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William Duff
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Ofgem

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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.

SEEL's position has not substantially changed since our response to the Article 28 consultation in August last year so we will use this opportunity simply to reiterate the points from our previous response, which we would welcome further discussing with Ofgem in a meeting.

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.

We are concerned about potential barriers to delivering LNG to the GB market, primarily related to higher entry capacity tariffs, compared to the continent, tighter gas quality specifications requiring costly nitrogen ballasting and the risk of network constraints.

Lowering the cost of delivering LNG to the GB market better facilitates GB competitiveness and consequently promotes supply security for GB consumers. In our response last year, we referred to ACER's 'Analysis of the European LNG market developments 2024 Market Monitoring Report'[i] where 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 markets[ii], which negatively impacts the attractiveness of delivering LNG to GB as it competes with alternative entry points on the continent to attract global supplies.

The discrepancy between GB entry tariffs and comparatively lower continental tariffs would be even more pronounced once existing contracted capacity for LNG expires in 2029/30 as GB LNG terminals will be exposed to considerably higher entry capacity tariffs from that point onwards, 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[iii] 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[iv] has not implemented an LNG capacity discount, Fluxys's revenue recovery entry:exit split is 33:67. Other continental markets such as Germany[v] 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[vi] 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.

We would welcome a meeting with Ofgem to further discuss the above.

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.acer.europa.eu/sites/default/files/documents/Publications/2024_ACER_Tariff_analysis_report_Netherlands.pdf
[iv] 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
[v] 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
[vi] https://www.acer.europa.eu/sites/default/files/documents/Publications/2024_analysis_report_Poland.pdf