



Possible implications of crisis on pricing mechanisms



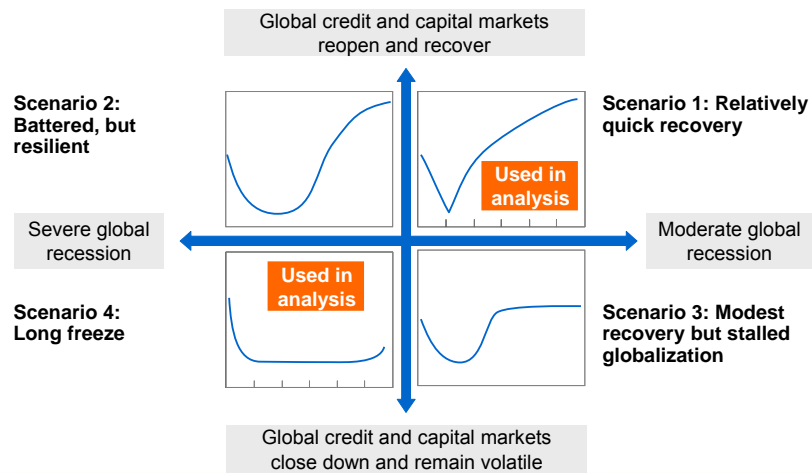
McKinsey&Company

Buenos Aires, October 6th, 2009

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Gas demand to be driven by evolution of economy in mid-term

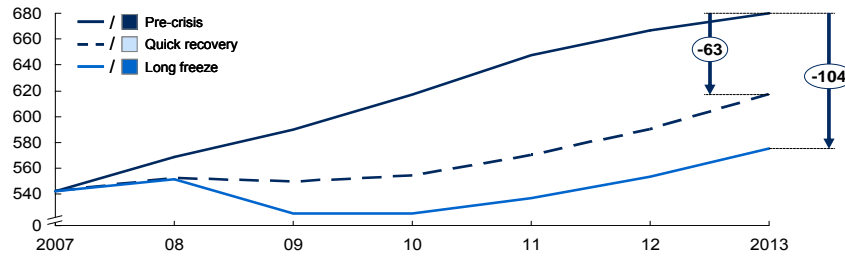


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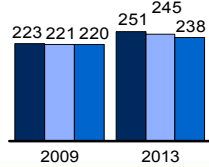


Europe hardest hit: -60 to -100 bcm vs. pre-crisis estimates of 2013

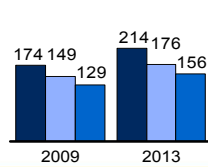
Total gas demand in Europe, bcm



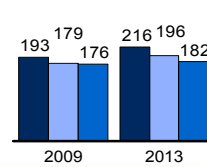
Residential and commercial



Power Generation

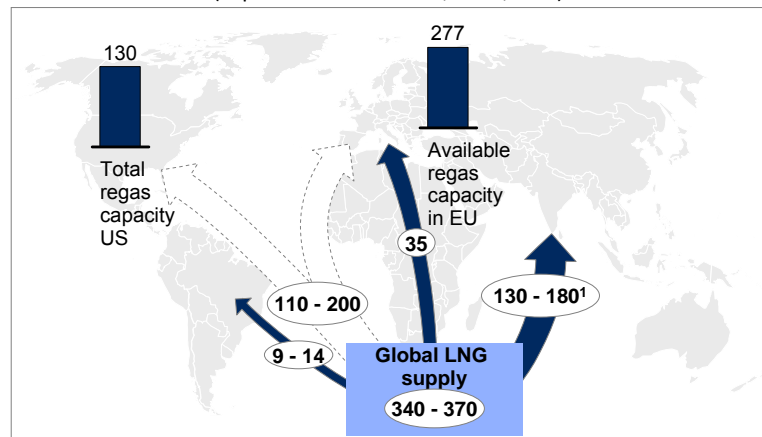


Industrial



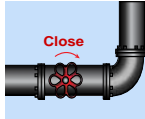
Surplus of LNG in Atlantic Basin in coming years

(Expected LNG volumes, 2013, bcm)





Players' reaction may potentially impact structure and pricing



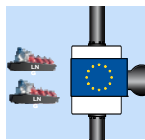
Aligned suppliers –avoidance of "gas bubble" and implications: breaking of the oil link, increase in liquidity, and severe difficulties of their loyal clients to honor volume commitments

- Pipeline and LNG suppliers scale back production
- Russia, Norway, Algeria, Qatar and others reduce exports to Europe



Piped suppliers defend contracts –enforcement of minimum volume, forcing EU to buy expensive gas. May trigger regulatory and consumer backlash, reducing piped-gas dominance in EU

- European pipeline suppliers uphold exports according to long-term contracts
- LNG diverted in large quantities to the US



LNG goes head-on with piped in Europe –suppliers flood EU; liquidity shoots up; big price difference between piped and hub-priced gas leads to big pressure on oil link. Reshaping of market and supplier-buyer relations

- LNG suppliers, gas importers take the fight with pipeline gas suppliers
- Buyers leverage lower-cost LNG to challenge long-term gas contracts, backed by EU politicians and regulators



Longer range, other forces may potentially impact gas pricing

Renewable sources

- Gas role increasingly marginalized, offsetting intermittent renewables supply

Regulations on emissions

- Strict regulations potentially reducing gas demand (+20/40 years)
- Technology development (e.g. CCS, H2) may also impact gas demand

