

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.

National Grid Grain LNG (Grain) appreciates the opportunity to respond to this consultation. Our response is limited to providing views on the application of LNG discounts.

Discounts for LNG entry points

Grain is a leading provider of LNG storage and regasification services. The company operates a highly strategic LNG terminal and focuses on ensuring the UK's energy security by providing a flexible, reliable supply of natural gas where in 2023, it exported 12% (7.7 bcm/yr) of total gas demand (63 bcm/yr)¹ in the UK. Beyond this, the terminal's substantial volumes of LNG in-tank act as a buffer to any short-term supply incidents, supports renewable intermittency and provides operating margins to National Gas for grid stability.



Figure 1 National Grid Grain LNG Importation Terminal

LNG Outlook

FES 2024² published by ESO, includes forecasts for GB imports under each of the four scenarios it established for the purposes of modelling alternative pathways to net zero.

¹ DESNZ official statistics publication Energy Trends dated 28th March 2024

² <https://www.nationalgrideso.com/document/322316/download>

Figure 2 reproduces the graphic set out in the FES document. It shows that under all the scenarios, gas imports will contribute at least 30% of total GB supplies in 2035, with the potential to reach 50% of supplies under a scenario where GB misses net zero by 2050.

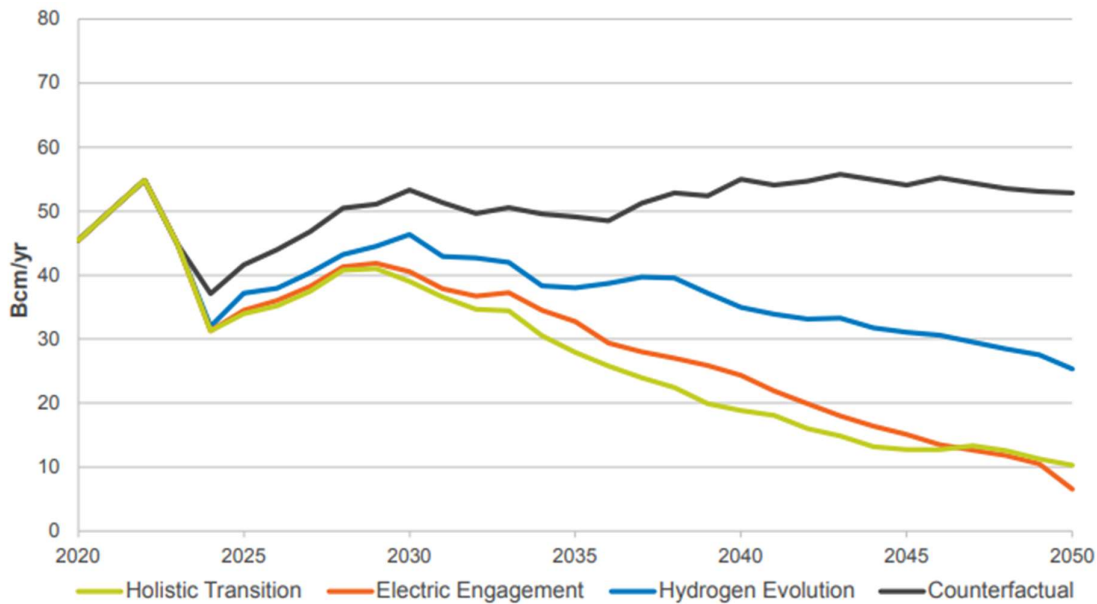


Figure 2 Imported gas volumes out to 2050 (FES 2024)

Based on FES data, total annual gas demand in 2035 will range between 39 bcm and 61 bcm, of which LNG supplies will provide 4bcm and generic imports between 12 bcm and 25 bcm. If it is assumed that all generic imports are provided by LNG, then total LNG supplies could reach between 16 bcm/yr and 29 bcm/yr.

In short, the requirement for gas imports will remain significant in the coming years, independent of the decarbonisation pathway.

Global demand for LNG will continue to grow, with competition for supplies in the European markets becoming more marked following the start of the Ukraine war. The contribution of LNG to global supplies is shown in Figure 3 taken from Shell's LNG Outlook 2024³.

³ https://www.shell.com/what-we-do/oil-and-natural-gas/liquefied-natural-gas-lng/lng-outlook-2024/jcr_content/root/main/section_125126292/promo_copy_copy_copy/links/item0.stream/1709628426006/3a2c1744d8d21d83a1d4bd4e6102dff7c08045f7/master-lng-outlook-2024-march-final.pdf

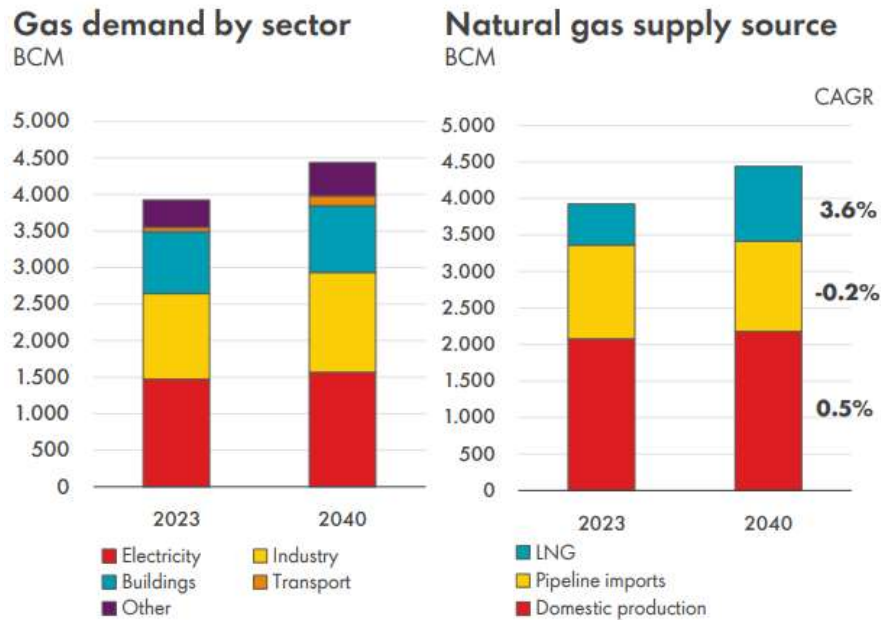


Figure 3 Global gas demand and supply (Shell LNG Outlook 2024)

In addition to a growing global demand for LNG, European LNG demand is anticipated to remain high, in response to significant reductions in Russian imports. EU member states have reacted to the changing outlook by constructing significant volumes of regasification capacity (around 235 bcm/yr of capacity will be available by the end of 2024)⁴.

Figure 4 from Shell's LNG Outlook 2024 shows that EU gas demand is forecast to decline but remain strong, with LNG taking up an increasing share of overall supply.

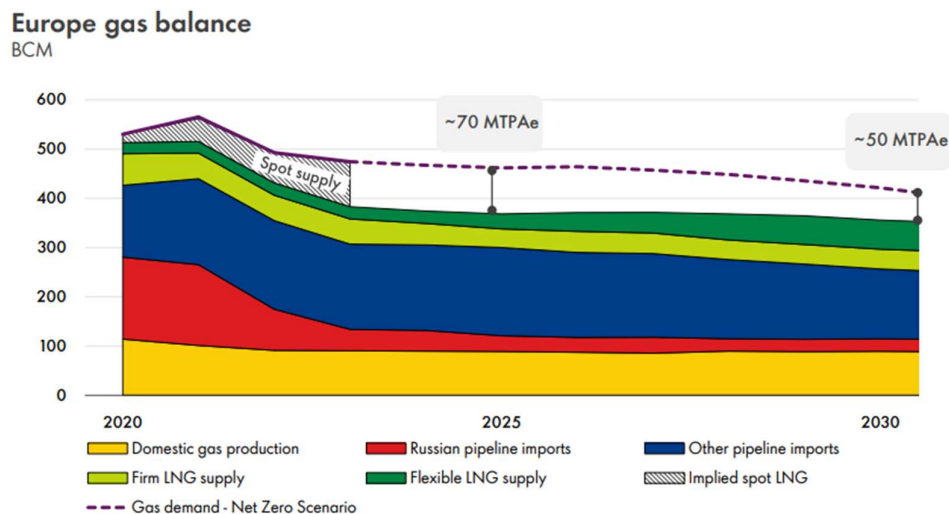


Figure 4 European gas balance (Shell LNG Outlook 2024)

⁴https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER_2024_MMR_European_LNG_market_developments.pdf

The case for LNG discounts

Based on the commentary above, it can be concluded that LNG will remain critical to GB energy security for many years to come. Global competition for supplies will increase with growth in local competition from the EU, due to the reduction in Russian imports.

Without question, LNG delivery costs will be an important factor in determining the destination of future LNG cargoes and GB will need to be competitive with, at the very least, alternative destinations, particularly across the EU.

Analysis produced by Spark Commodities⁵ shows that the costs of entering LNG into the GB network⁶ significantly exceed those incurred at other European destinations. Figure 5 shows that the combined NTS entry capacity costs (orange bar) and NTS Commodity Charges (blue bar) are around 2.5 times higher than the next highest terminal (KRK in Croatia) and more than 10 times higher than at Zeebrugge.

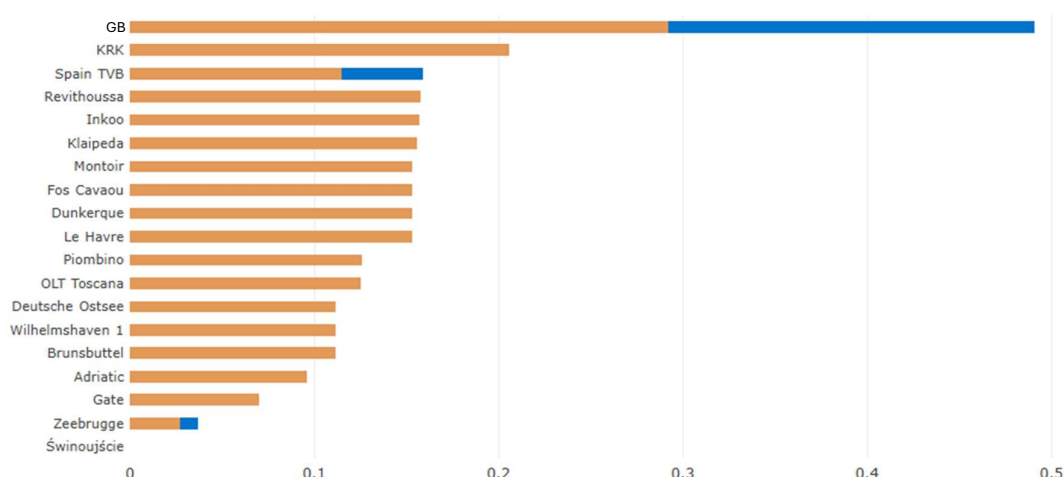


Figure 5 Network entry charges across Europe (Spark Commodities)

The significant differentials in network entry costs will contribute to LNG destination decisions and unless other factors, such as the traded value of gas, compensate for these additional delivery costs, GB will be a less attractive location.

Grain believes that it would be in the interests of GB gas security and GB customers to consider options to reduce NTS entry tariffs to bring them more into line with EU counterparts, primarily Gate and Zeebrugge who are our closest competitors. The application of LNG discounts will have numerous benefits:

- Enhance overall security of supply, through increasing the attractiveness of GB as a LNG destination, while maintaining the commercial viability of operating existing (and possible additional) UK LNG regasification capacity in the future;

⁵ <https://www.sparkcommodities.com/>

⁶ Note that as entry charges are standardised across all GB entry points and therefore the same levels of costs will be incurred at other GB LNG terminals

- Reduce the NBP price, on the assumption that LNG provides the marginal supply of gas, thereby reducing gas bills to consumers;
- Reduce overall transmission costs by maximising utilisation of the GB network e.g. increasing exports to neighbouring markets via the interconnectors.