

# Sub Group 2 Gas Price Formation and Trends

## Oran Agenda

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- Review brief from WGC2012 for this Triennium for PGCB and SG2
- Discuss and agree on report contents and structure
- Establish priorities and work plan
- Discuss contributions from SG2 members
- PGCB meeting timetable through to Paris 2015

# Sub Group 2

## Gas Price Formation and Trends

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- Brief from Triennium Work Programme 2012 – 2015
  1. Assess the alternative methods for indexing wholesale gas prices (oil, spot gas price, coal, etc.) and their impact on power generation baseload choices
  2. Acknowledge Government / regulatory involvement in wholesale prices in consuming and producing countries. Assess the true extent of subsidies
  3. Assess the conditions required for fully traded gas markets, and the recent contracting trends
- Continuation from Previous Triennium
  1. Wholesale Gas Price Survey
  2. Globalisation of Gas Prices

## Assess the alternative methods for indexing wholesale gas prices (oil, spot gas price, coal, etc.) and their impact on power generation baseload choices

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- Alternative methods for indexing wholesale gas prices
  - Oil
  - Spot Gas
  - Coal
  - Others
  - Link to wholesale price survey results
- Impact on power generation baseload choices
  - Price level issue and/or price formation issues
  - Build on competing fuels analysis
  - *Link with SG1 – Supply, Demand and Trade*

## Acknowledge Government / regulatory involvement in wholesale prices in consuming and producing countries. Assess the true extent of subsidies

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- *Acknowledge (?)* Government / regulatory involvement in wholesale prices in consuming / producing countries
  - What is meant by *Acknowledge?*
  - Link to wholesale price survey results
  - *Link with SG3 – Corporate Strategy and Regulation*
- Assess the true extent of subsidies
  - How is subsidy defined – opportunity cost or actual cost
  - Link to wholesale price survey results

## Assess the conditions required for fully traded gas markets, and the recent contracting trends

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- Assess the conditions required for fully traded gas markets
  - US/UK development as case studies?
  - Measuring trading liquidity properly, appropriate use of churn rates
  - Link with wholesale price survey results
  - Role of market liberalisation
  - *Link with SG3 – Corporate Strategy and Regulation*
- Assess recent contracting trends
  - Look at price, volumes, duration, delivery points
  - Pipeline v LNG

# Wholesale Gas Price Survey

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- Continue surveys from previous triennium
  - 2005, 2007, 2009, 2010
  - Surveys for this triennium
  - Any changes to approach

# Globalisation of Gas Prices

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- Conclusions of previous triennium
  - Analysis of price convergence / divergence
  - Integrating regionalised markets
- Link with OIES book on “The Pricing of Internationally Traded Gas” – 3 conditions for establishing global price linkage
  - Existence of infrastructure to enable gas to move between regional markets and of sufficient volumes of flexible or divertible gas
  - Creation of supply chains which allow the diversion of flexible gas supply between regional markets in response to supply-demand imbalances and price disparities
  - Motivation and ability of one or more of the three key agents in an existing regional gas supply chain to move away from oil indexed contracts to hub based pricing
  - *Fourth one could be trading liquidity – see earlier slide*
- Possibility of hybrid pricing models?