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Tokyo Gas looks at swapping U.S. LNG for supplies closer by

(Platts; Oct. 6) - Tokyo Gas may look into swapping its U.S. volumes of LNG for shipments sourced within Asia via "location exchanges," company president Michiaki Hirose said Oct. 6. "We take our U.S. volumes to somewhere and bring cargoes from nearby in Asia, which could create a win-win situation" for the parties involved, Hirose told a press conference. "We want to look into that possibility."

Tokyo Gas has contracts to buy a total 0.72 million metric tons a year of LNG from Sempra's Cameron project under construction in Hackberry, La., and 1.4 million tons a year from the Dominion Resources' Cove Point project under construction in Maryland. Hirose said transactions to swap cargoes could lower costs. "This could offer resistance to price movements and we could end up getting cheap LNG cargoes as a result."

The comments come as some Japanese buyers opt not to bring their U.S. LNG cargoes to Japan. Kansai Electric last year agreed to sell France's Engie 0.4 million tons a year from Kansai's North American LNG portfolio, while Engie will, depending on market conditions, sell an equivalent volume to Kansai Electric from its own portfolio. Jera, a joint-venture of Tokyo Electric and Chubu Electric, has agreed with London-based EDF Trading to sell up to 1.5 million tons of LNG from its stake in the Freeport project under construction in Texas for delivery to Europe between June 2018 and December 2020.

Australia's LNG production capacity will hit 66 million tons next year

(Platts; Oct. 7) - Australia's LNG export volume is expected to surge 40 percent year-on-year to 51.5 million metric tons in fiscal 2016-17 (July 2016 to June 2017) with still more export capacity due to come online, Australia's Department of Industry, Innovation and Science said Oct. 7. "An additional 15 million metric tons of LNG export capacity is expected to be completed by mid-2017, bringing total operational capacity to around 66 million tons," the department said in its latest Resources and Energy Quarterly.

The additional capacity includes the second and third LNG production trains at the Gorgon project in Western Australia and a second train at the Australia Pacific LNG project in Queensland. An increase in exports to Japan, South Korea and China was expected to drive the rise in Australia's export volumes. It will be 2018 before the last of almost $200 billion in LNG project investments comes on line in Australia, putting the country in the position to pass Qatar as the world's leading LNG producer.

The unit value for Australia's LNG exports in fiscal 2016-17 is forecast to be in line with fiscal 2015-16 at $6.70 per million Btu, down from $11.30 the year before, the report said. “Spot prices are forecast to remain low, as the entry of new capacity from the U.S. and Australia ensures that the market remains well supplied.”

Australia Pacific LNG plant starts up production at second unit

(The Courier-Mail; Brisbane; Oct. 10) - Origin Energy has started production at the second of two liquefaction units at its Australia Pacific Liquefied Natural Gas plant in Queensland. The production start-up represents the final major construction milestone for the Australia Pacific LNG, a joint venture project between Australia-based Origin with 37.5 percent, ConocoPhillips at 37.5 percent, and China’s Sinopec at 25 percent.

The plant has already exported 47 LNG cargoes since production started in January at the first production unit, which can churn out 4.5 million metric tons a year. Australia Pacific LNG produces coal-seam gas from the Surat and Bowen basins in Queensland, then pipes it to the plant on Curtis Island at Gladstone where it is converted for export. Long-term LNG sales agreements were signed for the project years ago with Sinopec for 7.6 million tons a year and Kansai Electric for approximately 1 million tons per year.

The Australia Pacific LNG plant is one of three built on Curtis Island, all by different owners. Australian Petroleum Production & Exploration Association CEO Malcolm Roberts said six production units are now fully operational at the three plants, which was a major achievement for an industry that did not exist seven years ago. “They form part of a bigger $200 billion investment in new LNG projects which will soon see Australia become the world’s leading exporter of LNG,” he said.

Asian spot-market LNG prices up slightly to $6.20

(Reuters; Oct. 7) - Asian liquefied natural gas prices reached a nine-month high this week as demand from India, Japan and South Korea underpinned the sentiment. LNG priced for November delivery was about $6.20 per million Btu, 10 cents higher than last week, as supply-demand balances for the rest of the year appear tighter, said three traders who participate in the market. That is the highest price since the week ending Jan. 8. Higher crude prices are also lending support to LNG values.

LNG demand from North Asia remains firm as nuclear power stations in Japan and South Korea that have been taken offline are expected to stimulate demand for gas. Japan's Kyushu Electric Power shut the 890-megawatt No. 1 reactor at its Sendai nuclear plant on Oct. 6 for planned maintenance that is expected to last at least two months, although a restart could be hampered by anti-nuclear local authorities.

South Korea has also shut multiple nuclear power plants for maintenance and as a precaution after the country suffered its biggest earthquake ever in September. Despite firm Asian demand this fall, gains in spot prices could be capped by new production from the second train at the Australia Pacific LNG project that is due to start-up this quarter, and returning U.S. supplies. Cheniere's Sabine Pass in Louisiana is scheduled to come back from maintenance around Oct. 17, a source close to the matter said.

LNG price recovery likely will be short-lived, columnist says

(Reuters' columnist; Oct. 6) - It's around about now that liquefied natural gas spot prices usually start rising in Asia ahead of winter needs, and this year looks to fit the pattern, although any relief for producers is likely to be short-lived. Although there are several short-term factors that have been nudging prices higher — an increase in U.S. natural gas prices, higher prices for oil and Australian coal as alternatives to gas — the LNG market still is heading for more oversupply next year and for several years thereafter.

Asian spot LNG prices have been trending higher since hitting $4 per million Btu in April, the lowest since assessments started in 2010. The price rose to $6.10 last week, still far below the all-time peak of $20.50 in February 2014. Prices are exhibiting the usual seasonal behavior, rallying ahead of the northern summer and winter and slipping back during the spring and autumn.

One of the supporting factors for the price climb has been a tightening of the U.S. gas market. U.S. prices are starting to rise as demand gains the upper hand over supply in anticipation of a cold winter in North America. Futures ended at $3.021 Oct. 5, up 84 percent since a 21-year closing low of $1.639 March 3. With the strong rally in U.S. gas prices, it's likely that Gulf of Mexico LNG exporters won't be competitive in Asia, thus allowing that region's spot prices to rise. And with so much new LNG supply on the way, it'll take a cold-than-usual winter to extend the LNG price rally past the next few weeks.

Tanzanian official says LNG project negotiations could last 5 years

(All Africa; Oct. 4) - Talks between the government and investors for a liquefied natural gas plant could last five years, Tanzania Energy and Minerals Deputy Minister Medard Kalemani said. Negotiations have not started, but are expected to start "soon," he said. Experts from the ministry and the Tanzania Petroleum Development Corp. will negotiate with multinational companies on how the country could benefit from an LNG project to produce and export the country's substantial gas reserves, he said Oct. 3.

"The team will negotiate on the benefits of the project, especially local content (contractors and employees), natural gas markets and how much can be consumed locally," Kalemani said. The East African nation's deep-sea gas discovery now stands at

57 trillion cubic feet. Investors in the offshore reserves include BG Group (acquired by Shell), with Tanzania Petroleum, Statoil, ExxonMobil and U.K.-based Ophir Energy. Cost of the onshore LNG plant is estimated at $30 billion, with start-up possible in 2025.

Shell cuts deal with Egypt to resume limited LNG exports

(Interfax Global Energy; Oct. 6) - Egypt is moving closer to restarting liquefied natural gas exports following a deal with Shell to raise the volume of gas sent to the Idku LNG plant. Shell cut a deal with the government last month to send 125 million cubic feet of gas a day to Idku from the company's fields to help Egypt, which operates the 11-year-old LNG plant, erase some of its debt owed to Shell, according to a leak from the Ministry of Petroleum reported in the Egyptian media. Shell could sell the LNG, applying the revenues as a credit against Egypt's debt to the company.

Shell would not confirm or deny reports that gas flow to the terminal has increased, but people working for the country's energy authorities said negotiations suggest that Idku will begin operating more regularly soon. The higher volume is still far less than the 1.2 billion cubic feet of gas per day originally contracted. However, it is still an improvement. Since 2012, Cairo has appropriated almost all of the gas intended for both the Idku and Damietta LNG plants for domestic use, slicing Shell's LNG export revenues.

The Egyptian Gas Holding Co. source said the government owed Shell $1.3 billion as of July. Egypt owes a total of $3.5 billion to international oil companies. A source at the Ministry of Finance said payments to gas producers have been made more difficult by the country's dollar shortage. Tamer Abu Bakr, chairman of the Federation of Egyptian Industries' petroleum committee, said allowing Shell to restart exports was a clever policy, removing the risk of the company taking legal action against the government.

U.K. approves first hydraulic fracturing of shale gas horizontal wells

(Bloomberg; Oct. 5) - Cuadrilla Resources won government permission to hydraulically fracture for natural gas in northern England, ending a 2½-year battle that veered into debates about the legacy, prosperity and stewardship of Britain's countryside. U.K.-based Cuadrilla will be allowed to drill and frack as many as four wells, according to a ruling by U.K. Secretary of State for Communities Sajid Javid, practically eliminating the chance Cuadrilla will be stopped. Javid deferred a decision on four more wells.

Javid's decision was under close watch, with companies that want to frack in the U.K. hoping to gauge sentiment toward the controversial practice that may help offset declining conventional gas production. Cuadrilla CEO Francis Egan has said approval will give the country a better sense of its shale gas resource base and may quell opposition to the practice if the wells are drilled without incident. “These will be the first horizontal wells approved for drilling, fracking and testing in the U.K,” Egan said.

Javid ruled on two applications to frack filed in mid-2014. A county planning council rejected both requests, saying they would cause excessive traffic, and Cuadrilla appealed. The Secretary of State’s office then revoked the council’s ability to grant or deny permission, saying it was taking too long to consider the appeal and that the decision was in the national interest. Egan said Oct. 6 the company hoped to start drilling in the first half of next year.

Approval falls short of what’s needed to confirm U.K shale potential

(Bloomberg; Oct. 6) - Four wells are better than none if you’re trying to assess whether your country could host the next shale boom — but it’s not nearly enough. Cuadrilla Resources on Oct. 6 won the right to horizontally drill and hydraulically fracture the four wells in northern England after a 2½-year battle. If it can prove it won’t cause too many traffic problems, it could get permission to drill an additional four wells.

While the go-ahead is a win for efforts to produce shale gas in the U.K., it’s nowhere close to what is needed to replicate the U.S. success in exploiting shale gas reserves, according to analysts and academics. The ruling “does not necessarily mean that U.K. shale gas development will take off in a significant way,” said Jim Watson, director of the London-based U.K. Energy Research Centre. “The economics of shale extraction in the U.K. are still highly uncertain.”

In the U.S., where fracking transformed the country from a net importer to the largest gas producer in the world, it took hundreds of wells from Texas to Pennsylvania just to get started. In Poland, which was once held up as a potential hotbed of European shale gas, more than 100 wells were drilled, only to discover the fuel could not be extracted economically. While results from Cuadrilla’s wells may help determine future exploration decisions, it’s still not enough to give a complete picture about the fate of fracking in the U.K., said John Williams, senior principal at Poeyry Management Consulting.

U.S. gas storage healthy, but price climbs in expectation of drawdown

(Wall Street Journal; Oct. 5) - With just a month to go before the traditional start of heating season when U.S. natural gas stockpiles begin to be depleted, the amount of gas in storage is 2.6 percent higher than the very ample level seen a year ago. Put another way, there has never been so much gas available for the winter on this date. But a look at how slowly that reserve has expanded paints an entirely different picture.

And, while there is no shortage in the market by any stretch of the imagination, the recent price surge of 80 percent since February's low reflects an anticipation that the market could tighten in time. Over the past 10 weeks through Sept. 23, the amount of gas in underground storage has grown by 323 billion cubic feet, well under half the 714 bcf during the identical weeks in 2015. This is what briefly sent prices above $3 per million Btu last month. They haven't been consistently above that level since 2014.

Analysts at Citigroup note that electric power demand was 4.5 bcf a day higher in July than a year earlier, suggesting that hot weather and air conditioning demand explains much of the reduction in storage injections. But part of that gap was structural rather than temperature-related due to permanent closure of coal-fired generation capacity. The upshot is that the U.S. gas market is far closer to balance than it has been in years as heating season looms. If a frigid winter depletes storage, the market will react.

Shell drops plans for oil-by-rail terminal at Puget Sound refinery

(Skagit Valley Herald, WA; Oct. 5) - Shell Puget Sound Refinery announced Oct. 6 that it is no longer pursuing the oil-by-rail unloading facility it had worked toward for several years, much to the surprise of opponents and government agencies reviewing the project. The announcement came two days after Skagit County Planning and Development Services and the state Department of Ecology released a draft environmental impact statement for the proposed rail terminal near Anacortes, Wash.

"They've been working so hard and we've been working so diligently on this, it just really surprised us," said Skagit County Planning Director Dale Pernula. The draft EIS concluded that other than increasing the risk of a train accident that could result in a spill, fire or explosion, the majority of the terminal's environmental impacts could be addressed in the construction permits or reduced through mitigation projects. The 58-year-old refinery can process up to 145,000 barrels of crude a day.

Refinery officials said Shell's decision was based purely on economic factors. Refinery general manager Shirley Yap said when Shell started pursuing the rail facility, the price of North Dakota Bakken crude was advantageous compared to other sources. The price for Bakken oil has since increased, making the oil — and the project aimed at moving it by rail to the refinery — less economically attractive. The refinery will continue receiving crude oil from Alaska's North Slope by tanker and from Canada by pipeline.

India's gas importer in negotiations for tankers to carry U.S. LNG

(Khabar India; Oct. 6) - Tough negotiations are under way between GAIL (India) and two bidding groups that have applied to contract for construction and charter of the nine liquefied natural gas carriers required by the state-run liquefied natural gas importer and distributor for bringing in cargoes from the U.S. The intense bargaining is over the three LNG tankers that are to be built in India as part of Prime Minister Narendra Modi’s Make-in-India program.

The two consortiums, comprising mainly Japanese fleet owners with a strong presence in LNG shipping, want GAIL or the government to take on potential risks associated with the Indian-built tankers, which would be the first such sophisticated ships built locally. GAIL does not want to assume the risks and is looking to government to take a position.

A consortium of Mitsui O.S.K. Lines-Nippon Yusen Kabushiki Kaisha and Mitsui and Co., and another group comprising Mitsubishi Corp.-Kawasaki Kisen Kaisha-GasLog and Foresight, are eyeing the long-term deal because of its size — about $7 billion. Such long-term shipping contracts can mean huge savings for GAIL. Executives briefed on this second tender issued by GAIL (the first failed because no one showed up), said there was an attempt by ship owners to scuttle the bidding and the Make-in-India plan by putting conditions that either GAIL or the government may find it difficult to accept.