Japan's TEPCO Gears Up for U.S. Shale Gas Imports

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TOKYO (AP) — Tokyo Electric Power Co., operator of the devastated Fukushima Dai-Ichi nuclear power plant, plans to buy liquefied natural gas from the LNG terminal in Cameron Parish, Louisiana, raising expectations Japan will tap into the U.S. shale gas boom.

TEPCO plans to buy 400,000 tons of LNG a year, for 20 years beginning in 2017, from the Cameron project through trading house Mitsui & Co. It expects a similar deal with Mitsubishi Corp. and other deals that would boost its imports by 1.2 million tons a year.

Both deals link the LNG price to the Henry Hub benchmark, at about $3.30 per million metric British thermal units, way lower than what Japan pays for its current gas imports. TEPCO said it was the first time it had set a long-term contract to the lower benchmark.

Japan is keen to cut costs for fuel imports that have surged after most of its nuclear plants were taken offline following the March 2011 accident at Fukushima Dai-Ichi. The cost of most of its LNG imports is linked to crude oil prices, nearly five times the Henry Hub level as of late last year.

A boom in U.S. gas production thanks to hydraulic fracturing — blasting mixtures of water, sand and chemicalsdeep underground to stimulate the release of gas — has taken U.S. prices to 10-year lows. Reduced U.S. demand for LNG from the Middle East, thanks to the increased domestic supply, is freeing up more LNG for Asia, including Japan, which accounts for 30 percent of global consumption.

But resource-scarce Japan's access to U.S. shale gas is limited by restrictions on exports of LNG to countries that have free trade agreements with Washington, which does not include its longtime Asian ally. Tokyo is lobbying for changes in that policy which limit it to buying gas from the Cameron Parish terminal. In the meantime, Japanese trading houses and energy companies are seeking access to LNG from Canada and elsewhere.

The Japanese government which took power in late December, led by the Liberal Democratic Party, appears to be backing away from a commitment by the previous administration to phase out nuclear power. But tighter regulations following the Fukushima accident and public opposition are slowing any moves to bring nuclear plants shut down for safety checks back online.

Soaring imports of oil and gas helped push Japan's trade deficit in 2012 to 6.9 trillion yen ($75 billion). As the largest Japanese electricity company, TEPCO is especially keen to reduce costs for its fuel imports.

It said its facilities, designed to handle so-called "hot" or "rich" LNG, need to be adapted to the type of "lean LNG" — LNG with a low heating value — to be shipped from the Cameron project.

A 10-year plan the company announced earlier calls for importing 10 million metric tons per year of lean LNG, expanding its LNG storage capacity, setting up a specialized LNG receiving terminal and upgrading equipment.

Mitsui and Mitsubishi are targeting 4 million metric tons a year in U.S. LNG exports from the Cameron project, the Nihon Keizai Shimbun newspaper reported.