Brexit risk to Irish gas supply

Dublin is watching the Brexit talks closely as it looks to mitigate the risk facing its energy sector

IRELAND

WHAT:
Tariffs on gas trade with the UK post-Brexit are a risk to the Irish energy mix.

WHY:
Dublin is wary of declining output from the Corrib gas field combined with pricier UK gas imports.

WHAT NEXT:
LNG imports could be one solution, though continued stable piped imports from the UK look likely.

THE position of Ireland has emerged as a key discussion point in talks over the UK's departure from the EU, with energy a particular area of concern.

The relationship between the UK and Ireland is important because the border between the countries will become the only land border between Britain and the EU in the post-Brexit era. In addition, the two countries' economies are closely intertwined, with energy a primary area of trade.

Ireland's annual gas consumption is currently 6 bcm and is forecast to grow.

With gas providing essential feedstock for power generators, residential and industrial users alike, the need for clarity on future supply is pressing.

Corrib's contribution

The primary source of gas for the Irish market until the end of this decade will be the offshore Corrib field, which holds reserves of around 1 tcf (28 bcm).

Corrib is due to reach estimated peak production of around 3.5 bcm per year in the next two years, at which point it will account for around 60% of Irish gas supply. Output is then forecast to fall back over the following 10-20 years.

Declines in indigenous gas production will necessitate greater imports via the Moffat-Dublin gas interconnector, which pipes gas from the UK North Sea into the Irish market.

This is a pressure point for Dublin in terms of its energy security, however, given that Ireland is already highly dependent on British gas supplies.

BMI Research identified this issue in a recent note that said: "Ireland is still very much dependent on UK energy imports, despite the start-up of the Corrib gas field.

"As production at Corrib begins to fall into the 2020s and demand continues to grow, Ireland's security of supply will once again revert to heavy reliance on the UK."

This sentiment was echoed by Michael Bradshaw, a professor of global energy at Warwick Business School, who told *NewsBase Intelligence (NBI)* that Corrib's gas production would "peak quickly and then decline, suggesting that import dependence will increase again in the 2020s."

These features could expose Ireland to greater supply-side risk and possibly also price shocks.

"Uncertainty stemming from Britain's decision to leave the EU ... and whether the UK will remain part of the EU's Internal Energy Market (IEM) will incentivise Ireland to look elsewhere for its energy supply," the BMI noted.

The Corrib gas field is estimated to achieve peak production of over 3 bcm per day in the next two years.

"The IEM enables harmonised, tariff-free trading of gas and electricity across Europe. If the UK were to face tariffs on energy trade, due to the reliance on the UK as a transit country for Irish supply, Ireland may subsequently face higher consumer gas prices and higher risks to security of supply".

LNG option

The need to diversify could see Dublin expedite plans for the construction of LNG import infrastructure, though Bradshaw said such a move would "depend on economics."

He suggested that an "LNG terminal could be a floating storage and regasification unit (FSRU), like the plant recently installed in Lithuania, which would be cheaper [than an onshore facility]." But he conceded that LNG imports might not be the answer because "it may still turn out to be cheaper to import gas [by pipeline] from the UK."

Plans for the Shannon LNG scheme on Ireland's West Coast have been put forward in the past. The initial blueprint for the project included four LNG tanks and jetties for large-scale Q-Max LNG carriers. But the project never got off the ground owing to a lack of agreement with the Irish state regarding gas interconnector tariffs. One of the project's main backers, US-based Hess, quit the development consortium in early

2016. Though Shannon LNG could be revived as part of a diversification push by the government in the future, the current signals are that the plans will remain mothballed.

An alternative proposal would see an FSRU moored on the south coast of Ireland at the Port of Cork. The vessel would be supplied by US gas enterprise Next Decade and would have a handling capacity of 3 million tpy of LNG, which would have an estimated send-out capacity of 4 bcm per annum of gas.

Feedstock for the plant would be shipped from Next Decade's Rio Grande LNG export plant in South Texas. Sourcing 4 bcm of gas from LNG in addition to Corrib's output would provide adequate supply to meet Ireland's anticipated demand of around 6.5 bcm per year by 2021, and this would also be topped up by continuing piped supplies from the UK.

As Bradshaw noted, however, the need for LNG supply might become moot should the UK accomplish a smooth exit from the EU. If punitive tariffs and barriers to trade fail to emerge, the status quo looks to be in the best interests of both the UK and Ireland. But a hard Brexit and a poor trade deal could increase the supply risk to Ireland.

Emphasising the potential for disruption, Anna Nerush, a partner at London-based law firm Addleshaw Goddard, told *NBI*: "I think Ireland is facing a real energy trilemma in light of the UK vote to leave the EU."

She added that: "With little guidance as to what the post Brexit energy landscape may look like for Ireland, which is reliant on the UK for its electricity supply, means that ensuring secure, affordable and sustainable supply will be at the top of the government's agenda and is likely to impact the UK's negotiations with the EU."

Much hinges on the Brexit talks over the coming 12 months, which Dublin will be monitoring closely. ❖

PIPELINES & TRANSPORT

Ukraine attracts gas traders to tax-free UGS

UKRAINE

FRANCE'S Engie and Azerbaijan's SOCAR are the first gas traders to make use of long-term customs-free underground gas storage (UGS) in Ukraine.

Ukrainian customs authorities reported earlier this month that Engie Energy Management Ukraine and SOCAR Ukraine Trading House had begun pumping gas into UGS facilities controlled by Ukrtransgaz. The state pipeline operator introduced a new customs warehouse system in June, whereby traders can store gas for up to three years without accruing customs duties or other taxes. Previously, tax-free storage was only available for 31 days.

The move is aimed at encouraging greater use of Ukrtransgaz's 31 bcm of storage space, which has seen less than 50% utilisation in recent years. This is part of a broader effort to integrate Ukraine's gas market more closely with that of Europe as well as establish a regional hub for gas trade.

According to Ukrainian customs, Engie Energy Management received the gas from its parent company, while SOCAR Ukraine acquired it from Polish energy company PKN Orlen, which recently made its foray into the Ukrainian gas market.

Extended tax-free UGS will allow traders to store their gas cheaply through the warmer months when prices are low and then sell it during the winter heating season at a higher rate. Ukrtransgaz is offering up to 14 bcm of customs-free UGS space at a cost of 4.20 euros (US$5.03) per 1,000 cubic metres, which it claims is one of the lowest rates in Europe.

By bolstering its gas reserves, Ukraine hopes that it can further safeguard against the risk of shortages in colder weather. The country relies on gas deliveries from its EU neighbours as well as indigenous supplies. It has not bought any gas directly from Russia, once its near-monopoly supplier, since November 2015.

Ukrtransgaz also wants to offer competitive rates for UGS use to Poland, Hungary, Romania, Slovakia and Moldova, which together have a storage capacity of less than 4 bcm. ❖