Allowing LNG to boost liquidity

New European terminals can play a vital role in an era of pipeline gas decline, but only if they provide genuine flexibility for all

Covid-19's first wave showed exactly how integrated LNG has become into the liquid gas hubs of northwest Europe. When Asia started to cancel cargos as national lockdowns crushed demand, these volumes were rerouted to Europe, where they served to 'top up' US exports also delivering into LNG's market of last resort.

The resultant oversupply sent strong bearish price signals. But, as the benchmark TTF price plunged by early June, the US cancelled a swathe of cargos, supply was curtailed and—as demand recovered—TTF surged by over 60pc over the last few months.

"With LNG import capacity increasing Europe's supply options, the gas market in an 'Energy Union' case can build up its resilience to supply shocks while enabling short-term price signals, rather than fixed delivery commitments, to determine optimal imports and intra-EU gas flows." So says the IEA, and this was a fully functioning market in action.

New opportunities

The IEA forecasts that Europe's domestic gas supply will fall by an average of 3.5pc/yr, while long-term pipeline contracts are also expiring. This creates opportunities for new supply sources, including LNG.

Countries such as Lithuania, Greece and Croatia have pursued new or vastly expanded regasification capacity with the aim of acquiring alternative options to traditional monopoly pipeline suppliers. MET Group is constantly vigilant for the new opportunities and increased trading options that such new infrastructure can bring.

We analyse the market effect of LNG regasification capacity to see how access to alternative sources may impact liquidity, price transparency and competition, including the number of players on the terminal's pipeline gas market(s). We ask a number of questions:

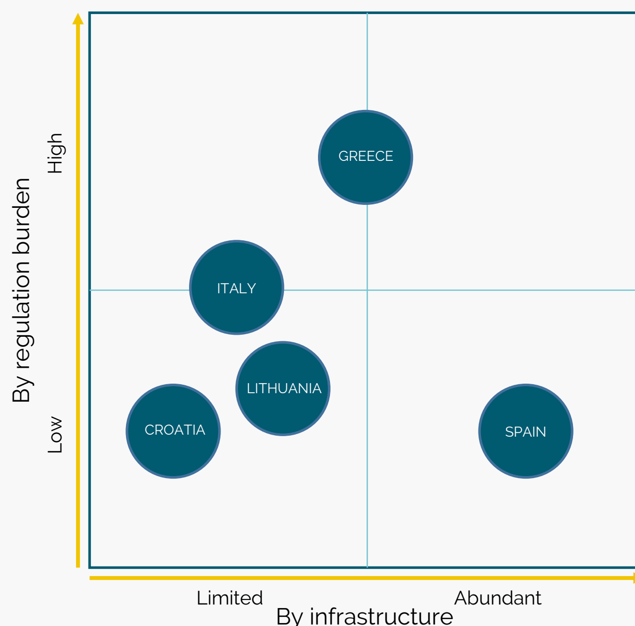
- Can the influence of key regional players be reshuffled by the LNG infrastructure?
- Under what conditions will an LNG terminal affect the market structure?
- Which European gas markets were more challenged by the recent 2020 short-term price shocks and abundant supply options?

Obviously, only terminals with effective regulated third-party access (TPA) can efficiently transfer global supply/demand and price dynamics to local markets. We have looked at five countries with LNG terminals offering TPA, and where this capacity is not booked on a long-term basis by a few companies.

First, we assessed the overall flexibility provided by the LNG terminal, which is driven by two factors:

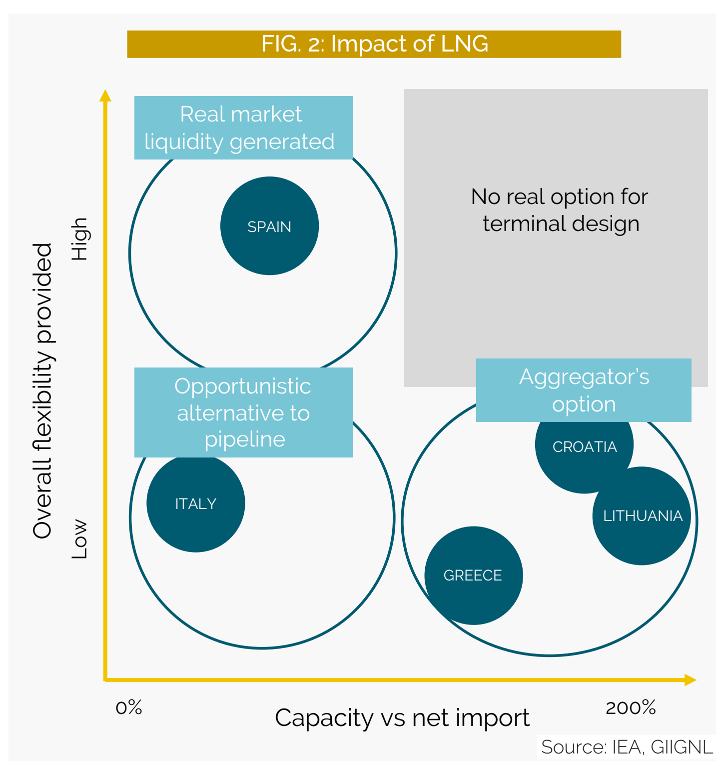
- The physical flexibility offered by the terminal infrastructure in terms of minimum and maximum regasification rate, tank capacity and other technical limitations
- Corresponding rules and regulations that determine the ease of access for new entrants, such as tariffs, capacity and slot allocation mechanisms, automatic borrowing and lending of in-tank LNG mechanisms etc.

FIG. 1: Flexibility provided by LNG terminal(s) of the country for third-party access



Source: IEA, GIIGNL

By Bence Erdelyi,
LNG commercial operator,
MET Group



Apart from the flexibility of services provided by and regulations governing the terminal, another important factor is the size of the pipeline market that can be accessed economically through an LNG terminal. The size of the demand opportunity in smaller gas markets, particularly those with limited interconnection to neighbouring countries, can be a bottleneck on attractiveness of entry.

Terminals we have analysed all have TPA with differing limitations on flexibility—driven by the infrastructure itself and/or by national regulations—and market sizes. If overall flexibility is high and the market size is large (e.g. Spain), an LNG terminal can create liquidity and so greater competition among actors, as accessing the terminal is both easy and attractive to any third party.

If flexibility is low but the size of the receiving market is significant (e.g. Italy), capacity can be used opportunistically. Assuming the LNG price is competitive against pipeline gas, third parties can still take the opportunity to deliver cargos to the terminal on those occasions.

If both flexibility and market size are small, only so-called 'aggregator' players, i.e. those adding LNG to an existing regional supply and end-user portfolio, are likely to access the terminal. In short, the terminal does little to upset the status quo of the pipeline market's existing supplier structure and, on a national basis, countries benefit solely by increasing supply source diversity (e.g. Greece and Croatia). It does not mean that the new terminal does nothing for competition, but it does so mainly among LNG suppliers and less on the local pipeline markets.

The top right quartile of *Fig. 2* is particularly interesting. Terminals with high flexibility delivering into relatively small markets should have the greatest potential liquidity impact, both on the national pipeline market they directly serve and also into other countries with cross-border interconnection capacity.

Less impact

But, for smaller markets, terminals tend to be designed on a scale that is large for the direct national market, but small in relative terms, bringing infrastructure constraints to TPA. This means the new plants have less impact on national and regional markets than they could.

This is particularly detrimental to central and south-eastern Europe because, as the IEA noted in March last year, the region has limited access to alternative sources of supply and suffers due to 40pc of EU LNG import capacity being inaccessible to states neighbouring terminals' host countries.

If we intend LNG to serve as a tool for creating liquidity—an important EU goal—then regulation must play a significant role in making LNG imports as flexible as possible. For countries with significant demand, this means an enabling framework to utilise all terminal flexibility and opportunities afforded by the global LNG market as efficiently as possible. For smaller countries, regulation should ensure that investments are made in regasification infrastructure that can be attractive not just to aggregators, but to new entrants as well. ■