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Gas Strategies Group

10 Saint Bride Street
London UK
EC4A 4AD

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T: +44(0) 20 7332 9900
W: www.gasstrategies.com
Twitter @GasStrategies

Editorials

+44(0) 20 7332 9957
editor@gasstrategies.com

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Golar hails LNG-to-power win in Brazil auction but low prices freeze out others

An LNG-to-power project backed by Golar LNG has emerged as the only major gas-fired winner in Brazil's latest highly competitive federal power auction, which saw bid prices plunge so low that scores of thermal and renewable schemes vying for power purchase agreements (PPAs) were left out of the money.

Golar Power, a 50:50 joint venture between Golar LNG and Stonepeak Infrastructure Partners, won a 25-year PPA for its 605 MW combined cycle thermal power plant at the 2019 A-6 new energy auction held on Friday by Brazil's power regulator ANEEL.

The project is located in Barcarena in Brazil's northern Pará state, where Golar Power anticipates accelerating investment in a new LNG terminal at the Port of Vila do Conde to feed gas to the generator.

Golar Power will operate the terminal and provide a floating storage and regasification unit (FSRU) for 25 years. The terminal is slated for a final investment decision in H1'20 and to start operations in mid-2021, several years ahead of the power plant, which is contractually due online from 1 January 2025.

The terminal will serve as a "strategic entry point" to northern Brazil. It will be used as a hub to distribute LNG and supply natural gas for electricity generation, commercial and industrial customers, transportation and bunkering "well in advance of the power project commencement," Golar said yesterday.

Golar Power CEO Eduardo Antonello said he hopes Barcarena will "displace very large volumes of diesel, coal, LPG and heavy fuel oil (HFO) consumption with cheaper LNG".

The LNG-to-power project will be developed by Centrais Elétricas Barcarena S/A (CELBA), a special purpose company 50% controlled by Golar Power, and will feature "modern H-Class gas turbines".

Power will be distributed to the Brazilian grid through the existing Vila do Conde substation located nearby. Total investments for the power project are estimated at USD 430 million, with Golar LNG to stump up USD 107 million, to be funded through debt and equity over 2022-25.

The PPA was awarded to a pool of nine power distributors and is expected to generate fixed annual revenues of USD 174 million over 25 years. Payments are inflation-indexed and provide for pass-through of fuel costs to the PPA counterparties.

Barcarena will be Golar's second LNG-to-power project in Brazil. The company reached financial close on its 1.5 GW Porto de Sergipe LNG-to-power project in Sergipe in April 2018.

Race to the bottom

The Barcarena PPA cleared at a price of BRL 189/MWh (USD 45.77/MWh) after fierce bidding in the A-6 reverse price auction. Two smaller gas-fired power plants of 37 MW and 92 MW, as well as six biomass

generators totaling 230 MW, cleared at similar prices.

It appears that most gas-fired projects were unable to compete at these prices. A total of 52 gas-fired power projects with an aggregate installed capacity of almost 42 GW registered to participate but failed to secure PPAs.

Bidding was even more competitive for wind farms and solar PV arrays. For these sources, the clearing prices averaged BRL 98.89/MWh and BRL 84,39/MWh (USD 23.98/MWh and USD 20.22/MWh), prompting Brazil's energy secretary Reive Barros to tell local reporters that "today we are celebrating".

In total, the A-6 auction – which procures power six years in advance – contracted 2.9 GW of capacity, split across wind (1.04 GW), solar PV (530 MW), gas-fired (734 MW), mini-hydro (254 MW), conventional hydro (14 MW) and biomass (99 MW).

"Energy market analysts until yesterday [the day before the auction] were estimating a much smaller volume [would be contracted]. We procured a volume that was two or three times the amount forecast," Barros was quoted as saying.

ANEEL director Elisa Bastos hailed the result as "very successful for the market and beneficial to Brazilian consumers".

However, most projects were left high and dry. Across all technologies, a total of 1,829 projects with an aggregate total capacity of more than 11 GW registered to bid, almost all of which left empty-handed. - SK



Consulting

+44 (0) 20 7332 9900
consult@gasstrategies.com



Alphatania Training

+44 (0) 20 7332 9910
training@gasstrategies.com



Information Services

+44 (0) 20 7332 9976
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