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Latin American Midstream Oil & Gas Deal of the Year 2013: Chihuahua

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Mexico has made an expansion of its network of natural gas pipelines a priority, as long-awaited energy reform comes into effect. The country hopes to unlock new investment in upstream, but until then needs to upgrade its network to receive imported gas. Imported gas made up 3% of consumption in 2003, but 30% in 2012.

One long-time Mexican gas pipeline operator, Gasoductos de Chihuahua, is making sure it is in a good position to participate in this network expansion. Gasoductos de Chihuahua closed a financing in December to help fund the first phase of the Ramones project.

The holding company is a joint venture of Sempra subsidiary IEnova and Pemex Gas y Petroquimica Basica (PGPB), a subsidiary of state-owned oil company Petróleos Mexicanos (Pemex), which has enjoyed a legal monopoly over domestically produced natural gas.

In July 2013, Gasoductos de Chihuahua signed a 25-year contract with PGPB to operate a 118km pipeline and two compression stations. The pipeline, which would connect at the US border with the Agua Dulce-Frontera line, and related compression stations would be the first phase of the Ramones pipeline.

Less than four months later, Pemex awarded half of Ramones II a segment known as Ramones North to a joint venture of two of its affiliates, Gasoductos de Chihuahua and TAG Pipelines. Ramones North would be a larger $1.1 billion 441km pipeline that would cross the states of Nuevo Leon and San Luis Potosi. The award came after Pemex scrapped a formal procurement for the entire phase and a bid that is understood to have conformed to the tender requirements from a venture of GDF Suez and Enagás.

Gasoductos de Chihuahua first approached lenders for new debt in 2011, when it bid for the Chihuahua Corridor pipeline. But Fermacas Tarahumara Pipeline won that project instead. BBVA was expected to lead a financing for Gasoductos de Chihuahua, but the sponsors postponed the deal after deciding that they would not need new capital.

After it won Ramones I, Gasoductos de Chihuahua mandated BBVA and BTMU as bookrunners and financial advisers on a $490 million financing. Mizuho and Nord/LB soon joined the fully amortising 13.5-year term loan as mandated lead arrangers. The debt is priced at about 200bp over Libor.

The financing is a hybrid facility that mixes project finance and corporate finance techniques. Gasoductos de Chihuahua is the borrower for the new debt and already owns four assets: the 114km San Fernando natural gas pipeline, the 200km Burgos-Monterrey petroleum gas pipeline, the 37km Samalayuca natural gas pipeline, and the Gloria a Dios compression station. Samalayuca and Gloria a Dios make up Mexicos Chihuahua System of pipelines.

Gasoductos de Chihuahua S de RL de CV

STATUS
Closed December 2013

SIZE
$490 million

DESCRIPTION
Holding company of four Mexican gas assets: the 114km San Fernando natural gas pipeline, the 200km Burgos-Monterrey petroleum gas pipeline, the 37km Samalayuca natural gas pipeline, and the Gloria a Dios compression station

SPONSORS
Sempra subsidiary IEnova (50%) and Pemex subsidiary Pemex Gas y Petroquimica Basica (50%)

DEBT
$490 million

LENDERS
BBVA (bookrunner), BTMU (bookrunner), Mizuho, Nord/LB

FACILITY AGENT
BBVA

SPONSOR FINANCIAL ADVISERS
BBVA and BTMU

SPONSOR LEGAL ADVISER
Cleary Gottlieb Steen & Hamilton; Ritch, Mueller, Heather y Nicolau

LENDER LEGAL ADVISERS
Shearman & Sterling; Galicia Abogados

ENVIRONMENTAL AND TECHNICAL CONSULTANT
Leidos

SPONSOR INSURANCE ADVISER

McGriff, Seibels & Williams

LENDER INSURANCE ADVISER

Moore-McNeil

The financing essentially monetises the assets revenues under their existing offtake agreements with Comisión Federal de Electricidad (CFE), the Mexican state-owned power company, and PGPB. Gasoductos de Chihuahuas four assets sell about 65% of their capacity to CFE, and the balance to PGPB under long-term take-or-pay transportation services agreements. As security, Gasoductos de Chihuahua offered the cashflows from the assets offtake agreements, not the assets themselves, as the banks would have preferred. Still, lenders were able to get comfortable with the borrower because it had existing cashflows.

Lenders were eager to participate in the Gasoductos de Chihuahua financing, however. Banks want to demonstrate their commitment to the Mexican market in a period of sluggish local deal flow. Lenders are also looking at a potential wave of gas-related financings, as the country builds out its pipeline infrastructure and encourages new gas-fired independent power projects. Mexico, and its gas sectors lenders, will also be able to hitch itself to the US shale gas production boom.

Sempra Energy also helped draw in lenders. The San Diego-based US electricity provider and natural gas distributor is investment-grade (Moodys rates it Baa1), and boasts a strong line-up of relationship banks.