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E.ON's historic contract for gas supplies from Canada

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The largest German energy company E.ON, through its subsidiary E.ON Global Commodities has signed a contract with the Canadian company Pieridae Energy for the purchase of 6.5 billion m^3 of liquefied natural gas (LNG) a year for 20 years beginning 2020. This volume amounts to 7% of Germany's annual gas consumption. It is the first contract in history for supplies of such large volumes of gas from North America to Europe. According to the terms of the contract signed in the Canadian embassy in Berlin, liquefied gas will be supplied from the Goldboro LNG terminal in Nova Scotia to Western Europe. The launch of the construction of the Canadian terminal is scheduled for 2015. Prices of LNG to be purchased by E.ON will be calculated on the basis on market prices for natural gas in the Western European market. The gas will go to E.ON recipients across Europe.

Commentary

- E.ON is planning to develop imports of LNG. To this end the company has already reserved the regasification capacities in LNG terminals in the UK (Isle of Grain), the Netherlands (Gate Terminal in Rotterdam), Spain (Barcelona and Huelva) and in Italy (Offshore LNG Toscana terminal). Since the 1970s there have been plans for the construction of a German LNG terminal in the port of Wilhelmshaven on the North Sea. E.ON withdrew from the construction project in 2008, followed in 2011 by the German energy company RWE. The German ports in Hamburg and Lubeck and Rostock are currently analysing the possibilities of building LNG fuelling stations for ships.

- E.ON's strategy is geared towards the purchase of larger quantities of gas than previously at lower prices on the spot markets (as opposed to the current practice of prices being laid out in long-term contracts) and the diversification of suppliers. According to the management of E.ON, one of the elements of this strategy is to buy gas from Russia on market conditions. As the economic daily *Wirtschaftswoche* reported on 1 June, E.ON was considering terminating the contract for the period of 10 and 20 years for purchases of gas from Gazprom. The following day E.ON representatives denied this rumour. The current direction E.ON's policy is steering towards is also an element of the pressure being placed on Gazprom to lower its prices. In June 2012 E.ON negotiated a reduction in gas prices of 7-10% with Gazprom. This retroactively covered the prices from the fourth quarter of 2010 onwards. Co-operation with Gazprom is of strategic

importance for E.ON. The company holds 25% of shares in the Siberian Yuzhno-Russkoye gas field and 15.5% of shares in the Nord-Stream gas pipeline.

- E.ON is active on the markets of Western, Southern, Central and Eastern Europe as well as in the US, Russia, Brazil and Turkey. In 2012 E.ON imported gas from Russia (26% of its portfolio), Norway (24%), the Netherlands (17%) and other countries (11%). E.ON has forecast that in the long term it will be producing approximately 20% of the gas it distributes. In 2012 the production in Germany covered 22% of the company's gas portfolio. Beyond Germany, E.ON is involved in exploiting gas in Norway, the UK, Algeria and Russia.

- The decreased gas consumption coinciding with falling gas prices due to the shale gas revolution in the US will likely cause the prices on the German market to fall in the short term. The *European Union* of the Natural *Gas Industry* Eurogas forecasts that between 2011 and 2030 the share of gas in the gross energy consumption in the EU will rise from 23.5% to 28.7%, while imports (exclusively from Norway) will increase from the current level of 50% to 70% in 2030. LNG from North America stands a chance of meeting this increased demand.