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Shell Energy Europe Limited (SEEL) response to Article 28 TAR NC consultation

Dear William

SEEL welcomes the opportunity to comment on the UK charging regime, which has faced significant instability for several years.

As Ofgem points out, the open governance framework in GB allows UNC signatories to propose amendments to NGT's charging methodology via the established industry-led process, which has developed positive reform in line with National Gas's License objectives for many years. SEEL is engaged in the National Transmission System Charging Methodology Forum ("NTSCMF"), which provides a platform for industry participants to discuss current issues related to the charging regime and to explore the wider benefit of potential changes.

The NTSCMF is currently reviewing potential changes to the split in National Gas Transmission's (NGT's) revenue recovery from the current entry:exit split of 50:50 to alternative approaches, such as a 25:75 or 75:25. In addition, the Forum is evaluating the merits of a discount for entry points from LNG facilities. Lowering the cost of delivering LNG to the GB market better facilitates GB competitiveness with the continental markets and consequently promotes supply security for GB consumers.

As per ACER's 'Analysis of the European LNG market developments 2024 Market Monitoring Report'ⁱ, ACER recognises that the EU is increasingly heightening its reliance on LNG. The costs of delivering LNG to the GB market are, however, considerably higher than the costs to delivering to continental marketsⁱⁱ, not only owing to higher entry capacity tariffs but also because of the tighter gas quality specification, which negatively impacts the attractiveness of delivering LNG to GB.

This could be partly mitigated through the introduction of a tariff discount for LNG entry points without unduly burdening end users or increasing the cost of transporting gas to neighbouring markets connected via the interconnectors, which could be brought about by a change to the entry:exit split. The impact on directly connected EU Member States should be taken into account as per the requirement in Article 28(1) of the NC TARⁱⁱⁱ, which states that the positions of national regulatory authorities of directly connected Member States should be considered, prior to making a decision on tariffs. SEEL is also engaged in discussions to further assess increasing the Upper End of the Wobbe Index but progress in this regard is highly uncertain and much further in the future.

The impact on LNG deliveries stemming from the discrepancy between GB entry tariffs and comparatively lower continental tariffs could be even more pronounced once existing contracted capacity for LNG expires after 2029/30 and

tails off from 2028/29 as GB LNG terminals will be exposed to considerably higher entry capacity tariffs compared to the existing contracted tariffs, which could negatively impact utilisation of GB LNG terminals in the longer-term. Regulators and Transporters on the continent have already responded to the EU's increased reliance on LNG and the importance of attracting gas to their markets by introducing, if not already in place, discounts for entry points from LNG facilities.

By way of example the Netherlands^{iv} has implemented a 20% discount for LNG terminals under certain conditions, citing security of gas supply, which has been compromised following the Ukraine crisis and noting that LNG has, therefore, become significantly more important for the Netherlands and the (North) West European gas market.

Whilst Belgium^v has not implemented an LNG capacity discount, Fluxys's revenue recovery entry:exit split is 33:67. Other continental markets such as Germany^{vi} introduced a 40% discount for entry points from LNG terminals, with the German regulator noting that Germany's LNG regasification terminals provide a link to additional sources of supply and consequently improve supply security and that a network tariff discount leads to more utilisation potential of LNG terminals and moreover, that LNG will be able to contribute significantly to a reasonably priced energy supply.

Poland^{vii} applies a discount of 100% at entry points from LNG terminals on the basis that it increases security of supply of Poland through diversification of gas supply and development of competition on the domestic gas market through the possibility of obtaining gas from new gas sources.

In light of the above, SEEL would support an 80% tariff discount for LNG entry points to ensure the GB LNG market remains competitive, is open to a diverse supply source and maintains supply security to GB consumers.

SEEL welcomes using the TAR NC consultation to ensure these important issues are brought to the attention of those who are not signatories to the UNC and may not be aware of the work ongoing via the NTSCMF, to ensure all stakeholders have the opportunity to share their insights and ensure visibility of the work market participants are doing to address identified issues and to explore potential solutions.

With regards to identifying areas for regulatory improvement and informing future policy discussion, we trust that the outcome of this consultation will not put at risk the current timeframe for delivering change via the NTSCMF or duplicate work, given the prolonged timeframe for managing changes to the charging regime. Any changes to the governance framework with regards to proposing changes to the Uniform Network code should be subject to a separate consultation.

Yours sincerely

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ⁱ https://www.acer.europa.eu/sites/default/files/documents/Publications/2024_ACER_Tariff_analysis_report_Netherlands.pdf

ⁱⁱ Graph shared bilaterally with Ofgem

ⁱⁱⁱ <https://www.legislation.gov.uk/eur/2017/460/article/28>

^{iv} https://www.acer.europa.eu/sites/default/files/documents/Publications/2024_ACER_Tariff_analysis_report_Netherlands.pdf

^v <https://www.fluxys.com/-/media/project/fluxys/public/corporate/fluxyscom/documents/fluxys-belgium/commercial/tariffs/transmission/2024-january/20231130---publication-article-30-for-2024.pdf>

^{vi} https://www.bundesnetzagentur.de/DE/Beschlusskammern/1_GZ/BK9-GZ/2023/2023_bis0999/BK9-23-0612/Downloads&Stellungnahmen/BK9-23-0612_Festlegung_Beschluss_EN_DL_BF.pdf?__blob=publicationFile&v=2

^{vii} https://www.acer.europa.eu/sites/default/files/documents/Publications/2024_analysis_report_Poland.pdf