



Francesca Caputo,
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Dear Francesca,

Re Consultation on the regulated Third Party Access regime for LNG facilities in GB

We welcome the opportunity to respond to the consultation which is aimed at considering the approach that should be taken for a potential future LNG terminal in the UK. Our response has some initial comments and then addresses the nine questions that are raised in the consultation.

In considering the issues raised in this consultation, one needs to recognise the integrated nature of the LNG business and that terminal access and operations are only a part of the value chain. Terminal access facilitates entry to the downstream wholesale market, but it is important to recognise that port costs and TSO charges are typically the same price as the terminal tariff. It is worth highlighting at this point that the UK's TSO Commodity charges (absolute level and variability) are now materially disadvantaging UK regas terminals in attracting cargo deliveries versus neighbouring facilities. At the nearby Zeebrugge, Rotterdam, Montoir terminals, there are no TSO commodity charges to get to the respective Belgium, Dutch and French hubs. We would request that Ofgem gives attention to this matter to ensure that the UK remains a competitive destination for LNG deliveries.

The other aspect that isn't specifically addressed in this consultation is the role of Force Majeure with the TSO. The current situation in the UK market is far from acceptable. In the current climate, significant investments are difficult to commit to, especially given the time the TSO believes is required to obtain planning consents. The rules for FM by the TSO in failing to make capacity available skew the project risks against the investor. Once FM has been declared, the effect is then to curtail the marginal user which has an effect on how secondary capacity can be marketed.

The final high level point we wish to make is about maintaining UK competitiveness against continental regas terminals. We are concerned by the clamour coming from southern Europe for increased application of rTPA. The market environments are very different and it is our understanding that whilst Ofgem's policy of granting exemptions to LNG terminals has benefitted the UK consumers with improvements in security of supply and access to lower priced sources of gas, consumers in southern European nations are effectively subsidising those rTPA terminals.

Question 1: What level of consultation should an LNG operator undertake when developing its main commercial conditions for the first time or when proposing amendments to its standard terms and conditions.

We do not believe this is formally necessary, although it is likely to be considered good commercial practice. An LNG operator will want to build a terminal which gives it the best return on investment which will likely be through building in all services that are economic. When a potential terminal is offering services to the market, the provider is likely to at least informally consult the market as it tests the market for its services. If Ofgem were minded to require a formal consultation, then adequate time (at least 4 weeks) should be allowed for interested parties to respond.

Question 2: Should an LNG system operator be expected to formally consult or test the market before changing existing services or offering any new services to the market? If no, please provide your reasons.

It is already a requirement under 19D(2B) for an rTPA terminal to consult if it is looking to make amendments. There are quite a widespread range of terms between terminals in north west Europe, for example firm or virtual storage; send out flexibility and terms for a period of send out (flat or variable profile); approaches to offering additional capacity (via open season). As we have stated above, a terminal offering new services in the competitive UK market, would likely test the market to determine the level of interest in its products.

Question 3: Do market participants have any concerns with our preliminary views on capacity allocation?

We support Ofgem's position with regard to the use of market based tools and the auctioning of capacity. We support the approach on defining maximum capacity and the publication of the key technical aspects – this is likely to come under the GLE transparency measures anyway.

Question 4: Can the UIOLI arrangements implemented by the LNG system operators in GB be improved to ensure greater utilisation? What lessons can we learn from current models to encourage greater use under an rTPA regime?

There is no evidence that UIOLI arrangements in the UK market have hindered terminal utilisation. Utilisation rates differ according to the comparative prices of UK market versus other global destination, the degree of fuel substitution possible around the world and the flexibility and supply strategies of different market participants. It is important to recognise that the UK is part of a wider northwest European market so it isn't appropriate to view things on a national basis any more and globally, regas capacity is double the liquefaction capacity, implying an average global load factor of around 50%. LNG will be attracted to the highest value markets, leading to high levels of utilisation in countries such as Japan, Korea,

Taiwan and much lower utilisation rates in less attractive destinations where there are other cheaper competing sources of pipeline gas supply (eg EU).

UIOLI should always be viewed as a mechanism of last resort to ensure that a market participant is always able to access an LNG facility in the event that a slot is unutilised and they have a spare cargo. One important step to making UIOLI more workable as a last resort measure is to get the pre-contracting phase engaged. Without this, it makes urgent applications for UIOLI problematic due to time required to agree contractual terms. We do not believe there are financial or any other impediments to getting this in place and no party has ever expressed concerns to us. It would provide potential LNG suppliers with access to UIOLI slots where they have a spare cargo although to date, we are unaware of any potential supplier of LNG being unable to gain access to UK LNG regas terminals.

In offering UIOLI, it is also important to ensure that the implicit value for the primary capacity holder is preserved. Simply extending the notice period for the capacity auction with the hope of attracting additional uptake is not a satisfactory outcome, which could prevent the primary capacity holder properly accessing its own capacity, possibly leading to less rather than more supply and in the long term would deter future investment in regas capacity.

Question 5: Do market participants have any views on why secondary capacity trading has been used so little? Is access to unused capacity being facilitated through mechanisms other than secondary trading and / or UIOLI arrangements?

Please see our answer to Question 4. Furthermore, we do not believe that current low utilisation of UK LNG regas facilities should give Ofgem cause for concern when viewed against the global LNG market place. Capacity is not being unduly withheld, but cargoes are currently being sent to other higher value markets. To the extent that spot cargoes are able to be sent to northwest Europe, one can expect there to be strong competition to attract those cargoes and this is where it is important to note that the UK is currently placing itself at a disadvantage given the level and volatility of TSO Commodity transportation charges, which make it more attractive to send LNG cargoes to other northwest European terminals in preference to the UK and achieve a higher equivalent NBP netback price.

BG Group has a wide range of customers that we deal with on a global basis and tend to trade on a Delivery-ex-Ship (DES) basis with other suppliers of LNG, many of whom are not active within UK or European markets.

Question 6: Are there any mechanisms that could be established to facilitate greater use of secondary trading arrangements?

The most effective practice remains normal bilateral commercial arrangements. UIOLI exists as a mechanism of last resort and we are not aware of anyone wanting to bring a cargo into the UK who has been unable to.

Question 7: In addition to the information detailed in this chapter, is there any further information that LNG system operators should be publicly available?

BG supports the transparency reporting under EC/715/2009 together with the voluntary information on terminal access that will be facilitated on the GLE website. In the UK, near real time information flows show changes in flows nearly instantaneously (between 2 and 12 minute delay) and we would urge Ofgem to put pressure on other NRAs and ENTSOG / GLE to get similar information available in other countries to aid market transparency.

Question 8: To what extent do you consider that market participants will be able to observe non-compliance with the legislative requirements by an LNG system operator?

We believe there is sufficient ability for market participants to observe and report non-compliance of LNG system operators.

Question 9: Taking into account your answer to question 8, what (if any) additional information to that set out in the previous chapter should LNG system operators provide to the Authority?

Nil response.

We trust that you find these responses clear and would be happy to discuss any of the matters raised in this in further detail.

Yours sincerely,

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BG Group