



## LNG in World Markets

### Woodside Puts Viva Energy Ahead in Import Race

Viva Energy has signed an LNG supply and regasification pact with Woodside, giving its plan to develop a floating storage and regasification unit (FSRU) in Australia a head-start over rival projects. Woodside will extract significant value from the deal, too. While the Viva Energy-Woodside collaboration is seen as a setback for other proposed Australian FSRU projects, some could still progress, industry sources said.

Woodside and Australia-based Viva Energy signed the memorandum of understanding (MOU) in December, which provides the framework and terms for talks between both parties. Woodside will negotiate binding regasification capacity rights at the planned Viva Energy FSRU at Geelong in Victoria state. The import project is viewed by Woodside as the most advanced in east coast Australia and a suitable home for its LNG volumes.

The regasification capacity agreements will be executed upon approval from both companies. They are also subject to a final investment decision on the Viva Energy FSRU, which is targeted in 3Q 2022 pending regulatory approvals. Woodside will work exclusively with Viva Energy, “in relation to LNG regasification terminals in southeast Australia,” Viva Energy said.

Viva Energy is developing the Geelong, Victoria FSRU with two joint venture firms – one between Engie and Mitsui and the other between Vitol and Dutch storage provider VTTI. Vitol owns a 45% stake in VTTI, along with IFM Investors (45%) and Adnoc (10%).

Viva Energy also said in December that it has signed a heads-of-agreement (HOA) with Hoegh LNG for an FSRU vessel. They will negotiate a binding time charter party (TCP) agreement, the terms of which Viva Energy expects to finalize in the coming months.

#### Value for Woodside, Viva Energy

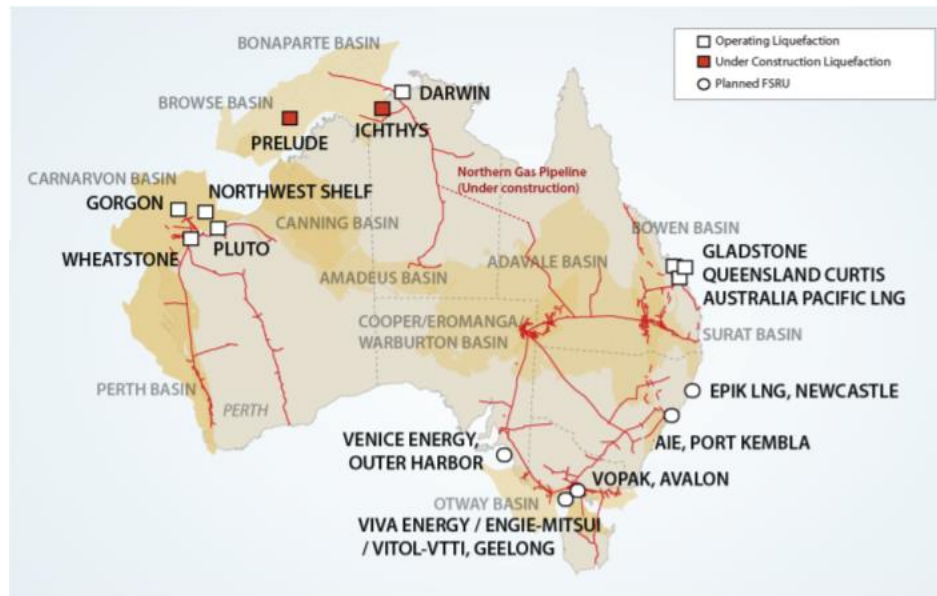
Viva Energy’s collaboration is expected to benefit both firms. Woodside’s support means Viva Energy is the closest among Australian FSRU developers to securing LNG supply. The other projects have yet to land LNG volumes, mainly due to lack of downstream contracts and regulatory approvals.

Access to Viva Energy’s terminal will also create synergies for Woodside, as it is poised to take over BHP’s sizeable upstream and commercial gas assets in Bass Strait, Gippsland and Victoria after the firms merged their oil and gas portfolios. LNG regasification access will allow Woodside to monetize its assets across multiple commercial structures.

Australia’s maritime cabotage laws, however, could restrict Woodside from using much of its LNG portfolio for Viva Energy supply. The cabotage laws do not allow foreign-flagged ships to move between ports in the country, a legacy rule that was meant to protect the domestic shipping sector. This means a locally-flagged LNG vessel must be used to deliver LNG cargoes from Western Australia – which accounts

for much of Woodside's portfolio – to the Viva Energy FSRU. But there are very few, if any, LNG vessels that are Australia-flagged.

### Australia's Planned FSRUs



Woodside, however, will likely manage the issue through cargo swap arrangements with nearby LNG plants like ExxonMobil's Papua New Guinea LNG, market and industry sources said. Its non-Australian LNG supply portfolio is also poised for growth – it is already taking some 850,000 t/y of volumes from Corpus Christi via a 20-year contract that started in 2020. Woodside may also lobby the Australian government to set up special bonded trade zones that allow foreign-flagged vessels for local LNG deliveries. There have also been discussions with the relevant authorities to consider waiving the cabotage rule for a fixed number of shipments a year for domestic LNG supply.

Questions have emerged on why Viva Energy FSRU project partners Engie, Mitsui and Vitol were not tapped for LNG supply. Viva Energy could make more announcements in due course, but for now, Woodside is seen as a stronger supplier as it owns and operates multiple LNG production assets.

### Competition from multiple projects

At least five FSRU projects have been proposed for Australia, as the country eyes LNG deliveries to replace declining domestic gas supply, particularly in the Gippsland and Bass Strait basin in Victoria. A gas shortfall is expected in southern and eastern Australia from the mid-2020s, with some forecasting a deficit in Victoria from as early as 2023. LNG deliveries will also support Australia's transition to lower-carbon energy.

AGL Energy, which has a third of the nation's gas demand, told parties earlier this year involved in its Crib Point LNG import terminal to cease all work related to the project, after being rejected by the Victorian government on environmental grounds. AGL Energy could either cooperate with other proposed LNG import projects for capacity offtake or sign domestic gas supply contracts. AGL could provide the additional demand required to get the other proposed terminals including AIE and Viva Energy off the ground.

Crib Point has access to the biggest pipeline connecting the states of Victoria and NSW and would have sufficient capacity to make up for the regional gas supply shortfall from 2023 onwards. However, Crib Point failed to receive environmental approvals and did not have the local support needed to get it across the line, despite being an existing industrial site for petroleum imports.

### **Market not writing off AIE project**

Progress in Viva Energy's FSRU plans has dimmed the prospects of other projects in Australia. The country is expected to have scope for at most two terminals in the southeastern states of Victoria and New South Wales.

A proposed FSRU by Australian Industrial Energy (AIE) is seen as Viva Energy's biggest competitor but has struggled to land LNG supply and downstream gas sales. AIE was in talks with Origin Energy for a 40 PJ/y (760,000 t/y) LNG tolling agreement at the planned FSRU at Port Kembla in New South Wales, but talks have stalled since early 2020.

The deal became uneconomical for Origin Energy after AIE revised cost estimates. Origin Energy has since announced a four-year gas deal with Australia-Pacific LNG starting 2022 and a three-year pipeline capacity agreement with operator APA Group starting 2023, suggesting it may not require LNG imports in the near term.

AIE has a 15 PJ/y, five-year deal with Energy Australia, but there has been little progress made towards a final sales and purchase contract.

Some market sources, however, believe the AIE project still has value. The project has obtained the required environmental approval and building of associated facilities has commenced, which AIE is committed to complete. AIE's FSRU will also have green hydrogen import capability and Port Kembla has access to key infrastructure.

AIE may also face severe penalties from its contracts if the project does not meet certain timelines, such as losing the FSRU. As shipping rates have since risen significantly from the time it signed with Hoegh LNG, it would be beneficial for AIE to move ahead with the construction to keep the FSRU. Hoegh LNG has also signed up to provide an FSRU for the AIE project. It nominated the Hoegh Galleon for AIE but has the option to provide an alternative vessel if necessary.

Flow on the key 310TJ Eastern Gas Pipeline (EGP) is currently unidirectional from Victoria to New South Wales, which makes Victoria a better location for an LNG terminal as it can serve markets in both states. This, however, could change. If the economics of turning the EGP bidirectional work, an LNG terminal like AIE in New South Wales would be geographically superior to one in Victoria. It would allow gas to be delivered not just to Victoria but to other Australian markets in Queensland state over shorter pipelines, incurring lower pipeline toll payments.

AIE is a wholly owned subsidiary of Squadron Energy, the dedicated energy division of conglomerate Tattarang Group that is owned by Australian billionaire Andrew Forrest.