



Mexico's Natural Gas Pipeline Build Out: Legal Implications for Midstream, Electric Generation and Manufacturing

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Recognized by *Petroleum Economist ExpertGuides* 2013 as one of the world's finest lawyers in Energy; *The Legal 500 Latin America* 2015 as a leading Projects and Energy lawyer; *Euromoney's Expert Guides* 2016 as one of the world's leading practitioners chosen by their peers in Energy.
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- Mexico is rapidly implementing the energy reform, which is dramatically transforming the electric sector
- Mexico's Federal Electric Commission (CFE) has been contracting huge amounts of natural gas pipeline capacity (some 12 new pipelines) to bring cheap gas from the United States
 - 75% increase in existing capacity (25 billion cf/day)
 - Double length of pipelines with 7 interconnects with US
- Converting more expensive diesel and fuel oil fired power plants to natural gas
- Power prices for large industrial consumers have already dropped by more than 30%



- Industrials, seeing electric prices drop, are waiting and seeing how low prices will go
 - Not willing to enter into 15 or 20 year power purchase agreements (PPAs), which is essential for the project financing of greenfield development
 - This has frozen electric generation development since 2013, with 9 GW of projects prior to the reform put in development limbo
 - This makes PPA auctions the only game in town
- Cheap natural gas should spur large manufacturing and other industrial development (both reducing power prices and providing cheap feedstock)



- Industry has been surprised at how low electric prices obtained by CFE under the PPA auctions have been
- Second auction averaged \$33.47/MWh, while the first auction averaged \$47.70/Wh (compared to historical electric prices of over \$150/MWh)
- PPA auctions are expected to occur each April for not less than 500 MW of new capacity
- Electric system's current reserve margin is over 30% and expected to reach 40% in the next several years (usually don't want more than 17%)



- Drafting contracts that are flexible enough to adapt to Mexico's new and rapidly evolving natural gas and electric industry laws
- Mexican government credit risk
- Pemex v KBR/Commisa
- Change of law risk
- Changing market liquidity and dynamics

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Related practice areas

- Energy & Infrastructure
- Renewable Energy
- Private Equity
- Banking & Finance

Education

- J.D., University of Florida Levin College of Law, 1994
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Mr. Humphrey's practice focuses on U.S. and international project development and finance, corporate finance, strategic joint ventures and mergers and acquisitions, especially in the energy industry.

Mr. Humphrey has advised on the successful development and financing of billions of dollars of power projects. He also advises on other types of energy projects, such as oil and gas, LNG, methanol, petrochemical and carbon capture projects. In Latin America, Mr. Humphrey has advised on energy projects in Bolivia, Chile, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Uruguay. In Mexico, among other things, he has advised on power purchase agreements and the proposed acquisition of energy companies. Currently, he is advising on a Mexican petrochemical facility, including natural gas supply from the United States. His particular focus has been on running the international and national deal teams to get projects closed and helping sponsors learn the business of energy project development and finance.

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