POTEN & PARTNERS

November
2021

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LNG in World Markets

PV Gas Stands by LNG Plans Despite Headwinds

Vietnam's PV Gas will stick to LNG imports to offset falling domestic gas output, despite unfavorable market conditions for buyers and regulatory obstacles that hinder downstream development and domestic-foreign market alignment.

Two of its state-backed terminals have advanced LNG import plans. The PV Gas and AES Corp. joint venture firm sought term LNG supply for its proposed Son My LNG-to-power project via a limited participation tender in November, although tight global supply, credit and operational risks, lack of downstream power customers and a request for interim floating facilities could hinder negotiations (see LNGWM, Sep '21).

PV Gas said in November that Vietnam will start importing LNG in 3Q 2022, via the Thi Vai regasification terminal that is now approximately 90% complete. The state-run firm reiterated its commitment to make LNG imports into Vietnam happen, saying it will take the lead in developing the necessary infrastructure, commercial arrangements, and downstream markets.

PV Gas, AES eye term LNG for Son My terminal

The PV Gas and AES joint venture is looking for around 1.5 MMt/y of LNG for its Son My LNG-to-power project in southeastern Binh Thuan province, with the first cargo to be delivered in 2026. It is not seeking a volume ramp-up for the contract. The firm is flexible about duration and pricing, which suppliers should propose in their offer submissions.

LNG will be supplied to the Son My 1 and 2 gas-fired power plants, which will have combined generation capacity of 3 GW when operating optimally. The plants will produce at around half that capacity in the initial phase. The 2.2 GW Son My 2 plant will start production in 2026, ahead of Son My 1.

The joint venture firm is also seeking a floating storage and regasification unit (FSRU) or a floating regasification unit (FRU) and floating storage unit (FSU) hybrid, although tender participants have the option to submit only LNG supply offers. The FSRU or FRU-FSU facility must be moored at the Son My project location for around 12-18 months. The company is pursuing a temporary floating import option as the Son My 2 plant is expected to be completed and ready for start-up ahead of a planned 3.6-MMt/y onshore regasification terminal.

The PV Gas-AES limited participation tender closed for submission in the first half of November, with offers valid for 180 days. A small number of portfolio firms and producers were invited to participate, including Qatargas and Malaysia's Petronas.

Tender interest is expected to be tepid, market sources say. The Son My project has yet to secure power purchase agreements (PPAs) with state-run utility Vietnam Electricity (EVN) to underpin LNG demand.

The PV Gas-AES joint venture firm likely plans to use the offers received in the tender to negotiate power deals with EVN, according to market sources.

The floating solution requirement is also a deterrent, as FSRU and FRU-FSU providers are less keen on short-term charters. And there remains regulatory uncertainty over FSRU facilities in Vietnam – it is unclear if an FSRU will be classified as a port or a vessel in Vietnam, which would affect licensing and approval processes.

The lengthy six-month bid validity period is unpopular among suppliers too, amid current bullish LNG markets and price volatility. Tight global LNG supply is increasingly expected until in the near to medium term, which should support LNG offers received in the tender.

Market participants will consider credit and operational risks, when mulling interest in the Son My tender. AES has experience running power plants in Vietnam and has been operating the 1.15 GW Mong Duong 2 coal-fired facility in northeastern Vietnam's Quang Ninh province since 2010. It also has expertise in LNG-to-power projects in Central America and the Caribbean, but there is no precedence for LNG imports and LNG-to-power project management in Vietnam

Vietnam Gas Infrastructure

Thi Vai terminal on track for 3Q 2022 start

The 1 MMt/y Thi Vai import terminal in southern Vietnam's Ba Ria-Vung Tau province is on track to start next year, operator PV Gas said in November. Terminal capacity can rise to 3 MMt/y in subsequent phases.

The firm is heard to be seeking a commissioning LNG cargo for Thi Vai in 3Q 2022. It issued a term sheet in June for 400,000 t/y of LNG delivering over five years starting 3Q 2022 which was to be supplied to downstream industrial customers (see LNGWM, Jun ’21). But no contract was heard awarded.

PV Gas will focus on developing short- and medium-term LNG import sources for Vietnam. The firm has established six master sale and purchase agreement (MSPA) frameworks so far. A mid-sized LNG buyer can have up to dozens of MSPAs secured, industry sources say.

PV Gas also pledged to improve and optimize Vietnam’s gas and LNG infrastructure and increase pipeline connectivity countrywide. It plans to import LNG via three main hubs – Thi Vai in the south, Son My further north, and a terminal in the north, near Quang Ninh or Thanh Hoa provinces. The state firm will also develop the country’s gas and LNG market through building appropriate price mechanisms and growing downstream LNG customers.

The Vietnamese national assembly passed a resolution in December 2020 that said specialized energy state-owned enterprises like PV Gas and parent firm Petrovietnam should take a lead role in developing near-term gas and LNG markets. The Vietnamese government sees LNG as a key bridging fuel in the country’s transition to sustainable energy (see LNGWM, Sep ’21).

Longstanding hurdles hinder LNG imports

While Vietnam is a strategic market that could offer significant first-mover advantage for LNG suppliers, the country needs to develop more associated facilities and boost pipeline connectivity to the downstream.

On the commercial front, there remains a misalignment between regulated wholesale gas prices within Vietnam and global LNG market prices – a gap that is set to stay wide given forecasts of a strong LNG market in the next few years. LNG suppliers may also price in credit and operational risk premiums for sales into Vietnam. This makes the bulk of LNG imports uneconomical as importers cannot transfer costs to the downstream effectively. Market reforms will be key in bridging this gap.

For foreign investors, there is uncertainty on the regulatory front. Legislative changes on build, operate and transfer (BOT) projects and public-private partnerships (PPPs) that took effect in January 2021 will affect LNG projects, although how they play out is yet to be seen. BOT projects and PPPs are key models for foreign energy and power investments into Vietnam and much of Southeast Asia, including LNG-to-power projects. Close to a dozen LNG import projects have been proposed in Vietnam – excluding Thi Vai and Son My – nearly all of which involve foreign firms from countries like the US and Japan.

The regulatory changes place tougher restrictions on investors looking to enter BOT and PPP power projects. One key change involves a significant shift of risk to PPAs – typically signed with EVN – from the BOT contract, meaning BOT project stakeholders must negotiate harder for a bankable PPA as it cannot fall back as much on the BOT contract. The tougher restrictions and shift in risk allocation subject BOT projects to similar conditions faced by independent power providers.

The lack of precedence for LNG imports and LNG-to-power projects adds to uncertainty. While Vietnam has successfully developed coal-to-power projects, LNG-to-power projects may not follow the same path.