CHAPTER 3: Competition between LNG and pipeline gas

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LNG vs Pipeline gas: an already long story

- LNG commercial deliveries started in the middle of 60s, just a few years after long distance pipeline commercial supplies.

- Development of LNG in different gas market has early been determined by the alternative supplies at competitive cost.

- Three different main gas markets appeared: Europe, USA and Asia, each having its own characteristics.

=> they account for 60% of world gas consumption and 98% of global LNG imports in 2009.
Competition issues led to:

- UK to give up LNG supplies during more than 25 years
- Italy to interrupt LNG imports during about 10 years
- Germany to never develop its LNG import project
Gas market vs LNG market
North America

- In the 1980s, the US built 4 LNG terminals in order to benefit from potentially low-cost of supply; but at the time the contracts were to go into effect, the US market was in surplus and prices had dramatically dropped.

  => for more than two decades, 2 LNG terminals saw little activity and the 2 others were completely idle; moreover, exporting LNG to Asia was then proposed!

- Early 2000s, US domestic production moved to rapid decline, and it was foreseen that the US would become a major LNG importer => new LNG terminals...

  ...but non conventional gas developed “suddenly”, => the same story seems to repeat again!
LNG / pipeline economics

- Liquefaction accounts for the majority costs of the global LNG chain.

- Transportation costs between producer and consumer countries are an important aspect of competitiveness of gas supplies; typical breakeven distances: between 1000 and 2000 nautical miles.

Note:
- Real figures depend on a lot of parameters
- Doesn’t take into account the gas production cost
Evolution of the LNG environment:

From dedicated LNG chains to a global LNG market:

- Increase of LNG production capacities and of the number of producers
- Increase of LNG regas capacities and of the number of importing countries
- Development of trading hubs and increased liquidity of gas market
- Development of trans Mediterranean pipeline capacities (Medgas...), releasing liquefaction capacity in Algeria

⇒ Increasing possibilities of diversion / arbitrage: LNG is a price taker

⇒ Moreover, in the short term: overcapacity of natural gas due to the combination exceptional factors: economic crisis, new LNG projects on stream, unconventional gas in the US:

  - as a consequence, price decoupling of European gas markets with oil indexed contracts ...
Main drivers for LNG in Europe

- Rising gas demand for power generation, combined with decline in domestic production

  => Needs for large increase of EU imports, that should be mainly covered through Russian gas and LNG

- Security of Supply and Diversification of Supply remain key consideration for EU

  => LNG imports are expected to reach a share of about 30% in the EU energy mix

- However, uncertainty remains large in relation with
  - world economic growth,
  - EU policy (carbon, renewables, energy saving)
  - Global LNG demand (Asia…)
  - Unconventional gas
  - Long term contracts…
THANK YOU FOR YOUR ATTENTION