the Gas Industry Company makes recommendations to the government, with the Gas Industry Company responsible for harmonizing the natural gas business practices.
- The Gas Industry Company's current focus is on developing the fundamental elements of a well-functioning natural gas market and promoting access to natural gas infrastructure and competitive markets, while minimizing barriers to markets as well as natural gas supply security risks.



HARMONIZATION ISSUES FOR LNG-CONSUMING MARKETS

- With the growth in LNG demand world wide, harmonization of certain natural gas business practices has become more important for markets that utilize LNG.
- Harmonized gas quality and interchangeability requirements can benefit countries with local/historical natural gas in the competition for LNG with countries that have no or limited local natural gas and likely to allow broad gas quality specifications.
- However, concerns and conflicting interests may exist for countries that have local/historical natural gas because of the differences in gas quality between LNG and local/historical gas supplies and the need to take into account the local conditions, such as appliance or turbine gas quality limitations.



CONCLUSIONS

- KEY FINDING : Effective harmonization approaches are critical to the efficient development of integrated, competitive, and/or cross-border natural gas markets and to address the need for LNG supplies in countries with local/historical natural gas.
- KEY FINDING : While a voluntary approach will bring some benefits and may bring timely harmonization, binding requirements developed by regulatory authorities in consultation/cooperation with the natural gas industry is likely to bring the most efficient and beneficial results.
- KEY FINDING : When developing harmonized practices, the potential costs and other impacts must be considered.