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Hungarian FGSZ to increase capacity from Austria by 2019

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Hungarian transmission system operator FGSZ plans to increase the firm natural gas transmission capacity available on the HAG pipeline that delivers Austrian gas to Hungary to 14.4 million cubic metres (mcm)/day by 2019, the grid operator told ICIS on Thursday.

Increasing the firm HAG capacity from the current 12.1mcm daily maximum was one of the EU's recommendations in its recent stress test report, which sought to examine the impact of potential future supply disruptions on European countries.

The pipeline from Austria is currently Hungary's sole means of sourcing hub-priced gas, with capacity holders able to ship gas traded at the Austrian virtual trading point. The majority of Hungary's natural gas supply enters the country under a long-term oil-indexed deal with Russia.

Hungarian state-owned oil and gas incumbent MVM is understood to hold around two thirds of HAG capacity due to government legislation.

When asked about another EU recommendation to implement 1mcm/day reverse flows from Croatia using the Hungarian compressor station, an FGSZ spokeswoman said that the company had already initiated such plans some time ago.

"The negotiations are in progress, however the capacity hasn't been finalised yet," she said. The Hungary-Croatia interconnector currently has the capacity to flow up to 7.2mcm/day on a firm basis towards Croatia, but has no firm reverse-flow capability.

The EU report also suggested an investigation into making more use of the Hungary-Romania interconnection, particularly regarding restrictions on Romanian flows towards Hungary.

The spokeswoman said a recent solution to technical issues in Romania that had been preventing physical flows to Hungary could allow flows of up to 240,000 cubic metres/day to resume in December (*see ESGM 28 October*).

She added that further investment would be required to synchronise or increase capacity on the interconnection, with large-scale development required on the Romanian side. **Jake Horslen**

"The negotiations are in progress, however the capacity hasn't been finalised yet"

LNG to drive European gas price volatility - industry

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The European natural gas market is entering a new phase of volatility with LNG an important driver, according to senior industry members.

Participants at the European Autumn Gas Conference, held in London from 28-30 October, pointed to Europe's role as a swing market for global LNG, as this growing sector increasingly connects Europe with other regional gas markets.

"There are some fundamental reasons for us to think that maybe volatility had reached a bottom back in 2013," Edouard Neviaski, CEO of France's GDF SUEZ Trading told ICIS in an interview. "I think what is going to happen with LNG connecting further the three main markets – North America, Europe and Asia – is going to be important for volatility. I also think the de-indexation of gas contracts to oil will bring some volatility too because it means the short-term fundamentals of gas will prevail."

"I believe what we have seen [recently] in terms of volatility is a trend and that the low [volatility is] behind us." Several speakers at the conference agreed with this view.

"Whenever there are supply problems or extreme cold, we'll have much more diverging prices than we've seen in the past," said Matthias Keuchel, general manager of Page 13

FOR THE RECORD

BBG third tank begins cooling

The process of cooling the new third LNG storage tank at the Bahia de Bizkaia (BBG) LNG terminal in Bilbao in Spain began on Thursday 30 October.

"The process of cooling began yesterday, and injections of heel gas [a residual volume of LNG that is essential for the proper working of the tank] will begin next week," a spokeswoman for Basque government energy holding EVE, which has a stake in BBG and speaks on its behalf, said in an update on Friday.

As reported on Thursday, the new 150,000 cubic metre (cbm) tank is expected to enter full operation over the course of November, boosting the plant's storage capacity from 300,000cbm to 450,000cbm. T

LNG to drive European gas price volatility - industry

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Turkish-based Enerjisa Dogal Gaz Company. In parallel with increased volatility, speakers at the conference also expected an overall bearish gas price trend in the longer term. This is based on fundamentals including weak demand, competition from other fuel types and low oil prices.

Price vs supply

On the supply side, global LNG trade is expected to increase in the coming years. The IEA forecasts growth of 40% to reach 450bcm by 2019.

But this will not automatically reach Europe. Price competition from Asia is likely to remain strong, paving the way for price spikes at times of peak short-term demand, according to conference participants.

Spot LNG prices are prone to volatility due to relatively low liquidity – most of the volume in the global market is traded under long-term contracts. Going into winter, prices have been lower this year than last, with the front-month ICIS East Asia Index averaging $14.158/MMBtu through October, compared with $16.836/MMBtu for the equivalent contract and period in 2013.

But one delegate warned against misinterpreting this weaker price.

"It's pretty easy to look at prices and conclude the market is soft but I think we're still in a period of tightness, " said Andrew Walker, global vice president LNG at British upstream company, BG group. "The LNG business does not build supply-side capacity, unlike the oil industry. When times are tight LNG is allocated according to demand side elasticity." **Emma Slawinski**

DAILY OIL SUMMARY

Crude oil futures opened in negative territory and largely traded sideways during the early hours. As Europe opened, both contracts surged into positive territory as the Bank of Japan announced a surprise round of monetary easing to bolster its economy, which pushed the Nikkei higher.

The bullish sentiment was short-lived. There was a slight recovery before becoming range-bound through to the US opening. Another drop took both benchmarks into three-digit losses and down to new lows; this seemed to encourage a bout of pre-weekend/end-month profit taking, which saw a good portion of the lost ground recouped. The upward trend ran out of steam and prices fell sharply, albeit keeping above earlier lows.

Thereafter, prices were range-bound before making a rally in late trading; both benchmarks ended the day posting more losses.

December Brent closed the day down 38 cents/bbl at $85.86/bbl, having traded a range between $84.60/bbl and $86.25/bbl.

December West Texas Intermediate (WTI) closed the day down 58 cents/bbl at $80.54/bbl, having traded a range between $79.55/bbl and $81.27/bbl.