UNIVERSITY OF CAMBRIDGE | Electricity Policy Research Group

# Revolution in European gas?


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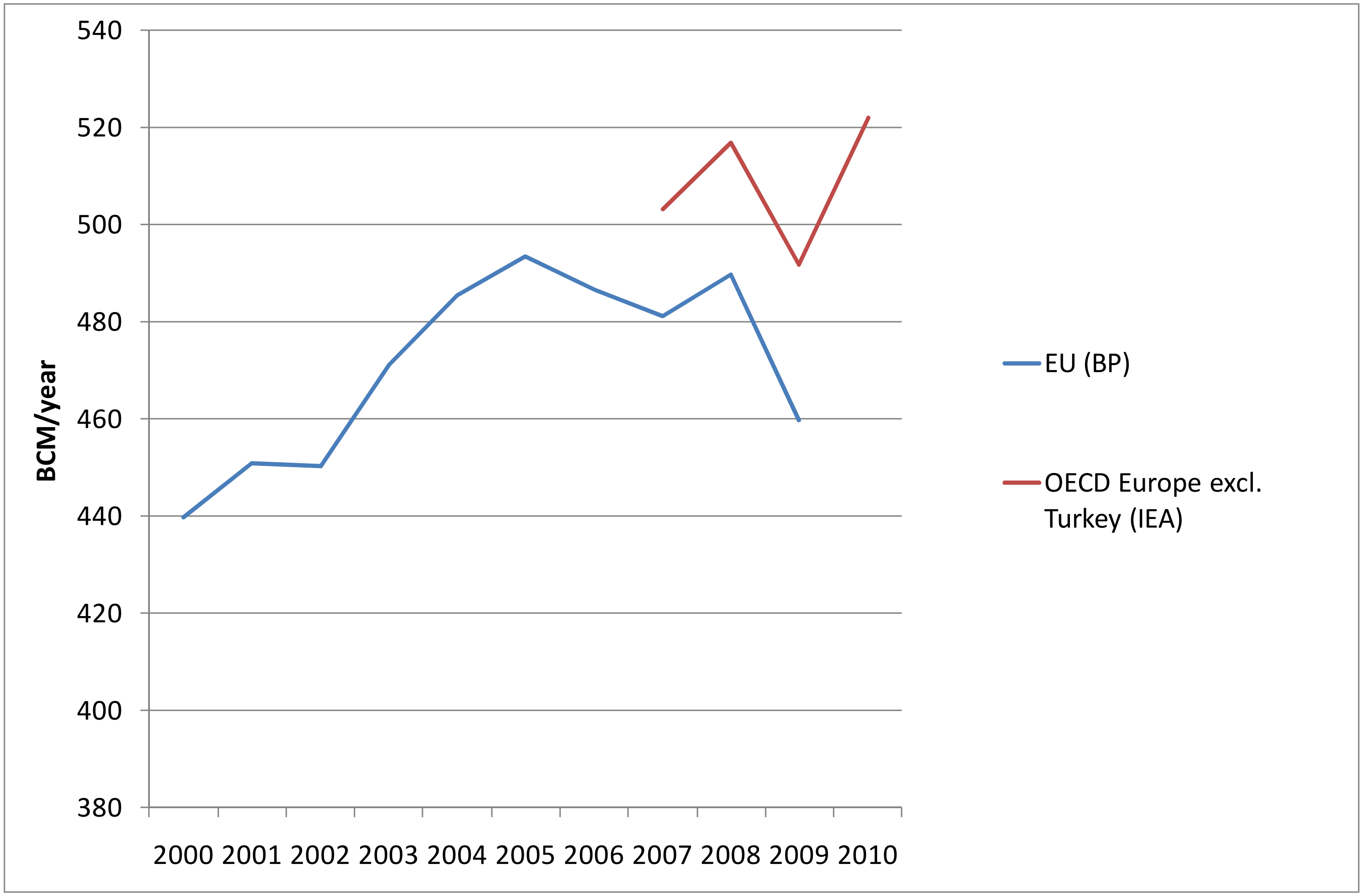
E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

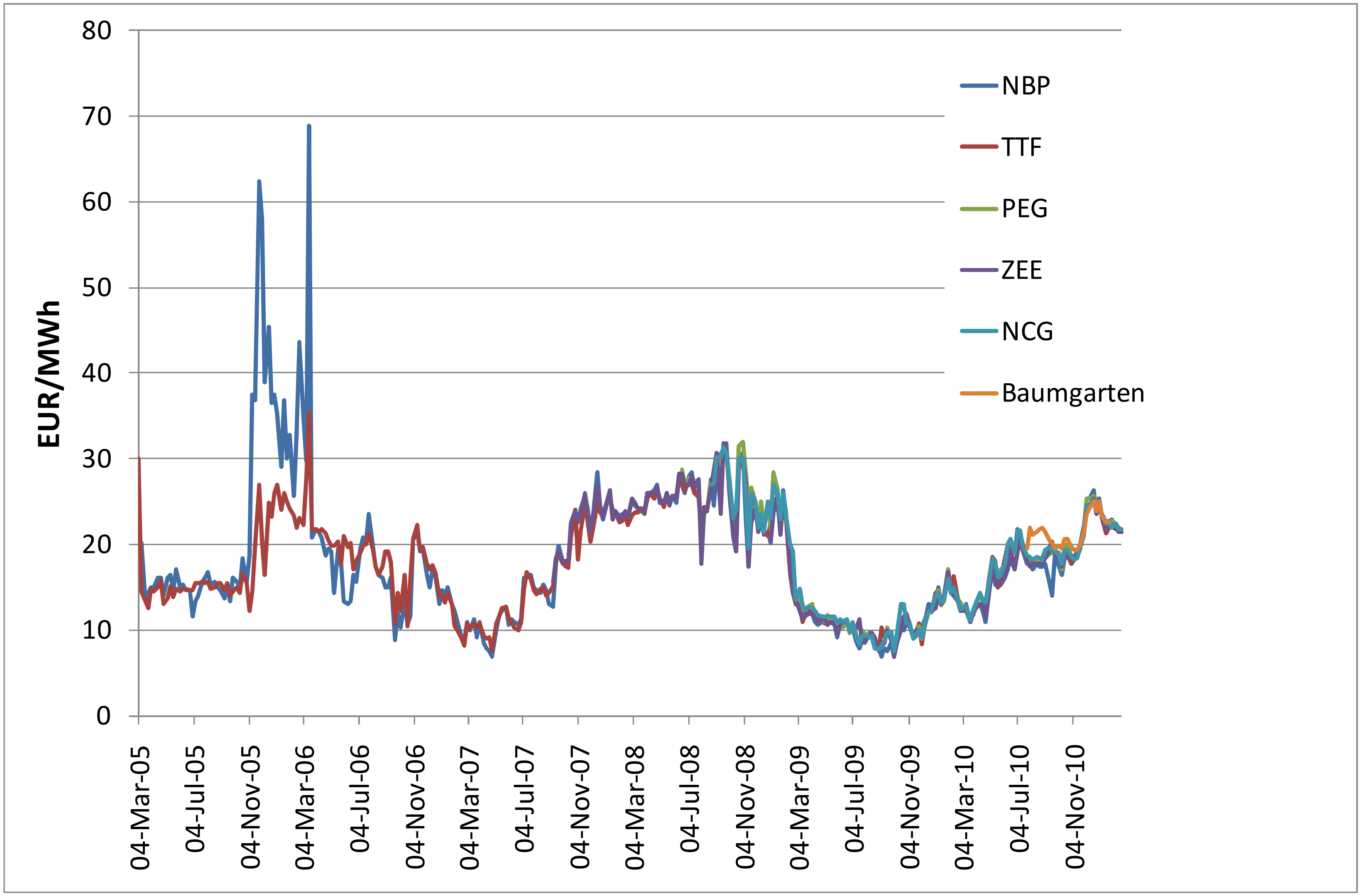
# Main messages

- Gas consumption and prices have strongly picked up in 2010
- But European gas is being transformed by
  - booming LNG imports
  - market integration
  - loosening of the oil indexation in LT contracts
- UK market plays a big role in the changes
- Policy challenges
  - Create a pan-EU transportation capacity market
  - Clarify the role of natural gas in the energy economy

# Consumption picked up in 2010



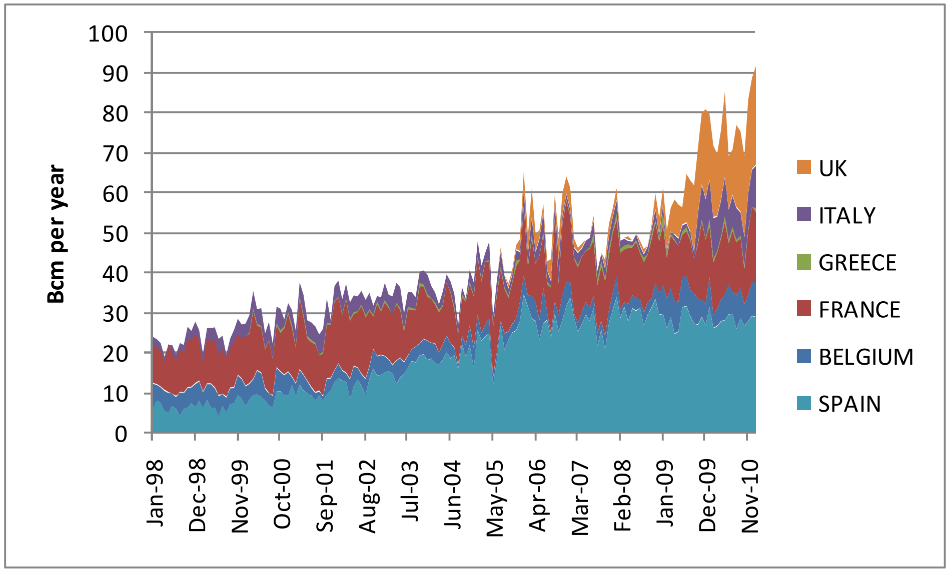
# And so did gas prices



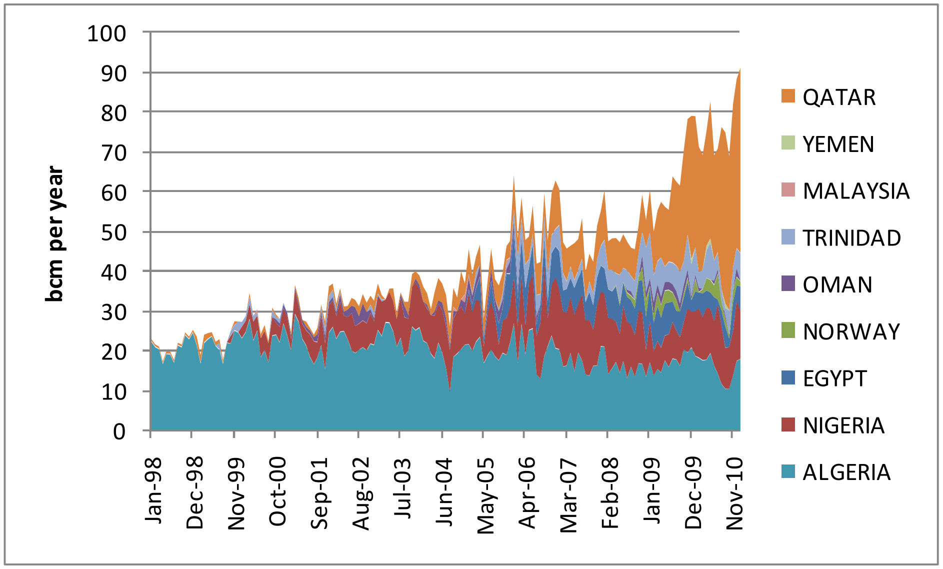

Data source: Bloomberg

# Towards 100 bcm/y of LNG into Europe

## The UK effect

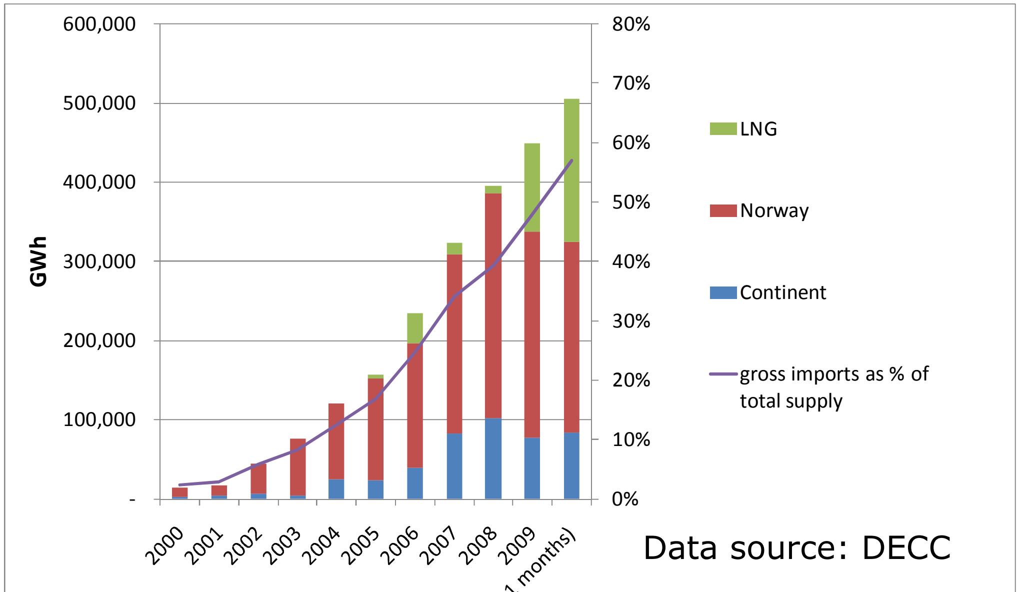


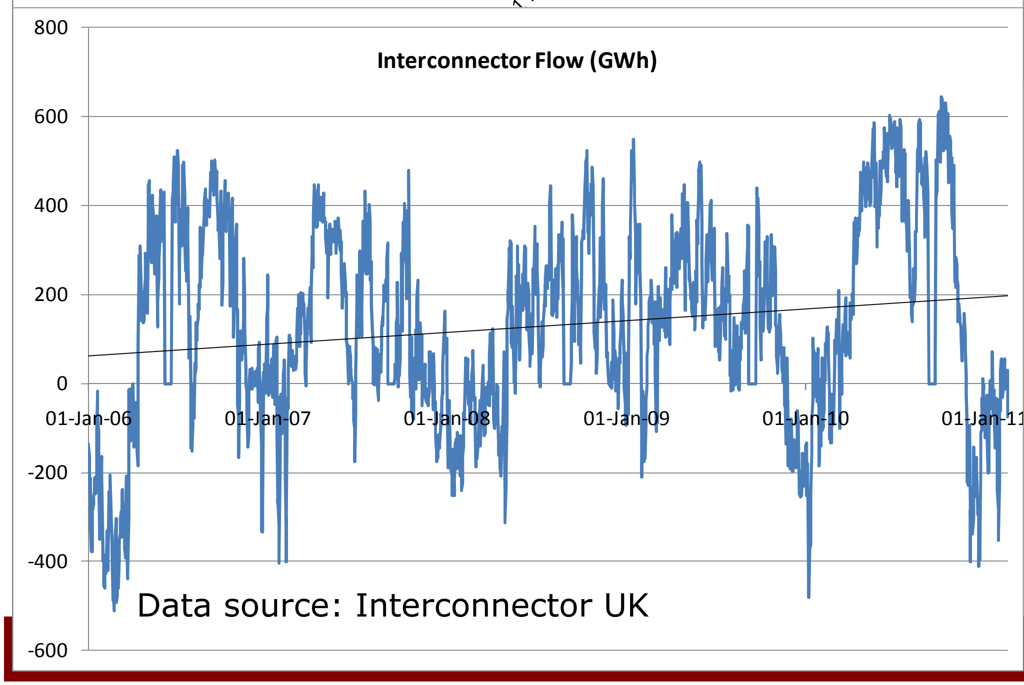

## The Qatar effect




Data source: Poten Partners

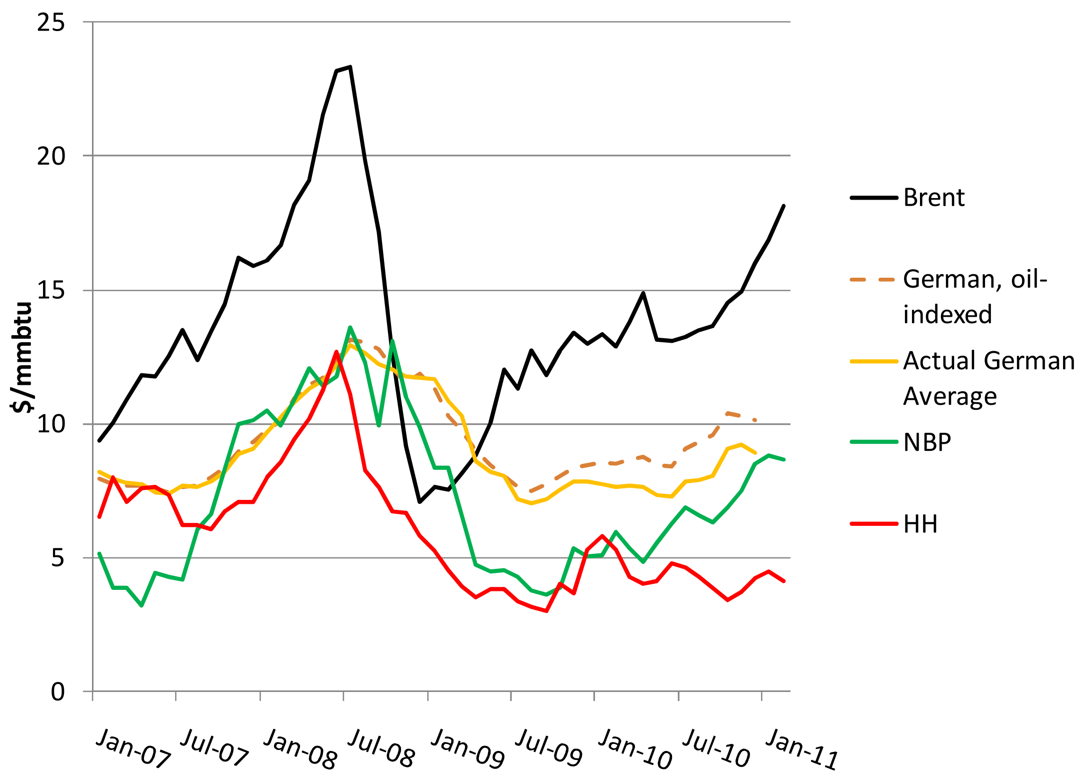
# UK as EU Western gas corridor




- UK imports are booming
- Market integration in NW Europe is a reality
- Interconnector exports are growing – despite fall in UK production
- When oil-indexed contracts out of the money, direct challenge from UK gas
- Emergence of a ‘Western gas corridor’

# Towards a new pricing regime




- Movement away from oil indexation in LT contracts gathers pace
- E.On is asking Gazprom full spot gas indexation
- Arbitration procedures under way in Germany, Italy, others?
- Longer term, liquefaction projects from North America?
- European non-conventional supply?

Source: Spreadsheet sent to PN by Howard Rogers – updated with data from BAFA (German Federal Office for Economics) and Bloomberg

# Policy challenges

- Pan-European gas transportation capacity market
  - Implementation of 3rd package will not change the (defective) ‘market model’ – national entry-exit zones to be ‘interconnected’
  - Progress in NW Europe due to merging zones + change in balancing
  - A European market can not be based on super-large entry-exit zones
  - Will have to remove transportation *into zones* and *between zones* from TSO management and NRA regulation – ‘European pipelines’

- Gas and energy policy
  - ‘Gas is insecure’ no longer a credible slogan
  - What will Europe do of the global (and European) gas boom?
  - Do we have to define a ‘role for gas’ in the low-carbon transition?
  - No, unless we define a role for everything else