Gas Deregulation Report Global 2008

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The Gas Deregulation Report
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Introduction

In the last edition of this report we listed a series of problems affecting the market. It is increasingly apparent that deregulating energy markets is not easy. The path is full of pitfalls and very few countries which have embarked in this course are now where they thought they would be. Three regions of the world provide many valuable lessons in privatisation and liberalisation, Europe, North America and South America. Some countries in each of these regions were the first to embark on energy market liberalisation and provide many case histories, some with successful and a few with disastrous outcomes. Another interesting factor in Europe and the US is the combination of local and central markets; in the US federal versus state and in Europe national versus the EU. Market deregulation has given an impetus to the emergence of a small number of very large players which are increasingly dominating national markets and, some believe, threatening competition.

In 2006 Western Europe produced 11% of the world's natural gas, the bulk of it from the North Sea, and consumed 19% of the global total. 40% of imports came from Russia and 13% from Algeria, with 35% being exported from Norway and the Netherlands to other European countries. The energy profiles of the various European countries vary widely. The European energy markets have been subject to extensive legislation, introduced by the EU for the 15 old members and extended with varying degrees of compliance negotiated with the 10 new members who joined in 2004, and the 2 candidate countries. This applies both to electricity and gas. With a final round of opening in July 2007, only five countries out of 27 do not have fully open gas markets.

Liberalisation of the natural gas industry has run in parallel with the liberalisation of the electricity sector but with distinct differences. There have been two Gas Directives, in 1998 and 2003, and a further report to be followed by action in 2008. The key provisions of the 1st EU Gas Directive, 1998 were to establish the following conditions; non discriminatory access to gas infrastructure, unbundling of accounts of monopoly activity, market opening timetable, and dispute settlement authority. In 2003 the 2nd European Gas Directive was enacted, to address some key weaknesses in the 1st Directive and it was decided that an independent regulator must be set up in every country. The Benchmarking studies showed that significant progress still remained to be made for full compliance and progress within Member States is significantly behind that for electricity. It become clear that although market liberalisation has progressed different countries are not playing on a level paying field. With the exception of the UK, Europe has been much slower to liberalise its gas markets and deregulation is lagging behind targets set by the EU.

Outline of the report

- The Gas Deregulation Report outlines the progress of gas market deregulation and privatisation in every continent
- It outlines the situation of each of the countries with gas markets
- An overview of the global gas sector
- An extensive series of tables, charts and graphics are contained in the report

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3.0 World survey of gas privatisation and deregulation

Table 3.1: World survey of gas privatisation and deregulation

	Gas industry ownership	Degree of gas market opening
North America / NAFTA		
United States	Private	Partially deregulated
Canada	Mixed Crown, Province, private	Partially deregulated
Mexico	Mixed state and private	Partially deregulated
Western Europe		
Austria	Mixed state, municipal, private	100% to retail customers
Belgium	Mixed municipal, private	100% to retail customers
Cyprus	No consumption of natural gas, only LPG	
France	Mixed state and private	100% to retail customers
Germany	Mixed municipal, private	100% to retail customers
Greece	State owned	60% open, 100% in 2009
Ireland	Mixed state and private	100% to retail customers
Italy	State company has been unbundled and privatised	100% to retail customers
Malta	No consumption of natural gas, only LPG	
Netherlands	Unbundled and privatised	100% to retail customers
Portugal	Partial privatisation	Has not met EU Directive
Spain	Private	100% to retail customers
Switzerland	Private , municipal	Prices se by discos
United Kingdom	Private	100% to retail customers

Continued on next page

10.0 Indian Sub-Continent

Bangladesh

Overview

Bangladesh has small reserves of oil and coal but potentially very large natural gas resources. Twenty two gas fields have been discovered in Bangladesh. Fifteen of these have been brought into production. Natural gas is Bangladesh's only significant source of commercial energy. Natural gas exports are controversial within Bangladesh as many people feel that the gas resources should first be used for domestic purposes.

Major foreign energy companies active in gas exploration and development in Bangladesh include Shell, and Unocal, which operates in Bangladesh through its wholly owned subsidiary, Unocal Bangladesh, Ltd.

Bangladesh does not export natural gas. Some private companies in Bangladesh import LPG in cylinders. These companies have their own LPG storage facilities in their bottling plants. There is currently no LNG import or LNG storage facilities.

Besides foreign energy companies, natural gas in Bangladesh is being produced by two subsidiaries of state energy company Petrobangla Sylhet Gas Fields Ltd. and Bangladesh Gas Fields Co. Ltd. These two companies produce gas for domestic consumption. More than 80% of gas is consumed for power and fertiliser production, and the remainder by industry and households.

Transmission and distribution

Gas is supplied by state-owned distribution companies. Titas Gas Transmission and Distribution Company Limited (TGTDCL), Bakhrabad Gas Systems Limited (BGSL), Jalalabad Gas Transmission and Distribution Systems Limited (JGTDSL) are the major gas distribution companies and Paschimanchal Gas Company Limited (RPGCL) has commenced CNG supply in Bangladesh. At present there is no private sector company operating gas distribution pipeline systems. IOCs supply gas to the domestic grid. The distribution companies are currently supplying gas in franchise areas granted by the Government, Petrobangla or BERC.

Petrobangla distributes gas to various customers through its marketing companies. At present there are 4 marketing companies operating in their respective franchise areas.

Deregulation and reform

The Bangladesh Energy Regulatory Commission, BERC, is the regulator.

Bangladesh's natural gas demand is expected by some independent analysts to grow by around 6% annually over the next two decades. Potential uses for natural gas in Bangladesh include petrochemicals, compressed natural gas (CNG) for vehicles, power generation, and fertiliser.

While the majority of large enterprises remain under state control, Bangladesh has been moving towards a market-oriented economy since the mid-1970s. In an attempt to diversify its economy away from agriculture, industrial development has been made a priority.

Bangladesh is attempting to attract foreign investment, and has established export processing zones (EPZs) in Chittagong (the country's major port), Dhaka and Comilla. Exports of natural gas could provide an additional revenue source, but the issue remains controversial, and no final decision has been made. Although cotton textiles and garments account for about 80% of Bangladeshi exports, the impact of the end of textile quotas under the Multi-Fiber Arrangement in January 2005 has been moderate.

Continued on next page

Bangladesh, Continued

Deregulation and reform (continued)

Bangladesh's Ministry of Energy and Mineral Resources (MEMR) has overall responsibility for the country's energy sector, with policy formation and investment decisions under its control. Within MEMR, the "Power Cell" acts as a single point of contact to facilitate the electricity reform and restructuring process, such as development of Independent Power Projects (IPPs).

There are no statutory regimes prescribing terms of service for transportation of gas. The transportation of natural gas is usually covered under the terms of the PSC or subsequently fixed by the government.

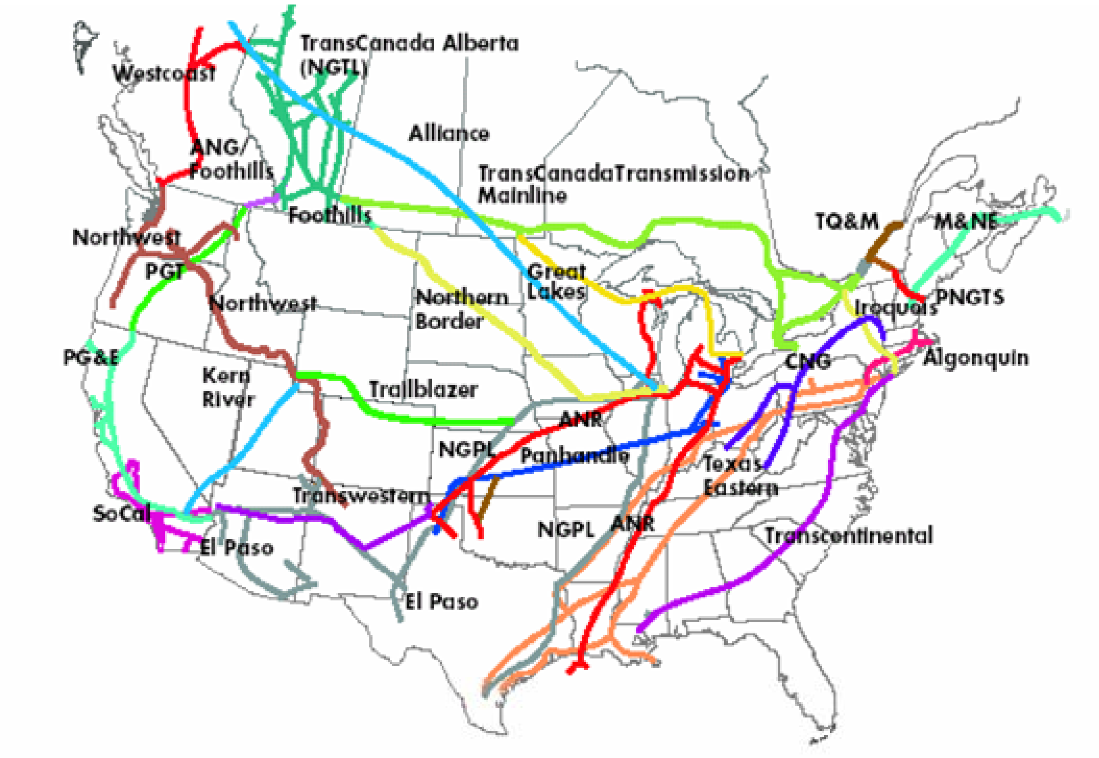
Prices for distribution services are regulated under the gas supply contracts signed between a gas distribution company and the consumer. The prices are capped by the government.

The gas companies under Petrobangla operate practical monopolies. There is hardly any competition between the companies and therefore no requirement for laws to regulate anti-competitive practices.

Any company or individual with the required license or permission can engage in the business of supply and trading of gas.

Overview, Continued

Figure 12.1: Canadian and US Natural Gas Pipelines



Trans-continental gas transport
(continued)

The local distribution companies (LDCs) are regulated by state and provincial regulatory boards or commissions or directly by a provincial government. Gas storage is an important element of the gas transportation system and is located in both producing and consuming regions of North America. When production exceeds demand, usually in the summer season, producers will deliver the excess gas to storage sites and will withdraw it to supplement production when demand is high, usually in the winter heating season. Storage facilities are also used for pipeline load balancing, supply security (e.g. in the event of pipeline rupture) and price risk management.

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