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Record LNG Imports by India Signal Rising Prices: Energy Markets
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By Dinakar Sethuraman and Pratish Narayanan

Aug. 17 (Bloomberg) -- India is set to buy record amounts of liquefied natural gas this year to offset falling production, pushing up prices as it competes with Japan for the fuel.

Asia's second-biggest energy consumer may need an additional 4 million metric tons over the next eight months after output from the country's largest gas field fell 31 percent below target, according to the latest production data.

Total imports may rise by 40 percent to as much as 14 million tons for the year ending March 31, according to Mumbai-based Equirus Securities Private Ltd.

"Based on the disappointing performance of domestic gas production and the fact that we don't have any other major find at the moment, the only way the demand-supply gap can be bridged is through higher LNG imports," A.K. Balyan, managing director of New Delhi-based Petronet LNG Ltd., the country's biggest LNG importer, said in an interview.

Surging demand from Japan following the country's March 11 earthquake is helping stoke a rally in LNG after a glut that sent prices to a two-year low in 2009. Petronet and Royal Dutch Shell Plc, operators of India's two LNG terminals, are expanding capacity after Mumbai-based Reliance Industries Ltd. missed production targets at the Krishna Godavari field off India's east coast.

While India doesn't disclose what its LNG costs, published gas prices are rising in Japan and the U.K., the most widely used benchmark rates for the liquefied fuel.

Spot Prices

Spot LNG cargoes delivered in June to Japan averaged about \$722 a ton, or \$13.80 per million British thermal units, up 10 percent from \$12.50 in May, according to Ministry of Finance data. The fuel, natural gas cooled to a liquid for transport by tankers, may climb to a three-year high of \$16 per million Btus, according to the median estimate in a July 28 Bloomberg survey of seven analysts, traders and importers.

Winter gas at the U.K. National Balancing Point closed at 70.58 pence a therm yesterday on the ICE Futures Europe exchange in London, or \$11.60 a million Btu, up 33 percent from a year ago. A therm is a measure of heat energy equivalent to 100,000 Btu.

Japan's 10 regional power utilities imported a record amount of LNG in July and spent 23 percent more on the fuel during the month, according to data released by the Federation of Electric Power Companies of Japan. Thermal power generation rose 15 percent in July from a year earlier, while atomic output dropped 50 percent, the federation said. The utilization rate for nuclear stations fell to 34 percent.

Woodside Petroleum Ltd., Australia's second-biggest oil and natural gas producer, sees "upside" in the LNG market as a result of Japan's nuclear crisis, the company said today.

'Hardened Prices'

"Spot LNG prices have actually hardened as major players are routing cargoes to Japan," Balyan said. "Japan is expected to import more."

South Korea, Asia's second largest buyer of LNG, gave approval to Korea Gas Corp. to import the fuel from Royal Dutch Shell Plc and Total SA, its biggest ever deals, according to a government statement today.

Indian gas use may double to as much as 400 million cubic meters a day by 2016, while domestic supply may be about 200 million meters, Balyan said. Petronet plans to expand capacity by 50 percent to 10 million tons at its import terminal in Dahej on the west coast of India. The company aims to complete a 5-million ton facility at Kochi in southern India next year. Shell operates an LNG import unit in Hazira with the capacity of 5 million tons.

"India has to go for imported LNG, which is costlier than what domestic gas would have been if there was supply," said Maulik Patel, an Ahmedabad, India-based analyst at Equirus whose recommendations on the energy companies he tracks would have given investors a 9.2 percent return over the past year.

Krishna Godavari

Gas output from Reliance's Krishna Godavari field dropped 18 percent to 156.2 billion cubic feet in the quarter ending June 30 from a year earlier, the company said in a July 25 statement, without providing a reason. Krishna Godavari's so-called D-6 block is Reliance's first offshore gas field development and its first underwater discovery, according to the website of Bechtel Corp., a contractor on the field.

Reliance is using about 8 million to 9 million cubic meters of LNG a day at its refinery in Jamnagar on the west coast, up from the 6 million to 7 million it received from the Krishna Godavari field in the quarter ended June 2010, Standard Chartered Plc said in a July 25 note. Manoj Warriar, a Mumbai-based spokesman for Reliance, declined to comment on the company's gas production or imports.

'No Option'

Indian output may remain at reduced levels for two to three years as it connects new production wells, Standard Chartered said. Reliance plans to drill three more production wells and assess the results before connecting them, the bank said.

"There is no option for India but to rely on LNG imports until domestic gas output moves up," said Avishek Datta, a Mumbai-based analyst at Standard Chartered. "The substitute is naphtha and other costlier fuels." Datta expects India to import 13.1 million tons of LNG in the year through next March.

India will have to import about 2.5 to 3 million tons a year of the fuel to meet the shortfall from Reliance, and additional demand may boost imports of spot cargoes to 5 million tons for the fiscal year ending March 2012, said Patel.

The country bought about 9.8 million tons of LNG for the year ending March 2011, according to the Indian oil ministry. Imports into the Dahej and Hazira terminals for the three months ended June totaled 2.7 million tons, according to the Petroleum Planning & Analysis Cell.

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