



Shannon LNG response on “Consultation on an EU strategy for liquefied natural gas and gas storage”

["In January 2009, eastern Europe slipped back two centuries. For an icy fortnight, people reverted to foraging for wood to heat their homes." Financial Times March 20, 2014]

LNG in the EU

All member States should ideally have direct access to LNG. Where for physical reasons this is not feasible then access through a neighbouring country should be the next alternative. From a diversification and security of supply perspective, LNG capacity should be not less than the capacity of the major pipeline or 50% of overall pipeline capacity in countries with multiple pipelines. Within that overall guideline, each country would need individual assessment to determine the optimal level of LNG capacity.

On the question of LNG investment versus additional Pipeline investment in states with only one source of supply, it seems appropriate that the most cost effective solution would be selected taking the totality of special factors into account while recognising that LNG provides the ultimate diversity of supply.

On the question of usage rates, low usage rates are directly attributable to market conditions in those regions. While there may be uncertainty over future gas demand, there is little uncertainty over future energy demand. To date low carbon technologies are evolutionary in nature and are most unlikely to change the immediate requirement for diversity of gas supply and particularly the need for LNG. Because of the grave consequences of insufficient diversity of gas supply, the concern of the risk of stranded assets should not be exaggerated. All markets and technologies are subject to disruption and this is to the benefit of consumers. The principle business risk in a capital intensive business, such as pipelines, is precisely that it may become stranded. This is the primary reason why such assets are allowed a risk rate of return. No organisation should expect to receive a perpetual rate of return and be immune from competitive pressures.

Potential entry barriers for LNG

A critical regulatory barrier for LNG is the assumption that new supply points such as LNG terminals must subsidise existing supply points in a country. This freezes direct LNG supply out of that market.

Ireland is a concrete example. Ireland is almost 100% dependent on gas pipeline imports from the UK. The UK's North Sea reserves are rapidly being depleted. By 2030, the UK will be importing over 80% of its requirements. An LNG terminal on the west coast of Ireland would enhance Ireland's and Europe's direct access to global LNG supplies and particularly to US LNG supplies.

The Shannon LNG terminal was announced in 2006 and by end 2010 had received the necessary planning approvals and permits. As the ultimate send-out capacity of the Shannon LNG terminal (28.3 mcm/day) is substantially higher than the average daily demand in Ireland, the terminal would have the capacity to supply gas to the UK and EU markets, if required.

However in January 2011, the Commission for Energy Regulation (CER) announced that it was reviewing the gas tariffing arrangements and put forward a consultation to transfer the costs of pipelines (Interconnectors) delivering gas from the UK to Ireland, onto competing supply points including the Shannon LNG entry point.

The current transmission tariff regime was introduced by the Government in 2001 to encourage the development of, and competition between, different gas supply sources based on each supply source paying its own costs i.e. no cross subsidies between supply sources.

Under the current system, users of the interconnectors pay the costs of the interconnectors, which reflect the allowed cost of transporting gas from the UK to Ireland. Similarly, Shannon LNG would pay the full cost of delivering its regassified LNG to the gas grid in Ireland.

However, the CER's June 2015 Decision contains major cross-subsidies from importers of LNG in Ireland to the importers of pipeline gas from the UK, cross-subsidies that are excessive, disproportionate and avoidable.

The CER Decision discriminates against importers of LNG to Ireland in favour of importers of pipeline gas from the UK by substantially and artificially reducing the tariff differential between the two entry points compared to the tariffs produced by the methodology in place today, which reflects the actual cost of transporting gas from the UK to Ireland.

The introduction of cross-subsidies to prevent competition sends a clear and unequivocal message to the international LNG industry that Ireland does not want competition to its interconnector imports.

On the question of policy initiatives, EU policy initiatives should be more definitive. Opaque regulatory methodologies such as Matrix with Expansion Constants (MEC) inhibit LNG investment and should not be allowed.

International LNG markets

LNG is quickly evolving towards a global commodity market and abundant supplies are likely to bring real competitive benefits relative to pipeline gas. US LNG, with its export terminals located on the east coast of the US, is likely to be of major importance to Europe.

While low oil prices may delay the shift away from oil-indexed contracts, the long term shift away is inevitable as gas becomes a commodity in its own right and this is likely to be accelerated by the impact of abundant US LNG supplies.

Greater transparency on gas tariffing allowing for bona fide competition would make the EU a more attractive market for LNG.

LNG technology issues including LNG use in transport & LNG sustainability issues

LNG as a substitute fuel in transport and shipping represents a huge environmental and cost reduction opportunity. LNG as a substitute fuel for heat and power generation in remote areas not connected to a gas grid also represents a huge environmental and cost reduction opportunity. These opportunities cannot be materialised however in the absence of an LNG terminal in the country. These areas are of such major import that they warrant separate study.

Storage

A minimum standard of 90 days mandatory gas storage should be introduced modelled on the oil storage standard. LNG can be a particularly cost effective gas storage method with the capability of fast release to the grid. On the question of EU-level rules to define specific tariff regimes for storage, this would be highly desirable as would EU level rules for tariff regimes in general.