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Working Party on Gas

Nineteenth session
Geneva, 20-21 January 2009
Item 3 of the provisional agenda

**CURRENT STATE AND PROSPECTS OF LIQUEFIED NATURAL GAS
IN THE UNECE REGION**

Draft outline – Terms of Reference

Note by the secretariat¹

I. INTRODUCTION

1. The growing importance of liquefied natural gas (LNG) in the UNECE region has been confirmed by increasing import levels and the on-going construction of new regasification facilities across the region with new terminals being planned. Diversification of energy supplies, energy security concerns and competitiveness of LNG in certain market niches foster the increased use of this fuel.

2. Considerable recent and ongoing changes in the functioning of the natural gas market in the UNECE region have also affected the LNG sector. New regulation has been introduced or is under discussion in UNECE countries, including at the European Union level, which opened the sector to competition together with third-party access provisions. Under the former framework, key national natural gas industry players, which were generally vertically integrated and had been granted monopoly rights, had a long investment horizon and little uncertainty with regard to the use of their LNG facilities. In the current and expected regulatory framework, investment

¹ This document was submitted late due to delayed inputs from other sources.

decision-making might become more difficult if regulatory conditions are not clearly defined. These regulations have been accompanied by further requirements regarding security of supply, third party access to LNG facilities, and higher standards for transparency of operations and clarity of price.

3. The purpose of the UNECE study on LNG is to provide additional insights on the future use of LNG in the UNECE region, possible evolution of its competitiveness, evaluation of financial requirements, cost and economics along the value chain, visibility of future capacity and investment needs, identification of barriers which might inhibit the sector's ability to continue providing the desired services in a timely and affordable manner, as well as main contractual and regulatory issues.

4. The study could provide guidance on the future LNG trends and valuable assistance to both UNECE member States and energy corporations in making decisions regarding this dynamic segment of the energy sector in the region.

II. STRUCTURE OF THE UNECE STUDY ON CURRENT STATUS AND PROSPECTS FOR LNG IN THE UNECE REGION

5. The proposed structure of the study is:

Introduction

I. Executive summary

II. Methodology employed and sources

III. Chapter One: LNG market

Head of Chapter: Mr. Benjamin Schlesinger (Benjamin Schlesinger Associates, United States of America)

A. Reserves, supply, demand, international trade / LNG flows, analysis by areas/basins

B. Investment status and prospects in producing countries

C. Types of LNG contracts, short-term & long-term contracts, pricing mechanisms (could this be a separate section?)

D. Current status & prospects – initial thoughts

E. Capacity of LNG facilities along the value chain (current & expected) – capacity ratio among producing/transporting/receiving facilities

IV. Chapter Two: LNG value chain and technology

Heads of Chapter: Mr. Ramon Diaz Casado (Stream-Repsol, Spain) and Mr. Victor Tunon (GasNatural, Spain)

- A. History
 - B. Current status: Liquefaction, regasification and storage, maritime transport technologies, GTL
 - C. Satellite plants, peak shaving
 - D. Prospects: Technical innovations
 - E. Project economics, costs, risk analysis
- V. Chapter Three: Competition between LNG and pipeline gas
Heads of Chapter: Representatives of Gazprom (one) and StatoilHydro (one) – to be nominated
- A. LNG / pipeline economics
 - B. Interaction among LNG facilities and other gas facilities – implications for effective access / gas prices
- VI. Chapter Four: Regulation.
Heads of Chapter: Mr. Luis Parada (Enagas, Spain), Mr. Arturo Alaejos Tarazona (Ministry of Industry, Tourism and Commerce, Spain) and Ms. Emilia Marinova (Eurogas, Belgium)
- A. Authorizations and licences: Construction, operation
 - B. Unbundling requirements – Implications for strategy of operators in the LNG industry, Porter analysis
 - C. Access to LNG regasification terminals: rTPA, nTPA, exemptions, effective access, access tariffs, etc. SWOT ANALYSIS
 - D. LNG operational code
 - E. Strategic issues: security of supply, diversification, competition, etc.
 - F. Trends in Regulation: GGPLNG and Third Package in Europe, Non-EU countries, transparency
- VII. Chapter Five: Interoperability.
Heads of Chapter: Representatives of Shell (one) and Distrigaz – GdF-Suez (one) – to be nominated
- A. LNG interchangeability – physicals parameters, requirements at different terminals, EASEE-gas CBP, etc.
 - B. Regulatory approaches on access conditions (related to interoperability) (capacity allocation and congestion management, UIOLI, certification of vessels)
- VIII. Conclusions and recommendations

IX ANNEXES

Glossary

Contact details

Bibliography

List of LNG regasification terminals (Existing & in construction).

List of LNG liquefaction terminals (Existing & in construction).

List of LNG vessels (Existing & in construction).

Other

III. METHOD AND ORGANIZATION OF WORK

6. The issue of method and organization of work will be discussed in more detail at the second meeting of Experts on the UNECE Study on current status and prospects for LNG in the UNECE region, to be held on 24 November 2008 in Madrid, and reported to the Working Party on Gas. It includes methods of gathering data, possible production of maps, treatment of financial, technical and confidential data, availability of final results, establishment of the project body/bodies, list of desired companies and member States who will take an active part in carrying out the study, methods of cooperation and communication, eventual use of extra-budgetary funds, milestones and other related issues.

7. The depth of each chapter will be discussed and related details will be agreed once the outline and terms of reference for the Study have been approved.

8. Work progress will be assessed regularly, at two-month intervals with meetings taking place in various UNECE member countries, primarily hosted by the members of the Expert Group.

IV. TIME FRAMEWORK

9. If different from the presented terms of reference in this document, the definitive outline/terms of reference, as agreed at the second Madrid meeting on 24 November 2008, should be communicated to the nineteenth session of the Working Party on Gas in the form of a conference room document.

10. The Study should be completed in 2009.
