African Upstream Oil & Gas Deal of the Year 2013: TEN FPSO

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Floating production, storage and offloading vessels have steadily grown in importance as a source of project finance business. But FPSO operators prize low-cost, longer-tenor debt over structural innovations and borrower-friendly covenants.

Charters for FPSOs are longer than even the most generous contracts for drill-ships. They transfer as much operational risk as possible to the field operator that charters them. The vessels are designed for use at a single deposit, and can only be redeployed at considerable expense.

Nevertheless, their use has increased as field operators take on deposits further offshore and further away from existing oil and gas infrastructure. Oil majors and national oil companies accounted for the bulk of charters, and financings for FPSOs, which were derivatives of those credits, featured slim margins.

Two developments have changed the contours of the industry. The first is the increasing prevalence of charters with lower-credit independents, particularly in developed markets. The second is the increased unwillingness of lenders to make loans of over ten years at sub-200bp margins.

FPSO operators compete for business largely based on their cost of capital, and enjoy little leverage over even the smaller independent field operators. So they have scrambled to find new sources of long-term financing.

The financing for the MODEC-led group of sponsors of the TEN 25 African FPSO is the Japan Bank for International Cooperations first financing for an African FPSO, and the first non-recourse financing for an FPSO in Ghana. The $903 debt financing for the $1.3 billion vessel featured a $508.2 million direct loan from JBIC, with the remainder coming from SMBC (coordinator), ING, BTMU, Mizuho and ABN Amro as a club.

Tullow TEN MV25 FPSO
Status
Closed September 2013
Size
$1.3 billion
Description
Floating production, storage and offloading vessel under charter to operators of the TEN field offshore Ghana
Sponsors
Mitsui (30%), MODEC (25%), Marubeni (25%),
Mitsui OSK Lines (20%)
Debt
$903 million
Mandated lead arrangers
JBIC, SMBC, ING, BTMU, Mizuho, ABN Amro
Sponsor legal counsel
Ashurst; Stibbe (Dutch); Aelex (Ghanaian)
Lender legal counsel
Norton Rose Fulbright
INSURANCE ADVISER
Aon
MARKET CONSULTANT
Douglas Westwood

JBIC has extensive FPSO experience elsewhere, particularly in Brazil, and is familiar with the technology. The sub-sector fits in with Japans interest in overseas resources, as well as a tighter policy focus on offshore hydrocarbons extraction technology.

The sponsor group for the TEN FPSO comprises Mitsui (30%), MODEC (25%), Marubeni (25%), Mitsui OSK Lines (20%). The Dutch-registered special purpose vehicle, TEN Ghana MV25, benefits from a 10-year charter, extendable each year after that for up to ten years. The charter counterparty is Tullow Ghana, which operates the Tweneboa, Enyenra, Ntomme fields offshore Ghana.

The fields cover an 800km area 20km from Tullows existing Jubilee field. In addition to Tullow, with 49.95%, the field owners include Kosmos Energy (18%), Anadarko Petroleum (18%), Sabre (4.05%) and the Ghana National Petroleum Corporation (10%). The $3 billion TEN development involves exploiting reserves estimated with P50 confidence of 360 millon barrels of oil equivalent.

The TEN FPSO was not meant to be the first project financing for an FPSO in Ghana. MODECs FPSO Kwame Nkrumah MV 21 was far advanced with a project financing in 2010. MODEC had lined up a group of 12 lenders, led by ING, SMBC, Standard Chartered, Standard Bank and SG, to provide a $568 million debt financing, with the International Corporation and MIGA, both part of the World Bank, participating.

World Bank concerns about the service contracts associated with the FPSO held up the financing, and the Jubilee field shareholders, which had been providing loans to MODEC to keep the construction of the Jubilee FPSO on schedule, ended up buying the vessel outright. Successful close on the TEN FPSO will help Ghana retain a reputation for transparency in oil industry contracting.

One of the main challenges in structuring the financing was ensuring that the project and financing were compliant with the Ghanaian environmental and anti-pollution regulatory framework. The sponsors also had work hard to keep banks' credit approvals in place during delays to Ghanaian government approval of the TEN field plan.

The project involves converting the Centennial J very large crude carrier into an FPSO that can process 80,000 barrels of oil and 170 million cubic feet of gas, and have an oil storage capacity of 1,700,000 barrels. The financing will draw in a lump sum at delivery and first oil is scheduled for 2016.