

Regulatory Aspects of LNG Terminals

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Regional Centre for Energy Policy Research



- Based in Budapest, HUNGARY, 20 full-time researchers
- Applied research and consulting
 - Market participants, regulators and TSOs in CEE region
 - Strong cooperation with European Commission
- Education and Training activities
 - Post graduate 10 month course at the Corvinus University of Budapest (energy economist) – from next year in English
 - More than 2000 students enrolled to trainings facilitated by REKK and ERRA since 2004
- Think Tank activities
 - Conferences and workshops with a CEE market focus

REKK competences

MODELLING OF ELECTRICTY AND BALANCING MARKETS



ENERGY SECTOR MODELLING (HU-TIMES)



WORLD AND EUROPEAN GAS MARKET



REGULATION Electricity Regulation District heating Energy efficiency

LNG supply chain – what to regulate?





LNG – a globalizing market



Rapidly growing market: 20 exporting, 44 importing countries



Factors that change the market picture



Globalizing market

- LNG trade in volumes is increasing
- Market globalization share of spot LNG is growing
- Reexport of LNG is decreasing

FSRU technology



• Technological development with FSRU: entry to the market is easier (cheaper, faster) by 2020 37 importing markets

EU LNG inflow by country





- LNG inflow to Europe varies on a large scale
- EU storages absorbed large volumes in 2019
- LNG inflows depend on Asian demand, and price difference between Asia and Europe – a good sign for regulators
- LNG puts a competitive pressure on piped gas: single EU market
- Reduces transit risks

Without large hydrocarbon reserves the regulatory framework ensures competitive prices

Prices





REKK based on: EIA, BAFA, EEX and METI

What does regulation aim for?



- Substitute competition in segments that are natural or de facto monopolies
 - To create a level playing field for market participants
 - To achieve competitive prices on the wholesale and retail level



Third party access rules and tariffs



REGULATED

- Regulatory precondition nr 1 for pipeline transmission
- Guaranteed access to interested third parties to the facility
- Non discrimination: same rules, same conditions,
- Regulated tariffs form the basis of an AUCTION of the capacities

EXEMPTED

- To foster investment regulators do exempt pieces of infra from rTPA
 - From the access rules (sole use)
 - From the regulated tariff setting
- NOT WITHOUT CONDITIONS
 - Limit the time of exemption: e.g. 20 years
 - Limit the capacity exempted: e.g. 10-20% reserved for third parties
 - Set future conditions: obligation of open season to test market demand

Capacity utilization



LIQUIFACTION

REGASIFICATION



- ~80% average utilization of liquifaction vs ~30% in regasification
- Regas terminal utilization varies on lagre scale 0-100% → physical congestion is an issue, contractual congestion is a regulatory challange





Source: REKK based on Transparency platform

Capacity allocation



REKK

• Auction is the most efficent way

- Terminals tend to use it more
- Regulation could enforce more transparency, harmonization of timing

Secondary trade of capacities: bilateral, via terminal, via platforms

Virtual LNG hub





From:



- 6 terminals for LNG loading and unloading (the user chooses)
- 6 LNG balances
- 6 LNG markets
- Regasification contracts in 6 plants
- Nominations in 6 plants

To:



- 6 terminals for LNG loading and unloading (the user chooses)
- 1 LNG balance
- 1 LNG market
- Regasification contract in the virtual tank
- 1 nomination

Prieto, 2021

LNG Contracts



OLD WORLD: Long duration 20-30 years Oil indexation Destination clause

NEW WORLD: Shorter duration 10 years Gas on gas pricing NO destination clause flexiblity

Global liquefaction capacity



Source: IGU data

LNG regasification tariffs



Variations in LSO tariff calculation structures and levels in EU member states with regulated terminals^{1,2}



Tariff calculation structures

Tariff levels were updated from CEER's "Removing LNG barriers in gas markets" (2017) according to LSOs' input received in January 2020. Fees cover standard berthing rights, storage and regasification. 16 Subsidy data based on figures included in the from "EU-U.S. Joint Statement: Liguefied Natural Gas (LNG) imports from the U.S. continue to rise, up by 181%," European Commission – Press Release, 8 March 2019





THANK YOU FOR YOUR ATTENTION!

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