



25th world gas conference
"Gas: Sustaining Future Global Growth"

Expert Forum 7 A

Regulatory Issues & Business Cases

Summary of the session

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CRE

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Patron



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- Five very diverse presentations on the interaction between regulation and business strategies
- 1 theoretical / general approach :
 - Spain (ENAGAS)
- 4 business cases :
 - France (GRTgaz)
 - Europe (ExxonMobil)
 - Turkey (Igdas)
 - Argentina (American Energy LLC / Apache Corp)

- Quantitative study shows that regulatory risk does exist
- Regulated energy companies :
 - riskier than stock exchange indexes,
 - but less risky than other companies
- **Increase perception of regulatory risk in Europe**
- Proposition of a “global index of regulatory quality”
- Best regulatory practices :
 - Independancy of regulatory authorities
 - Consultation process
 - Global perspective
 - Predictability, transparence

- Target model for the European gas market based on the entry-exit model

- **Optimal size of market zones is a trade-off**
 - The bigger it is, the better for competition and liquidity development
 - Network congestions are the limiting factor

- Cost-benefit analysis essential

- The European market seen by a producer
 - Good complement to the GRTgaz presentation
- **Outlook = positive**
- Development of traded market and gas indexes
 - Enable Europe to attract new sources of gas
 - Facilitate development of new gas resources

- Current regulation meets most of the requirements of European directives
- Liberalisation process a success : dynamic market, more than 200 licenses granted
- However, no real competition on the wholesale market yet, because of existing long term contracts
- Large investments are needed to face the expected strong increase in gas demand
 - => Regulation has to make good decisions**

- Gas = 50 % of the energy mix, gas market regulation = a complex matter
- Gas price low for industry and power, and very low for the mass market.
- Results : decrease in production and reserves, increase in importation, Argentina has become gas importer
- Domestic production valued 2 \$/MMBtu, imports 17 \$.
- Current situation unsustainable (heavy subsidies from the state budget)
- “Gas plus” recent program a success
 - => More efforts needed if Argentina’s potential in shale gas is to be exploited**

Concluding remarks (1)

- Gas is a very capital intensive industry
- Need to invest enormous amounts of money in production and infrastructure

=> Main goal of regulation is to attract or at least not to hamper these investments

=> Investors shall have confidence on future revenue flows from their investment

Revenue = volume x price

- Regulation should be cautious with **price regulation** (ex. Argentina)
- Traded markets no problem for investors (ex. Europe)
- Regulation should be equally cautious with **volumes perspective** (ex. Europe : Energy roadmap 2050 foresees a decrease in gas consumption)

- Good regulation is about finding **the right balance between short term and long term general interest**
- Short term pressures on price control are huge
- *“In the long run we are all dead”* (J. M. Keynes)

=> Companies will continue to deal with regulatory risk ...