

WORLD GAS INTELLIGENCE®

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DEMAND

Brazil Remains Wedded to LNG Despite Upset

Brazil's gas market liberalization plans were dealt a blow when Petrobras disqualified the sole bidder in a tender to lease its Bahia LNG import terminal in the northeast last month. The state-controlled firm said it rejected the \$130 million offer from Golar Power after an integrity risk assessment that forms part of its corruption prevention program. Golar Power has appealed, but Petrobras has yet to respond. Despite the upset, LNG remains a key part of Brazil's plans to meet growing electricity demand (WGI Jun. 3'20). Imports totaled 2.5 million tons in 2019, up from 1.9 million tons a year earlier, according to the GIIGNL trade group.

The government is trying to loosen Petrobras' grip over gas infrastructure and the 3.8 million ton per year Bahia is one of three import terminals under its control. Ten companies prequalified for the tender for a two-year lease, including Royal Dutch Shell, BP, Repsol, Total, Golar Power and Excelebrate Energy. But only three turned up to the bid meeting, and Golar Power — a 50-50 venture between Norway's Golar LNG and US private equity fund Stonepeak Infrastructure Partners — was the only qualified bidder.

Petrobras made its assessment of the integrity risk after Golar Power CEO Eduardo Antonello was implicated in Brazil's massive Car Wash corruption probe. The investigation, which dates back to 2014, has led to the jailing of two former Brazilian presidents and hundreds of executives and politicians. The allegations stem from Antonello's previous work with Norwegian contractor Seadrill.

Sources expect Petrobras to reissue the tender. "The further you are from the Covid-19 uncertainty and subsequent demand uncertainty, the better prospects you have in getting more players interested in this capacity," says Liliana Diaz, managing director at Washington-based FTI Consulting.

According to the managing partner at Brazil-based consultancy Pysma E&T Consultore, Sylvie D'Apote, the "reason the tender

was a flop lies in the gas sector not the power sector, as interested parties were not able to get confirmation ... on whether they would have access to available transportation capacity and at what price."

D'Apote calls Bahia the "gateway to the Brazilian gas market." It is linked to the national pipeline network — to which third-party access is now permitted — rather than to a specific power plant, so the LNG importer could in theory supply any local gas distribution company and unregulated consumer on the system. But access "has yet to be tested in reality because Petrobras still has contracts for the whole of the transportation capacity," she says.

Over 20 gas-to-power projects have been proposed, of which 10 are still on the drawing board. An auction to buy power from new gas projects was suspended in April because of the pandemic, but could go ahead in early 2021. "Demand for new power generation capacity and competition with other power sources [such as renewables] will determine the success of new LNG-to-power projects in the forthcoming power auctions," D'Apote says.

Two private LNG-to-power projects are in operation — Golar's 1,500 megawatt project in the northeast state of Sergipe and GNA's Port de Acu in Rio de Janeiro state. Golar is also pushing ahead with its Barcarena project in the north, underpinned by a 25-year power purchase agreement awarded in an October 2019 auction.

The electricity auctions are ultimately expected to reduce gas prices in long-term contracts. But for now, domestic prices are higher than LNG prices. "As long as LNG prices remain low, LNG is an appealing proposition for the Brazilian market," Diaz says. "Whoever can buy cheap LNG to be regasified and sold in Brazil now and in the near future will capture the price differential."

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