

Mexico's Energy Reforms: Opportunities Amidst Uncertainties

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Presented by:
Gilbert D. Porter
Alberto de la Pena
Ricardo S. Martinez
Ariel Ramos

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- Oil & Gas Financing and Investment Series – April 21, 2015
- Cybersecurity Panel – May 20, 2015

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WELCOME

Gilbert D. Porter
Partner, New York

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AGENDA

- The feasibility of these specific reform efforts in light of geopolitical and oil and gas price volatility
- Issues related to the implementation legislation, bid process and production-sharing contract terms and conditions
- Changes to Round 1 and status
- Status of the Pemex restructuring, new procurement process and migration of contracts
- Practical issues pertaining to land, security, anticorruption, among others

HISTORICAL CONTEXT AND MEANING OF REFORMS

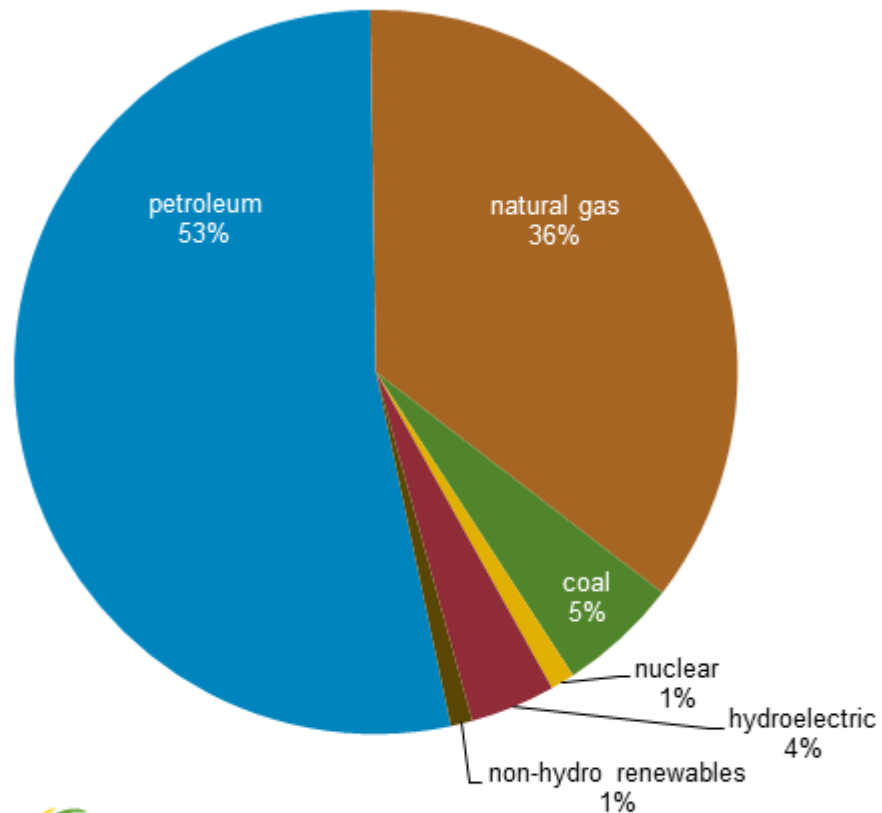
Ricardo S. Martinez
Partner, New York

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HISTORICAL CONTEXT AND MEANING

- Mexico is one of the 10 largest oil producers in the world and the third largest in the Americas
- However, Mexico's oil production has steadily decreased since 2005 as a result of natural production declines from Cantarell and other large oil fields
- Mexico nationalized its oil sector in 1938, and since then Pemex continues to be the sole oil operator in the country
- In respect of electricity, the Comision Federal de Electricidad (CFE) is the Mexican government entity that is the dominant player in the generation sector, holding more than 75% of the country's installed generating capacity
- Currently, and as compared to the U.S. and other industrialized nations, electric generation capacity in Mexico is expensive and not environmentally friendly

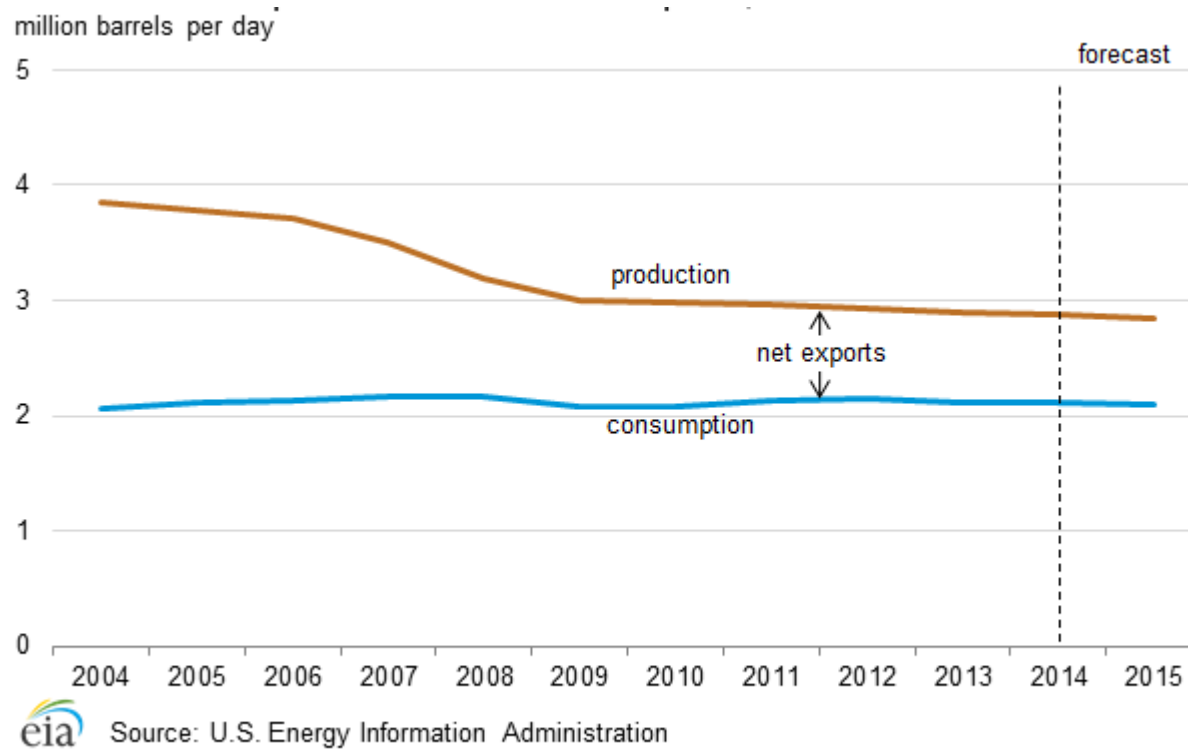
TOTAL ENERGY CONSUMPTION IN MEXICO BY TYPE, 2012



Source: U.S. Energy Information Administration

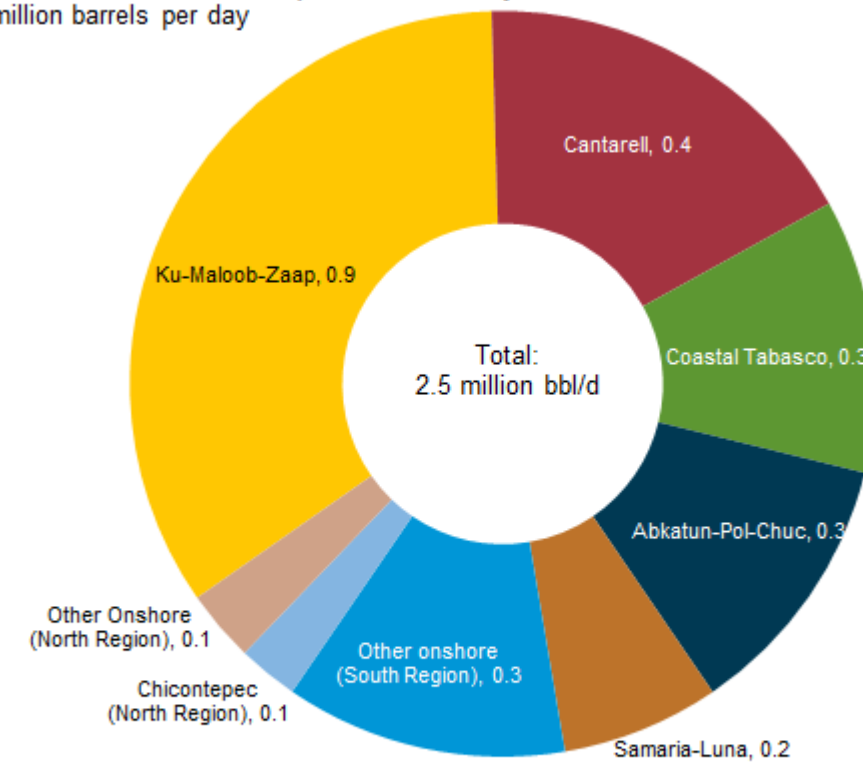
MEXICO TOTAL OIL PRODUCTION AND CONSUMPTION, 2004-2015

Mexico Total Oil Production and Consumption, 2004-2015



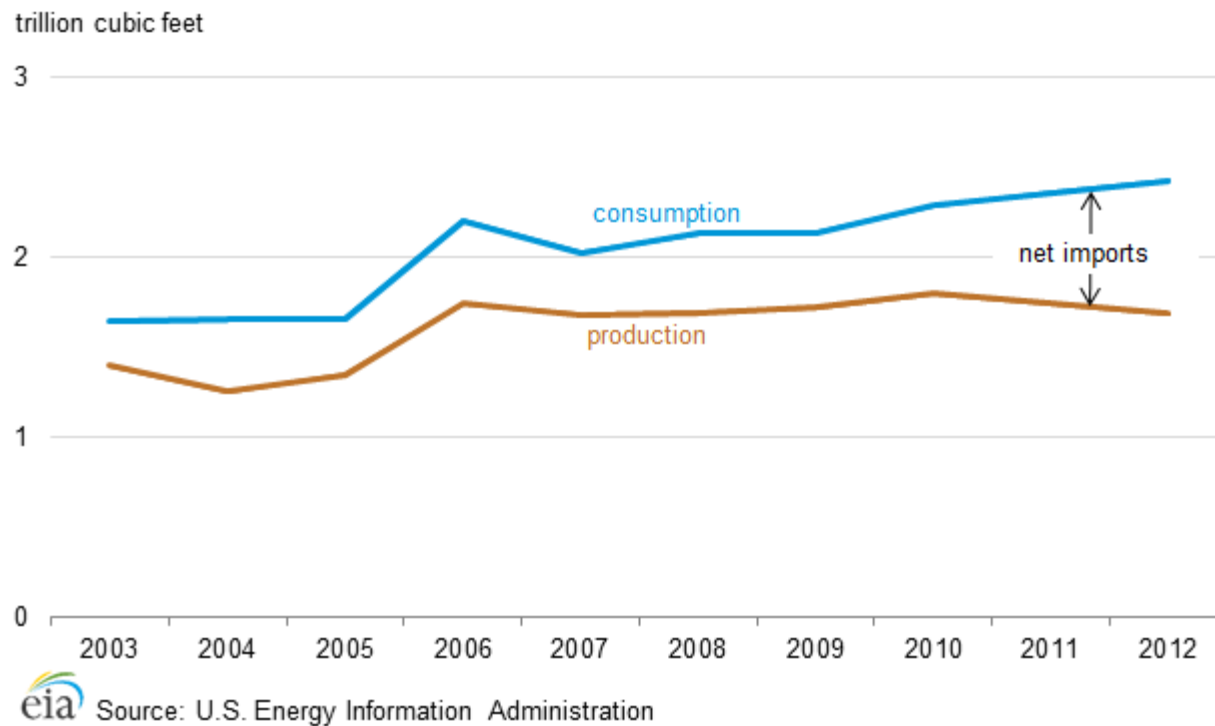
MEXICO'S CRUDE OIL PRODUCTION BY FIELD, 2013

Mexico's crude oil production by field, 2013
million barrels per day

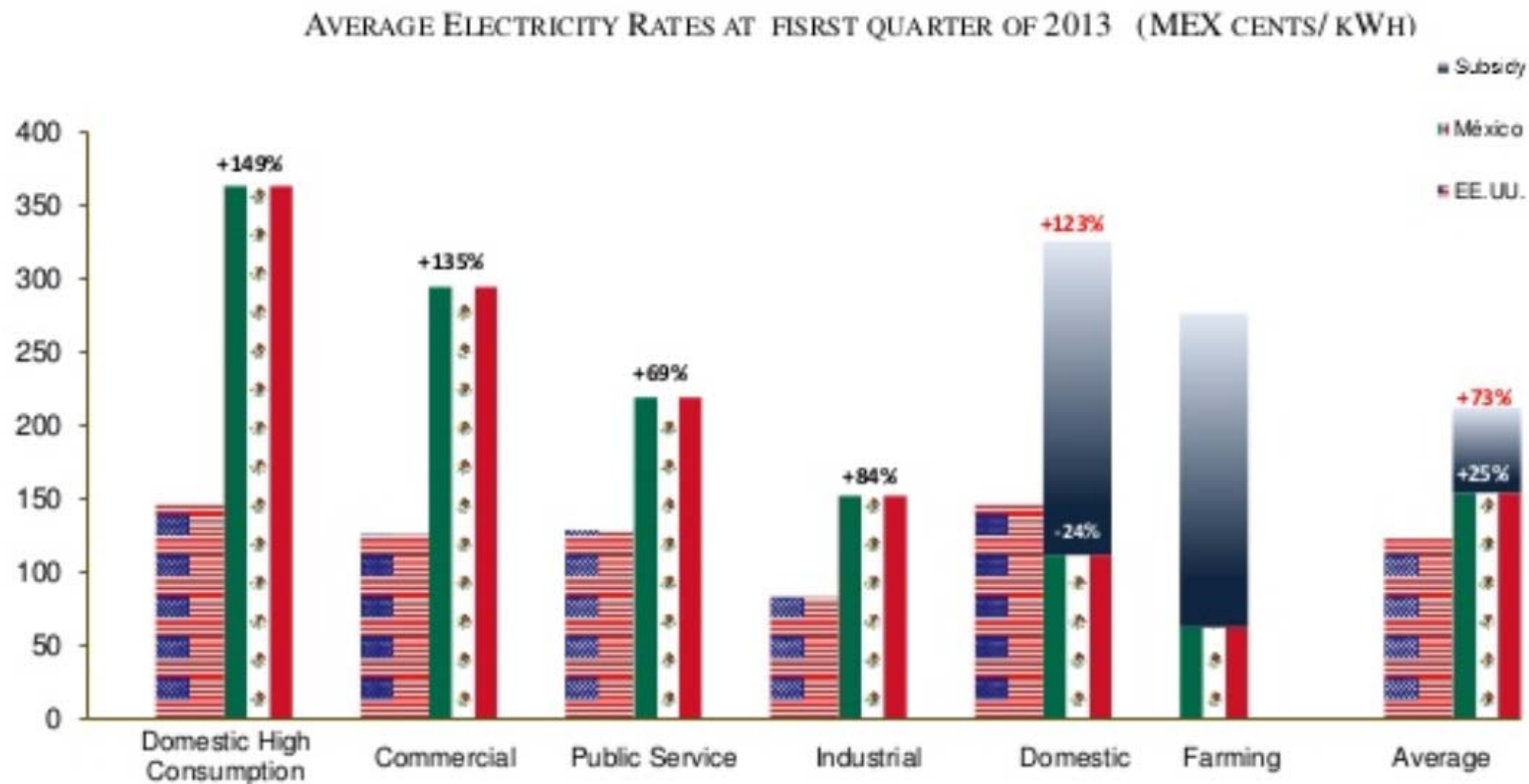


Source: PEMEX, Comision Nacional de Hidrocarburos

MEXICO'S DRY NATURAL GAS PRODUCTION AND CONSUMPTION, 2003-2012



AVERAGE ELECTRICITY RATES AT FIRST QUARTER OF 2013



*Source: SENER

TIMELINE AND IMPORTANT OVER-ARCHING ISSUES

Alberto de la Pena
Partner, Dallas

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OIL & GAS

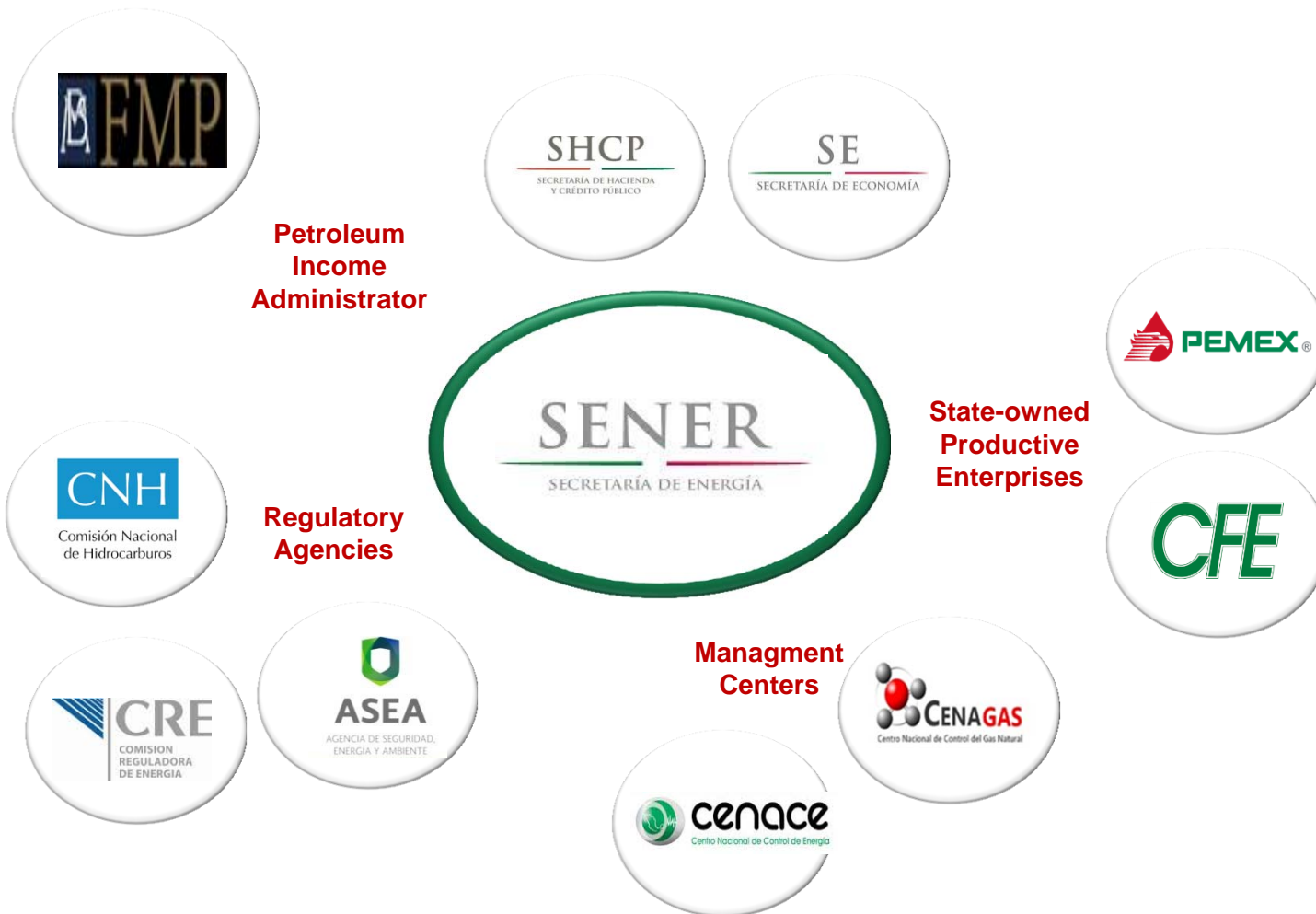
Before the Reform

- State Monopoly - PEMEX
- PEMEX does E&P, transportation, storage and sales
- Hydrocarbons owned by State
- Private companies may participate through service agreements
- Private investment was allowed in transportation, storage and distribution of natural gas

After the Reform

- More open market
- Pemex as a “State-Owned Productive Company”
- Pemex entitled to “Round Zero”
- Hydrocarbons in situ owned by State
- Private investment is allowed. E&P contracts will be awarded by CNH
- Agreements may include (i) service agreements; (ii) profit sharing agreements; (iii) production sharing agreements; (iv) licenses, or (v) a combination of any of the above
- PEMEX may do joint venture agreements and joint operating agreements with private sector

NEW INSTITUTIONAL STRUCTURE OF THE ENERGY INDUSTRY



ROUND 0 AND ROUND 1

- **ROUND 0**

- The Ministry of Energy assigned to PEMEX 83% of Mexico's total proved and probable hydrocarbon reserves (2P) and 21% of Mexico's total prospective resources
- Reserves granted to PEMEX in Round 0 position PEMEX in 5th place worldwide in proven reserves
- Round 0 secures enough reserves for PEMEX to maintain its current production level of 2.5mmbpce for the next 20 years

- **ROUND 1**

- Round One comprises 109 blocks for exploration and 60 blocks for production, and includes new areas of different sizes and types of resources, including: (i) deep-water; (ii) shallow-water; and (iii) on-shore fields. Together, these blocks cover approximately 28,500km², and represent an annual investment of approximately US \$8.5 billion
- The first call comprised 14 contract areas
 - Prospective Reserves aprox. 686.6 Mboe
- The second call comprised 5 contract areas
 - Prospective Reserves aprox. 355 Mboe

ROUND 1 TENTATIVE CALENDAR

	Call 1	Call 2	Call 3	Call 4	Call 5
FIRST INVITATION TO BID	DECEMBER 2014	FEBRUARY 2015	APRIL 2015	APRIL 2015	APRIL 2015
OPENING OF DATA ROOMS	JANUARY 2015	FEBRUARY 2015	MARCH 2015	APRIL 2015	MAY 2015
NEW AREAS AND FIELDS	SHALLOW WATERS EXPLORATION	SHALLOW WATERS EXTRACTION	ONSHORE	CHICONTEPEC AND UNCONVENTIONAL	DEEP WATERS
AREAS	14 EXPLORATION AREAS	5 EXTRACTION AREAS			

CALENDAR (DEADLINES)

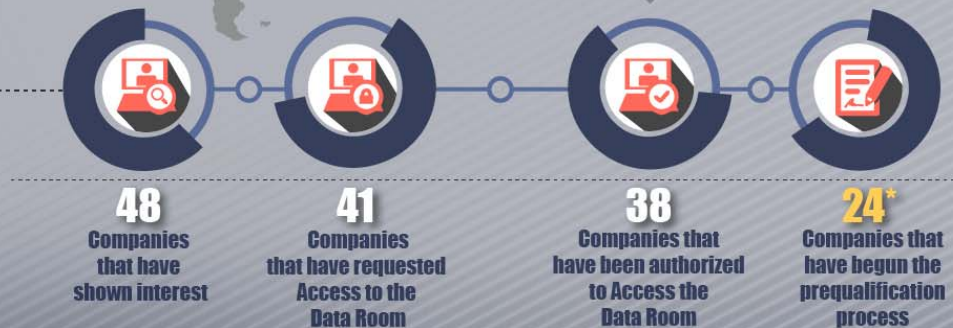
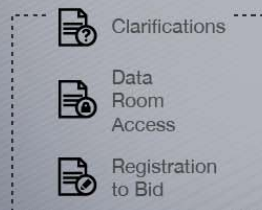
	Bid CNH-R01-L01/2015	Bid CNH-R01-L02/2015
Publication of Bid	December 11, 2014	February 27
Publication of Updated Bid & Final Contract	May 29	August 14
Request Access to Dataroom	March 17	June 1
Dataroom Access	July 14	September 29
Bid Payment	March 1	June 15
Clarification Periods (3)	May 27	August 12
Pre-Qualification (Reception of Documents)	March 31	July 3
Bid Submission & Opening	July 15	September 30
Bid Award	July 17	October 2
Execution of Contract	August 15	November 6

ROUND 1 – FIRST CALL

BIDDING PROCESS PROGRESS: UP TO MARCH 12, 2015



TYPE OF REQUEST



**CNH-R01-L01/2014
Shallow Waters
First Invitation to Bid**

Source: <http://ronda1.gob.mx/English/monitoring.html>

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ROUND 1 – SECOND CALL

BIDDING PROCESS PROGRESS: SECOND INVITATION TO BID UP TO MARCH 18, 2015

BP Exploration Mexico, S.A. DE C.V.

Casa Exploration, L.P.

LUKOIL Overseas Netherlands B.V.*

Sánchez Oil & Gas Corporation

Shell Exploración y Extracción de México, S.A. de C.V.*

Sierra Oil & Gas, S. de R.L. de C.V.*

Total, S.A.*

TYPE OF REQUEST



Clarifications



Data
Room
Access



Registration
to Bid



7

Companies
that have
shown interest



0

Companies
that have requested
Access to the
Data Room



0

Companies that
have been authorized
to Access the
Data Room



0*

Companies that
have begun the
prequalification
process

CNH-R01-L02/2015
Shallow Waters
Second Invitation to Bid

CHALLENGES AHEAD

- Mexican energy market competitiveness
- Success of round one
- Pemex role
- Transparency & rule of law

CURRENT MARKET UPDATE

Ariel Ramos
Partner, Mexico City

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IMPACT OF OIL PRICE

- Upstream
 - Round 1 restructuring
 - Review of PSA fiscal terms
- Midstream
 - Exportation of gas to Mexico
 - Pipeline bids
- Pemex budget cuts
 - U.S.\$4 billion cut
 - Restructuring of contracts with service providers
 - Cancellation of downstream projects (refinery)

MIGRATION OF CIEPS

- Importance and objective
- Transitory Article 28 of the Hydrocarbons Law and Article 7 of its regulation
- Agreement between Pemex and contractors
- Migration request to SENER
- Technical guidelines
- Form of PSA
- Economic terms - SHCP

ROUND 1 PSA

- Background
- Rights over hydrocarbons
- Consideration/marketing of product
- Financing and expenses
- CNH discretionary power
- Booking of reserves
- Consortiums
 - Parent company obligations
 - Joint and several liability
- Term – 25 years with possibility to extend
- Budget and recoverable costs
- Exploration plan, development and work program
- Ownership of material and equipment

ROUND 1 PSA (CONTINUED)

- Assignment and change in control
- Liens
- Administrative recession
- Contractual recession
- Early termination
- Environmental liability
- Indemnification, guarantees and liquidated damages
- Insurance
- Force majeure
- Applicable law
- Dispute resolution
 - Arbitration/litigation

OTHER ISSUES

- Land
- Security
- Anti-corruption
- Tax issues

QUESTIONS?

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HAYNES AND BOONE'S MEXICO CITY OFFICE

Some Key Facts.....

- Fully integrated Mexico City office formed in 1994 and consists of over 25 attorneys and law clerks
- Recognized by various publications including *Chambers USA*, *Latin Lawyer* and *Latinvex* which recently named three Haynes and Boone lawyers in their Top 100 list for the second consecutive year
- Strong securities, finance, real estate, mergers and acquisitions, and energy capabilities in Mexico City
- A permanent staff of Latin American lawyers from Mexico, Argentina, and Spain and a team of visiting lawyers from other jurisdictions including Colombia, Peru, and Venezuela
- An integrated approach to staffing projects with Latin America lawyers in our U.S. offices ensures real-time attention to both sides of the border

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RECENT KEY DEALS

- Represented Cotemar in connection with the \$160 million refinancing loan from Banamex and Citibank
- Represented a major Mexican oil and gas exploration services provider in connection with a \$390 million syndicated loan led by Scotiabank Inverlat and secured by certain receivables due and owing from Pemex in connection with various Mexican oil and gas projects
- Represented Afore XXI Banorte in its US \$1.83 Billion acquisition of Afore Bancomer
- Represented Mirant Energy in its divestiture of utilities and power generation assets in four Caribbean countries to a Japanese buyer valued at approximately US \$1.1 billion
- Represented a subsidiary of Grupo Fermaca in the US \$378 million financing, led by The Bank of Tokyo Mitsubishi UFJ, Credit Agricole, ING Capital, Nacional Financiera, Banamex, Banobras and The Bank of Nova Scotia, for the construction, operation and maintenance of a 381-kilometer, gas transmission pipeline for CFE, the Mexican state utility, in the state of Chihuahua. (named Americas Midstream Deal of the Year 2012 by *Project Finance Magazine*)

THE HAYNES AND BOONE MEXICO PRACTICE GROUP TEAM



William (Hunt) Buckley
Partner
Mexico City
hunt.buckley@haynesboone.com
+52.55.5249.1812



Arthur A. Cohen
Partner
Washington, D.C.
arthur.cohen@haynesboone.com
+1 202.654.4559



Alberto de la Peña
Partner
Dallas
alberto.delapena@haynesboone.com
+1 214.651.5618



Antonio Diez de Bonilla
Partner
Mexico City
antonio.diezdebonilla@haynesboone.com
+52.55.5249.1810



Ricardo Garcia-Moreno
Partner
Houston
ricardo.garcia-moreno@haynesboone.com
+1 713.547.2208



George Y. Gonzalez
Partner
Houston
george.gonzalez@haynesboone.com
+1 713.547.2011



Brent T. Huddleston
Partner
Dallas
brent.huddleston@haynesboone.com
+1 214.651.5307



Edgar Klee
Partner
Mexico City
edgar.klee@haynesboone.com
+52.55.5249.1873



Jorge A. Labastida
Partner
Mexico City
jorge.labastida@haynesboone.com
+52 55.5249.1825



Ricardo S. Martinez
Partner
New York
rick.martinez@haynesboone.com
+1 212.835.4844



Luis F. Moreno Trevino
Partner
Mexico City
luis.moreno@haynesboone.com
+52.55.5249.1821



Larry B. Pascal
Partner
Dallas
larry.pascal@haynesboone.com
+1 214.651.5652



Gilbert D. Porter
Partner
New York
gilbert.porter@haynesboone.com
+1 212.659.4965



Ariel Ramos
Partner
Mexico City
ariel.ramos@haynesboone.com
+52.55.5249.1820



Jorge Sanchez
Partner
Mexico City
jorge.sanchez@haynesboone.com
+52.55.5249.1834



Herbert A. Glaser
Senior Counsel
Washington, D.C.
herbert.glaser@haynesboone.com
+1 202.654.4513



Rafael Carmona
Counsel
Mexico City
rafael.carmona@haynesboone.com
+52.55.5249.1807



Gerardo Carrillo Valadez
Counsel
Mexico City
gerardo.carrillo@haynesboone.com
+52.55.5249.1847

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New York: This transitional program has been approved in accordance with the requirements of the New York State CLE Board for a maximum of 1.0 credit hour, of which 1.0 credit hour can be applied toward the Areas of Professional Practice requirement

California: This activity is approved for MCLE credit by the State Bar of California in the amount of 1.0 credit hour

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