

# Donggi-Senoro LNG, Indonesia

---

**Thomas Blott**

05/12/2014

The \$2.8 billion Donggi-Senoro LNG (DSLNG) project is the first Indonesian liquefied natural gas export terminal to be financed separately to its upstream production facilities. It is also the first LNG project to be developed as a standalone downstream business, following a change in law that allows for the development of upstream and downstream businesses separately, and it is also the first true non-recourse financing in Indonesia's LNG sector.

Indonesia's previous LNG projects have been financed through a trustee borrowing scheme, which grants lenders security over the proceeds of offshore gas sales. That mechanism can be used to work around the restrictions imposed by the supranational lenders' negative pledge, which requires that they share in any recoveries that third party creditors enjoy from state-owned assets.

For Donggi-Senoro LNG, carving out of the downstream component allowed the sponsors to dispense with a receivables financing structure. Although financing the liquefaction component on a standalone basis meant that lenders had to get comfortable with their limited rights under the project's gas sales contracts, since they do not have security over reserves in the event that production from the gas fields proves less than forecast.

Donggi-Senoro LNG (DSLNG) is the project company that owns the rights to build new liquefaction trains with an export capability of two million tonnes per year in Sulawesi Land. The project company's shareholders are as follows:

- Sulawesi LNG Development (a 75:25 joint venture between Mitsubishi and KOGAS), 59.9%
- Pertamina, 29%
- Medco, 11.1%

DSLNG has offtake contracts to sell one million tonnes per year (tpy) of LNG to Japanese utility Chubu Power, 300,000 tpy to Kyushu Electric Power and 700,000 tpy to Kogas. This differs from LNG plants that benefit from tolling contracts, where a project company receives payments based on making capacity available for processing gas. Mitsubishi and Kogas, which will be marketing the project's output, are two of the largest gas trading companies globally, and were comfortable with the volume risk associated with the project's gas supply, since they will capture the upside from selling excess volumes.

DSLNG will start receiving 85 million cubic feet per day (cfpd) of gas from the Matindok gas fields in December, and 250 million cfpd from the Senoro fields by mid-2015. Pertamina is the sole owner of the Matindok fields and owns 50% of the Senoro fields, with Medco (30%) and Mitsubishi (20%) the other shareholders.

## Carving out liquefaction

DSLNG is Indonesia's first LNG project developed as a downstream business activity because it is the first to fall under Law No. 22, which passed in 2001 and facilitates the development of LNG liquefaction capacity separately to its gas supplies. Indonesia's three previous LNG projects – Tangguh, Arun and Bontang – were all integrated facilities.

The trustee borrowing scheme for those three projects involved the sponsors setting up an offshore trust that functions as the borrower under the loan agreement. Its trustee receives cash from the offtakers, and a cash waterfall mechanism so that cash is first used to service debt before meeting other expenses.

Indonesian government-owned entities often use the structure to avoid the potential impact of the negative pledge clause in World Bank and International Monetary Fund loan agreements, under which the two lenders have first call on future foreign exchange revenue in the event that a sovereign is unable to service its debt obligations.

The mechanism increased in popularity after the 1997 Asian financial crisis raised concerns about the Indonesian government's creditworthiness. The DSLNG liquefaction component is a true project financing, in part because some of its upstream reserves were financed separately, although also because recent changes in banking regulations had made the trust structure harder to execute.

The lenders' inability to hold security over reserves proved challenging. Under the security agreement, the lenders have similar rights as they would have in any typical project financing, which includes a pledge over the shares of the project company and a pledge over the assets. The lack of security over the reserves could lead to problems in the event that production from the gas fields is lower than forecast, but they can gain comfort from the fact that three of the sponsors for the liquefaction plant are also sponsors of the upstream component, and also from the P90 production forecasts.

### **Three of a kind**

DSLNG is one of only three LNG export facilities financed separately to their dedicated reserves anywhere, after the \$2.5 billion Peru LNG plant and the \$8.5 billion APLNG project in Australia. US liquefaction projects have closed financings without any dedicated reserves, because the US gas market is liquid enough to supply these plants without dedicated reserves.

Whereas for the other two projects the downstream components were financed separately from their reserves due to their technical requirements, DSLNG uses this structure to assuage residual concerns about the creditworthiness of the Indonesian government.

The sponsors signed the \$1.3 billion 11-year debt financing on 12 November and attracted strong support from Korean and Japanese lenders, both export credit agencies and commercial lenders, based on the nationality of the project company shareholders and offtakers. The financing comprises:

- A \$764 million direct facility from the Japan Bank for International Cooperation
- A \$382 million facility guaranteed by Nippon Export and Investment Insurance
- \$382 million split between a direct facility and a guaranteed facility from Korea Exim (Kexim)

The lenders under the NEXI facility are:

- Bank of Tokyo Mitsubishi-UFJ (ECA coordinating bank)
- Mizuho Corporate Bank (ECA coordinating bank, documentation bank)
- Sumitomo Mitsui Banking Corporation (financial adviser)

The lenders under the Kexim-guaranteed facility are:

- Korea Exchange Bank
- Nonghyup Bank

Allen & Overy advised the borrower, while Ashurst advised the lenders and Latham & Watkins provided advice to Pertamina.

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*