

William Duff  
Head of Gas Systems and Operation  
The Office of Gas and Electricity markets  
10 South Colonnade  
Canary Wharf  
London, E14 4PU

**20 August 2024**

Dear William,

**Re: Article 28 TAR NC consultation with the non-UK regulatory authorities of all directly connected countries or territories, the Utility Regulator of Northern Ireland and the relevant stakeholders.**

Dragon LNG (“Dragon”) welcomes the opportunity to submit a response to the consultation and as a non-UNC signatory we support Ofgem’s commitment to gather views from the wider industry.

Dragon is an LNG receiving terminal in South Wales, UK with 9 bcma regasification capacity. As one of three LNG terminals in the UK, Dragon has been operational since 2009 and has played a critical role in contributing to UK energy security. With over 300 cargoes received, Dragon has handled up to 25% of the UK’s Winter LNG imports in recent years.

In line with the structure set out in the consultation document, Dragon has set out its views on the topics below:

### **Multipliers**

Dragon is comfortable with the current multipliers. The application of equivalent multipliers across all capacity products is a reasonable approach in a network where, generally, there is surplus capacity albeit exhibiting short-term constraints. By valuing all capacity products at the same level, Users of the network can employ booking strategies to suit their appetite for risk as well as minimise the administrative costs of acquiring capacity without needing to factor in alternative capacity product prices. Any changes to multipliers will impact User flexibility and potentially skew capacity booking behaviours without generating any obvious benefits to the market or consumers.

### **LNG discounts**

GB located LNG terminals compete for the supply of LNG across a global market. Following the onset of the war in Ukraine, the EU has become increasingly reliant on LNG to satisfy demand and has constructed, or is in the process of constructing, new LNG regasification terminals. Since 2022, an additional 50bcm of regasification capacity has been constructed across the EU with another 185bcm expected to be online by the end of 2024. These new facilities will provide direct competition for LNG supplies to GB.

In terms of network access charges, chart 5 produced by ACER<sup>1</sup> shows that these charges make up a proportion of overall delivery costs, with the proportions varying across the terminals.

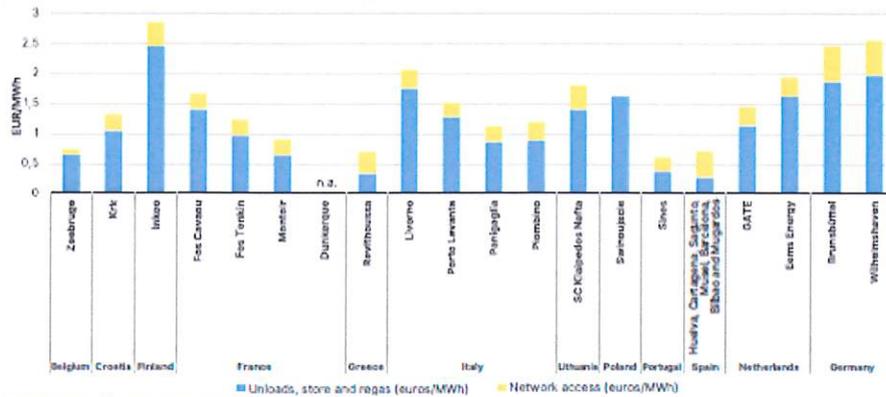
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[https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER\\_2024\\_MMR\\_European\\_LNG\\_market\\_developments.pdf](https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER_2024_MMR_European_LNG_market_developments.pdf)

### Chart 5: EU LNG terminals network entry charges

Figure 33: Overview of EU LNG terminals tariffs per service (EUR/MWh)



Source: ACER based on LNG System Operators and NRAs.

### Source: ACER market monitoring report 2024

The ACER report states that the entry tariffs from LNG terminals into national transmission networks specifically range from 0 to 0.6 EUR/MWh, contingent on network tariffs methodologies and asset costs, but also on possible discounts allowed by the Tariff NC. These can be compared with the entry tariffs set by National Gas for LNG:

Table 1: NGT NTS entry charges, 2023/24 & 2024/25

	2023/24	2024/25
Entry Capacity p/KWh/d	0.0784	0.1308
Entry Commodity p/KWh	0.0533	0.0075
Total p/KWh	0.1317	0.1383
Total £/MWh	1.317	1.383
Total €/Mwh <sup>2</sup>	1.54	1.62

Source: NGT transportation charging statements

It can be observed that the cost of entering gas into the NTS at GB LNG terminals compares extremely unfavourably with EU counterparts. At the top of the EU range of 0.6 EUR MWh, the GB entry tariff is currently more than 2.5 times higher. At a high level, for an LNG cargo of 217,500m<sup>3</sup> the related entry tariff costs in GB would be around £1.6m, based on 2023/24 prices (increasing to £1.68m from October 2024). If we add in the cost of offtaking gas from the NTS, for example delivering to the EU interconnectors, the costs are as follows:

<sup>2</sup> Conversion rate of £1 = 1.17 EUR

**Table 2: NGT NTS entry & exit charges, 2023/24 & 2024/25**

	2023/24	2024/25
Exit Capacity p/KWh/d	0.0127	0.0265
Exit Commodity p/KWh	0.0533	0.0075
Total p/KWh	0.065	0.034
Total £/MWh	0.65	0.34
Total €/Mwh	0.76	0.40

Source: NGT transportation charging statements

Combined NTS entry and NTS exit costs are 2.3 EUR MWh (2.02 EUR MWh from October 2024), which, independent of the costs for accessing the interconnectors, means that the total NTS transmission costs are a little under 4 times higher than the entry costs of delivering LNG directly into the EU at the highest level of the range (0.6 EUR MWh). Based on the chart above and citing Zeebrugge for example, it is clear that transmission costs in NW Europe can be far in excess of this multiple.

Based on an LNG cargo of 217,500m<sup>3</sup>, the current total transmission costs for delivering LNG to an exit point would be £2.39m (from October 2024 the costs reduce to £2.09m).

High NTS entry tariffs, and where relevant to a User's onward delivery intentions, high aggregated entry and exit tariffs, are a barrier to making GB an attractive destination for LNG cargoes.

### LNG discounts - conclusions

In summary, the Ukraine war has led to a reconfiguration of the energy horizon right across Europe, with Russian supplies no longer contributing to overall supply security. In response, the EU has embarked on intensive LNG regasification build-out projects, which will provide alternative destinations for global LNG supplies. Although GB demand is forecast to fall at varying rates depending on the route to net zero, gas imports are anticipated to provide more than 80% of total supplies by 2050 (ranging from 7 bcm/yr to 54 bcm/yr).<sup>3</sup> Independent of the form and speed of the "energy transition" LNG will play a crucial role in maintaining GB energy security and subsequently, will become more sensitive to global LNG prices. It is vital that the GB market is seen as an attractive destination for LNG cargoes. The costs of delivering LNG to the GB market must be competitive with alternative EU destinations, in particular. The current high levels of network entry charges suggests that this is not the case and LNG discounts should be considered as a viable option. LNG discounts provide improved energy security and encourage increased flows across the network, thereby, bringing down average energy costs to consumers.

We will fully participate in the industry working group which is considering both the LNG Discount and the Entry/Exit revenue split.

Yours sincerely,



**Sarah Phillips**  
**Head of Commercial**  
**For and on behalf of Dragon LNG Limited**

<sup>3</sup> <https://www.nationalgrideso.com/document/322316/download>