



Personalised for:
Kostya Tsolakis

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The Bangladesh interview: Muhammed Aziz Khan, chairman, Summit Group

Summit Group is Bangladesh's largest infrastructure conglomerate, accounting for 21% of the country's private installed power generation, and is developing the south Asian country's second FSRU-based terminal. In this exclusive interview, Summit Group chairman Muhammed Aziz Khan explains to LNG Business Review why LNG is considered Bangladesh's "utopian fuel" and predicts that his country – which last April became the world's 41st LNG importer – will in the next five years emerge as one of the LNG sector's biggest consumers, despite the recent cancellation of smaller proposed FSRU schemes [1] in Bangladesh.



[2]

Can you describe Summit's activities?

Summit is an infrastructure provider focused on generating electricity in Bangladesh. The company's total installed capacity exceeds 1,940 MW. Of this, 750 MW is generated from two combined cycle power plants. One unit runs on natural gas, while the other currently uses diesel, but we are converting it to run on LNG. We are shifting our focus towards gas for environmental reasons and cost efficiencies. Our approach is to generate, or develop, electricity at the lowest

possible cost in an environmentally friendly way as fast as possible.

We found that LNG is the answer. Bangladesh already has extensive natural gas infrastructure, as well as people with an existing knowledge base capable of managing gas development. Petrobangla and its subsidiaries have a huge amount of knowledge in handling natural gas in the household and industrial sectors. It's a natural fit to bring in LNG when there is a shortage in the local supply.

Where do you see emerging LNG-to-power demand growth in the region? How important will LNG-to-power be in this geographic area?

South Asia is where the demand growth will be. India has 1.2 billion people. Bangladesh has 170 million people. Pakistan has another 200 million people. Including Sri Lanka, we are talking about a market of 1.5 billion people in South Asia.

This is an area where humanity has a strong desire to work hard to become wealthy and become part of the modern world, which requires electricity. Per capita consumption in southern Asia averages 500 kWh compared to the global standard of 2,000-2,500 kWh. There is a huge upside for generating electricity as there is so much pent up demand. Access to electricity is changing lives, from children's education to healthcare to industrialisation to modern infrastructure. But to develop such large-scale electricity generation it is essential to have fossil fuels.



Next year, Bangladesh will have 7.5 mtpa of regas capacity – from zero last year. Hopefully, when Summit's proposed onshore terminal is sanctioned, another 7.5 mtpa will be added in 2023.



While renewable energy is very desirable, it is also very expensive for countries like Bangladesh, which is space constrained, does not have high solar irradiation, or enough wind speed for power. For Bangladesh, combined cycle power plants, which produce a lot of electricity, are the most cost effective generation. A single combined cycle power plant can generate 580 MW, but to produce that much electricity from renewables would require 10% of the country's available land.

In my view, LNG is much better for electricity generation than coal and nuclear. Therefore it is the utopian option for Bangladesh. I personally believe the majority of the imported LNG will be used for power, the remainder for industry. I don't see LNG becoming a domestic fuel.

Next year, Bangladesh will have 7.5 mtpa of LNG import capacity – from zero last year. Hopefully, when Summit's proposed onshore terminal is sanctioned, then in 2023 another 7.5 mtpa will be added.

Can Bangladesh afford LNG imports, which are expensive compared to domestic gas prices? Are higher prices politically acceptable?

Interesting idea. I'm an optimist and I feel that as GDP expands by 7-8% each year, then every five years the country's income is almost doubling. Over the same time period LNG imports are projected to ramp up. Today the per capita income is about USD 1,715 and is set to become around USD 3,400 in another five to six years.

Bangladesh is also mixing domestic gas with imported LNG to average down the cost. Domestic gas costs around USD 1.50/MMBtu. Bangladesh currently produces 2700 MMcf/d. If the country boosts supply by 2500 MMcf/d with LNG imports at a cost of around USD 6/MMBtu, then the average cost will be about USD 3.50/MMBtu. This cost is lower than heavy fuel oil.

In my opinion, the cost will be lower than coal, which requires a lot of upfront investment and is also subject to carbon emissions standards. Capital investment for coal generation is around USD 1500/MW versus about USD 750-800/MW for natural gas. Coal is double the cost of gas. Land requirements for coal is about ten times that of gas, as you need stack yards and so on. Coal imports require deep-sea ports. The environmental effects from coal-fired power, even after using super critical or ultra-critical technology is more onerous than LNG. As a result, I feel LNG is the cheapest and best option for Bangladesh.

Are there any more gas price reforms coming?

Bangladesh has very good infrastructure for regulation. There is the Bangladesh Energy Regulatory Commission (BERC) that has been formed. They also act as the mediator between the individual consumers, government, producers, manufacturers and so on. They have a thorough process to determine the price for gas and electricity. Having this in place provides an opportunity for everybody to appreciate what the future price should be. I am sure the price must increase in line with the international price. But I am also sure the government will either subsidise or provide some sort of support for imported LNG into Bangladesh.

What will happen if a new government is elected in the general elections later this year? Will the LNG imports and energy strategy change?

No. There is bipartisan support for Bangladesh's economic and social development, and we need to have primary energy to do that. As soon as a new government takes office they will put Bangladesh's development first. That is the mandate on which all the political parties are campaigning. There is no other philosophical mandate, such as Islamic or communist. It is a free market democracy for which all advocate. They will be elected to continue the current development path of Bangladesh. There might be a change in people, such as the ministers or chairmen of the state-backed enterprises, but I do not see a policy or regulatory change.

“ *Bangladesh is mixing domestic gas with imported LNG to average down the cost. The cost will be lower than coal, which requires a lot of upfront investment and is also subject to carbon emissions standards.* ”

How are Summit's LNG import terminals progressing?

Our 3.5 mtpa FSRU in Moheshkhali is on track to be commissioned in April 2019. Since project discussions started, its development has taken under two years, which is very impressive for a project in Bangladesh. Our proposed 7.5 mtpa onshore terminal in Matarbari has not been confirmed yet.

The FSRU will supply gas to the national grid, which is owned by Gas Transmission Company Limited (GTCL), on a tolling basis.

A number of smaller FSRU projects have recently been cancelled. Why is Bangladesh now focusing on large-scale LNG import facilities instead of small-scale facilities?

I personally feel the government is taking a little bit of a breather to better understand how the cost of LNG imports will play out, as well as take time to monitor the capacity for shipping the LNG from the south to the north of the country. Traditionally gas flowed from the north, where all the gas fields are, to the demand centres in the south.

The connections are already there and capacity is being expanded. The grid handles 2,700 MMcf/d. It will be required to ship more than 5,000 MMcf/d when both 3.5 mtpa FSRUs are operating at full capacity. The infrastructure can manage the capacity increase. But it is not a matter of a single day. Bangladesh has made investments to expand pipeline capacity.

Bangladesh is keen to revive upstream production. Will this affect demand for LNG imports?

Bangladesh's gas imports and gas demand and gas discoveries are all related for sure. But Bangladesh is requiring 12% more gas every year. Therefore it will require its present indigenous gas supplies, which are declining, but I hope it continues to look for more onshore and offshore gas. I hope it continues to import LNG as well.

Where will Bangladesh's LNG supplies come from?

Petrobangla has import deals with Qatargas and Oman Trading. Summit is also looking to supply Bangladesh. Hopefully, as the market develops, LNG will be supplied by a public sector and private sector mix. The full capacity for Summit's FSRU is contracted to Petrobangla. But they have not fully contracted the supply. In total, I believe they have contracted 3.5 mtpa. Each of Bangladesh's two FSRUs can handle 3.75 mtpa. So there is about 4 mtpa of LNG supplies yet to be contracted.

“ *As the market develops, LNG will be supplied by a public sector and private sector mix. There is about 4 mtpa of LNG supplies yet to be contracted. In five years' time we will be importing around 12 mtpa.* ”

As Bangladesh starts to import LNG on an ever larger scale, I imagine there will be a natural progression to diversify supply sources. Bangladesh should look across the public and private sectors internationally, considering Australia, US, Canada, Africa, as well as Middle East suppliers. A diverse contract strategy, including government-to-government deals, spot purchases, as well as private sector transactions, to hedge price exposure across the portfolio would be expected too.

When the country is spending billions of dollars on such an important product – the country's primary fuel – they must diversify the portfolio. Bangladesh also has the most stable currency among the emerging economies in the region with some USD 33 billion in reserves, which stands

in good stead when looking for LNG suppliers.

How do you see the LNG business in Bangladesh in five years' time?

I think it will double in size as I mentioned. We will be importing around 12 mtpa in five years. I see Bangladesh's economy expanding to about USD 600 billion from the current USD 270 billion. I see Bangladesh's GDP continuing to expand at 8% every year. The country's economic growth is supported by manufacturing, particularly the garment industry. With the trade taxes being imposed both on China and counter taxes on the US, I feel Bangladesh will have a huge opportunity to expand its manufacturing sector, as nobody has put any taxes on Bangladesh. -
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