

# BERDEJA ABOGADOS, S.C.

PLANNING AHEAD FOR 2015:

KEY ISSUES FOR PRIVATE COMPANIES

PARTICIPATING IN MEXICAN OIL ROUND ONE

## **Introduction**

On August 7, 2014, the Mexican Congress passed legislation implementing the energy reform, which legislation was signed into law by the President on August 11, 2014 and was published in the Official Daily of the Federation on such date. The new legislation came into effect on the day following the date of its official publication.

The new legislation empowers the Mexican Government, through bidding and licensing processes, to execute agreements with both private and state-owned Mexican and foreign companies, so that such companies may undertake in Mexico the exploration and production of oil and natural gas, subject in each case to certain controls and restrictions. Rather than operating as monopolies, the state-owned companies will need to compete with private companies in bidding rounds, signing agreements with the Mexican Government only if successful.

Please refer to our memorandum dated July 29, 2014 for a review of the implementing legislation.

On October 31, 2014, the Mexican Executive Branch issued 26 new regulations and amendments to existing regulations, implementing energy legislation.

## **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 by agreements, and (ii) compete for new blocks of exploration and production not granted to Pemex.

In a so called “round cero”, Pemex was allowed to request on December 20, 2013 that the Ministry of Energy grant concessions to the same in respect to a number of fields. Pemex requested concessions over approximately 30% of prospective resources in Mexico, the majority of which are placed on land and shallow waters. Such request included 93% of

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Mexico's prospective resources located in land; 59% of prospective resources located in shallow waters; 29% of prospective resources located in deep waters and 15% of prospective resources located in lutites. The review of Pemex's request started on March 21, 2014 and on August 13, 2014, the Ministry of Energy granted concessions over 83% of proven reserves and 21% of prospective resources in Mexico to Pemex. Overall, the Ministry of Energy granted concessions over 100% of the proven reserves and 67% of the prospective resources requested by Pemex.

A concession granted to Pemex can be replaced by the Ministry of Energy upon Pemex's request, by an agreement in which private companies may participate either as sole contractors or as members of a consortium in which Pemex participates. A bidding process is required to be conducted to select the companies that will participate in the agreement that will replace a previous concession. Pemex will be subsequently required to compete in bidding rounds with other companies, signing agreements for exploration and production with the Ministry of Energy if successful. Only in instances in which there is a need to secure future supply of hydrocarbons, can Pemex be awarded future concessions without a bid.

Round One shall comprise 169 blocks, of which 109 shall consist of exploration and 60 shall consist of production.

The total surface covered by Round One will be 28,500 km<sup>2</sup>, of which 91% will pertain to exploration blocks and 9% to production blocks.

### **Regulatory Functions**

An announcement made by the Ministry of Energy confirmed and further specified functions to be undertaken by regulators in the upcoming Round One.

The Ministry of Energy shall (i) select blocks to be made subject to bidding, with the technical assistance of the National Hydrocarbons Commission, (ii) issue bidding basis, with the opinion of the Federal Competition Commission in respect to the awards process, and (iii) draft agreement forms, with the previous opinion of the Ministry of Finance.

The Ministry of Finance shall determine the economic terms to be considered so as to award an agreement.

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.

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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 tentative dates announced by the Ministry of Energy follows:

November 2014 - January 2015	Ministry of Energy issues draft bidding basis.
Pending	Review and comments on draft bidding basis by interested parties.
February - April 2015	Ministry of Energy issues final bidding basis to be purchased by participants.
February - April 2015	Data Room opened to participants.
May - September 15, 2015	Submission and review of bids.
Pending	Execution of agreements.
November 2014 -December 2015	Submission of bids to execute agreements in consortia with Pemex.

### **Preparatory Measures**

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. Given this increased activity, regulatory, operational and financial teams at interested private companies and other participants and their advisers will want to collaborate to review carefully existing regulations to ensure that adequate preparations to consider participation in such processes are made. 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.

November 14, 2014