Egyptian LNG Train One

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The Egyptian LNG (ELNG) Train One is a US$1,118 million project under construction in the Simian Sienna fields in the West Delta Deep Marine (WDDM) concession, 50km east of Alexandria in Idku, Egypt.

The 3.6 million tonnes per annum (mtpa) liquefaction plant – which achieved financial close 29 April 2004 – is due to commence deliveries to Gaz de France under a 20-year, US$8 billion PSA by the end of 2005.

The ELNG project also involves the construction of Train 2; a second 3.6 mtpa liquefaction plant which will also be project financed and when complete in 2006 will supply gas to the US and Italy.

Background and Rationale

Stephen Craen – managing director of project finance at told IJ: ‘Gaz de France was looking for political diversification and security of supply. Egypt is not a long sail from France and the deal will enable GdF to negotiate prices with, and not totally really on, supply from the likes of Russia and Algeria.’

With an eager buyer in the wings and experienced operator (BG) already embedded in the WDDM, the Egyptian government decided to make the most of its most valuable asset.

To achieve this two obstacles had to be overcome. The first was to devise a way in which the site could be expanded without causing conflicts of interest between different sponsors.

The site can accommodate six LNG trains and to ensure cooperation, the downstream LNG plant has a multi-company structure consisting of ‘Train companies’, each of which will fund, construct and own individual LNG trains and has a right to common facilities owned by ELNG.

This structure permits each Train company to have different shareholders and lenders thereby reducing their exposure to each other. This, it is envisaged, will simplify the expansion of the LNG plant to accommodate further trains.

The second obstacle to development was the ability of the project to attract the required investors. The securing of an EIB loan injected much needed confidence into the project, and as is explained below, led to a stampede of willing investors.

Three key stages preceded the project’s development:

In August 2002, BG and its partners – at this stage Gaz de France were only anticipated to become partners – issued invitations to tender for the upstream EPC contract for production of the gas to supply the liquefaction plant In September 2002, an invitation to lenders to project finance the construction of the ELNG plant Train One and common facilities was issued In October 2002, BG and its partners announced that the LNG Sale and Purchase Agreement (SPA) for the sale of the entire output of ELNG Train One had been signed with Gaz de France

The Project

The project is operated by the Egyptian Operating Company for Natural Gas Liquefaction Projects and is sponsored by the Egyptian General Petroleum Corporation (EGPC), the Egyptian Natural Gas Holding Company (EGAS), BG, Petroliam Nasional Berhad (Petronas) and Gaz de France (GdF).

%

BG Asia Pacific Holdings 35.5 Petronas 35.5 EGAS 12 EGPC 12 GdF 5

The first gas discoveries in the WDDM were made in 1999 and by May 2002, Bechtel – the EPC contractor – had started work on the site. The rapid turn around put the ELNG project in the spotlight as one of the fastest developed in the industry.

Train One and Two (construction of which is also well under way) will use Optimised Cascade liquefaction technology.

Financing

Excluding the upstream project – which is 100 per cent equity funded – the debt to equity ratio is 85:15 – which, to date, is the highest such ratio on a greenfield LNG project.

The debt facilities were spilt into two groups. The first of which acted as a catalyst to the second: Initially, US$795 million was raised via the European Investment Bank (EIB). The loan consisted of:

US$418million international loan facility US$189 million EIB Article 18 loan guarantee facility US$189 million EIB Euromed loan guarantee facility.

The EIB loan is its largest lending outside of the EU, and the subject of Egypt’s biggest corporate debt financing.

Prior to the EIB’s offer, a mixture of bureaucratic obstacles and the effects of a five-year recession, had led lenders to steer clear of Egypt, but, its decision to lend US$795 million acted as a catalyst for the international banking community to become involved in the project.

The second facility was a US$154 million loan for which the mandated lead arrangers were ANZ Investment Bank, Arab Petroleum Investments Corporation, Bayerische Landesbank, the Bank of Tokyo-Mitsubishi, Credit Lyonnais, HSBC, Banca Intesa, Royal Bank of Canada, Royal Bank of Scotland, Sanpaolo IMI, Societe General and WestLB.

The Egyptian mandated lead arrangers were: Commercial International Bank (Egypt), Misr Intrnational Bank and National Societe Generale Bank.

The international loan tenor is 15 years and the Egyptian loan tenor is 12 years. The two EIB loans have tenors of 23 years and are supported by guarantee facilities with tenors of 12 and 15 years.

Risks Analysis

Train One is the first use of a bankable tolling agreement for an LNG plant in the region. Under this structure the project company will perform a gas liquefaction service for the upstream gas sellers who shall only be obliged to pay for the service to the extent that they have been paid by GdF.

This structure has enabled the agreed commercial risk and revenue allocation among the sponsors to be implemented and allowed the project to be financed without the sponsors being required to grant any security over upstream assets other than over the SPA.

Unusually for an LNG sales contract associated with a project financing, the SPA does not provide for any dedication by the buyer of specific tankers or LNG receiving facilities to service the contract. This will allow GDF to have much greater flexibility than is typically expected on a project financed LNG deal to manage its fleet and downstream infrastructure.

The contractual and financing structure of the project was designed to facilitate the addition of new liquefaction trains which will use the common storage, loading and marine facilities of the existing trains. This flexible structure is ground-breaking, and is likely to serve as a precedent for similar future developments.

The project is the first major project financing to utilise the political risk cover available from the EIB as part of its Euromed facility and, unusually for greenfield LNG projects in the region, this cover is only in respect of 22.5 per cent of the international banks' exposure to the project at completion. In addition, the financing has been achieved without the participation of export credit agencies, i.e., international banks have accepted significant exposure to Egypt.

The project also represents the first use of tolling arrangements for an LNG plant in the region. The sponsors of the upstream development pay the OpCo a fee to convert their gas into LNG and it is the sponsors who then sell the LNG to Gaz de France. This has enabled the project to be financed without the sponsors being required to grant security to lenders over upstream assets.

Conclusion

Due to the Train One project and the continued development of Train 2, Egypt is set to become the world's seventh largest exporter of LNG by 2006, which, against the background of regional destabilisation caused by the Iraq war and the aftermath of 11 September, is a major achievement. Despite these challenges, the time taken to develop and finance the project is less than for any other Middle Eastern LNG project.

Matthew Vickerstaff, head of infrastructure at SG told IJ: 'The degree of syndication is a major indicator as to the success of Train One. ELNG also showed the world that Egyptian banks possess significant liquidity, a factor that will undoubtedly attract investors to the region.'

ELNG Train One at glance

Project Name	Egyptian LNG Train One
Borrower	El Behera Gas Liquefaction Company
Location	Idku, Egypt (50km east of Alexandria)
Project Description	The Egyptian LNG project consists of the development of substantial gas reserves in the West Delta Marine Concession area and the construction and US$950 million project financing of a 3.6 million tonne per annum LNG liquefaction Plant.
SPONSORS (Name, %)	BG Group 35.5% Petronas 35.5% EGPC 12% EGAS 12% GdF 5%
Operator	The Egyptian Operating Company for Natural Gas Liquefaction Projects
Epc Contractor	Bechtel
Total Project Value	Forecast completed developed cost of liquefaction plant including EPC, common facilities, interest during construction and debt service reserve- US$1.1 billion
PRICING (Libor + [] Basis Points)	Not disclosed
Tenor	International Loan Facilities: 15 Years Egyptian Bank Loan facilities: 12 years European Investment bank facilities: 13years
Mandated Lead Arranger Lenders	International Loan Facilities –ANZ APICORP, Bayerische Landesbank, Bank of Tokyo Mitsubishi, Calyon, HSBC, Banca Intesa, RBC, RBS, San Paolo IMI, Societe Generale, West LB, Egyptian Bank Loan Facilities – Commercial International Bank, MiBank, Nationale Societe Generale Bank European Investment Bank
Subunderwriters	5
Participants	18
Total Equity	US$168 Million

Legal Adviser To Sponser	Shearman and Sterling
Legal Advisor To Banks	Slaughter & May
Date Of Financial Closure	29 June 2004