North American Downstream Oil & Gas Deal of the Year 2013: Vantage Pipeline

14/03/2014

The $240 million term B loan financing for the Vantage ethane pipeline is the first time the leveraged loan market has financed a greenfield pipeline project. Vantage and its financing are a response to changed conditions in western Canadas petrochemicals market. NOVA and Dow, by far the largest producers in the province of Alberta, enjoy access to low-cost locally-produced ethane. NOVAs Joffre complex produces 6 billion pounds of ethylene and 2 billion pounds of polyethylene per year.

NOVA was a near-casualty of the 2008 financial crisis. It had struggled to roll over its corporate debt in the face of weak margins, and is now a subsidiary of Abu Dhabis International Petroleum Investment Company. NOVA still carries a below investment grade rating, though it has taken steps since the 2009 acquisition to strengthen its balance sheet.

Looming supply shortages meant that NOVA would need to diversify its sources of ethane supply to outside Alberta. Mistral Energy in 2010 proposed building a 711km pipeline to carry ethane from North Dakota to the Alberta Ethane Gathering System. North Dakotas oil producers lack the ability to capture market prices for their ethane, which cannot be shipped by tanker or barge. NOVA agreed outline terms on a supply agreement with Hess Corporation, which is expanding a gas processing plant in Tioga, North Dakota, and a transportation agreement with Mistral, in mid-2010.

NOVA buys ethane from Hess at the Tioga plant, and will pay the Vantage pipeline to carry the ethane to Empress. It will also operate the pipeline. NOVA and the two project companies for Vantage one for the Canadian section and one for the US leg signed the 10-year transportation agreement on 31 January 2010.

Mistral had already lined up Riverstone Holdings as an equity provider, and Riverstone had committed to provide equity funding for the pipelines entire $350 million cost if necessary. The biggest challenges for the sponsors were structuring a financing around the commercial contracts that underpinned the project and reassuring investors that that construction risk, completion risk and operating risk were manageable. The sponsors would have to obtain all of their permits before the financing could close.

In both Canada and the US scrutiny of energy infrastructure projects has increased in recent years. Each jurisdiction has its specific points of focus when reviewing development applications National Energy Board approval for the Canadian portion of the project came down in early 2012, the US Department of State approved the American segment in the middle of 2013.

The NOVA contract is take-or-pay, and features no volume risk. But lenders needed

Vantage Pipeline Canada ULC and Vantage Pipeline US LP

Status

Closed 22 August 2013

Size

$349.5 million

Description

711km ethane pipeline running from North Dakota to Alberta

Sponsors

Riverstone Holdings, Mistral Energy

Equity

$125.4 million

Debt

$240 million, of which $15 million is undrawn working capital

Lead arrangers

RBC and TD

Sponsors legal advisers

Latham & Watkins (US); Norton Rose Fulbright (Canada)

Lenders legal advisers

Simpson Thacher & Bartlett (US); Blake Cassels & Graydon (Canada)

Market and technical consultant

Purvin & Gertz

Independent Engineer

Leidos

EPC contractors

M & N Construction; Arnett & Burgess Oilfield Construction;

All content © Copyright 2025 IJGlobal, all rights reserved.

reassurance that continued financial weakness or new domestic discoveries would not encourage NOVA to reject its transportation agreement. Lenders benefited from Riverstones willingness to back the financing with a big equity cheque, and limited remaining construction.

The financing launched with initial pricing of 375bp over Libor, with a 1% original issue discount and 1% Libor floor. Lead arrangers RBC and TD were able, however, to tighten pricing to 350bp. The final debt package consisted of a $225 million seven-year term loan and $15 million working capital facility. Around 40 institutions wrote tickets of between $1 million and $15 million. The sponsors are using an interest rate cap to manage their exposure to interest rate risk, and executed the cap two months after the 22 August 2013 closing on the financing.

Kelsey Pipelines; Michels Corporation; Pyramid Corporation

Operations and maintenance contractor

NOVA Chemicals

Sponsors insurance adviser

AON

Lenders insurance adviser

Moore-McNeil

Mistral and Riverstone are using contracts with five different providers to build the pipeline rather than a single expensive turnkey contract. The project was complete in January, and NOVA is making transportation payments, though bad weather has delayed Hess Tioga expansion, so the pipeline is currently carrying nitrogen. According to Bob Pritchard, Mistrals chief financial officer, it would be relatively straightforward and cheap to expand Vantages 40,000 barrels-per-day capacity to 60,000.

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

*If you have been given this article by a subscriber, you can contact us through **www.ijglobal.com/sign-in**, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*

All content © Copyright 2025 IJGlobal, all rights reserved.