

Energy Alert

December 6, 2016

Mexico's Energy Industry

Mexico's Crown Jewels: Deep Water and Farmout Tender Results

On December 5, 2016, the Comisión Nacional de Hidrocarburos (“CNH”) conducted the Opening and Presentation of Bid Proposals Ceremony for the Ronda Uno, Fourth Tender (“**Fourth Tender**”).

Simultaneously with the Fourth Tender, the CNH conducted the first ever partnership auction for Petróleos Mexicanos (“**Pemex**”). The unusual circumstance of Pemex being required to conduct a public auction administered by the CNH to select partners for upstream exploration and production came about thanks to the legal scheme introduced in the Mexican Energy Reform in 2014. This partner-selection process has been commonly referred to as a farmout (“**Farmout**”), even though the structure is really more of a sell down of Pemex interests in a given area.

The Farmout

BHP Billiton Ltd. (“**BHP**”) won the bid to develop the Trion deep water field in Pemex's first-ever farmout deal.¹ The Trion Field included Blocks AE-0092 and AE-0093 located in the Perdido Belt at a 2,500 meter depth and 40 kilometers from the U.S. border, it is estimated to contain about 485 million barrels. Under the Farmout, BHP will become operator and acquire a 60 percent participating interest in Trion, while Pemex will retain the remaining 40 percent. BHP's bid included the maximum additional royalty percentage of 4 percent, together with an investment commitment of \$624 million, which includes a future carry for Pemex obligations up to \$561.6 million.

Deep Water Licenses

The Fourth Tender was first published by the CNH on December 17, 2015. It included four deep water exploration blocks located in the Perdido Belt and six deep water exploration blocks located in the Salinas Basin totaling more than 23,000 square kilometers in the Gulf of Mexico. By all accounts the Fourth Tender was a success for bidders and for México. The Fourth Tender attracted more prominent international oil companies than other rounds in Mexico, including BP, ExxonMobil, BHP Billiton, Royal DutchShell, Total, Chevron and Eni, as well as national oil companies with international portfolios like Statoil, China National Offshore Oil Corporation and PC Carigali. Ultimately, the Fourth Tender received bids for all but two contract areas, a significant accomplishment in a time where deep water exploration projects have been delayed and/or canceled around the world. The Fourth Tender was not without its drama, however, as many of the blocks received only one proposal. Below please find the complete results of the Fourth Tender.

¹ BP came in second place with a \$606 million cash payment and a 4 percent additional royalty.

License Area	Winner	Surface (km ²)	Minimum Royalty (%)	Minimum Work Units	Offered Royalty (%)	Investment Factor (x)
Perdido Belt 1 ²	China National Offshore Oil Corporation	1,678	3.1	3,363	17.01	2
Perdido Belt 2	Total and Exxon	2,977	3.1	4,986	5	1
Perdido Belt 3	Chevron, Pemex and Inpex	1,687	3.1	3,374	7.44	1
Perdido Belt 4	China National Offshore Oil Corporation	1,877	3.1	3,611	15.01	1
Saline Basin 1	Statoil , BP and Total	2,381	1.9	4,241	10	1
Saline Basin 2	No Winner	2,411	1.9	5,414	–	–
Saline Basin 3	Statoil , BP and Total	3,287	1.9	17,701	10	1
Saline Basin 4 ³	Carigali and Sierra Oil	2,358	1.9	13,059	22.99	2
Saline Basin 5 ⁴	Murphy Oil, Ophir Oil, Carigali and Sierra Oil	2,573	1.9	14,131	26.91	4
Saline Basin 6	No Winner	2,605	1.9	14,293	–	–

² Pemex Exploracion y Produccion came in second place with a 6.65 percent royalty and a 1x Investment Factor.

³ The Statoil and Total Consortium came in second place with a 13% royalty and a 1.5x Investment Factor.

⁴ The Shell and Atlantic Rim Consortium came in second place with a 19.11 percent royalty and a 1.5x Investment Factor.

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