

Flame Global Pricing Forum: Opening Remarks

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Reflections on 2016 Fundamentals – Looking for Clues

- No LNG Import Surge into Europe, despite expectations
- Higher European gas demand – reversing the trend of the last few years:
 - Colder weather; but importantly
 - Coal to gas switching in the UK and European Continent.
- Caused in part by unforeseen higher coal prices; and,
- European Hub prices below \$5/mmbtu most of the year.

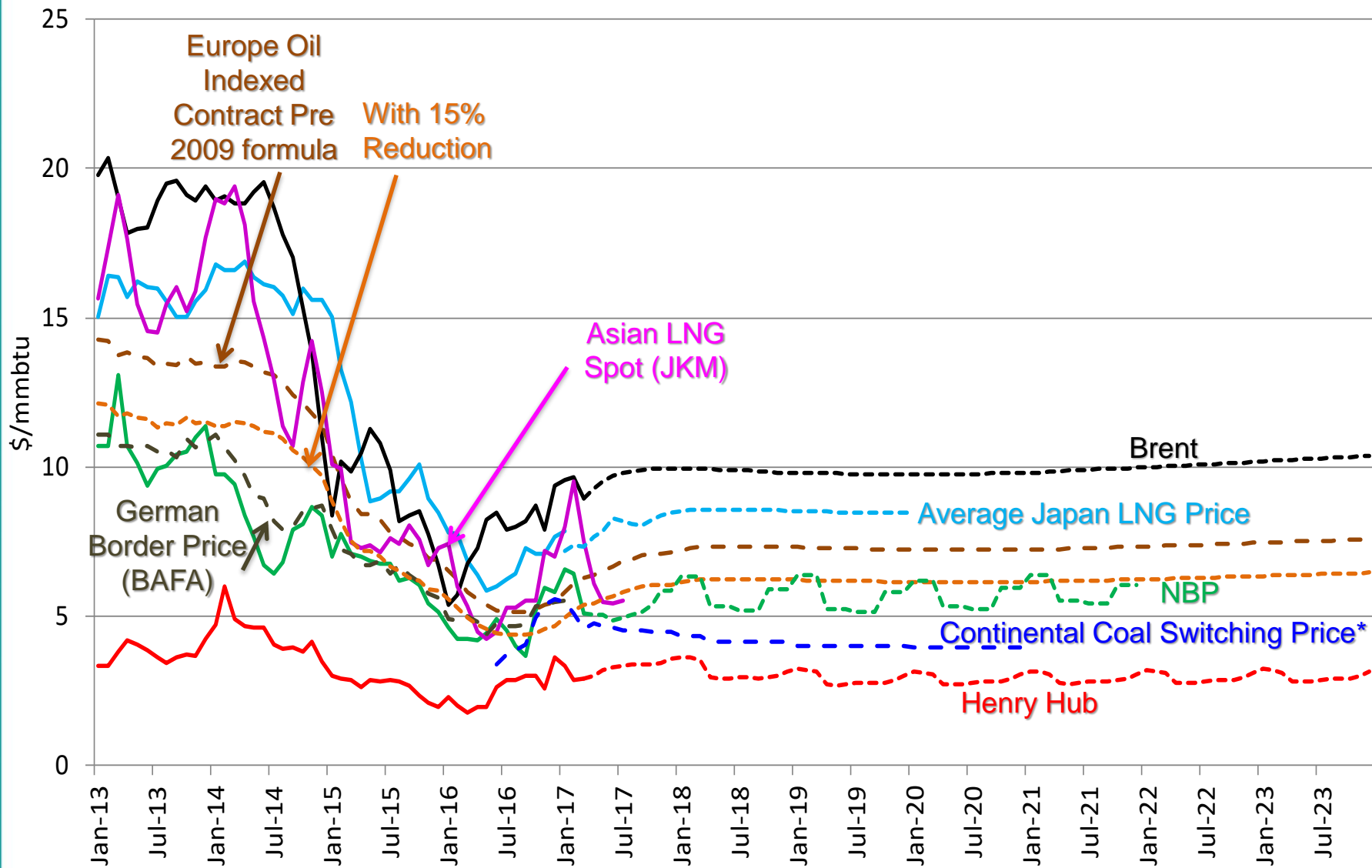


Reflections on 2016 - continued

- Global LNG supplies did increase by 6 to 7%, but these were absorbed by Asian and Middle East Markets, despite a reduction in South American Imports.
- European hub prices, Asian LNG spot prices and typical Asian oil-indexed contract prices remained below levels required to take FID on new LNG projects.
- The market is signalling 'no investment in new supplies required for now'..
- And Russia apparently has at least 100 bcma of spare productive capacity which could flow to Europe at break-even prices down to around \$4/mmbtu.
- But in 'the long run' prices must rise to the LRMC/FID requirement level for LNG and new Russian gas (\$ 8 – 9 /mmbtu Plus)



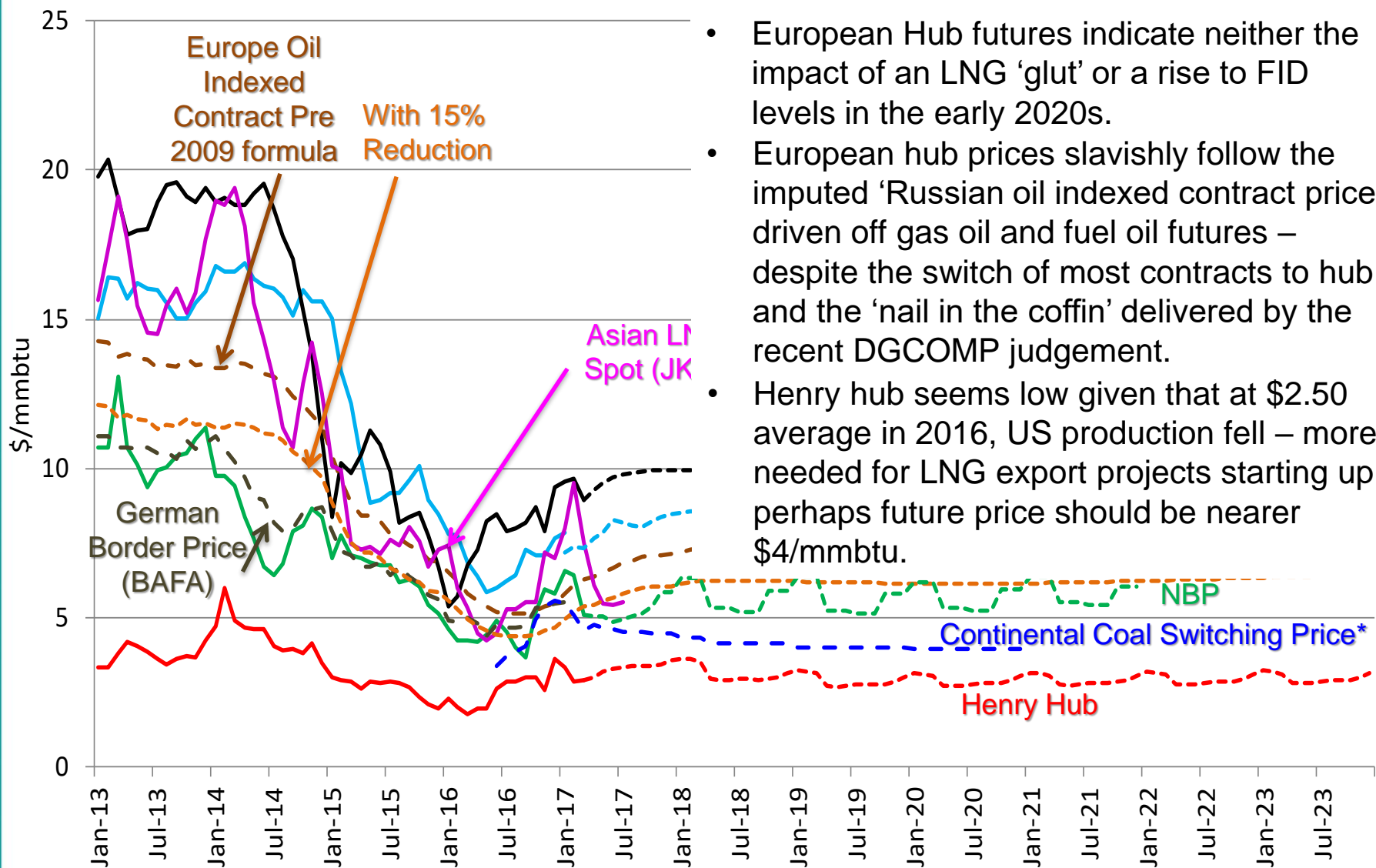
Forward Curve Signals – It's a Mystery



* At 54%/40% CCGT/Coal HHV Efficiency and coal ARA actuals/futures price



Forward Curve Signals – It's a Mystery



- European Hub futures indicate neither the impact of an LNG ‘glut’ or a rise to FID levels in the early 2020s.
- European hub prices slavishly follow the imputed ‘Russian oil indexed contract price’ driven off gas oil and fuel oil futures – despite the switch of most contracts to hub and the ‘nail in the coffin’ delivered by the recent DGCAMP judgement.
- Henry hub seems low given that at \$2.50 average in 2016, US production fell – more needed for LNG export projects starting up – perhaps future price should be nearer \$4/mmbtu.

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Themes for The Day

- What Happened in 2016 ?
- The interaction between gas and other commodities.
- Trends in Gas Pricing
- Reflections on Gas' linkage with oil as a price formation mechanism.
- Developments in Asian pricing
- New Markets
- The Indian market
- Join with LNG Summit at 16.20



In Conclusion

- I hope you find the day useful and informative.
- Please ask questions ! – Speakers please leave time for this.
- The situation is confusing – no-one knows all the answers.
- As an Academic that's fine – Ca Plan Pour Moi !



Thank You
for your attention.

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