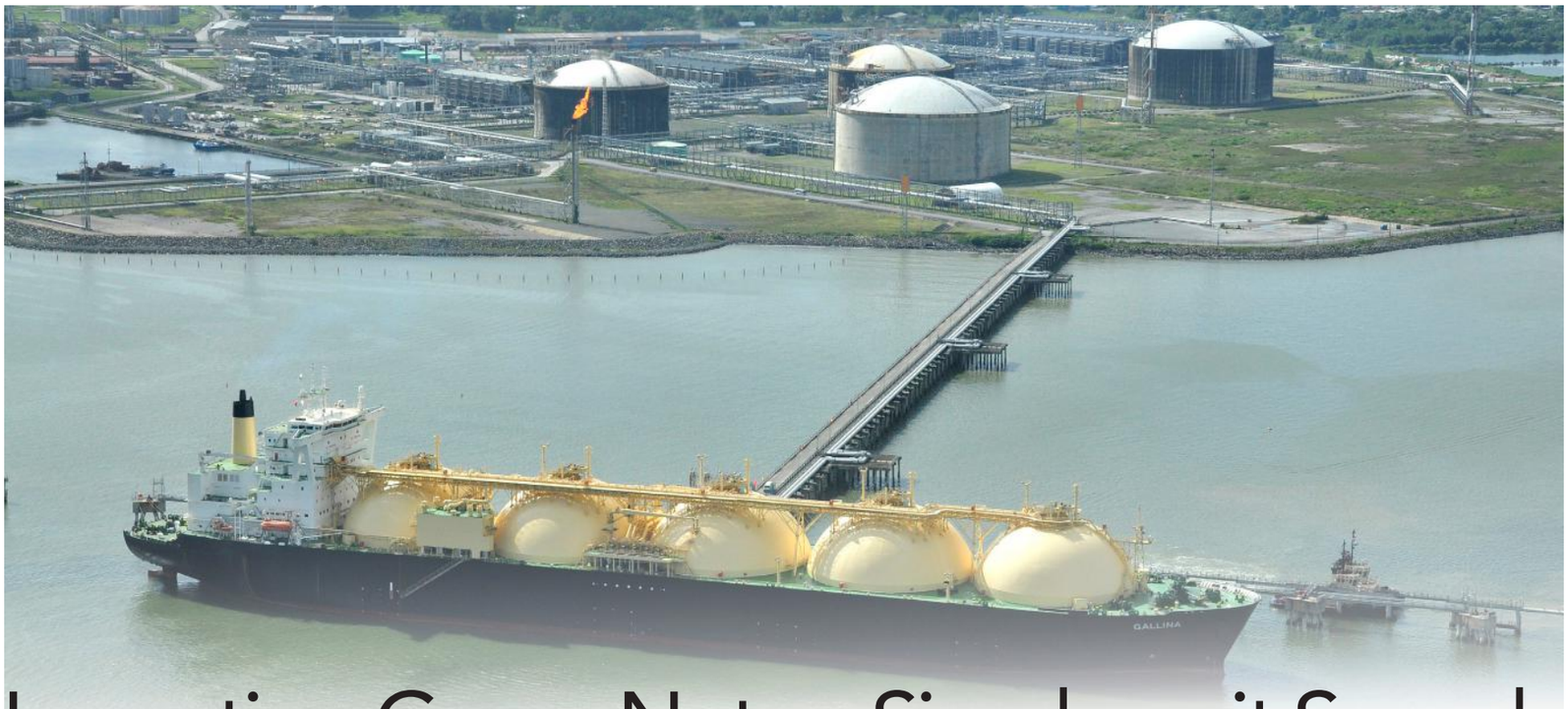

Importing Gas… Not as Simple as it Sounds

Even before the compounding impacts of the COVID-19 pandemic, NGC had been open about gas pricing issues, noting that the increased cost of natural gas from the upstream gas suppliers meant that its customers would also pay higher costs for their fuel and feedstock. Some may use this fact to paint NGC as profit-mongering at the expense of the sustainability of the local energy sector. Nothing is further from the truth. It should not be lost that the success of NGC's business model as a gas aggregator is consolidating gas supply from multiple sources and selling on to downstream customers, thereby minimising the exposure of the downstream to merely one source of gas and ensuring that commodity-linked pricing of both the upstream and downstream allows companies to benefit from cheaper natural gas when commodity prices are depressed.

In the past, NGC was able to lower its prices to accommodate its customers' bottom line because cheaper acquisition costs for natural gas allowed it the latitude. Today, NGC continues to ride the lows with its customers, but the most basic of business practices will dictate that NGC cannot cut its price below the breakeven cost. The economics are simple – a company cannot sustainably operate by selling its product for less than it pays to purchase it. This does not mean, however, that NGC is unwilling to operate in an environment of reduced margins while sharing risks along with other players within the value chain.

Given the changed environment, there have been calls to look at alternatives for structuring the local natural gas industry, including options for importing natural gas from other jurisdictions. This recommendation can appear as a deceptively simple solution but, in fact, may not be as feasible as suggested.

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED
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What Are the Options?

With respect to the importation of natural gas, the process is not as simple or straightforward an exercise as for instance, importing a vehicle. Outlined below are several options and factors that need to be taken into consideration.

Importation of LNG for Use by T&T Petchem Plants

Liquefied Natural Gas (LNG) is natural gas that has been processed and converted to its liquid state. An LNG vessel is a tank ship designed for transporting LNG. These vessels range in sizes, with the most common being between 125,000 to 180,000 cubic metres. Once the LNG ship arrives in Trinidad and Tobago, there is the matter of physically receiving the LNG cargoes as well as regasification, which is the process of converting the LNG back to natural gas, which can then be used by consumers via the NGC's widely distributed gas supply infrastructure.

There are a few options available for receiving and regasifying LNG cargoes i.e. land-based regasification and floating storage and regasification.

With the land-based option, LNG from the vessel is transferred by means of a receiving terminal with associated infrastructure to the regasification facility on land. A regasification facility, as well as the receiving terminal and associated infrastructure, require significant capital investment and relatively high operating costs. Presently, there are no land-based regasification terminals in Trinidad and Tobago.

A floating storage and regasification unit (FSRU) is another option. An FSRU is a specialised marine vessel which is capable of transporting, storing, and regasifying LNG to natural gas on board the vessel. The units may sound appealing but there are concerns that make them a less than desirable option. Locally, the main challenges would be the availability of a suitable location for mooring the FSRU and the impact it could have on the marine environment. When compared to the land-based regasification plants, FRSUs have limited storage capacity and even higher operating costs. Significant capital investment would also be required as the vessels are generally not leased on a short-term basis.

For both the land-based and floating storage options, the size of the LNG vessel must be aligned to the LNG storage volume and send-out rate from the regasification facility to ensure the optimisation of logistics and minimised costs. It is, therefore, not a simple or cheap solution of simply switching LNG to gas at short notice.

Imported Pipeline Gas

Another option for importing natural gas is via offshore pipelines from neighbouring countries that have the potential to supply gas from reservoirs. However, cost, available technology, engineering and environmental concerns as well as formal executed agreements are all limiting factors for a pipeline option.

Can we be compared to Henry Hub?

The price at which NGC sells natural gas is often compared to the Henry Hub price in the United States. The argument is that if the petrochemical plants are not obligated to buy natural gas from NGC, they could purchase cheaper natural gas on the open market, as and when required and thereby increase their profit margins.

Even if the gas is diverted away, or LNG is purchased from the local liquefaction facility, the requirements to get natural gas to the petrochemical plants are not simple. Long-term contractual requirements exist to cover the operating costs of the LNG plant and this would need to be paid by the petrochemical plants, in addition to regasification costs and other costs along the gas value chain.

LNG supplied to a regasification facility is not based on the purchase of LNG on a spot or short-term basis but rather based on a longer contracted term supply (supply of LNG cargoes as per an agreed scheduled for a period of time) to essentially reduce uncertainty in demand as well as mitigate the impact of any variation in prices. Further, the prices of the commodities produced by the local petrochemical plants, such as ammonia and methanol, are not linked to LNG prices, which would certainly be another challenge with which they would face.

Natural Gas… It's Our Business

NGC is diversifying its business model and is involved in all parts of the gas value chain. Our aim is to drive flexibility of supply between domestic and LNG markets within the contractual boundaries to meet the challenges of consistently supplying natural gas to the petrochemical and Light Industrial Commercial (LIC) sectors within a competitive pricing structure, while navigating the externalities and volatility of the energy landscape in the best interest of the people of Trinidad and Tobago.

AT THE FOREFRONT OF Energy