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Energy Alert

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Mexico's Energy Industry

Ronda Uno, Second Tender

On February 27, 2015, the Comisión Nacional de Hidrocarburos (CNH) published in the Federal Gazzette (or Diario Oficial de la Nación, DOF) the Call for Bidders No. CNH-R01C02/2015, the Bidding Guidelines and the Model Production Sharing Contract (PSC) for five mature contract areas located in shallow waters off the Gulf of Mexico coastlines of Veracruz, Tabasco and Campeche.

This summary presents some of the most relevant changes in the Second Tender Bidding Guidelines and Model PSC. The principal changes to the PSC focus on the fact that these fields have P1 reserves (they are not exploration blocks) in the following contract areas:

Contract Area	Field(s)	Surface Area (km2)	1P Reserves (mboe)	2P Reserves (mboe)	3P Reserves (mboe)
1	Amoca, Miztlon and Tecoalli	68.0	62.84	121.52	187.66
2	Hokchi	42.0	21.31	66.70	992.68
3	Xulum	58.8	0.00	17.71	97.26
4	Ichalki and Pokoch	58.0	41.44	85.43	190.63
5	Mison and Nak	54.1	14.74	63.85	103.08
Total		280.9	140.33	355.21	1571.31

According to the CNH, Petroleos Mexicanos (PEMEX) has previously conducted successful exploration and production in these Contract Areas. In addition to the detailed geological information, the Model PSC provides for the transfer of existing assets and inventory from the CNH to Contractor.

Main PSC Provisions

1. Term

- The Initial Evaluation Period will last two years. Contractor can request one additional year to complete its evaluation of the Contract Area, subject to additional terms and conditions. In contrast, the previous PSC had a three year exploration period with two options for one additional year each.
- The Contract Term remains 25 years. Contractor has two additional extension options, each for five years, subject to additional terms and conditions.

2. Transition Plan

- The CNH will provide Contractor a draft agreement that will include a detailed schedule for inspection and transfer of title of the Asset Inventory, as well as the environmental conditions of the Contract Area and the accompanying property, and the proposed maintenance and risk management plans.

- Contractor will be able to make comments and negotiate some of the terms and conditions contained therein during a 30 day period. The CNH will then have 15 days to review these comments and return a final draft to Contractor. Thereafter, the Transition Plan must be executed within five days or the PSC will automatically terminate.
- Contractor will assume title, custody and liability “as is” for all the assets listed in the transition agreement.

3. Effective Date

- The Effective Date is not the same as the execution date of the PSC. Rather, the Effective Date will be a later date set after the Transition Plan is negotiated and executed by both parties. This will give Contractor the opportunity to conduct due diligence on the asset inventory that the CNH will transfer as part of the PSC.

4. Asset Inventory

- The Asset Inventory will have a detailed list of all assets, equipment, personal property, tools, infrastructure, naval artifacts, facilities and materials whether owned, leased or used to some extent in related petroleum activities.
- At this time the CNH has not released the Asset Inventory for any of the Contract Areas.

5. Evaluation Phase and Development Phase

- Given the “mature” nature of these Contract Areas, the PSC does not contemplate an Exploration Phase. Rather, it structures Contractors performance around the Evaluation and Development Phases.
- The concept of “Commercial Discovery” has been removed. In this version, the PSC provides for the Evaluation Phase, Contractor’s Notification of Continuation of Activities (subject to completion of 90 percent of the Minimum Work Program) and the Development Phase.

6. Evaluation Plan

- Contractor must present the Evaluation Plan within 60 days from the Effective Date. The Evaluation Plan *must* contain at least work to satisfy the Minimum Work Program, any Addition to Minimum Program (if applicable) and it must detail the following concepts:
  - Evaluation Activities Plan, that includes drilling, testing and evaluation of Contract Area; technical, economic, social and environmental studies to determine the appropriate process to exploit available hydrocarbons.
  - Possible location of evaluation wells.
  - Preliminary drilling programs for the evaluation wells.
  - Estimated costs for the Evaluation Phase.

- Proposed duration of the Evaluation Phase.
- Risk management and environmental mitigation plans.
- Execution Program for evaluation activities.
- Hydrocarbon delivery point.
- Detailed schedule to reach the minimum national content requirements.

- Contractor must provide an Evaluation Report within 30 days after the end of the Evaluation Phase.
- Within 30 days after the end of the Evaluation Phase, Contractor must provide written Notification of Continuation of Activities and have completed 90 percent of the Minimum Work Program to have the right to proceed into the Development Phase.
- Any unused or unevaluated portions of the Contract Area will be returned to the state.

7. Minimum Work Program

- The new PSC model presents a completely new approach to the Minimum Work Program that is reminiscent of the Multiple Service Contract model from 2001. The following table demonstrates how the program assigns a minimum level of investment by linking a fixed amount of units per activity to the average price of oil per barrel. Therefore, the Minimum Investment will be directly proportional to the price per barrel for a specific period; as the price per barrel increases, the minimum investment will also increase. This scheme allows the Minimum Work Program to adjust to the international oil market and provides operational and financial flexibility to Contractors.

Contract Area	Field(s)	Work Units	Price per Barrel Range	Unit Value	Minimum Investment
1	Amoca, Miztlon and Tecoalli	195,000	$45-$50	$796	$155,220,000
			$50-$55	$852	$166,140,000
			$55-$60	$905	$176,475,000
2	Hokchi	130,000	$45-$50	$796	$103,480,000
			$50-$55	$852	$110,760,000
			$55-$60	$905	$117,650,000
3	Xulum	65,000	$45-$50	$796	$51,740,000
			$50-$55	$852	$55,380,000
			$55-$60	$905	$58,825,000
4	Ichalki and Pokoch	130,000	$45-$50	$796	$103,480,000
			$50-$55	$852	$110,760,000
			$55-$60	$905	$117,650,000
5	Mison and Nak	130,000	$45-$50	$796	$103,480,000
			$50-$55	$852	$110,760,000
			$55-$60	$905	$117,650,000

As a part of the Minimum Work Program, Contractor will have to allocate a number of units to specific activities. The next table illustrates some of the activities that have been assigned a fixed number of work units.

Activity	Work Units	Price per Barrel Range	Unit Value	Minimum Investment
Pozo Delimitador	45,000	$45-$50	$796	$35,820,000
		$50-$55	$852	$38,340,000
		$55-$60	$905	$40,725,000
Registros Geofisicos	1,500	$45-$50	$796	$1,194,000
		$50-$55	$852	$1,278,000
		$55-$60	$905	$1,357,500
Prueba de Produccion de Alcance Extendido	15,000	$45-$50	$796	$11,940,000
		$50-$55	$852	$12,780,000
		$55-$60	$905	$13,575,000
Estudios de Formacion (MDT)	1,500	$45-$50	$796	$1,194,000
		$50-$55	$852	$1,278,000
		$55-$60	$905	$1,357,500

8. Development Plan

- Contractor must present the Development Plan within 120 days after issuing the Notification of Continuation of Activities (similar to a declaration of commerciality in an exploration project).

9. Contract Price

- The Contract Price for oil will be determined on a per barrel basis, based on the percentage of commercialized volumes of hydrocarbons.
- The applicable value will be applied to the formulas based on API Grades for oil or natural gas (see Annex 3).
- The state has the unilateral right to revise the formulas based on market conditions.

10. Operator Change

- Members of a contracting consortium will be able to switch Operators after notice and approval of the CNH. The new Operator must have prequalified as an Operator during this Second Tender process or have prequalified as Operator for a tender with similar characteristics within the five previous years of the proposed change.

11. Financial and Operating Stability

- One of the new additional Contractor’s obligations includes a covenant to maintain the same (or better) financial and operating conditions as Contractor had when it prequalified.

12. National Content and Technology Transfer Program

- Minimum National Content (MNC) was increased from 13 percent to 17 percent during the Evaluation Phase. The MNC for the Development Phase will start at 25 percent and will increase annually until reaching 35 percent by 2025. If Contractor fails to comply with the MNC, it must pay the compensatory fee listed in Section 18.3(c).
- Contractor must include a technology transfer program in the Development Plan.

13. Guaranties

- This PSC provides for two types of Performance Guaranties: (i) an initial Performance Guaranty that will collateralize the Minimum Work Program and any Addition to the Minimum Program offered by Contractor, and (ii) an Additional Evaluation Period Guaranty that will secure any unperformed work from the Evaluation Phase and the additional commitments subscribed by the Contractor.
- The CNH recently revised the definition of Parent Guaranty in the PSC for the First Tender and included such changes in the PSC model for the Second Tender. Now, the Corporate Guaranty can be executed by the Ultimate Parent Company or the Controlling Parent Entity of each participating consortium company. If a Controlling Parent Entity executes the Parent Guaranty (as opposed to the Ultimate Parent Company), it will have to present audited financial statements consolidated for the last three years showing a $6 billion minimum equity value.

14. Termination

- In this PSC model the CNH and the Contractor have the right to terminate the contract if force majeure has precluded contract performance for more than one year.

15. Contract and Administrative Rescission

- The Contract and Administrative Rescission sections list detailed instances in which the CNH may unilaterally rescind the PSC subject to the new Rescission Procedures listed in Section 22. For example the CNH may rescind the PSC if Contractor fails to complete 90 percent of the Minimum Work Program.
- The CNH must now give 30 days' written notification of the pending Administrative Rescission. The Contractor has 30 days to cure or respond to any issues raised by the CNH. The CNH will have 90 days to determine if Contractor has cured or addressed the issues raised to its satisfaction.
- Contractor will have the opportunity to cure until the CNH issues its final Rescission Decision. Once this decision is official, the PSC will be rescinded and the Contractor will have to return the Contract Area to the state.

16. Assignability of Interests

- This new clause provides new procedures if a participating interest in the PSC is partitioned and/or transferred to more than one party.

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