LNG Growth Reshapes Strategy For Energy Companies

The liquefied natural gas (LNG) sector is one of the fastest growing sectors of the energy market and is expected to double between 2005 and 2010, delivering around 40% of global gas supply growth, according to a new report by Pricewaterhouse Coopers (PWC).

And Australia is one of three countries heading the list of LNG export growth, along with Nigeria and Qatar. The report said the rise of Qatar, in particular, is a key factor in a more global LNG market, with supplies able to serve both the Atlantic and Pacific markets. In addition, new LNG capacity is planned to be developed in Iran, the Russian Federation and Yemen.

PWC LNG Leader, Michael Hurley, said for upstream owners of gas assets this opens up a worldwide market for gas. "For utility companies and energy departments in end markets it is a means of diversifying and securing energy supply", he said. "Both are highly significant in an 'energy insecure' world."

"Whether you are an LNG bear or an LNG bull, it is one of the fastest growing sectors of the energy market and is clearly going to have an increasing part to play in world energy", Hurley said. "It will to be characterised by both complexity and globalisation which demands a mind shift by many players away from the predominant linear fixed supplier and buyer chain of supply to a more flexible disaggregated model of the market."

Hurley said more players are entering the market and, by 2015, the ten largest export companies' share of total LNG export capacity is expected to fall to 60% compared to the 85% they shared in 1995. "The LNG market is becoming more diverse and dynamic, with greater flexibility and global trading growing alongside the old pattern of fixed 'point to point' LNG trade", he said. "The part-regional, part-global market creates considerable opportunities for arbitrage and the diversion of LNG flows."

The PWC report, Value and growth in the liquefied natural gas market, looks at how the growth in the LNG sector is simultaneously presenting new opportunities and as well as challenging dilemmas for energy companies. "In addition, its future will not just be shaped by the energy sector; financial institutions, engineering and shipbuilding will have considerable influence on the LNG investment programmes of governments, infrastructure and transportation companies as well as private investors", the report said.

It looks at where LNG is now, where it will be in the decade ahead and identifies four principal strategies companies can deploy in response to the risks and challenges of this changing market: upstream push, market pull, full integration and portfolio plays. "LNG is a means of delivery, not a new energy source", the report said. "With over 90% of current proven gas reserves lying outside the main OECD markets, much is beyond pipeline export reach so LNG technology and infrastructure provide a means of monetising otherwise stranded gas reserves and bringing them to market."

But the report also sounds a warning note, pointing out that previous LNG activity has been the subject of enormous ups and downs, with some infrastructure built in the 1970s remaining unused until the 1990s. "LNG remains a price-taker not a price-setter on most of the gas markets and its value depends on the balance between the main oil and gas price, the price of other fuel sources such as coal or nuclear, and the cost of carbon", the report said.

It said technology will have a strong influence on the future shape of the market and a series of developments could transform the role of LNG still further. "Shipboard regasification, small-scale liquefaction and liquefaction hubs, in particular, could open up the prospect of many more players and for non-traditional suppliers to break into the traditional supply models and consortia."

Hurley said alongside the difficulties of managing large infrastructure investment in sometimes uncertain geo-political contexts, there is the added complexity and choice that comes from changing market conditions. "Current market conditions are rather tight, however longer term we are still facing a future where LNG can be accessed by utility companies in more locations, in greater volumes and in more flexible delivery modes", he said. ■