El Salvador's LNG-to-power to make strides in H1 2018

Chris Noon / Barcelona

The Central American country is not banking on cheap supplies from the United States or Henry Hub-indexed fuel for its LNG-to-power project.

THE COMPANY BEHIND El Salvador's new LNG-to-power project is expecting to choose an FSRU supplier in Q1 2018 before finalising financing in Q2 2018, Alejandro Alle, executive director of Energía del Pacífico (EDP), has said.

The regasification terminal is on track to begin operations in late 2020, Alle confirmed to participants during a webinar organised by the San Diego-based Institute of the Americas.

Shell will supply the terminal with LNG, which will be indexed to Brent crude rather than the Henry Hub benchmark, said Alle. "This is a financial [power-purchase agreement: PPA], so we will have to compete with [El Salvador's] existing power plants that [use] heavy fuel oil."

Financial PPAs are slightly different to direct PPAs because generators sell power directly to the grid and receive the market price rather than a fixed contract price. Power producers compensate offtakers when the agreed PPA price falls below the market price, and vice versa.

EDP sees less risk in LNG indexed to Brent because it means the final LNG price is usually a percentage of the oil benchmark price and has some relation to heavy fuel oil prices, Alle said. Henry Hub prices are generally unrelated to heavy fuel oil prices and therefore Henry Hub-indexed LNG involves additional costs such as regasification and transport, he added. "To be competitive, we had to choose Brent," he said.

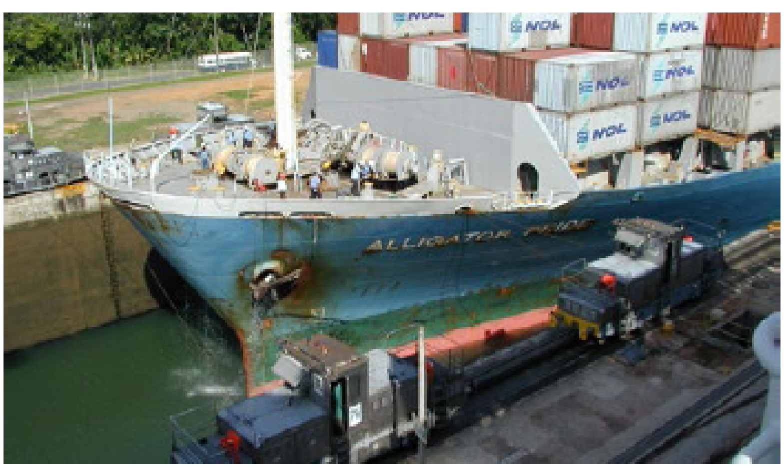
El Salvador appears to be betting on low oil prices in the long term. LNG exports from the US Gulf Coast to Central America and the Caribbean appear to be generally attractive compared with fuel oil and diesel, said consultancy McKinsey earlier this month.

Alle warned that El Salvador – part of Central America's so-called 'Northern Triangle', which includes Guatemala and Honduras – should not bank on the prospect of cheap North American gas supplied via pipeline.

Mexico's state-run Pemex has proposed building a 600-km pipeline from Mexico to neighbouring Guatemala. However, the project looks unlikely to be realised any time soon.

"My first time in Central America was 20 years ago [in 1997], when my bosses sent me to Guatemala to the meet the minister of energy to discuss a Mexico-Guatemala pipeline," said Alle. "There is [still] no pipeline," he added.

The manager said that the El Salvadoran authorities had never received a firm proposal to buy gas from Mexico. "Today we cannot consider the option because it doesn't exist," he added.



The Panama Canal, the quickest supply route to El Salvador for US LNG. (SXC)

Power-purchase agreements

LNG arriving at El Salvador's terminal will feed a 355 MW gas-to-power plant, for which EDP has signed 20-year PPAs with seven local distribution companies for offtake. Four local units controlled by AES Corp. have offtake agreements for 74% of the plant's power.

Shell will source volumes for the terminal from its global LNG portfolio rather than a single location, Alle confirmed to *Interfax Natural Gas Daily*. "[LNG] sourcing is not necessarily from the US – remember that we are on the Pacific [Coast]. Shell is a portfolio supplier and will decide [with] every vessel where it comes from," said Alle.

Shell was chosen as the LNG supplier to the Acajutla terminal in a 2015 tender, and signed a sales-and-purchase agreement in April.

It would take an LNG tanker nearly five days to sail from the Sabine Pass LNG plant on the US Gulf Coast to Acajutla via the Panama Canal, but around 24 days via the Strait of Magellan at the southernmost tip of South America. El Salvador's closest Pacific Basin LNG supplier is Peru, where the sailing time is 4-5 days.

El Salvador's terminal will import around seven cargoes per year, equivalent to around 500,000 tons of LNG, Alle said during the webinar.

EDP needs to build a subsea-to-onshore gas pipeline from the FSRU to the power plant, and a 44-km transmission line from Acajutla to Ahuachapan, where it will hook up with El Salvador's main grid.

Alle said that it was "a question of a few weeks" for EDP to obtain final permits related to the FSRU and transmission line. ■

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