Ruby Pipeline

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The largest US midstream project in recent memory reached financial close in May with the US$3 billion Ruby Pipeline seen as a win-win project for all players in the North American energy sector.

The debt financing, coming in at US$1.51 billion, supplies an interesting example of the innovative structures currently being used in North America and an intriguing mode of analysis for future developments.

With the explosion of shale gas onto the scene over the last few years, and the subsequent dampening of enthusiasm for new LNG regas terminals, domestic circulation has been a key factor for sponsors and consumers alike.

If the US can now truly seek relative energy autarky through shale then the issue of supply and demand changes fundamentally. No longer are transit pipelines from coastal hubs to urban centres a priority, instead infrastructure supporting the level of production in areas like the Rocky Mountains and Marcellus range are key.

The Ruby Pipeline is placed at the centre of this energy development as the first major US pipeline project to approach the market successfully in 2010.

The Project

Conceived to address the growing demand for natural gas in the US El Paso's Ruby Pipeline project originally filed an application with the Federal Energy Regulatory Commission (FERC) on January 27, 2009 with approval received the following month.

The pipeline will provide transportation infrastructure to move the abundant gas energy reserves in the Rocky Mountain region across North America to the Pacific coastal market over 675 miles and four states - Wyoming, Utah, Nevada, and Oregon.

Four compressor stations are proposed for the project: one near the Opal Hub in southwestern Wyoming; one south of Curlew Junction, Utah; one at the mid-point of the project, north of Elko, Nevada; and one in northwestern Nevada.

The source of the natural gas transported in the pipeline will be the Rocky Mountain production region, one of the largest sources of potential new gas supplies in the United States.

Specifically, these gas supplies will originate from increased production currently under development in Wyoming, Colorado, and Utah. To some extent, they will replace declining, imported supplies from Canada, especially into the state of California.

Delivery interconnects are anticipated with the Paiute Pipeline, Tuscarora Gas Transmission, Gas Transmission Northwest and Pacific Gas & Electric. These pipelines in turn will transport the gas on to local utilities which provide service to end users in Nevada, California, and Oregon.

A large portion of Ruby's capacity will be used to supply fuel to natural gas power plants which will provide clean, economical electricity.

As lead operator on the project El Paso has been keen to maintain a carbon neutral pipeline, especially as it crosses two national parks along its route. In this respect, some connected with the deal are describing Ruby as the first carbon neutral pipeline.

Construction is anticipated to begin in late spring 2010, and the estimated in-service date is March 2011.

The financing

The US$3 billion pipeline was financed on a debt to equity ratio of 52:48 reaching financial close on 5 May, 2010.

The deal hit the market at the right time with a key upswing in investor appetite present in January 2010 leading to a large oversubscription on the deal.

El Paso brought the deal out hot on the heels of the Elba Express pipeline [Projects Database] a deal that suffered from less than favourable market condition back in 2009.

Starting at the Elba Island LNG terminal near Savannah, Georgia, the US$578 million, 190-mile pipeline is to link to markets elsewhere in Georgia and, through connections with other pipelines, the southeastern and eastern US.

Those connected with Ruby were therefore not overly positive initially that the deal could fulfil its funding in commercial debt. A bond was subsequently mooted as being part of the financing arrangement.

"When we started the view was that the bank market was kind of thin and so we started off with a bank/bond finance. It is still structured this way in that we can plug in bonds if they decide that the bond market becomes attractive," Alan Rafte, one of the partners involved in the project at Bracewell & Giuliani.

"They [the sponsors] have flexibility and they can decide when the capital markets are most attractive for that kind of offering. For the size of project they'll want some long-term straight paper."

The US$1.51 billion in commercial debt was syndicated out by a seven strong club of lead arrangers:

- Credit Agricole CIB
- Royal Bank of Scotland
- Bank of Montreal
- Grupo Santander
- Scotia Capital
- Société Générale
- UniCredit

The participant bank club was larger with 12 banks involved:

- Barclays
- Bayern LB
- BBVA
- BNP Paribas
- Credit Suisse
- DnB Noor
- ING
- Lloyds
- Natixis
- Mizuho
- RBC
- Union Bank-BOTM

As financial advisor Credit Suisse was in the lending group from the beginning and not part of the greater syndication group.

The US$1.58 billion term loan facility expires over a 7-year tenor. Pricing is stepped across the tenor with one year grace followed by LIBOR +300bps for repayment years one and two, 325bps over years two and three reaching up to 375bps for years five, six and seven.

US$1.4 billion will be supplied equally with US$700 million in equity from El Paso and US$700 million from Global Infrastructure Partners (GIP).

GIP was brought on board in 2009 as a joint venture partner to shoulder some of the responsibility and risk for the project.

"The project was so big for El Paso that it was a real drag on their balance sheet. So they really needed to bring a partner in, which they did" said a source heavily involved throughout the financing.

"By the time GIP was in El Paso had a huge investment n the pipeline through rights of way acquisition, the real estate acquisition and the pipeline acquisitions."

Under the agreement GIP will invest up to US$700 million in the Ruby Pipeline project, which represents a 50 per cent equity interest, across three major tranches:

- US$405 million in the form of a 7 per cent secured note that will be drawn upon to reimburse one half of El Paso's costs to date, as well as to fund one half of the future costs of developing the project. The note will be exchanged for a convertible preferred equity interest in Ruby once construction has completed;
- US$145 million contributed as a preferred equity interest in El Paso's existing Cheyenne Plains Pipeline, which will be exchanged for a convertible preferred equity interest in Ruby at final project completion;
- Up to an additional US$150 million as a convertible preferred equity interest in Ruby, depending on the amount of external financing that is raised.

GIP came in as an infrastructure fund with cash to supplement the equity. El Paso essentially controls the project and remains operator.

The projects financial adviser Credit Suisse then began speaking to lenders regarding the potential to raise the finance through traditional bank project financing, project bonds or other means such as private debt in January 2010.

"We have had positive interest from lenders and discussions are continuing," a Ruby Pipeline spokesman told IJ at the time.

"We are optimistic that, like other El Paso pipelines, the project will be given an investment grade rating."

A positive bank response during the market upturn of Q1, 2010 boosted prospects for the financing with a large club deal and oversubscription achieved.

Alongside full FERC regulatory approval for the pipeline came financial proposals from a series of banks in the first week of April leading to financial close in May.

Something seen as key to the financing structure is the aforementioned flexibility for the sponsors to essentially "plug and play" bonds later if necessary according to Robin Miles, also a partner at Bracewell & Giuliani involved with the project.

"The most innovative part of the structure is how we structured the plug in and out capital markets debt. You don't see a lot of these deals."

"You can just plug in the bond very easily and you don't have to redo the collateral. We can just pay down the bank debt with the proceeds from the notes and plug them into the collateral."

"You put in place and pre negotiate the inter creditor arrangements. Essentially it means that we put the collateral structure in place ahead of time so we can access the bond market more quickly if we need to."

With such an arrangement in place all parties received greater flexibility to refinance any of the debt later if necessary.

The future

In the wake of the success of the Ruby pipeline and the transformation in US energy supply those close to the local market see a lot of activity on the horizon, especially in the midstream market.

A liquid transportation pipeline stretching from north to south is in the project pipeline as are a series of interconnects and storage units to support the conversion of unconventional gas into a usable consumer product.

With the massive duo of Alaska oil pipelines set to approach the market over the coming years El Paso's project can be seen as a financing first as it brings a scale and size of energy infrastructure to market not yet seen.

The project at a glance

Project Name	Ruby Pipeline
Location	United States
Description	The Ruby Pipeline project is a 675 mile, 42 inch interstate natural gas pipeline with an initial design capacity of up to 1.5 billion cubic feet per day that will access gas supplies from multiple Rockies' basins and make them available to California, Nevada and the Pacific Northwest region.
Sponsors	El Paso, Global Infrastructure Partners
Operator	Ruby Pipeline LLC

Construction Stage	1 year
Total Project Value	US$2.91 billion
Total equity	US$1.4 billion
Equity Breakdown	US$700 million (El Paso), US$700 million (GIP)
Total senior debt	US$1.51 billion
Senior debt pricing	Years 1-2 - Libor +300bps Years 3-4 - Libor +325bps Years 5-7 - Libor +375bps
Debt:equity ratio	52:48
Mandated lead arrangers	• Credit Agricole CIB • Royal Bank of Scotland • Bank of Montreal • Grupo Santander • Scotia Capital • Société Générale • UniCredit
Participant banks	• Barclays • Bayern LB • BBVA • BNP Paribas • Credit Suisse • DnB Noor • ING • Lloyds • Natixis • Mizuho • RBC • Union Bank-BOTM
Legal Adviser to sponsor	Bracewell & Giuliani, Vinson & Elkins
Financial Adviser to sponsor	Credit Suisse
Legal adviser to banks	Chadbourne & Parke
Date of financial close	5 May, 2010