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Coal May Miss Out on Gains From Japan Quake: Energy Markets
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By Dinakar Sethuraman and Yoga Rusmana

March 18 (Bloomberg) -- Coal may miss out on a rally in fossil fuels after Japan's worst-ever earthquake because utilities have more ability to burn fuel oil and natural gas to replace lost nuclear generation.

As much as 12.4 gigawatts of atomic power, or 25 percent of capacity, was "severely disrupted" by the temblor, Goldman Sachs Group Inc. said March 16. Coal generation, which accounts for about 16 percent of Japan's electricity, is already near maximum levels, UBS AG and JPMorgan Chase & Co. said this week.

"We see that the coal-fired power plants are at full capacity and buyers have long-term coal contracts already, leaving no room for additional supplies," said Supriatna Suhala, the Jakarta-based executive director of Indonesian Coal Mining Association. "We don't see the disaster in Japan affecting coal demand from Indonesia." The Southeast Asian nation is the largest exporter of coal used in power plants.

Japan, the world's biggest importer of coal, is seeking alternatives to nuclear generation after the 9.0-magnitude quake shut down 11 reactors. The country boosted imports of spot liquefied-natural-gas cargoes fivefold from the Atlantic Basin in the 12 months after a July 2007 temblor closed the Kashiwazaki-Kariwa nuclear plant, while fuel oil shipments rose 75 percent, according to customs data. Coal imports gained 10 percent that year, according to Commodore Research.

"We know there is 10 gigawatts of nuclear offline and that is about 30 million tons of coal required," said Mark Pervan, a Melbourne-based analyst at Australia & New Zealand Banking Group. "The bottom line is they don't have 30 million tons of additional capacity in coal."

Gas, Fuel Prices

Japanese utilities can use an extra 5 million to 10 million metric tons of coal by running their plants at 95 percent of capacity, Pervan said. The country imported about 184 million tons of both thermal and steel-making coal in 2010, Ministry of Finance data show.

Natural gas and fuel oil prices have surged since the earthquake. U.K. natural gas futures were at the highest in more than two years on March 16 amid concern the nuclear crisis will divert LNG cargoes away from Europe.

Fuel-oil also benefited, rallying to the strongest in a month relative to Dubai crude, as refiners sought extra cargoes of the residue. The fuel, which is also used to power ships, was at a discount of \$4.37 to the Middle East grade in Singapore on March 16, the narrowest since Feb. 16.

Coal Reaction

Power-station coal at the Australian port of Newcastle was at \$130.85 a ton in the week through March 11, according to the IHS McCloskey Petersfield, U.K.-based provider of data. Prices for this week are scheduled to be released today. They rose to a 30-month high of \$138.50 in January amid the winter demand peak and flooding in parts of Australia.

Helicopters dropped water on crippled reactors at Tokyo Electric Power Co.'s Fukushima Dai-Ichi station yesterday as engineers battled to prevent the spread of radiation from the facility, 135 miles (220 kilometers) north of Tokyo. The temblor, which struck off the north of Japan's main island of Honshu on March 11, has killed more than 6,400 people and left more than 10,000 unaccounted for, the National Police Agency said.

The July 2007 earthquake that shut the 8.2-gigawatt Kashiwazaki-Kariwa plant boosted Japan's thermal-coal imports by 10 percent in 2007 to 101 million tons, Jeffrey Landsberg, president of New York-based Commodore Research, said in an e-mailed note. Purchases rose to 105 million tons in 2008 before declining to 92 million in 2009, when the world's biggest atomic power station resumed operations, he said.

Tokyo Electric

Tokyo Electric depends on LNG for about 45 percent of its fuel needs, with nuclear and coal accounting for 28 percent and 12 percent, respectively, Lawrence Eagles, a New York-based analyst for JPMorgan Chase & Co., said in a report on March 15. Oil accounts for 9 percent of the utility's generation, he said.

"Because it has limited potential to increase coal use and oil is comparatively expensive, Tokyo Electric will seek to ramp up LNG use, but will also need to turn to oil," Eagles said.

Demand for burning low-sulfur fuels may rise by 140,000 barrels a day after the closure of nuclear generators, Bank of America Corp.'s Merrill Lynch unit said in a March 15 report. Coal-fired power has limited ability to increase generation because plants are running at near full capacity, using about 120 million tons a year, the bank said.

Japan consumed 3.4 percent of the world's coal in 2009 and 35 percent of LNG, according to BP Plc data.

"Japan's thermal coal imports are already high, inventories are reportedly adequate, and coal-fired capacity may be operating close to full utilization," UBS AG analysts including Per Lekander said in a March 14 report. "Typically, Japan's LNG and crude-oil demand lifts sharply, post-earthquakes, with little discernible change in coal trade volumes."

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