

# Cameron LNG and Freeport LNG, US

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The developers of US liquefied natural gas (LNG) import terminals turned out to be wrong when they predicted that persistently high US gas prices would attract LNG cargoes from overseas. Increases in US natural gas production from shale plays mean that US natural gas is now so cheap that it can be profitably exported.

The predictions, which were common around ten years ago, led to the construction of a handful of receiving terminals. Cheniere closed the first of the [receiving terminal financings](#) in 2005, at Sabine Pass in Louisiana, and then closed the [first financing for a liquefaction](#) facility in 2012, also at Sabine Pass.

Rather than dwelling on their misfortune in calling the direction of US gas prices incorrectly, the owners of receiving terminals have been the fastest to build export capacity at those same sites. The [Cameron LNG](#) and [Freeport LNG](#) projects, whose financings closed on 1 October and 25 November 2014, respectively, both involved adapting import infrastructure to new market realities.

Sabine Pass, Cameron LNG and Freeport LNG are among the 37 liquefaction projects that have been proposed in the US. The US Department of Energy (DoE) may limit the number of projects that it approves, but has not said what that limit might be.

US liquefaction projects have proven competitive globally, in part because they link their prices to the Henry Hub gas index, rather than oil prices, as most other export terminals do. LNG buyers are attracted to this index because it allows them to diversify their energy supply portfolio, said Ross Wyeno, energy analyst at Bentek, an energy markets analytics company.

## Sponsor profile and debt structure

The Louisiana-based Cameron LNG project features a sponsor group that comprises Sempra, GDF Suez, Mitsui, Mitsubishi and Nippon Yusen Kabushiki, which each enjoy a wide bank following and have a weighted average credit quality of A2, according to Moody's Investors Service. This strength allowed Cameron LNG's \$7.4 billion debt to close at a 16-year tenor. That debt financing comprised:

- \$2.915 billion uncovered bank tranche,
- \$2.5 billion direct loan from Japan Bank for International Cooperation
- \$2 billion tranche covered by Nippon Export & Investment Insurance

Sempra, a large southern California utility with a presence in Mexico, is the majority stakeholder in the liquefaction plant.

Michael Smith, Freeport LNG's chairman and chief executive officer, is the majority shareholder in both the Freeport receiving terminal and the proposed export LNG facility in Texas.

After signing offtake agreements with Osaka Gas and Chubu Electric, Freeport LNG's sponsors decided in 2012 to finance

those two trains separately. The sponsors thought they could not raise the \$8.394 billion debt requirement of those trains solely in the bank market, and decided to lean on export credit agencies (ECAs) to support the first train.

Japan Bank for International Cooperation (JBIC) provided a \$2.7 billion term loan on the \$4.4 billion 18-year debt for Freeport LNG's first train. Six commercial banks provided \$1.2 billion of term debt covered by Nippon Export and Investment Insurance (NEXI).

The second train, which has a different sponsor mix than the first train, is subject to \$4.025 billion of seven-year debt, in which no ECAs participated. It resembles Sabine Pass export terminal's first construction financing, which was a commercial bank-provided mini-perm deal. Train two might also follow the Sabine Pass example of refinancing as soon as possible in the bond market.

### **Sponsor and offtaker strength**

Sempra looked for Cameron LNG's equity from potential offtakers, and turned down investors that could not also be customers. It signed commercial development agreements with offtakers in May 2012, and signed tolling capacity and joint-venture agreements a year later.

Freeport LNG's sponsors instead brought in equity and offtakers separately. Freeport LNG signed tolling agreements with Osaka Gas & Chubu Electric for train one on 31 July 2012, and both offtakers ended up as equity providers. For the second train, Freeport LNG's sponsors signed an offtake agreement with BP on 11 February 2013 solely on the basis of best tolling agreement terms, while IFM Investors later joined the deal as a sponsor.

### **Risk profile**

Cameron LNG sponsors are providing completion guarantees, agreeing to pay off outstanding debt if the project does not meet its construction timeline. The sponsors' obligations only fall away when the project meets its completion tests, which includes maintaining a 70:30 debt-to-equity ratio at completion, according to Moody's.

Freeport LNG, on the other hand, has a lump-sum, turnkey, fixed price, engineering, procurement and construction (EPC) contract. That contract diverts construction risk to the contractors – Chicago Bridge & Iron and Zachry.

Lenders perceive Cameron LNG's completion guarantee as stronger than Freeport LNG's EPC wrap, in part because Cameron LNG's sponsors have investment-grade ratings. As a result, pricing for the shorter-dated Freeport LNG train two starts at 200bp over Libor, which is 25bp higher than the margin on Cameron LNG's 16-year debt.

Despite that pricing advantage, the Cameron deal is less likely to be replicated in the US, simply because assembling such a strong cast of sponsors again is unlikely. Cheniere's second liquefaction project, [Corpus Christi](#), is likely to use a similar financing structure to Freeport LNG's train two, though its debt requirement will be three times as high.

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