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SPAIN AND THE UNITED KINGDOM: TWO OPPOSITE WAYS OF UNDERSTANDING LNG

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Europe's dependency on gas imports should increase due to the declining domestic production and growth forecasts of European gas consumption. Thus, import dependency will rise from around 55% today to around 70% by 2020. This will strengthen the position of producers outside of Europe further but will also require the development of large additional import projects which demand significant investments.

Liquefied Natural Gas (LNG), strongly in competition with pipelines represents already more than 10% of total imports. And as European countries need to diversify their portfolio to guarantee supply security and develop new infrastructures to transport gas over long distances, its market share will considerably increase.

In this paper, we will examine Spain and the UK which have both considerably invested in the LNG terminals projects albeit for different reasons and in different ways. This analysis will give us the possibility to underline cases which are drastically different amongst European countries.

Spain has always been dependent on imports as its indigeneous production has never been consequential. First involved in Algeria with pipelines, this country has developed LNG especially to respond to the increasing gas consumption (the average growth rate which is the highest in Europe has reached 14% per annum since 1995). To fully grasp the magnitude of the increase of LNG in proportion to the total imports, it is worth noting that it has already risen from 30% in 2000 to 65% in 2005.

The UK is the biggest gas consumer in Europe. Since 2001, gas demand has remained relatively stable, approximately 100 Bcm. On the other side the declining indigenous gas production has been observed since 2004 when the UK became for the first time since 1998 a net gas importer. It involves an increase of LNG to ensure the transition from an exporter to an importer of gas and to maintain the supply & demand balance over the next years. Although LNG is directly in competition with gas imported by pipeline from Norway & the Netherlands, it adds diversification and flexibility. In 2010, the proportion of LNG expected to meet demand is forecasted to rise over 30%.

Though LNG has the potential to win a large share of the gas market thanks to its specific advantages, it nevertheless faces major mainly challenges on the LNG terminals. The condition sine qua non for development of the gas industry and of the LNG industry in particular, is the acceptability of infrastructures by the stakeholders. Thus, proper incentives must be given to investors to build and operate new and much needed LNG infrastructures, and to suppliers to sell gas to Europe.

In Spain, a major part of natural gas growth can be explained by the increasing use of gas to generate electricity via the boosted development of CCGTs (Combined-Cycle Gas Turbines) since 2002. Thus, in each of the last two years, gas demand for electricity rose by more than 50%. Consequently, if the first LNG terminals were developed by Enagas, the incumbent Transmission System Operator (TSO), electricity companies are now the main

investors in Spain. These new regasification plants developed by Endesa, Union Fenosa and Iberdola ensure continued supplies to their power stations.

As gas becomes increasingly important in the Spanish overall energy mix, the Spanish political willingness to promote LNG imports has played a central role. To promote and to stimulate investments without supporting gas operator incumbents, Spain has applied a regulated third party access regime and has also chosen the mechanism of 'First-Come-First-Served'. Moreover, in its ten-year energy plan entitled "Planning and Development of the Gas & Power Transportation Grids, 2001–2011", LNG imports development have been in a mandatory plan to ensure that they will be in operation in the coming years.

In the UK, whereas the first incumbent was the TSO National Grid Gas, most of the actors who have been interested in developing LNG infrastructures are producers and exporters. To them, LNG seems to be an interesting option to monetize gas reserves by developing integrated projects, from field to regasification plants. Thus, Exxon, Qatar Petroleum and Sonatrach have all established themselves in the UK.

In order to facilitate these constructions, Ofgem has studied each project on a case-by-case basis. The three LNG terminals (on stream or under construction) have received total exemption from regulated third party access under Article 22 of the Gas Directive of 2003. In order to secure a return on investment, allocation of primary capacities has been attributed by a procedure of 'open season'. Nevertheless in 2006, Ofgem also required to set up a mechanism of 'Use-it-or-lose-it' (UIOLI) or a secondary capacity mechanism because of the under-utilisation of regasification capacities on the Isle of Grain.

In conclusion, LNG will insure that European markets will have access to proven resources that can be imported at a competitive price thanks to the LNG technology, at a time when their need for gas is increasing. From their perspective, the durability of the gas industry and its potential of development are significantly enhanced.

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