US Gulf LNG Clean Energy

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Gulf LNG's US$1.1 billion project financing for the first receiving terminal in the US since early 2005 has reached financial close, bringing much-needed investment to the troubled Mississippi State.

Syndication for the project - which closed on the 7 February 2008 - was almost twice over subscribed; a surprisingly good result for a tight market.

The SPV Gulf LNG secured US$870 million debt financing to construct and operate a new LNG import terminal in the Port of Pascagoula in Jackson County, Mississippi [Projects Database].

The project - which will have a daily send-out capacity of 1.3 billion cubic feet, and a maximum capacity of 1.5bcf per day - includes:

- 6.6 billion cubic feet LNG storage tank
- 1.3 billion cubic feet per day re-gasification facility
- 5.5 mile send-out pipeline to deliver gas to three points of interconnection along the pipeline route
- a jetty for LNG vessels

The project sponsor, Gulf LNG Energy, is a consortium of:

- El Paso Corporation - 50 per cent
- Crest Group - 30 per cent
- Sonangol - 20 per cent

King & Spalding acted as legal advisor to the sponsors while RBS adopted the role of financial advisor; later assisted by its own former head of North American project finance, Chuck Zabriskie, who worked on the deal through his own independent advisory boutique.

RBS was also the senior lead arranger and book runner for the US$870 million debt which was syndicated to 24 banks. Chadbourne & Parke was mandated as legal advisor to the lenders.

The Clean Energy consortium awarded contracts to three construction companies, with a fourth still to be announced to cover the building of the send-out pipeline. Work on the pipeline is scheduled to start mid-2009.

The Aker Kvaerner and Ishikawajima-Harima Heavy Industries (IHI) Corporation JV - which was awarded the US$680 million contract to build the onshore plant facilities - received a notice to proceed with construction on 10 February and begins work at the end of the month.

Baggett Construction was awarded the contract to construct the project's marine facilities while the Norfolk Dredging company was mandated to complete the preliminary dredging at the terminal site, and started work in November last year.

The terminal will be operational in 2011.

The Financing

The US$1.1 billion project financing was completed alongside El Paso's acquisition of a 50 per cent stake in the sponsor company, Gulf LNG Energy.

The project financing was broken into two tranches resulting in a 79:21 debt:equity ratio:

- Equity - US$230 million
- Debt - US$870 million with a 10-year tenor from project completion

RBS acted as senior lead arranger and bookrunner for the debt tranche, which went out to market in a pre-syndication round on 26 November 2007 and then full retail syndication after Christmas.

A total of 24 banks came in on the syndication which was over subscribed - US$1.4 billion was committed for the US$870 million debt - and four banks were mandated as senior arrangers.

They are:

- Fortis
- Scotiabank
- Standard Chartered Bank
- WestLB

Chadbourne's David Schumacher told *IJ News*: "We started working on this deal from early fall of 2006; it took a solid year to structure a deal which made sense to both the commercial parties and the current debt market.

"I believe the upfront structuring work that RBS did with the sponsor helped bring the financing together very quickly. There was only about two-and-a-half months, including the Christmas holidays, from when the syndication was opened to financial close."

The Gulf LNG project debt was structured to take advantage of tax breaks offered under Mississippi state law if funds are invested through the Mississippi Business Finance Corporation (MBFC) industrial development bonds.

As a result of channelling funds through the MBFC, Gulf LNG project is eligible for:

- relief from the Mississippi ad valorem (property) tax
- relief from Mississippi sales and use tax
- a 10-year abatement from the Mississippi income tax

The Bank of New York acts as the MBFC bond trustee and holds the accounts through which the project's finances flow.

Aside from the tax breaks, this financing structure does not significantly effect the terms of the loan for either borrowers or creditors and at financial close the MBFC signed all lending rights to the RBS-led banking group.

As Dan Rogers, one of King & Spalding's lead attorneys on the project, says: "It looks and smells like standard project financing, but because it has been washed through the MBFC bond agreements the project receives substantial tax deductions."

However Chadbourne's David Schumacher notes: "The biggest challenge was tying together the commercial loans and MBFC loan arrangements from a lending standpoint."

A popular deal

King & Spalding's Dan Rogers, said: "This project financing is notable in the sense that it was significantly oversubscribed, and it was fully syndicated at closing in a very constrained North American credit market.

"While smaller and larger financing deals are getting pulled due to credit market conditions, this US$800 million project financing came together over the course of just over two months; from mandate on November 26, to closing and funding on February 7.

"This is a testament to the strength of the project and its sponsors, and the highly competent teams of lenders and advisors involved in every aspect of this financing. The success of this project will result in significant new energy supplies for the US market for decades to come."

By the time the debt hit the market the 1.3 billion cubic feet per day terminal capacity was already fully subscribed under two 20-year contracts - well beyond the 10-year term of the debt.

The agreements were backed by some of the largest oil and gas companies in the world:

- Angola LNG Supply services - a consortium of Sonangol (22.8%), Chevron (36.4%), Total (13.6%), BP (13.6%) and Eni (13.6%) - for 800 million cubic feet per day
- Eni USA Gas Marketing for 500 million cubic feet per day

The re-gas terminal already had a dedicated anchor supply of LNG from the Chevron-led Angola LNG project in south western Africa [Projects Database].

Furthermore the plant is in an excellent location to access the well-developed pipeline systems that transport gas from the production fields near the Gulf of Mexico to markets around the US.

The site has long been on radar screens as a prime location for an LNG import terminal, and Chevron had previously been planning a re-gas facility in the port.

Finally, three of the main construction contracts were already in place; all awarded to companies with strong experience in the energy sector.

Conclusion

That the Gulf LNG project was easily able to finance 80 per cent of its costs as non-recourse debt, is testament to the fact that even in a tight credit market well-structured, secure deals will make it away.

Although America's demand for energy persists regardless of the financial climate, this does not necessarily translate into higher demand for liquefied gas, and much of the US' LNG capacity is currently underused.

Therefore the two long-term terminal use agreements secured by Gulf LNG are crucial to the project's success; even if the terminal capacity is underused the project sponsors are guaranteed payments.

As Chadbourne's Schumacher says, one of they key challenges of the deal was structuring these use agreements "in a way that was satisfactory to both the borrower and the off-taker and - at the same time - financeable."

In an tight market, banks may shy away from the riskier project finance deals, but on a sure-fire project, backed by strong sponsor credit sheets, the big names show little reluctance to lend.

The project at a glance

Project Name	Gulf LNG Clean Energy
Location	Mississippi, United States
Description	An LNG receiving terminal with a 1.3bcf/d send-out capacity and a 6.6bcf storage tank
Sponsors	El Paso 50% Crest Group 30% Sonangol 20%
Operator	El Paso

EPC Contractor	Onshore facilities: Aker-Kvaerner-IHI JV
EPC Sub Contract 1	Marine facilities: Baggett Construction
EPC Sub Contract 2	Dredging work: Norfolk Dredging
Project Construction Duration	42-44 months
Construction Stage	Preliminery dredging work started in November 2007 Construction of the terminal should start end of February 2008
Total Project Value	US$1.1 billion
Total equity	US$230 million
Total senior debt	US$870 million
Debt:equity ratio	79:21
Senior lead arrangers	Royal Bank of Scotland
Senior arrangers	Fortis Scotiabank Standard Chartered Bank WestLB
Total Number of Synicate Banks	24
Legal Adviser to sponsor	King & Spalding
Financial Adviser to sponsor	Royal Bank of Scotland
Legal adviser to banks	Chadbourne & Parke
Date of financial close	7 February 2008