

# BERDEJA ABOGADOS, S.C.

## BIDDING BASIS FOR PRIVATE COMPANIES

## PARTICIPATING IN MEXICAN OIL ROUND ONE

### **Introduction**

On December 11, 2014, the Mexican National Hydrocarbons Commission published the Bidding Basis to Participate in Mexican Oil Round One (“Basis”).

Please refer to our memoranda dated July 29 and October 31, 2014 for a review of the implementing energy legislation on the basis of which Mexican Oil Round One will be conducted.

### **Scope of Round One**

Under the new legislation, bidding on agreements for production of oil and natural gas will take place in several rounds over the next few years.

Round One will include bidding to (i) participate in consortia with Petróleos Mexicanos (the national oil company, “Pemex”) to replace concessions granted to the same under round cero with agreements, and (ii) compete for new blocks of exploration and production not granted to Pemex.

The first bidding process of Round One shall comprise 14 blocks.

The total area covered by the first bidding process of Round One will be 4,222 km<sup>2</sup>, located primarily in shallow waters.

### **Preparatory Measures**

Interested parties may participate in bidding on an individual basis, or in a consortium. A consortium of companies may change the terms of its participation prior to the submission of final bidding documents, subject to prior regulatory approval.

An interested party is required to pay a fee of approximately US\$392,592 for access to the Data Room. An interested party that has qualified to submit a bid must pay in addition, a bid registration fee in the amount of approximately US\$20,740.

Payment by a consortium participant of the fee for Data Room access enables the other members of the consortium to have access to the Data Room.

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Each stage of the bidding process – access to Data Room, pre-qualification, submission of bids and execution of agreements for exploration and production – requires presentation of legal, financial and operations documentation of the bidder. As a general rule, all documentation submitted in other languages must be translated into Spanish by an expert translator. Some documents required to be notarized and apostilled.

In those instances in which operational and financial documentation has not been filed with the SEC (or equivalent regulator in the home country of the bidder), or audited by a leading international accounting firm, a confirmation letter issued by the lead home regulator of the participant may need to be obtained.

The National Hydrocarbons Commission shall (i) administer the bidding process, pursuant to rules issued by the Ministry of Energy and tax regulations issued by the Ministry of Finance, (ii) execute agreements with Pemex, private companies and consortia between Pemex and private companies, and (iii) approve exploration and production plans.

The Hydrocarbons Sector Environmental Protection and Industrial Safety National Agency will oversee compliance with environmental regulations related to natural gas and oil projects.

The Mexican oil trust fund shall administer revenue from petroleum activities owned by the Mexican Government.

## **Stages of Bidding Process and Tentative Dates**

A table showing a summary of principal dates set forth by the Bidding Basis follows:

December 11, 2014	Ministry of Energy issues draft bidding basis.
Pending	Review and comments on draft bidding basis by interested parties.
June 15, 2015	Ministry of Energy issues final bidding basis.
December 11- March 16, 2015	Participants request access to Data Room and make applicable payment.
January 15 – July 14, 2015	Data Room opened to participants.
December 11 –	Questions and Comments on information located on Data Room, pre-

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June 1, 2015	qualification requirements and draft Bidding Basis and agreements.
February 24 – June 15, 2015	Publication of responses to questions and comments.
December 11 – March 16, 2015	Payment of registration fees and request appointment to file pre-qualification documentation.
December 11 – April 23, 2015	Review of pre-qualification documentation by Bid Committee.
April 27, 2015	Publication of list of interested parties pre-qualified to participate in bidding process.
May 15, 2015	Deadline to request addition of non-prequalified financial participants in consortia.
June 15, 2015	Deadline to request authorization for changes in terms of consortia.
June 15, 2015	Regulatory decision concerning participation of non-prequalified financial participants and changes in terms of consortia.
July 15, 2015	Submission and review of bids, and award of winning bids.
July 17, 2015	Publication of awards of winning bids in the Official Daily of the Federation.
August 21, 2015	Deadline for execution of agreements.

### **Fundamental Pre-qualification and Award Criteria**

In order to pre-qualify for the bidding process, a participant must prove operational and financial capacity in accordance with the Basis. A participant is required to have total assets of no less than US\$10 Billion and shareholders' equity of no less than US\$1 Billion should it participate on a stand-alone basis, or of no less than \$600 million should it participate as member of a consortium.

Members of a consortium must appoint an operator that will act as coordinator and agent for the same. The operator must have a participation of no less than 33% in the consortium.

Operational and financial requirements must be complied with by either each member of a consortium, or by the member designated as operator of the consortium. This facilitates

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participation by financial institutions as members of a consortium, relieving them of the obligation to comply with operational requirements where the relevant operator satisfies the same.

A consortium may be comprised of no more than one “Large Scale Oil Company” as defined by the Basis. In essence, a “Large Scale Oil Company” is a company with an average aggregate daily production of no less than 1,600,000 oil barrels (or equivalent production of other products), during 2014.

A stand-by letter of credit in the amount of US\$2.5 million opened and/or confirmed by a bank operating in Mexico must be posted by each interested party that participates on a stand-alone basis, as well as by each consortium. Such letter of credit will secure compliance of obligations by participants between the submission of bids and the execution of agreements, if applicable.

The award criteria will be based upon the weighted average of (i) the participation of Mexico in operational earnings arising from a project, and (ii) the incremental percentage of investment over the minimum required investment in a project, to be calculated in accordance with the Basis.

The Ministry of Energy and other relevant regulators are likely to publish regulations at a rapid pace in 2015 as both the implementation of the energy reform and the bidding process of Round One continues. This will require close coordination between the experts at interested private companies and other participants and their advisers.

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Please do not hesitate to contact us with any questions.

Berdeja Abogados, S.C.

January 13, 2015