IJGlobal
A Green Street Company

Sabine Pass, Texas, US

Dan Tallis

16/08/2012

The financial close of a US$3.6 billion credit facility to support the development and construction of a liquefied natural gas terminal at Sabine Pass in Texas, US represents a potential milestone in US gas infrastructure. Natural gas market fundamentals in America have changed dramatically since the shale boom; “an abundance of natural gas means gas prices have plummeted and will remain low for the foreseeable future” said one source close to the project.

The construction of facilities to export US LNG could, therefore, become a prominent addition to the project finance market in America; another source close to the deal remarking that "there is real demand for this asset class in banking".

The closing of the deal was attributed by one source to three key components; regulatory approval, foundation customers and site/infrastructure. In reaching close on Sabine Pass, Cheniere, and all involved in the deal, skilfully exploited the cache of existing infrastructure to snag government approval, thereafter securing customer contracts and ultimately the project financing itself.

Project background

Originally built as an import terminal, slated to receive LNG imports from the Ras Laffan 3 and the Qatargas 3 projects in Qatar, Sabine Pass is the largest receiving terminal, by regasification capacity, in the world with a total send-out capacity of 4.0 Bcf/d and 16.8 Bcf of storage capacity.

Existing infrastructure at the terminal includes five storage tanks and two berths and access to Cheniere Energy Inc.’s (a Cheniere subsidiary) 94-mile Creole Trail Pipeline.

Cheniere will adapt this infrastructure, reconfiguring the Creole Trail pipeline as a bi-directional system, to distribute the LNG sourced from multiple sites including the Marcellus field in Pennsylvania.

The adaptation of this infrastructure enabled Cheniere to mitigate the risk of the Sabine Pass project thereby making it a more attractive proposition for investors, lenders and government regulatory approval, a factor one source described as “crucial to the project's successful close.”

Regulatory approval

On May 20, 2011, the Cheniere-owned project company Sabine Liquefaction, secured US Department of Energy approval to export up to 16 mtpa of LNG “to all countries with which trade is permissible.” The approval was the first of its kind and rendered Sabine Pass the first LNG export facility to be built in the US.

Opinion is mixed as to whether Sabine Pass will set a precedent for widespread LNG export projects in the US; one source believes that “liquefaction would become the norm” citing discussions surrounding four to six similar projects that could be finalised within two years, whereas another source close to the deal argued that “regulatory approval may become more difficult to obtain as an increase in exports could cause a rise in gas prices nationally.”

Whether Sabine Pass is to be the first of many LNG export projects is yet to be seen, however many involved in the deal agreed that a major contributive factor in its successful close was Cheniere's ability to move quickly once approval was received.

"Cheniere was the first mover on this type of project in the US, a factor that helped enable the deal to go forward quickly and successfully" said Ben Koenigsberg partner at Chadbourne and Parke LLP, advisor to the lenders.

Charif Souki, chairman and chief executive officer of Cheniere said "Two years after announcing our plans to develop the liquefaction facility, we will begin construction. It is a testament to the flexibility of the US markets and institutions that a small company like ours was able to accomplish so much in a short time."

Consumer Base

With government approval in place Cheniere secured substantial customer orders:

- BG Group committed to purchase 3.5 mtpa over 20 years, paying Sabine Liquefaction a fixed sales and a contract sales price based on the Henry Hub index traded on the New York Mercantile Exchange
- Korea Gas Corp (KOGAS) committed to purchase 3.5 million mtpa on a free on board basis from 2017, priced at the monthly US benchmark (Henry Hub) plus a fixed margin

Other foundation customers included GAIL India and Gas Natural Fenosa. Total sales amounted to 16 mtpa of the 18 mtpa capacity being developed.

The second phase of the project was also heavily subscribed with Cheniere securing sale and purchase agreements with KOGAS for 3.5 mtpa, GAIL India for 3.5 mtpa and BG for an additional 1.3 mtpa of LNG.

That these customers represented different markets was significant as it placed Sabine Pass in a unique position to leverage US resources on a global scale, an opportunity that may diminish as the pool of foundation customers decreases.

Financing

With these requirements fulfilled Cheniere sought an equity partner, a necessity given the company's small status, and found US$2 billion from private equity investor Blackstone Group: "Blackstone Group was preferred because of its size (an infrastructure fund of around US$13 billion), its focus on the energy sector and the pre-existing relationship it had with Cheniere," said one source.

Koenigsberg said "The involvement of Blackstone was a positive step in the market's perception of the project, and was a factor in helping secure the debt piece of the financing."

A further US$468 million of equity came from Temasek, a Singapore-based investment firm, and RRJ Capital, an equity investment fund focused on Asian markets.

This, alongside disclosure of advanced negotiations with lenders and customer contracts, saw Cheniere's stock price rise enabling the company to purchase US$500 million of US$2 billion worth of Class B units from its subsidiary, Cheniere Energy Partners LP, to finance the EPC contract at Sabine Pass.

Although restructuring such as this is not uncommon, one source said that it was undertaken by Cheniere "to try and retain control" of the project in the wake of such substantial equity investment.

In total the project cost is projected to be US$5.6 billion, comprised of US$2 billion equity and US$3.6 billion debt.

The seven-year debt facility is priced at 350bp over Libor during the construction phase of the project and steps up to 375bp over Libor once the modifications to Sabine Pass become operational.

The tenor of construction plus 2/3 years was described by another source as “structured to appeal to the broadest market possible” reflecting the fact that “loans with 12/15/18 year tenor have become unattractive to European banks.”

The mandated lead arrangers are;

- BTMU
- Crédit Agricole
- Credit Suisse
- Deutsche Bank
- HSBC
- JPMorgan
- Morgan Stanley
- RBC
- Société Générale
- Standard Chartered

Ticket sizes have not been disclosed but a source involved in the closing of the deal commented that it was “anchored by meaningful commitments” from each of the MLA’s.

The financing will also include less substantial tickets for a group of 10 syndicated participants, with reports suggesting those involved include BBVA, ING, Korea Development Bank and Lloyds.

Société Générale acted as sole and exclusive financial advisor to Sabine Liquefaction in connection with the credit facility, Credit Suisse Securities LLC acted as financial adviser to Cheniere Partners during Blackstone's investment, Chadbourne and Parke LLP acted as advisor to the lenders.

The first of many or one of a kind?

The Sabine Pass project will see modifications to the site enabling regasification of foreign-sourced LNG as well as liquefaction of natural and shale gas for export.

Two new trains will be completed, each with 4.0 mtpa nominal LNG processing capacity; six GE LM2500+ G4 turbine driven refrigerant compressors per train, SAC water injection for emissions control, gas turbine inlet air humidification and BASF acid gas removal units will be added to the site.

Cheniere hopes to add two additional trains to Sabine Pass, a project that will require further multibillion dollar financing and which a source has described as "possible in the next year."

Bechtel Oil, Gas and Chemicals, the company that completed the receiving terminal, will design, construct, and commission the first two liquefaction trains: the first train is expected to start operations as early as 2015, with the second train expected to commence operations six to nine months thereafter.

Although expedited relatively quickly the project has not been without challenge. Koenigsberg said, “One of the challenges of a deal of this size was the sheer number of parties involved in the project. By maintaining a balanced approach to the transaction, we did our part in ensuring that the needs of the parties were properly addressed and achieved financial close.”

That Sabine Pass is an owner of significant "firsts" in US LNG history is undeniable, however we must wait to see whether it will be the first and only of its kind or the first of many in a new global US export industry.