

Client Alert

Global Transactions Practice Group

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IMPLEMENTING A COMPETITIVE NATURAL GAS MARKET IN MEXICO - CENAGAS TO HOLD ITS FIRST OPEN SEASON

Centro Nacional de Control de Gas Natural (CENAGAS) has received authorization from the Comisión Reguladora de Energía (CRE) to conduct its first open season for the assignment of available capacity on a firm basis in the country's integrated natural gas national pipeline and storage system. The system, also known as Sistrangás, includes more than 5,400 miles of pipelines formerly owned by Pemex, as well as the Gasoductos de Tamaulipas, Gasoductos del Bajío and three Ramones (I, II North and II South) pipelines, the last two of which remain under construction. There are currently no storage facilities in the Sistrangás.

EPE Round

Prior to the open season, CENAGAS will assign capacity to Pemex, CFE, their respective subsidiaries and any other company in which Pemex or CFE have a direct or indirect ownership interest (known as “**productive state enterprises**” or “**EPEs**” by its Spanish acronym) in amounts sufficient to satisfy their “hydrocarbons industrial transformation” and “electricity generation” needs (such assignment to be known as the “**EPE Round**”).

In this context, CRE limited the amount of capacities that CENAGAS may assign on a firm basis under the EPE Round to a maximum of 1,430,877 gigajoules/day for Pemex and its subsidiaries and affiliates, and of 1,152,752 gigajoules/day for CFE, for a total maximum assignable capacity of 2,583,629 gigajoules/day. What percentage such total maximum assignable capacity has with respect to Sistrangás' total available capacity, however, remains unclear, though Mexico's energy secretariat has publicly stated 40% of the capacity in the Sistrangás will remain in Pemex's and CFE's hands.

Open Season

CENAGAS will assign available capacity in the Sistrangás in the following order of priority: (i) to users who in 2010 acquired rights in and to the capacity of the *Sistema Nacional de Gasoductos*, the national pipeline system formerly owned by Pemex (“**Acquired Rights Users**”); and (ii) if any capacity remains available in the Sistrangás, to anyone in the general public who is interested in reserving capacity therein, including any Acquired Rights User and EPEs who require additional capacity, subject to established bidding tiebreakers.

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Assignment Procedure and Tiebreakers

CENAGAS' assignment of capacity to Acquired Rights Users and all other users will be made to those who bid the highest cost per gigajoule, and such cost must include the minimum fixed costs (as such may be adjusted for inflation and fluctuations in the Peso/US Dollar exchange rate) established by CRE under Resolution 382/2016. Those with acquired rights will bid to reserve capacity at injection points. Persons in the general public will bid to reserve capacity by both injection and extraction points (i.e., by routes).

If two or more users with acquired rights bid at the same cost per unit and there is not enough available capacity, CENAGAS will assign the capacity to whoever filed their reservation request first (i.e., the first in time, first in right rule will apply). If two or more persons in the general public bid the same cost per unit and there is not enough available capacity, CENAGAS will assign capacity to the bidder who bid for the longest route, provided that if such bidders bid for the same route, CENAGAS will assign the capacity to the bidder who requested the greatest amount of reserved capacity. Further, if such bidders bid for the same route and the same amount of reserved capacity, CENAGAS will prorate the capacity between or among the bidders.

Terms and Conditions of Service

Each contract for the reservation of capacity to be entered into between CENAGAS and a shipper, a form of which is attached to CRE Resolution 1036/2016, will have a one-year term commencing on February 1, 2017 and ending on January 31, 2018; provided that prior to the next CENAGAS open season – scheduled to take place during the third quarter of 2017 – such shipper will have the option to renew the term of its contract for three additional years, but only for the amount of reserved capacity that to such date has been “effectively” used by the shipper.

All contracts for the reservation of capacity will initially be subject to the terms and conditions applicable to CENAGAS' transportation permit, which is currently limited to transportation services though the national pipeline system formerly owned by Pemex. Such terms and conditions, however, will be later conformed to the terms and conditions that CRE approves for the Sistrangás, the scope of which remains unclear at this time.

Important Deadlines

Each bidder must file its request to reserve capacity in the Sistrangás between November 1, 2016 and November 30, 2016, and will have until December 7, 2016 to cure any insufficiency in such request.

CENAGAS will analyze all requests between December 8 and December 21, 2016, and notify results to all bidders via e-mail by December 23, 2016.

All winning bidders must execute their respective contracts for the reservation of capacity on a firm basis by January 13, 2017 (i.e., the date that is 20 calendar days commencing on the day after the date results were notified to such bidders).

Additional information can be found at the following link:

<http://organodegobierno.cre.gob.mx/resolucion.aspx?id=10596>

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