Response to public consultation on an EU Strategy for liquefied natural gas and gas storage

South Hook Gas

South Hook Gas Company Ltd. ("SHG") is a UK-based LNG import company, which owns and manages all of the regasification capacity at the South Hook LNG ("SHLNG") Terminal at Milford Haven in West Wales. Our primary role is to handle LNG cargoes from the Qatargas 2 project in Qatar and provide a flexible supply of gas to help meet the UK's changing energy needs. We also seek to maximise the use of the terminal capacity by offering regasification services to gas marketers in the UK. As the largest LNG importer in the UK, SHG plays a key role in enhancing the nation's security and diversity of supply by accessing gas supplies from outside the EU. Since commencing operations in 2010, we have supplied more than 400 LNG cargos via the SHLNG Terminal.

General Comments

SHG welcomes the development of a comprehensive LNG and storage strategy for the EU. We believe such a strategy will help the EU fully realize the benefits of LNG and the important role it can play in enhancing the EU's energy mix. LNG in Europe is the key to diversification of supply, offering multiple supply options from around the world. It makes global gas reserves accessible to European markets and reduces reliance on a single supplier thereby making a significant contribution to overall supply security. As owners of the regasification capacity at SHLNG, we have established a 25 year supply agreement with Qatargas 2, creating a home for LNG in the UK. In addition to this, we also market any secondary capacity available at the terminal in efforts to attract any other potential LNG suppliers. In recent years, high LNG prices in Asia have made the EU a less attractive market for LNG. Our long-term agreement with Qatargas 2 has maintained a high level of activity at the SHLNG Terminal, enabling SHG to supply 92% of all UK LNG imports in 2014. However terminal utilisation for SHG and terminals in the rest of Europe remain low and thus for the EU to create a more attractive LNG market, policies should be developed to maintain an appropriate and stable regulatory environment that increases investors' confidence and makes the EU an attractive proposition for global LNG suppliers.

Overall, SHG believes that gas has a key role to the play in the EU's energy mix, now and in the future, because it is a critical component of a secure, affordable lower carbon supply of energy. We have provided responses to some of the questions posed in the consultation; however some of the general themes found in these responses will be more relevant elsewhere.

Responses to specific questions for consultation

Question 4: What in your view explains the low use rates in some regions? Given uncertainties over future gas demand, how would you assess the risk of stranded assets and lock-in effects (and the risk of diverting investments from low carbon technologies such as renewables and delaying a true change in energy systems) and weigh those against risks to gas security and resilience? What options exist in your view to reduce and/or address the risk of stranded assets?

- It is important to recognise that the LNG market is global and LNG will be attracted to the highest value markets. We do not believe that LNG terminal access conditions are a problem in the EU. The low level of utilisation at some European LNG terminals in recent years reflects the lower commodity prices experienced in EU markets when compared to Asian markets over the same period. Stranded assets are those that are not economically viable; however in this case the EU LNG terminals are simply idle as a result of global market fundamentals. Import capacity in some EU states outstrips requirements, and that, coupled with higher prices elsewhere means demand for capacity has been low. As available LNG supply increases, Europe could be a favoured destination, however, this would require a stable regulatory environment along with a long-term strategy and adequate price signals in place. We believe that there is ample terminal capacity available and market parties interested in bringing LNG into the EU have an array of terminals to choose from.

  Increased uncertainty in the market, as a result of ever-changing policies and regimes, will add unnecessary risk to the market. To enhance security of supply, the EU should look towards establishing long-term arrangements to attract investment from global suppliers. For example, in the UK, the SHLNG Terminal is the most active LNG terminal and annually supplies roughly around 11% of total UK gas demand. In 2004, an exemption from Third Party Access was awarded to SHLNG, allowing SHG to purchase all the primary capacity in order to process LNG from Qatargas 2. The award of this exemption was considered essential for the Qatargas 2 project and a necessity in order to secure the finance needed to build the terminal. Such market exemptions have the capability to attract LNG investment on a very large scale; not only do they drive investment in infrastructure but they also commit the terminal's owner's to the local gas market, creating a home for their LNG. SHG believes that initiatives similar to the Qatargas 2 project will commit global suppliers to the EU, creating a vested interest for them in the market.

Question 5: The Energy Union commits the EU to meeting ambitious targets on greenhouse gas emissions, renewable energy and energy efficiency, and also to reducing its dependency on imported fossil fuels and hence exposure to price spikes. Moderating energy demand and fuel-switching to low carbon sources such as renewables, particularly in the heating and cooling sector, can be highly cost-effective solutions to such challenges, and ones that Member States will wish to consider carefully alongside decisions on LNG infrastructure. In this context, do you have any evidence on the most cost-efficient balance between these different options in different areas, including over the long term (i.e. up to 2050)?

- SHG supports the commission's commitment to reduce greenhouse emissions. As the cleanest burning fossil fuel, and the lowest cost alternative to renewables, natural gas will play a vital and long-term role in helping the EU reach climate change targets. Intermittent renewable energy will need to be sustained by back up sources of power, and natural gas can provide this and advance the move towards a low carbon energy system by replacing more pollutant fuels like oil and coal.

- Moreover, gas-fired power plants in combination with LNG terminals can offer the flexibility required to provide peaking services at times of low renewable energy production. The flexibility to ramp up and down quickly, coupled with the ability to access global gas markets via LNG, makes natural gas the ultimate compliment to renewable energy, enabling the development of a low carbon economy in the EU.

- In all expert policy scenarios, even those that seek to limit air and greenhouse gas emissions, natural gas will continue to play a critical role in power generation to 2050 and beyond. In the UK, the Energy Networks Association states that "there are credible and robust scenarios in which gas could play a major ongoing role in the GB energy mix while meeting both the 2050 carbon targets and the 2020 renewable energy targets"[1]

- More generally, according to GB transmission system operator gas usage is not expected to decline significantly over the next 20 years, making vital contributions to the power generation and heating sector. National Grid estimate the annual gas demand in 2035 to be as high as 855 TWh/a. This compares to current annual demand levels of 880 TWh/a.

Question 6: What in your view are the most critical regulatory barriers by Member State to the optimal use of and access to LNG, and what policy options do you see to overcome those barriers? Have you encountered or are you aware of any problems in accessing existing LNG terminal infrastructure, either because of regulatory provisions or as a result of company behaviour? Please describe in detail.

- SHG welcome the EU's attempt to introduce market-based solutions to energy through the measures laid out in the Third Package. We are supportive of market opening and "light touch" regulation which limits unwarranted interventions and provides the greatest benefits for EU customers. As a global commodity, we believe LNG responds to high value markets. On the other hand, LNG investment responds to stable regulatory environments

- We believe that a stable regulatory environment is essential to guarantee the substantial investments required by LNG infrastructure. Alternating regulatory regimes across the EU and individual member states will decrease investors' confidence in the market. Additionally, exposing existing suppliers to changing regimes will ultimately deter new projects sponsors from investing in the EU gas market. For instance, Ofgem[2] is currently conducting a Gas Transmission Charging Review[3] , in anticipation of planned changes to the EU Tariff Network Code which, if implemented, could lead to incremental changes for existing market participants that have purchased long-term capacity at the National Transmission System. Such a substantial change will impact the behaviour of companies that were willing to purchase long-term capacity for their anticipated supply. The inability to guarantee access to long-term capacity will inevitably discourage long-term supply strategies. SHG believes that willingness of a regulator to impose such significant and unseen changes on existing market participants will set a precedent that will be factored into any new investment decision, making the UK and therefore the EU, a less attractive market for gas.

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[1] Gas Futures Scenarios Report: http://www.energynetworks.org/gas/futures/gas-futures-reports.html

[2] OFGEM: Regulates the electricity and gas markets in Great Britain; https://www.**ofgem**.gov.uk

[3] A review of the structure of GB gas transmission charging regime in effort to harmonise them with the EU Network Code on Tariffs.

Question 11: What technological developments do you anticipate over the medium term in the field of LNG and how do you see the market for LNG in transport developing? Is there a need for additional EU action in this area to reduce barriers to uptake, for example on technology or standards, including for quality and safety?

- LNG used as a fuel in maritime and road transport can help the EU reduce transport emissions. LNG has significant emission related advantages in comparison to petroleum products and can emit 20-25% less CO2 then conventional fuels such as diesel and gasoline[4]. The transport industry is predominantly reliant on petroleum fuels and we anticipate that there will be challenges to switch to less pollutant fuels such as LNG. SHG is in support of any EU initiatives that contribute to the development of LNG as an alternative fuel for cleaner transport.

[4] Gas Naturally: A versatile energy source http://www.gasnaturally.eu/facts-about-gas/a-versatile-energy-source