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Leviathan gas field, Israel

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Delek Group and Texas-based Noble Energy's financing of the Leviathan gas field off the coast of Israel represents the country's largest ever infrastructure project. The gas field should ultimately transform Israel into a regional energy hub.

Leviathan's sponsors took a final investment decision on the $3.75 billion first phase on 23 February 2017 – seven years after the reserves were first discovered. The field is thought to contain some 22 trillion cubic feet of gas; equivalent to around 622 billion cubic meters.

The project will transform Israel from an energy importer to a net exporter in the coming years although it also raised questions about the two main sponsors' dominance of the country's upstream gas reserves. The project eventually led to regulatory reforms being passed by the Knesset – Israel's Parliament.

The Knesset ultimately approved a framework that would see Delek sell down its stake in the Tamar gas field and both sponsors selling their stakes in the smaller, earlier stage Karish and Tanin gas fields – in order to allay the Israel Antitrust Authority's fears of the ownership constituting a monopoly.

Leviathan is situated in 1,645m of water in the Levantine Basin, located approximately 130km west of Haifa, Israel. Production is expected to begin by the end of 2019.

Equity interests in Leviathan include:

- Noble Energy (39.66%)
- Delek Group (22.67%)
- Avner Oil Exploration (22.67%)
- Ratio Oil (15%)

Delek and Avner's tranche

Israeli firm Delek and its subsidiary Avner have raised $1.75 billion to finance their portion of Leviathan's first phase. HSBC and JP Morgan each raised $875 million in debt from a consortium totaling 20 lenders including both foreign and Israeli banks and institutional investors.

The US-dollar loan is priced at 460bp over three-month Libor. The interest will be paid every three months and the principal is payable as a bullet at the end of the four years, through the issue of a long-term bond – a structure the companies previously used to fund their interest in the Tamar project.

The agreement also includes a potential additional facility of $750 million split equally between the two firms for the financing of the next stage of the project, although the lenders are not committed to the additional debt.

Noble's tranche

Noble's portion of the financing amounts to $1.5 billion. The company is funding the development with a $1 billion debt

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facility, of which $625 million has been committed initially.

The debt amount was split equally between the lenders, according to a source. They include:

- Societe Generale
- BNP Paribas
- Crédit Agricole Corporate and Investment Bank
- ING Bank
- Natixis

The debt matures after eight years with a final balloon payment of 35%. It is priced at a fixed rate of 3.5% over Libor prior to production – after which it drops to 3.25% over Libor. In the final two years before maturity it is priced at 3.75% over Libor.

The remainder of the financing will be provided by operating cash flows from Noble's Tamar field as well as other assets in the company's Eastern Mediterranean portfolio. Capital raised from selling down its stake in Tamar will also be used - the company has already sold a 3.5% stake and intends to sell a further 7.5%, a spokesperson for Noble said.

The Overseas Private Investment Corporation (OPIC) provided $500 million in political risk insurance to Noble Energy for the project. The agreement includes a $250 million guarantee for Israel, covering the sponsor's equity investment in the field; and a $250 million guarantee for Jordan, enabling "the insured to supply natural gas to Jordan's National Electric Power Company".

Ratio's tranche

Ratio's contribution to the first phase amounts to $600 million. The company signed on a $400 million loan from HSBC and BNP Paribas in December 2016 including an initial $250 million and an option for a further $150 million.

The US-dollar denominated loan is repayable in a single payment after two years, when Ratio will have the option to extend it by a further two years. It is priced at three-month Libor with an undisclosed margin.

Ratio financed the remainder through an oversubscribed NIS570 million ($155 million) bond offering completed in November last year, along with its own cash reserves. The bond is priced at 6.5%.

Who's buying all that gas?

Leviathan will "transform Israel into a regional energy hub by fulfilling the energy needs of the regional market as well as our neighbor countries like Egypt, Turkey and Jordan," a spokesperson for Delek and Avner said. There is also potential for the gas production to be sold even further afield, such as into Turkey or Italy.

The partners have already signed a number of agreements to support gas production abroad, including one with Jordan's National Electric Power Company worth $10 billion over 15 years.

Another deal will see exports go to Egypt's domestic market over up to 15 years. The agreement came in spite of Italian energy firm Eni discovering its own "supergiant" gas field, Zohr, off the coast of Egypt. The find put pressure on Israel to press ahead with Leviathan, or else risk missing out on gas export opportunities in the wake of the Zohr find.

Photograph shows the Tamar field, courtesy of Albatross Aerial Photography Ltd.

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