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NEWS

FERMACA OBTAINS US$820 MILLION FOR MEXICAN NATURAL GAS PIPELINE

Lulu Rumsey
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The 465-kilometre pipeline will connect two powerplants in the northen states of Chihuahua and Durango (Credit: black_shogun)

Latham & Watkins LLP and Galicia Abogados have helped Fermaca procure US$820 million in project financing to fund the construction of a pipeline in northern Mexico, the first natural gas pipeline to obtain funding since Mexico's government passed new hydrocarbons legislation last year.

Milbank, Tweed, Hadley & McCloy LLP and Ritch, Mueller, Heather y Nicolau, SC advised Citigroup, ING, Norddeutsche Landesbank, Banco Santander, Sabadell and Goldman Sachs, which acted as joint lead arrangers for the financing. It closed on 24 July.

The project financing will fund the design, construction and operation of the La Laguna pipeline, which is expected to be operational by 2017. The 465-kilometre conduit will connect two power plants owned by Mexico's state-owned electric company, Comisión Federal de Electricidad (CFE), in the northern states of Chihuahua and Durango. The pipeline is part of a US$2.8 billion programme of natural gas and electricity infrastructure contracts planned by CFE, designed to modernise Mexico's natural gas infrastructure by facilitating access to cheaper natural gas from the US. The pipeline will interconnect with the Waha gas hub in Texas via two other pipelines in Mexico and Texas.

The deal took six months to close. "This deal is one of the first natural gas pipelines in Mexico to close after the introduction of the new regulations of the hydrocarbons law," says Milbank Tweed partner Dan Bartfeld. The law introduced a new in-court regime to register rights of way needed to complete the project. Fermaca will use the financing to fund construction of the pipeline, for which it will need to acquire rights of way. Lawyers drafting the financing therefore had to navigate new court validation procedures implemented by the law aimed at protecting landowners. "From a Mexican viewpoint, the main challenges concerned the implementation of new provisions in the hydrocarbons law relating to the acquisition of real estate rights needed for the project to go ahead," explains Ritch Mueller's Jorge Oria.

The US is currently experiencing a natural gas boom due to improvements in drilling technology and the use of hydraulic fracking. The US's shale boom has prompted other project financing deals in Mexico in recent months. In March, Pemex-affiliated holding company TAG Norte obtained a US$1.3 billion finance package from Santander to fund the northern section of its Los Ramones natural gas pipeline project, which will also be used to transport natural gas derived from the US.

Natural gas is an alternative energy source to oil. Mexico's first offshore oil auctions fell well short of expectations earlier this month, when a number of majors decided against bidding in the country's first oil tender in 80 years, believed to be deterred by low global oil prices and the small volume of potential reserves on offer.

In 2014, Swiss private equity firm Partners Group and Fermaca's senior management agreed to jointly invest US$750 million in the pipeline operator. Milbank Tweed and Galicia advised Partners Group for the deal, while Latham & Watkins, Haynes and Boone LLP and Haynes and Boone SC advised Fermaca.

Counsel to Fermaca

Latham & Watkins LLP
Partners Thomas Malone, Christopher Cross and Carlos Alvarez and associates Lillian Sayagh, Tim Pisacreta and Brendan Lane in New York, and partner David Penna and associates Vijay Singh, Greg Braswell and Brett Ackerman in Washington, DC

Galicia Abogados
Partners Francisco Fernandez Cueto and Mariana Herrero and associates Costanza García and Juan Carlos Burgos in Mexico City

Counsel to Citigroup, ING, Norddeutsche Landesbank, Banco Santander, Sabadell and Goldman Sachs

Milbank, Tweed, Hadley & McCloy LLP
Partners Dan Bartfeld and Eric Moser and associates Richard Hillman, Michael Evry, Matthew Bogdan and Brian Lee in New York

Ritch, Mueller, Heather y Nicolau, SC
Partners Jorge Oria, Carlos Obregón and Héctor Garza, counsel Eva Frías and associates Salvador Torres, Alessandra Gaytán, Daniela Solis and Isabel Ortiz Monasterio in Mexico City