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BG EXITS GNL QUINTERO

Oman Oil enters Chile as BG exits GNL Quintero project

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Chile's Claro y Cía and Spain's Gómez-Acebo & Pombo Abogados have helped Oman's government-controlled oil investment company enter Chile as it teams up with Spanish energy company Enagás to acquire BG Group's remaining stake in regasification terminal GNL Quintero.

Terminal de Valparaíso, the joint venture vehicle used by the pair to make the acquisition, paid US$176 million for the remaining 20 per cent stake held by the British oil and gas company; in a move that also signals the exit of BG from the country, although it will maintain various gas supply agreements.

Chile's Carey and the London office of Herbert Smith Freehills LLP advised BG, while GNL Quintero relied on Chilean firm Bahamondez, Alvarez y Zegers for the preparation and review of documents and the shareholding registry in the company. Due to the joint venture being structured under Spanish law, Enagás also drew counsel from the Madrid office of Bird & Bird LLP.

Closing on 4 September, the acquisition comes a year after Enagás purchased BG's other 20 per cent in the project, after the British oil and gas company announced plans to divest its entire stake to focus its resources on upstream gas production.

BG entered the GNL Quintero project in 2006, winning a competitive tender to build and supply the 2.5 million tonnes per annum regasification plant. The remaining 60 per cent is divided equally between Chilean gas distributor Metrogas, state-owned energy company ENAP and Spain's largest electricity utility, Endesa.

Project financing was provided by 17 financial institutions drawn from around the world, which turned toShearman & Sterling LLP and Chile's

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Guerrero, Olivos, Novoa y Errázuriz. Shortly after obtaining the stake, however, BG unexpectedly found itself having to adopt a second role as a pari passu, or equal-step, lender, after the collapse of Lehman Brothers in the US in 2008 rocked the international markets and severely curtailed available funding for the project.

With BG's ultimate aim being to exit the Quintero in order to focus on upstream production, Shearman & Sterling partner Cynthia Urda Kassis explains that the financing agreement also had to be structured to allow for a clean exit. "Our role was to determine what, if any, lender consents were required to permit the sale by BG," she explains.

Alongside the sale of BG's first tranche in 2012, a parallel deal saw the company sell its loan portfolio on the international market to several financial institutions and bring to an end its role as pari passu lender.

While lawyers note that the divestment of the first half of BG's stake proved relatively straightforward, the sale of the remaining 20 per cent would prove more complex as rules contained within the shareholder agreement meant that any divestment by any shareholder of over 50 per cent of its stake would have to be approved by the other shareholders and lending banks in the project.

This situation was given added complexity by two factors. The first was that the shareholder agreement also contained rules restricting any sale to companies of a certain investment grade, which created problems in light of Enagás' downgrade last year, while a second was a difference of opinion between BG and Endesa concerning BG's gas supply agreement with GNL Quintero, which created additional work and lengthened the negotiations.

With a year having passed since Enagás first launched its bid to buy BG's 40 per cent stake in April 2012, Oman Oil approached the Spanish company to buy a 49 per cent stake in Terminal de Valparaíso, which would effectively hand the investor a major interest in the GNL Quintero. "This is the first time a company from the Middle East has come to Chile to do business," notes Claro y Cía partner José Luis Ambrosy, who adds that the importance of the investment is further underlined by the fact is in one of the most important infrastructure projects in the energy sector.

For Bird & Bird LLP of counsel Alfonso Bayona, the fact that Oman Oil

already held a five per cent stake in Enagás meant that there was already a strong bond between the two companies: “It has been tough…but generally speaking it was a smooth transaction in terms of the relationship between the seller and purchaser,” he explains. “We are confident on the purchaser’s side that this is an interesting terminal and that Enagás is really willing to expand their presence in the market, either through their acquisition of additional stakes in the terminal or participation in other projects in Chile.”

Chile currently imports some 90 per cent of its natural gas from Argentina and has been actively seeking to diversify its energy supply in recent years through greater investment in renewable technologies and improvements to the country’s gas infrastructure. The government’s increased focus on energy independence follows a diplomatic spat with Argentina in 2004, when the country’s government threatened to restrict the flow of gas over the border after years of underinvestment in Argentina’s gas infrastructure had left insufficient capacity in the system.

Currently there are only two liquefied natural gas terminals in Chile, although development is on-going at the Mejillones gas terminal in the north of the country. GNL Quintero was the first onshore regasification terminal to become operational in the country. With Enagás and Oman Oil now holding a 40 per stake in GNL Quintero, Bayona speculates it would be “quite normal” for the company to take over as operator of the project, although this is yet to be confirmed.

In a bid to meet increasing demand for natural gas in Chile, many of the same firms also met in July when GNL Quintero retained Bahamondez Alvarez to redraft a previous project financing agreement to expand facilities at the port as the falling price of gas and stricter emissions targets boosted demand in the country. Shearman & Sterling and Guerrero Olivos advised the lenders on that transaction.

Having already completed the expansion of the port in record time, a number of lawyers are not ruling out the possibility that further development may be on the cards should demand for natural gas continue to increase. “GNL Quintero has been quite active [and] since the originally closing they have added a truck loading facility which they then expanded,” explains Shearman’s Kassis. “They also have instituted various modifications which have had the effect of optimising and increasing the capacity of the facility. We look forward

to supporting them on their future activity," she adds.

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