

UK gas markets to eye US for LNG supply

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Transatlantic arbitrage could be on the horizon for the UK, after the manager of UK's natural gas network National Grid, issued its second gas balancing alert this winter to address the shortfall of supplies from Norway.

"There has been a very mixed feeling in the market, with prompt prices coming down but I think the markets are looking very interested in the US markets," says Craig Lowrey, consultant at JC Rathbone Associates. "There is potential for transatlantic arbitrage, with its capability to compete with the UK for liquefied natural gas (LNG) deliveries"

Twice already this year, National Grid has asked gas suppliers to tell 95 large users on interruptible contracts to stop using gas because of high gas demand but said this measure is "one of the standard tools National Grid uses to balance the gas network in the conditions we expect to see in a severe winter."

"The rally in the markets is moving at a pace with a use of interruptible gas supply contracts that I haven't seen in 10 years," says Lowrey.

The UK natural gas prompt contract fell from this week's high of 37.70 p/therm and traded at 36.10 p/therm as of 11:15 GMT.

But as North Sea gas supplies decline and the UK is becoming more dependent on pipeline imports of the fuel from Norway, analysts say that this could be the opportunity for more competition for LNG deliveries.

David Hart, oil and gas analyst at energy market researchers Hanson Westhouse, says: "LNG is revolutionising the market as it can be delivered to where it is needed the most."

The US Henry Hub Natural Gas price for the February 2010 contract traded at \$5.80 MCF as of 11:45 GMT.

"Volatility has returned," says Stephen Schork, editor of the energy and shipping research company The Schork Report. "Implied volatility (the market's guess) and historical volatility are now both above the long-term mean. As such, options traders are back to pricing in risk in the April contract."

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