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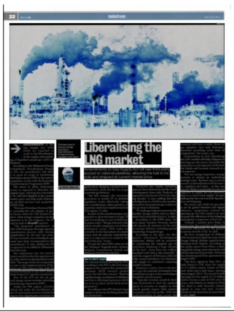

Liberalising the LNG market

Amendments to Gas Supply Act will see third-party access to national pipelines, allowing the fuel to be sold and shipped at current market price

by Hafidz Baharom

AMENDMENTS to the Gas Supply Act 1993 (GSA) are expected to result in the liberalisation of the supply and marketing of liquefied natural gas (LNG) in Malaysia.

According to the Malaysian Energy Commission (Suruhanjaya Tenaga or ST), the amendments will allow it to grow its scope in monitoring third-party access (TPA) to the national pipelines, in line with the Economic Transformation Programme (ETP).

The move to allow third-party access is expected to liberalise the supply of gas, allowing the commodity to be sold and shipped at the current market price and help make Malaysia an oil field services and equipment (OFSE) hub.

"Petronas (Petroliam Nasional Bhd) is currently the sole shipper of gas. In future, when the TPA system is in place, other energy companies are also expected to be the shippers," the ST says in reply to ***FocusM***'s queries.

"The proposed amendment of GSA 1993 had gone through rigorous consultation process with various stakeholders for the last two years. ST has received a lot of feedback and some have been incorporated in the amendment," it says, adding the bill is expected to be tabled in Parliament later this year.

The commission says the amendments would involve the expansion of its roles which are already listed in the GSA. "The scope of the Act is expanded to cater to the implementation of Malaysia gas TPA system in line with the recommendations in the EPP5 [Entry Point Project 5]," says the commission.

Part of the ETP for the oil, gas and energy sector includes unlocking premium gas demand as EPP5.

Under the TPA regime, activities which fall under the jurisdiction of the ST and require licences include the import into regasification terminal, regasification, shipping, transportation, distribution, retail and the use of gas or private gas licences.

"The bill contains the necessary provisions to enable ST to perform regulatory works effectively, taking into consideration other practices in countries which have implemented the TPA regime," it adds.

As part of the transformation programme to allow the import of gas, ST says it is working on a set of third-party access codes. "The gas network code, which actually comprises a set of three third-party access (TPA) codes are currently in the final phase of consultation with the relevant stakeholders and it is expected to be ready by the end of the year," it says.

ST says the three TPA codes are for the Malaysia Regasification System, Malaysia Transmission System and Malaysia Distribution System.

Gas in short supply

The rationale behind allowing the TPA, according to the ETP, is the lack of gas supply in the country for commercial purposes. MIDF research analyst Aaron Tan Wei Min concurs: "There is significant gas curtailment in Malaysia and this is affecting businesses which use it as an input, particularly power generation."

According to the ETP, the lack of gas supply is driven by declining domestic gas production.

"Domestic gas supply, including imports from Indonesia and the Joint Development Area with Thailand, is expected to decline at 12% in the coming decade," it says, adding that the subsidised price of LNG is also another turnoff for international gas traders to set up shop in Malaysia.

"To make gas imports economically feasible, the gas will be sold at a liberalised and unsubsidised price," it adds.

According to the EPP5 plan, the first phase involves Petronas which will execute all elements of the end-to-end gas delivery, including partial marketing of imported gas.

According to the plan, the Malaysian Investment Development Authority (Mida) will be involved in marketing the supplied gas to customers requiring a large volume of the fuel – more than two million standard cubic feet a day (mmscfd) – with the support of Petronas, while its fully-owned subsidiary, Gas Malaysia, will supply to customers requiring smaller volumes.

However, a source close to the project says the national investment arm would have no part in the marketing as detailed in the document.

"Typically investors would do their own homework to find the optimal (price vs security of supply) as this would greatly impact their project economics and risk profile. With the implementation of open access, the investors will have a wider choice of gas suppliers (not only Petronas), therefore providing some level of competition," the source says.

Commenting on how liberalising the LNG market will help Malaysia in the long run, the source says while the peninsula is a net importer of the fuel, the Sabah and Sarawak network is a net exporter.

"For net energy importers, energy security is always an underlying strategic issue. The best way to ensure security is diversification of fuel sources, suppliers and types – as the case may be. While it is possible for the net

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exporter to supply the net importer, there is a cost to such supply," he says, adding that the costs include liquefaction and shipping .

The source says while the gas price is set by global demand and supply balances, competition induced by opening up the LNG market can also increase the efficiency of the shipping and logistics component of fuel cost.

"Overall, a market price helps to ensure that the economy is allocating resources efficiently, to the greater economic benefit of all," he adds.

The first consignment of offshore LNG turned up in April last year at the Sungai Udang, Melaka regasification terminal from Nigeria. According to the media report from Platts, a leading global energy, petrochemicals and metals information provider, Petronas has already signed three agreements to import LNG.

"The first, signed in May 2011, is with France's GDF Suez for supply of 2.5 million metric tonnes of LNG over three-and-a-half years, starting from August 2012. The second is with Qatargas for the supply of 1.5 million metric tonnes a year of LNG over 20 years, with delivery to begin in 2013. The third is with Norway's Statoil, signed in June last year. Further details on the deal were not provided," it says. FocusM

Bloomberg

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