

By email

gas.systems@ofgem.gov.uk

Gas Security Team
Ofgem
10 South Colonnade
Canary Wharf, London

20 August 2024

RE: Ofgem's TAR NC Consultation

Dear Gas Security Team,

South Hook Gas Company Ltd (SHG) is grateful for the opportunity to respond to Ofgem's TAR NC consultation. SHG is an NTS shipper that holds and manages the primary capacity at the South Hook LNG Terminal located at Milford Haven in South Wales. Since commercial operations commenced in 2009, SHG has supplied natural gas into the NTS every day.

Please find our response to your questions below. We are happy for this response to the consultation to be published and to be contacted further by Ofgem in relation to our response.

Multipliers

1. What is your view on the current level of multipliers in the GB gas transmission charging methodology?
2. In your view, would there be merit changing the multipliers, and if so to what level and based on what rationale? If available, please provide any information, data or analysis which supports your view.
3. If you have any additional comments on the use and effectiveness of multipliers in either the GB context or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views.

SHG Response:

SHG are content with the current level of multipliers within the GB gas transmission charging methodology and therefore see no significant merit in diverging from the current level.

Seasonal Factors

1. What is your view of the current absence of seasonal factors in GB?
2. In your view, would there be merit to introducing seasonal factors, and if so how and based on what rationale? If available, please provide any information, data or analysis which supports your view.
3. If you have any additional comments on the use and effectiveness of seasonal factors in GB or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views.

SHG Response

SHG are content with the current absence of seasonal factors in GB and therefore see no significant merit in introducing any seasonal factors.

Discounts for LNG Entry Points

1. What is your view of the current absence of discounts for LNG entry points in GB?
2. In your view, would there be merit to introducing discounts for LNG entry points, and if so, what would be the appropriate level and the rationale for doing so? If available, please provide any information, data or analysis which supports your view.
3. If you have any additional comments on the use and effectiveness of discounts for LNG entry points in GB or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views.

SHG Response

1. SHG believes that the absence of LNG discounts provides a competitive disadvantage for GB. Over time this may lead to potential secondary impacts including higher costs to end consumers, a reduction in the ability for GB to attract LNG cargoes and a corresponding increase in risk to the security of supply.

The EU's response to the Russian invasion of Ukraine and the impact on energy security and energy prices led to a significant increase in continental LNG import capacity. Through their roll-out of physical infrastructure, Member States have incentivised the landing of LNG cargoes and utilisation at their facilities through LNG discounts.

To this end, we believe the costs associated with landing and transporting gas within NW Europe are more attractive than that presently available within GB, which risks our position as a prime destination for landing LNG for both domestic supplies and transit gas to continental Europe.

2. SHG believes that there is merit to introducing discounts for LNG entry points.

We believe that the best approach to implementing an appropriate discount would be to ensure that GB pricing through the NBP including gas transportation costs remains competitive against our competition in NW Europe, namely the Dutch Title Transfer Facility ('TTF') and the relatively new German Trading Hub Europe ('THE').

We believe that barring some operational cost savings through site specific processes, the costs associated for utilising an import terminal are broadly comparable across NW Europe (regardless of location) and likely to include the following:

- Berthing Slot
- Capacity and Regasification Fee

While the above costs are somewhat within SHG's control in order to remain cost competitive, variable costs between Transmission Network Operator's relative charging regimes prevent GB from competing.

LNG contracts between LNG suppliers and LNG importers often have some element of flexibility built-in. This reflects the price-sensitive nature of LNG and so suppliers will explore the global market to send their cargoes to markets with the lowest system costs and the highest commodity costs.

Therefore, ensuring cost parity within TSO charges between GB and EU Member States for LNG suppliers is key to supporting GB becoming more competitive and therefore more attractive for cargoes. This will help improve security of supply and will become increasingly important if UK Continental Shelf supplies reduce over time leading to a greater reliance on LNG.

SHG's analysis suggests that an LNG discount of 50-80% will result in broadly cost neutral network transportation costs between GB and NW Europe¹.

¹ To note, this is dependent on our input assumptions being valid with no additional costs as well as a comparison over a range of entry capacity products

3. SHG has based its view on a desktop study of publicly available information, and while we believe these figures to be true, we do not operate within these regulatory jurisdictions and so cannot verify other unknown costs in gas transportation.

We note that within Germany² there is a 40% LNG Discount and that within the Netherlands³ there is a 20% LNG Discount.

As we understand it, the 40% LNG Discount in Germany is only applicable for entry capacity products on a quarterly or annual basis, and the 20% in the Netherlands is for 2025 and 2026 with a possible extension to 2029 if the percentage share of the natural gas entering through LNG over the total amount of natural gas of the system in the previous year is above 25% and the average natural gas price is above 37.5 EUR/MWh.

Our desktop study suggests that irrespective of any LNG discount within these Member States, the cost to transport gas from the import facility to the hub is still markedly cheaper than GB.

Beyond the possibility of an LNG Discount, there are other options which might achieve similar outcome. We note that a significant step forward would be revising the Entry / Exit split, shifting the split to place a greater cost onto exit. SHG have not included any further details of this given the ongoing dialogue within the NTSCMF Workgroup.

Other steps include examination of the permitted regasification processes in GB facilities to assess the potential future use of Open Rack Vaporization ('ORVs'). This process has significant reductions in operating costs compared to the status quo and is utilized within NW Europe and would further level the playing field.

Progress on assessment of widening the acceptable gas quality could be expedited which if supported would enable a greater diversity of LNG sources and therefore increasing security of supply while reducing operating costs through reduced gas treatment prior to network entry. It is also worth noting that a higher NBP price would likely attract greater volumes of LNG to GB but as the NBP is a market function, this is out of scope for regulatory intervention.

We acknowledge that LNG Discounts and Entry / Exit are within Ofgem's remit and that these may be the most efficient routes to safeguarding security of supply at lowest cost. We would however encourage Ofgem to explore and work alongside the other relevant GB regulators to investigate the other possible pathways to increase competitiveness highlighted above.

If of further interest SHG would be happy to discuss with Ofgem our desktop study and / or any of the points raised.

² Information about the tariff structure of Gasunie Deutschland Transport Services GmbH as of 01.01.2025 being valid at cross-border points and storages, Gasunie Deutschland Transport Services GmbH

³ 2024 ACER Tariff analysis report Netherlands.pdf (europa.eu)

Discounts for interruptible Capacity

1. What is your view of the current level of discounts for interruptible capacity in GB?
2. In your view, would there be merit to adjusting the discounts for interruptible capacity prices, and if so, what level of discount would you suggest and based on what rationale? If available, please provide any information, data or analysis which supports your view.
3. If you have any additional comments on the use and effectiveness of interruptible capacity discounts in GB or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views

SHG Response

SHG does not have a strong view on discounts for interruptible capacity and therefore see no significant merit for adjusting interruptible capacity discounts.

Article 28 Consultations

1. Do you have any comments or observations on the value to stakeholders and consumers of Ofgem continuing to conduct this annual consultation?
2. Do you have any suggestions on how Article 28 Consultations may be improved or conducted differently in future to maximise value for stakeholders and consumers?

SHG Response

1. We welcome the opportunity to respond to the consultation and would be pleased to engage with you further on any topics or questions you may have.

We hope this response is of assistance and should you wish to discuss further or have any further questions please contact me on tgwinnell@southhookgas.com or +44 (0)20 7234 3505.

Yours faithfully,

Tim Gwinnell

Regulatory and Commercial Analyst
South Hook Gas Company Ltd.