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Mexico: Round Two – Third Public Bid

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The Mexican government announced the third bid of Round Two on November 14, which will be the eighth upstream bid round in Mexico since passage of the energy reform in mid-2014. The new bid round (named Round 2.3), comprises 14 onshore blocks for exploration in the Burgos Basin, the Tampico-Misantla Region, the Veracruz Basin, and the Southeastern Basin, covering collectively 2,595 km², with prospective resources of approximately 251 million barrels of crude equivalent and an original volume of approximately 328 million barrels of crude equivalent.

The National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos*) (“CNH”) has organized the bid rounds so far into three main groups: Round 1 (four sub-rounds, Rounds 1.1 through Round 1.4), Pemex Associations (so far only one, “Trion”), and Round 2, so far comprising three sub-rounds (Rounds 2.1, 2.2, and 2.3). Rounds 1.1 through 1.3 (now completed) covered, respectively, 14 exploration and production blocks in shallow waters, nine production blocks in shallow waters; and 26 onshore production blocks. Rounds 1.4, 2.1, and 2.2, and Trion (still in process) cover, respectively, 10 blocks in deep waters, 15 exploration blocks in shallow water, 12 onshore exploration blocks, and the “Trion” block in deep water within part of Round 1.4.¹

CNH awarded production sharing contracts in Round 1.1 and 1.2, and license contracts in Round 1.3. CNH will award production sharing contracts in Round 2.1, and license contracts in Rounds 1.4, 2.2, and 2.3, and the Trion round.

General Description of Round 2.3:

On November 15, 2016, CNH formally announced the third international public bid of Round Two (Round 2.3) to award 14 **license contracts** for **onshore** production of hydrocarbons. The bid rules and the model contract were published on November 15, 2016. This is the third bid covering onshore blocks and is the fourth time license contracts are used in Mexico.

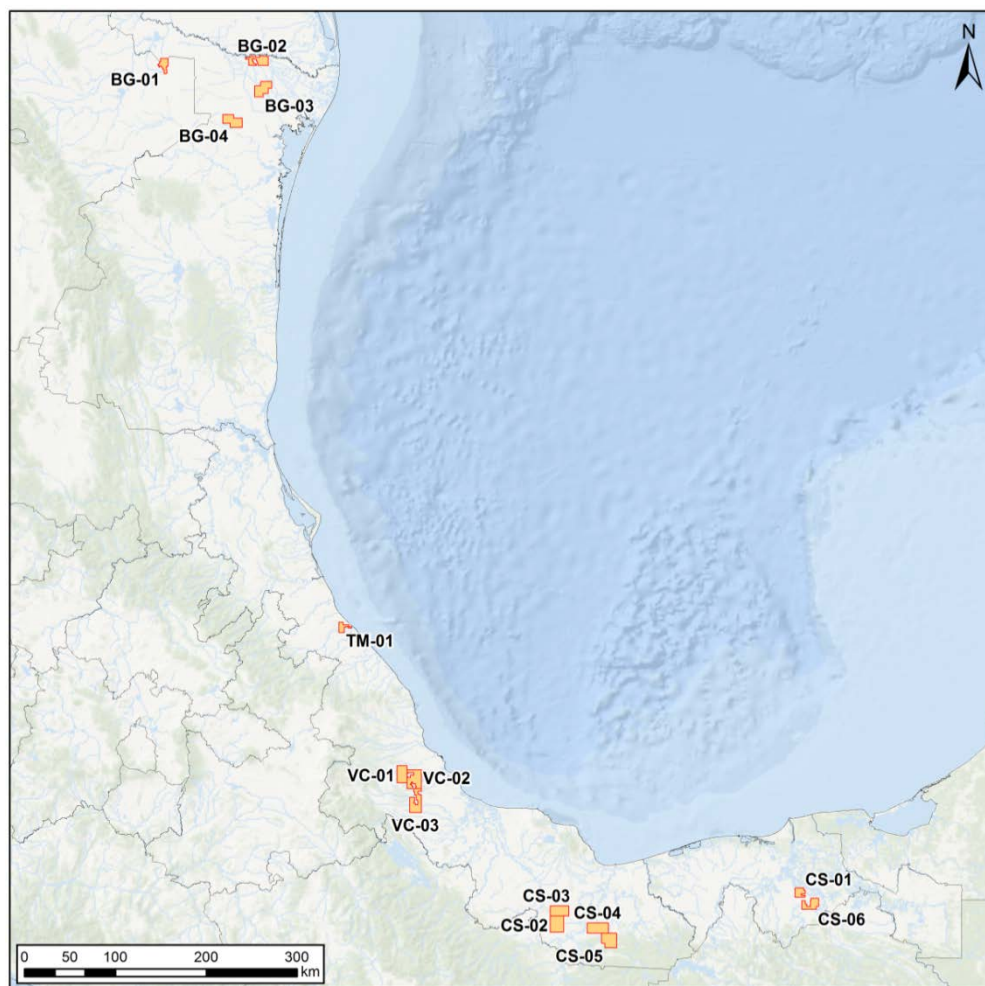
Four of the fourteen blocks are located in the Burgos Basin in northern Tamaulipas and northern Nuevo León, one block in the Tampico-Misantla Region in northern Veracruz, three blocks in the Veracruz Basin in central Veracruz, while six are located in the Southeastern Basin in southern Veracruz and Tabasco.

¹ To read more about the international public bids CNH-R02-L02/2016, CNH-R02-L01/2016, CNH-R01-L01/2014, CNH-R01-L02/2015, CNH-R01-L03/2015 and CNH-R01-L04/2015, please refer to our previous alerts, as set forth in the links below: [Mexico Round One – First Bidding Process](#), [Mexico Round One - Second Bidding Process](#), [Mexico Round One - Third Bidding Process](#), [Mexico Round One - Fourth Bidding Process](#), [Mexico Round Two - First Bidding Process](#), [Mexico Round Two - Second Bidding Process](#)

- 1. Size of the Blocks.** The total area of the blocks to be auctioned is 2,595 km², with prospective resources of approximately 251 million barrels of crude equivalent and an original volume of approximately 328 million barrels of crude equivalent, broken down as follows:

Type of Block	Block	Location	Area (Km ²)
Onshore	BG-01	Burgos Basin	99.3
	BG-02		163
	BG-03		199.6
	BG-04		199.3
	TM-01	Tampico-Misantla Region	72.4
	VC-01	Veracruz Basin	193.3
	VC-02		251.4
	VC-03		231.7
	CS-01	Southeastern Basin	95.2
	CS-02		248
	CS-03		215.1
	CS-04		244.8
	CS-05		233.6
	CS-06		148.2

2. Location of the Blocks



[The source of the map is the CNH (National Hydrocarbons Commission)]

Technical Bid Information:

- (a) **Type of Exploration and Production Contract.** License Contracts.
- (b) **Term of the Contract.** 30 years from the date of execution of the contract. The term of the contract may be extended for two additional terms of five years each, for a maximum total of 40 years.

(c) **Periods:**

- Initial exploration period of two years, with an additional period of two years;
- Appraisal period of one year, which may be extended for an additional year; and
- Development period of between 23 and 27 years, plus the two five-year extensions to the term of the contract (subject to continued production under the contract).

(d) **Local Content.** At least between 26 percent and 38 percent depending on the stage of the project.

(e) **Performance Guaranty.** A letter of credit or bond to guarantee work units committed by the contractor during the exploration period.

(f) **Corporate Guaranty.** Granted by the contractor's ultimate parent or a duly-capitalized affiliate to guarantee the due performance of the contract.

(g) **Governing Law.** Hydrocarbons Law (*Ley de Hidrocarburos*), Regulations to the Hydrocarbons Law (*Reglamento de la Ley de Hidrocarburos*), and the Administrative Rules for the Tender of E&P Contracts (*Disposiciones Administrativas en materia de Licitaciones de Contratos para la Exploración y Extracción de Hidrocarburos*).

(h) **Location of the Contract Areas.** Onshore blocks located in the Burgos Basin in northern Tamaulipas and northern Nuevo León, the Tampico-Misantla Region in northern Veracruz, the Veracruz Basin in central Veracruz, and in the Southeastern Basin in southern Veracruz and Tabasco.

(i) **Language of the Proposal.** Spanish.

(j) **Bid Bond.** For each block, participants must provide a standby letter of credit for a total amount of US\$250,000.00 for a term of 150 days from the date of submission of the proposals.

(k) **Requirements of the Bidder to Access the Data Room.** The interested party must obtain a license for the use of data from the National Hydrocarbons Information Center, and pay a fee of at least MX\$2,500,000.00 pesos for data room access.

(l) **Registration Fee.** MX\$750,000.00 pesos.

(m) **Form of Participation.** Companies may participate in the bidding round as individual bidders ("Individual Bidder") or as joint bidders ("Consortium"; jointly, a "Bidder"). Either as an Individual Bidder or a Consortium, a Mexican entity must be created as a special-purpose vehicle to execute the License Contract. One or more companies may submit a joint bid, acting as a Consortium, pursuant to the following:

- Any of the companies of the Consortium may pay the fee to access the Data Room and be registered in the Bid;
- Only joint bids from a Consortium that obtains a prequalification certificate will be accepted, and therefore, any new company not a member of the Consortium in the prequalification stage will not be accepted, except if it prequalified individually and the Consortium obtained prior consent from CNH;
- A company may not be a party to more than four Consortia;

- The designated operator must have at least one-third of the economic participation in the Consortium; and
- All members of a Consortium must execute, among themselves, a Private Joint Proposal Agreement in accordance with Form CNH-2 included in the Bid Rules.

(n) **Prequalification Requirements.** Participants in the Bid must satisfy certain financial and expertise conditions to be prequalified. Some of the requirements are applicable only to the operator and may be satisfied by an affiliate depending on the case. The requirements in general include the following:

1. **Experience.** The operator must evidence:

- a. That its proposed personnel for key management positions have experience of at least 10 years in management and operational positions, which involve the management of onshore and/or offshore exploration and/or production projects; and
- b. That either the operator or its proposed key management personnel have at least five years' experience in industrial and environmental safety in exploration and/or production projects in shallow or deep waters.

2. **Financial.** The Individual Bidder or designated operator must evidence that:

- a. A net equity (assets minus liabilities plus reserves) of at least US\$100 million; or
- b. In the case of a consortium, if the operator cannot meet the foregoing requirement, it must evidence a net equity (assets minus liabilities plus reserves) of at least US\$60 million, and the other consortium members must evidence an aggregate net equity of at least \$40 million.

(o) **Limit to Awarding of Blocks.** There is not a limit; a Bidder may submit bids for each block. However, a company may participate in no more than four Bidders, whether as an Individual Bidder or in consortia.

(p) **Timeline of Award Process**

- **Date of the Invitation to Bid and Publication of the Bid Rules.** November 15, 2016.
- **Registration Payment and Request Prequalification Meeting.** From December 15, 2016 to March 17, 2017.
- **Registration for Data-Room Access.** From December 15, 2016 to March 15, 2017.
- **Access to the Data Room.** From December 15, 2016 to July 11, 2017.
- **First Clarification Stage (Data-Room Access).** From November 15, 2016 to March 3, 2017.
- **Second Clarification Stage (Prequalification).** From December 15, 2016 to March 21, 2017.
- **Third Clarification Stage (Submission and Opening of Proposals, Award and Contract).** From December 15, 2016 to June 14, 2017.
- **Delivery of Prequalification Documents.** From March 27, 2017 to March 31, 2017.
- **Prequalification Document Review by Bid Committee.** April 3, 2017 to June 9, 2017.



- **Publication of the List of Prequalified Bidders.** June 14, 2017.
- **Deadline Application for Authorization to Modify Structure of Bidders.** June 21, 2017.
- **Final Version of the Bidding Guidelines.** June 14, 2017.
- **Final Version of the Model License Contract.** June 14, 2017.
- **Date for the Submission of Bids, Opening Thereof and Declaration of Winning Bidders.** July 12, 2017.
- **Issuance of the Award and Request for its Publication.** July 14, 2017.

Date of Execution of Contracts. Within 140 days after the publication of the award of the contract in Mexico's Federal Official Gazette.

For more information in connection with this third bidding process of Round Two, please contact any of the following attorneys:

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