Australia Pacific LNG

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The US$28 billion Australia Pacific LNG (APLNG) project, sponsored by Australia's Origin Energy, US energy giant ConocoPhillips and China's Sinopec, is the largest project financing to close this year so far.

APLNG is also the largest coal seam gas (CSG) to liquefied natural gas (LNG) projects in Australia, and the most advanced in terms of construction.

Development of the project is of key significance not only to Australia's economy and burgeoning energy resource export sector but is also shaping up to be an important component of the energy import portfolios of China and Japan.

Financing

The project sponsors reached financial close on the project on 23 May, following a final investment decision on the first phase of the project in July 2011 when they began to seek debt to support a 70-30 debt-equity profile.

The US$8.5 billion fully non-recourse project financing is organised into three tranches, two ECA sub-facilities and a commercial lender sub-facility.

- US$2.866 billion direct loan from US Ex-Im Bank with a 17-year tenor expiring on 23 May 2029
- US$2.759 billion direct loan from the Export-Import Bank of China (China EXIM) with a 16-year tenor expiring on 23 May 2028
- US$2.875 syndicated commercial bank loan with a 16-year tenor expiring on 23 May 202

Standard and Poor's rated the debt A-.

The commercial tranche carries a margin of 250bp over LIBOR during the four-year construction period. The pricing then steps up to reflect an increasing risk profile, starting at 275bp for years one to eight then climbing to 300bp in years nine to 12, and to 325bp in years 13-16. The participation fee was 200bp.

Pricing on the ECA direct loans has not been disclosed.

The sponsors will provide shareholder guarantees during the four-year construction phase of the project. The guarantees are lifted when the project becomes operational.

The commercial bank loan sees 15 local and international banks joining a club deal that also includes banks from the two principal offtaker countries, China and Japan.

The commercial lenders and their roles are as follows, with ticket sizes:

- Australia & New Zealand Banking Group – Facility agent, Mandated arranger (US$350m)
- Export Development Canada – Mandated arranger (US$300m)

- Westpac Banking Corp – Mandated arranger (US$300m)
- Commonwealth Bank of Australia – Mandated arranger (US$250m)
- Mizuho Corporate Bank Ltd – Mandated arranger (US$250m)
- National Australia Bank Ltd – Mandated arranger (US$250m)
- Sumitomo Mitsui Banking Corp – Mandated arranger (US$250m)
- HSBC – Mandated arranger (US$200m)
- Bank of Tokyo-Mitsubishi UFJ – Mandated arranger (US$150m)
- BOS International – Mandated arranger (US$125m)
- Banco Bilbao Vizcaya Argentaria – Mandated arranger (US$100m)
- DBS Bank – Mandated arranger (US$100m)
- DNB Bank – Mandated arranger (US$100m)
- Societe Generale – Mandated arranger (US$100m)
- Bank of China – Mandated arranger (US$50m)

According to one source, the strategic momentum of the project combined with the strong name of the sponsors and robust supply deals with Chinese and Japanese offtakers enabled the loan amount to be raised beyond the original US$2.5 billion target. "Obviously, the engagement of the ECAs was also crucial to the deal," the source added.

Some initial concern was expressed at the fact that China EXIM attended the official ECA signing ceremony, held in New York on 23 May, but did not sign the definitive documentation. However, a source with knowledge of the matter revealed that this was due to the banks internal processes and procedures and that the financing was, in any event, "structured so that the China EXIM facility is not completely necessary." Origin Energy announced that China EXIM had signed the final project finance documentation on 8 June.

Royal Bank of Scotland acted as financial adviser to the sponsors, with Sullivan & Cromwell as sponsors legal counsel. Latham & Watkins and Allens Arthur Robinson were lenders' legal advisers.

Scope and Background

The strategic importance of LNG as a key resource for Asian economies and for Australia's energy exports underpins the APLNG project. Countries that are in a position to produce and export large volumes of LNG such as Canada, the US and Australia are scrambling to meet what appears to be almost insatiable demand from the largest Asian economies, particularly China, Japan and South Korea.

Because it is able to provide "secure energy supplies, produced in a stable political and economic environment," Australia is well placed to be the leading exporter in the Asia-Pacific region. Already the fourth largest exporter of LNG in the world, the country produced 18.9 million tonnes of LNG last year but projections of future production suggest that this could rise to a staggering 160 million tonnes by 2020.

Much of Australia's natural gas production will come from the development of coal seam gas extraction, a process similar to shale gas extraction, requiring the application of hydraulic fracturing technologies at depths of 200 to 1,000 metres underground. Recent concerns about patchy results of Australia's coal seam gas production have been brushed aside by those close to the APLNG project. "I'm unmoved by such speculation," said one observer, adding that "Australia Pacific LNG is already reliably producing CSG for local users."

With the potential of Australian coal seam gas to feed strong and growing Asian demand as a rationale, Origin Energy and ConocoPhillips formed Australia Pacific LNG as a 50:50 joint venture in October 2008. The August 2011 entry into the project by China's second largest energy company, Sinopec, was a "natural consequence" of the fact that much of the offtake would be destined for China. Sinopec initially acquired a 15 per cent stake in the project in 2011 but then expanded this to 25 per cent in January of this year. As a result, ConocoPhillips' and Origin's respective interests were reduced to 37.5 per cent.

Sinopec has signed agreements for LNG supply amounting to 7.6 million tonnes per annum (mpta) over a 20-year period.

The remaining offtake from phase one of the project is destined for Japanese power utility Kansai Electric Power Company (KEPCO) which has signed a 1 mpta supply agreement, also for a 20-year period.

Natural gas from the 17,000 square kilometres of coal seam gas acreage held by APLNG in Queensland's Surat and Bowen Basins will be transported to Curtis Island via a 42 inch high pressure pipeline. The LNG export terminal will be equipped to process coal seam gas arriving from the gas fields for transport by removing impurities and refrigerating it enabling condensation at low pressures. The APLNG project is expected to have a production life of at least 30 years [Projects Database].

Scale and Significance

The APLNG project is remarkable in part due to the sheer scale and ambition of both the project itself and also the size of the financing deal supporting it. Already the Australia's largest CMS to LNG project, APLNG could be expanded to an astounding total production capacity of 18 mpta, if the initial two trains prove successful.

Additionally, the US Ex-Im tranche that has been a crucial element of the financing structure is the second largest single project loan in the bank's history – it will support US exporters, including Conoco and Betchel International, across six US states.

Beyond the sheer scale of the financing, Sinopec's 7.6 mpta LNG offtake agreement is also the largest such agreement in Australia to date. Thus far the country's exports have primarily served Japan, which buys almost 70 per cent of Australian LNG.