# Canaport: LNG Euro-style

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Canaport LNG closed the $756 million debt facility for a New Brunswick regasification terminal on 20 November. The project is notable as Irving Oil's first project financing and first LNG project, and Repsol's first LNG project in North America. Moreover, the bank facility achieved the longest tenor and lowest pricing for an oil and gas project financing in the North American market to date. And Canaport LNG will be the first new liquefied natural gas receiving terminal on North America's East Coast in over 30 years.

The debt will be used to finance the design, development, construction, operation, maintenance and decommissioning of an LNG regasification terminal, at least two storage tanks and a jetty, in Saint John, New Brunswick. Canaport's capacity is fully contracted under a 25-year terminal services agreement with Repsol subsidiary, Repsol Energy Canada (REC). REC has transportation capacity in the Brunswick pipeline to take the gas from the terminal to the US border. Repsol Energy North America has transportation capacity to take the gas form the Canada-US border to the marketplace in New England.

Repsol YPF is the project's majority owner (75%) and Irving the minority owner (25%). Irving owns a 275,000bpd refinery in St. John, with an oil receiving terminal with capacity for that type of plant. "This refinery is successful because it has logistical advantages for its location relative to the US north-east and to the supply of feedstock" says John Mulligan of Irving Oil. "It was evident that this logistical advantage could be used for other projects, and LNG was an obvious choice – St. John is a relatively underpopulated, small port city. The permitting was straightforward and we received public support. We started looking around for potential partners and approached Repsol in early 2004."

Repsol decided it could build a pipeline from the project to the US border and thus make it attractive to LNG suppliers. The project agreement was signed in June 2005 and Canaport LNG was formed. "We saw there was a need in the north-east for additional gas supply" says Phil Ribbeck, director of LNG for North America at Repsol, "both the FERC (Federal Energy Regulatory Commission) and the local regulators for the state of New England were calling for additional supplies to be developed. Lots of projects were being opposed by politicians but Canaport was being welcomed by local leadership".

The total project cost was roughly $1.08 billion, of which $756 million was provided through a single facility construction and term loan, led by club banks Banco Santander, BBVA, Royal Bank of Scotland, La Caixa and BMO. The construction loan becomes a term loan post-completion. The debt has a 27-year maturity and low pricing, below 100bp over Libor and stepping up over time. The amortisation is sculpted in quarterly instalments, beginning six months after the start of the availability period. Citigroup was financial adviser on the transaction.

Only institutions which had relationships with the sponsors were invited to submit proposals, and the offers were very competitive. "When we started the advisory process we thought the debt would most likely come from the bond market because of the long length of the project revenue contract", says Erik Codrington, director at Citigroup Global Markets, "as it turns out the banks were more aggressive than the bond market, and they were willing to go just as long and the pricing was the same if not better. With the project's capacity fully contracted under a 25-year terminal services agreement with Repsol Energy Canada, the project was able to tap into the European market for very strong offers".

The pricing reflects a deal that is of investment grade quality but is non-recourse, and there are no completion guarantees offered by the sponsors The project has signed fixed-price turnkey contracts with both the offshore and onshore contractors.

Syndication is expected mid-January 2007, and will likely be targeted. "The five banks are very comfortable with holding the transaction on their own, which is why there was no rush in placing the transaction in the market" says Javier Sanz, director at Repsol, "there's a lot of appetite for these assets and it received a lot of interest."

Construction began in October 2005 in two parts – onshore construction is being carried out by a consortium consisting of SNC-Lavalin and Saipem affiliate CENMC Canada, and offshore construction of a jetty is being carried out by Peter Kiewit, Weeks Marine and Sandwell Engineering. The process is being managed by Canaport LNG with Foster Wheeler as the engineer.

Construction is ahead of schedule and expected to be complete by the end of 2008. Initial capacity will be 1 billion cubic feet per day (cfpd), with space on the site for up to five additional tanks and up to 2.5 billion cfpd of vaporisation. The timeline for future development as being dependent on how demand will grow in the North East for the project. Both Irving and Repsol believe that Atlantic Canada's market could grow to up to 250 million cfpd. "I would believe by 2010 – 2012 the markets will need additional gas supplies and we would be in a position to supply that" says Repsol's Ribbeck.

**Canaport LNG**
**Status:** Closed 20 November
**Size:** $1.1 billion
**Debt:** $756 million
**Location:** St. John, New Brunswick
**Description:** 1 billion cubic feet per day LNG regas terminal
**Sponsors:** Repsol YPF and Irving Oil
**Lead Arrangers:** Banco Santander, BBVA, BMO, La Caixa and Royal Bank of Scotland
**Financial Adviser:** Citigroup
**Market Consultant:** Wood Mackenzie
**Independent engineer:** Purvin & Gertz
**Legal counsel to sponsors:** Linklaters, McDermott Will & Emery for Irving, Bennett Jones for Repsol
**Legal counsel to lenders:** Shearman & Sterling
**Insurance:** Moore-McNeil