

Market Report

Asian demand is picking up for the winter but if prices go up much further demand from price-sensitive India will withdraw. In the Atlantic, Angola is back but LNG production otherwise remains thin **2**

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PETRONAS faces Canadian challenges despite approval

Malaysia's state-owned oil and gas company PETRONAS will continue its review of the 12mtpa Pacific NorthWest LNG project before making a final investment decision (FID), according to PETRONAS following the Canadian government's conditional approval of the project on 27 September.

"PETRONAS and its partners will study the conditions imposed by the Canadian authorities and conduct a total review of the proposed project prior to deciding the next steps forward," company officials said in the release.

Minority shareholders in the project include China's Sinopec (15%), Japanese refiner JAPEX (10%), state-run Indian Oil Corporation (IOC) (10%) and PetroleumBRUNEI (3%).

Among the conditions set by the Canadian government for the \$11bn liquefaction plant on Lelu Island in Western Canada is a

maximum cap on annual projected greenhouse gas emissions, a first in Canada, according to the release.

The plant will also be required to comply with mitigation measures that will minimise adverse effects on fish, fish habitat, marine mammals, wetlands, migratory birds, and human health.

The project will be subject to rigorous compliance measures which include establishing environmental monitoring committees comprised of First Nations, and federal and provincial representatives - a new requirement. Technical experts will monitor the project and will have the authority to stop project activities that do not comply with the conditions.

Claudio Steuer, director of SyEnergy, a UK-based energy consultancy, said that while the government approval is an important step towards increasing the possibility [Page 11](#)

European law must guide on reporting Brent-linked LNG

A recent document published by European energy regulator ACER sheds some light on some LNG-specific questions regarding reporting of trades in Europe, but fails again to address how derivative contracts are treated under the new legislation.

The European Union introduced REMIT in 2011 to crack down on energy market manipulation and abuse. Under the regulation, market participants are required to disclose gas and power trades to the Agency for the Cooperation of Energy Regulator (ACER).

According to ACER's 5th edition of frequently asked questions on REMIT reporting, LNG questions centre on how to report boil-off, what to do if a market participant is not registered in the EU, and how to report force

majeure. These are all areas which LNG's global nature and specific storage requirements bring to the fore. However, compliance departments are still looking for guidance on how to report derivative contracts in cases where gas or LNG is hedged against Brent crude.

"The derivative reporting section in the previous ACER Q&A only talks about derivative contracts based on gas and power products. It does not mention Brent," said a compliance officer talking to ICIS.

"But I'd say a long-term contract indexed to or hedged-against Brent is a derivative of Brent."

The guidance in ACER's 14th Edition of Questions & Answers on REMIT [Page 18](#)

SPOT DES PRICES					\$/MMBtu
Location	Nov '16	Week-on-week diff	Dec '16	Week-on-week diff	
EAX	5.938	0.513	6.050	0.450	
Japan	5.925	0.500	6.025	0.425	
India	5.800	0.200	5.800	0.100	
Spain	5.260	0.070	5.300	0.100	
Britain	5.117	0.236	5.422	0.279	
Argentina	5.550	0.150	5.650	0.150	

FORWARD GAS MARKETS: UK NBP (ICIS)						\$/MMBtu
	28 Sep 16	21 Sep 16	Change on week	28 Sep 15	Change on year	
Oct '16	4.734	4.549	0.185	6.079	-1.345	
Nov '16	5.386	5.138	0.249	6.341	-0.955	
Dec '16	5.708	5.414	0.294	6.535	-0.827	
Jan '17	5.842	5.549	0.293	6.596	-0.753	
Feb '17	5.886	5.590	0.295	6.641	-0.755	
Mar '17	5.679	5.414	0.265	6.468	-0.789	

FORWARD GAS MARKETS: US HENRY HUB (NYMEX)						\$/MMBtu
	28 Sep 16	21 Sep 16	Change on week	28 Sep 15	Change on year	
Nov '16	3.002	3.132	-0.130	2.670	0.332	
Dec '16	3.199	3.321	-0.122	2.837	0.362	
Jan '17	3.327	3.441	-0.114	2.951	0.376	
Feb '17	3.331	3.445	-0.114	2.957	0.374	
Mar '17	3.283	3.398	-0.115	2.926	0.357	
Apr '17	3.036	n/a	n/a	2.788	0.248	

CONTRACT GAS MARKETS: (ICIS)				\$/MMBtu
	NW Europe Oil - Indexed	Japan Import		
October '16	5.412	7.232		
November '16	5.685	7.405		
December '16	5.767	7.507		
January '17	5.916	7.395		
February '17	5.926	7.608		
March '17	5.914	7.793		

GAIL to reissue vessel tender without India build element

Indian gas company GAIL is scrapping a requirement that vessels in its nine-carrier tender must be built in India, and will release a new tender which allows bidders to choose the shipyard that they operate with, according to two ship brokers.

The new tender will be for nine new-build LNG carriers for delivery in 2018, said the two ship brokers.

GAIL has been tendering for a number of years for newbuild LNG vessels to transport the 5.8mtpa of contracted US LNG volumes which will start to come on stream from late 2017. The process, however, has been dogged by issues and the tenders have been reissued several times.

The key problem is that GAIL has de-

manded that three of the nine LNG vessels be built in India on a greenfield site. Construction of an LNG vessel in an area with no LNG shipbuilding track record and no vendor cluster has put off many prospective bidders.

Nonetheless, some bidding consortia were willing to take on the tender, including a three-way partnership between Mitsui OSK Lines (MOL), NYK Line, and Mitsui who are bidding against a consortium of Mitsubishi, 'K' Line, and GasLog (see *GLM 15 September*).

The second element of uncertainty has been that GAIL is selling and swapping part of its US LNG portfolio in the global market, and therefore the final volume of LNG to be transported from the US could change. "The

outcome of this exercise may reduce the number of vessels to be hired," GAIL said in its most recent tender document.

Conversely, vessel delivery from 2018 may mean GAIL has to tap the prompt charter market in order to lift the volumes starting 2017.

"In lots of these term vessel tenders you might see the tenderer simply fix ships from the spot market while they get themselves sorted out," said one of the ship brokers.

GAIL launched its time charter hire tender for nine LNG vessels on 15 September 2015 for the third time. The previous two tenders were cancelled due to a lack of interest from bidding parties. The present bid is calling for nine LNG vessels in lots of three vessels each, of a cargo capacity of not less than 150,000 cubic metres (cbm) and not more than 180,000cbm, enabling GAIL to comply with its off-take commitments at Sabine Pass and Cove Point. josie.shillito@icis.com

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US senators want to slow LNG export approval

A group of Democrat-led senators have asked the US energy secretary to consider slowing down the process of approving more LNG exports.

In a letter, which was sent on 21 September to the Department of Energy (DOE), the 12 senators asked the secretary and department to consider slowing the approval process until "the full impacts of currently approved projects are realised."

The senators raised concerns about rising domestic gas prices and the impact on climate change as two of the key reasons behind considering the slowdown in approval.

The senators included Edward Markey of Massachusetts, who has previously been publicly vocal against LNG exports, and senators from states such as California, Massachusetts and Michigan.

The DOE has automatically approved export licences to companies that want to sell LNG to free trade agreement (FTA) nations,

but non-FTA nations make up a bulk of the major LNG importers, such as Japan, China and the European nations, and have required greater discretion by the DOE in approvals.

Of the major large-scale US LNG projects, Sabine Pass, Freeport LNG, Cameron LNG, Cove Point, Corpus Christi and Lake Charles have received non-free trade agreement (non-FTA) export approvals, which totals 86mtpa in aggregate of approved non-FTA volumes.

The 6mtpa Jordan Cove project in Oregon has received a conditional non-FTA approval. The 2.5mtpa Elba Island project has been sanctioned by US Kinder Morgan but will be exporting under an FTA approval.

ExxonMobil's 15.6mtpa Golden Pass project in Sabine Pass, Texas, has received Federal Energy Regulatory Commission (FERC) approval but is still awaiting a non-FTA export licence.

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PETRONAS faces Canadian challenges despite approval

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of LNG exports from western Canada, an FID on the project may not be imminent.

"Without a major cost reduction, this project is unlikely to reach FID, or until demand grows again and oil prices reach \$70-80/bbl," he said.

"As the industry continues to address the 'lower for longer' commodity price environment, PETRONAS and its partners have a unique opportunity to conduct a deep project review to bring about a significant cost reduction by increasing project integration, reducing the potential conflict of interest along the value chain, and renegotiating the main engineering, procurement and construction management and key equipment supplier contracts," Steuer said.

The remote terrain of British Columbia also requires Pacific NorthWest LNG to bring feedgas to the project site in Lelu Island, which requires the 900km newbuild pipeline.

LNG export projects in western Canada still face many obstacles including the development of upstream resources without a commercial domestic gas market and the need for long-distance pipelines in environmentally sensitive areas.

A total of 190 conditions have been set by the government that PETRONAS must now pass.

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Blog: Ballast bonuses sink shipping activity

Getting hold of a vessel in the Atlantic at the right price and right time has been more difficult since ship owners started asking for 'ballast bonuses'. A spike in vessel demand two months back allowed owners to start demanding higher daily charter rates and for their fuel and hire to be covered on the return leg of the journey by the charterer - a cost that the ship owner used to bear. The question is what does this mean for LNG trades out of the Atlantic? LNG expert Josie Shillito looks at the mismatch in expectations between ship owners and charterers, and its impact on LNG. [Click here to read her post on the ICIS blog, Energy Connections.](#)