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Mexico: Round Three – First Public Bid

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The Mexican government announced on September 28, 2017 the first bid of Round 3. This will be the sixteenth upstream bid round in Mexico since the enactment of the energy reform in mid-2014. The new bid round (named Round 3.1), comprises 35 offshore blocks for exploration and production in the Burgos Region off the coast of northern Tamaulipas, the Tampico-Misantla-Veracruz Region off the coast of Veracruz, and the Southeastern Region off the coast of Tabasco and Campeche, all in shallow water in the Gulf of Mexico, covering collectively 26,265 km², with prospective resources of approximately 1.988 billion barrels of crude equivalent.

The National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos*) (“**CNH**”) has so far organized the bid rounds into four main groups: Round 1 (four sub-rounds, Rounds 1.1 through Round 1.4); Pemex Associations (“Trion,” whose contracts were awarded in December 2016, and “Ayin-Batsil,” “Cárdenas Mora,” “Ogarrio,” and “Nobilis-Maximino,” currently in process); Round 2, so far comprising four sub-Rounds 2.1, 2.2, 2.3, and 2.4; and, Round 3, so far only comprising sub-Round 3.1. Rounds 1.1 through 1.4 (now completed) covered, respectively, 14 exploration and production blocks in shallow waters, nine production blocks in shallow waters, 26 onshore production blocks, and 10 offshore deep-water exploration and production blocks. Rounds 2.1, 2.2, 2.3, and 2.4 (the latter currently in process) covered, respectively, 15 exploration blocks in shallow water, 24 onshore exploration and production blocks (from Rounds 2.2 and 2.3), and 30 exploration blocks in deep waters. Trion covered and Ayin-Batsil, Cárdenas Mora, Ogarrio (currently in process), and Nobilis-Maximino cover, respectively, the deep-water “Trion,” the shallow-water “Ayin-Batsil,” the onshore “Cárdenas Mora,” the onshore “Ogarrio,” and the deep-water Nobilis-Maximino blocks.¹

CNH awarded production-sharing contracts in Rounds 1.1, 1.2, and 2.1, and license contracts in Rounds 1.3, 1.4, 2.2, 2.3, and Trion. CNH will award license contracts in Round 2.4 and the Cárdenas Mora, Ogarrio, and Nobilis-Maximino rounds, and production-sharing contracts in the Ayin-Batsil round and Round 3.1.

General Description of Round 3.1:

On September 28, 2017, the CNH formally announced the first international public bid of Round Three (Round 3.1) to award 35 **production-sharing contracts** for **offshore** exploration and production of hydrocarbons in **shallow waters**. The bid rules and the model contract were published on September 29, 2017. This is the fifth bid covering shallow-water blocks and is the fifth time production-sharing contracts are used in Mexico.

¹ To read more about the international public bids in Rounds 1 and 2 and Trion, please refer to our previous alerts, as set forth in the links below:

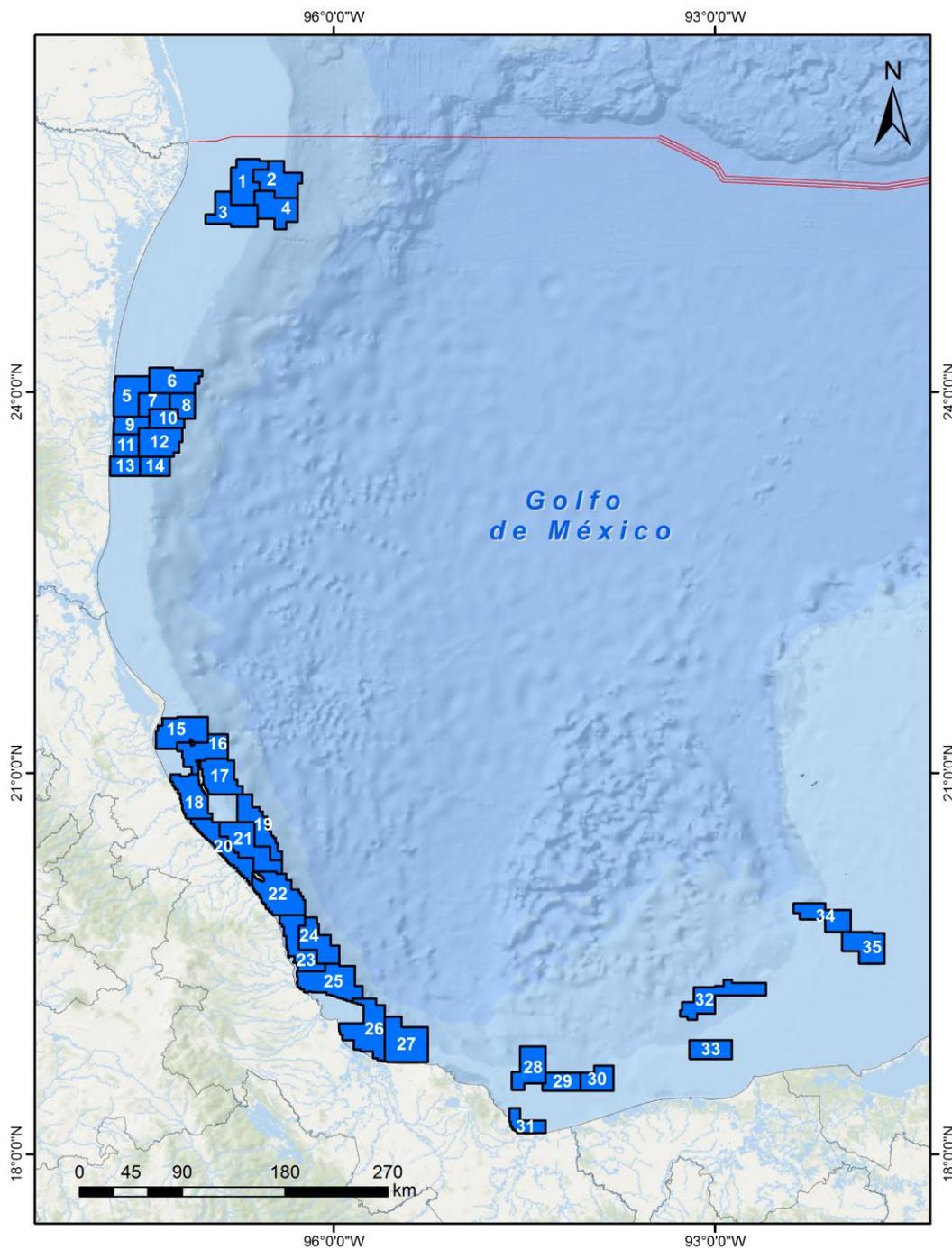
- [Mexico Round One – First Bidding Process](#)
- [Mexico Round One - Second Bidding Process](#)
- [Mexico Round One - Third Bidding Process](#)
- [Mexico Round One - Fourth Bidding Process](#)
- [Mexico Round Two - First Bidding Process](#)
- [Trion – CNH Calls for Public Bid for First “Pemex Farmout”](#)
- [Mexico Round Two – Second Public Bid](#)
- [Mexico Round Two – Third Public Bid](#)
- [Mexico: Round Two – Fourth Public Bid](#)

Fourteen of the 35 blocks are located in the Burgos Region in the northwestern Gulf of Mexico, 13 in the Tampico-Misantla-Veracruz Region in the central and southern Gulf of Mexico, and eight in the Southeastern Basins in the southeastern Gulf of Mexico.

1. **Size of the Blocks.** The total area of the blocks to be auctioned is 26,265 km², with prospective resources of approximately 1.998 billion barrels of crude equivalent, broken down as follows:

Type of Block	Block	Location	Area (Km ²)
Offshore in Shallow Waters	1	Burgos Region	801.8
	2		816.3
	3		809.3
	4		778.5
	5		813.8
	6		820.1
	7		319.2
	8		390.5
	9		397.1
	10		418.7
	11		391.4
	12		811.3
	13		391.9
	14		391.9
	15	Tampico-Misantla-Veracruz Region	961.7
	16		784.8
	17		842.4
	18		813.3
	19		808.4
	20		816.7
	21		1,103.2
	22		1,137.8
	23		820.3
	24		791.4
	25		1,170.1
	26	1,224.6	
	27	1,218.5	
	28	Southeastern Basin	807.8
	29		470.6
	30		527.9
	31		401.4
	32		1,027.4
	33		580.9
	34		734.1
	35		798

2. Location of the Blocks/Contract Areas



Source: CNH

Bid Information:

- (a) **Type of Exploration and Production Contract.** Production-Sharing Contracts.
- (b) **Term of the Contract.** Thirty 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 up to four years, with two additional periods of two years each
 - Appraisal period of up to 24 months
 - Development period of up to 30 years, considering the two extensions to the term of the contract
- (d) **Local Content.** At least between 15 percent (12 percent with respect to Contract Areas 8, 19, and 32) and 35 percent (17 percent with respect to Contract Areas 8, 19, and 32) depending on the stage of the project.
- (e) **Performance Guaranty.** A letter of credit 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 guaranty 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*), 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*), the Law of the National Industrial Safety and Environmental Protection Agency for the Hydrocarbons Industry (*Ley de la Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*), and Regulations of the National Industrial Safety and Environmental Protection Agency for the Hydrocarbons Industry (*Reglamento Interior de la Agencia Nacional de Seguridad Industrial y de Protección al Medio Ambiente del Sector Hidrocarburos*).
- (h) **Language of the Proposal.** Spanish.
- (i) **Bid Bond.** For each block, participants must guarantee their bids by providing standby letters of credit for a total amount per bid of US\$500,000.00 for a term of 120 days from the date of submission of the bids.
- (j) **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\$8,000,000.00 for data room access.
- (k) **Registration Fee.** Unlike the Bid Rules for prior CNH public bids, which establish a Mexican-peso amount, the current Bid Rules for Round 3.1 do not establish an amount.

- (l) **Form of Participation.** Companies may participate in the bidding round as individual bidders (“**Individual Bidder**”) or as joint bidders (“**Consortium**”; jointly, a “**Bidder**”). Each Bidder, whether as an Individual Bidder or a Consortium, must create a Mexican entity to sign the Production-Sharing Contract. The members of a Consortium may either jointly create a single Mexican entity to sign the Production-Sharing Contract, or may individually create their own Mexican entities to sign the Production-Sharing Contract, in which event they would designate one of them as the operator (with, typically, a joint operating agreement among them). Two 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. Any new company that desires to join an existing Consortium will not be accepted, unless it previously prequalified as a non-operator or operator, the Consortium timely files its application for the addition, and obtains prior consent from CNH
 - A company that prequalified in Rounds 1.1, 1.2, 1.4, 2.1, 2.2, 2.3, and/or 2.4, and/or any of the Pemex Associations rounds may prequalify in Round 3.1 with a reduced filing burden
 - There are certain restrictions on bidding; for example, an Individual Bidder which is also a member of a Consortium, or two Consortia having a member in common, may not bid on the same Contract Area
 - The designated operator must have at least 30 percent of the economic participation in the Consortium
 - All members of a Consortium must execute, among themselves, a Consortium Agreement in accordance with Form CNH-2, which is included in the Bid Rule documents
- (m) **Prequalification Requirements.** Participants in the Bid must satisfy certain financial and experience requirements to be prequalified. Some of the requirements are applicable only to the operator, others to non-operators, and in both cases some of the requirements may be satisfied through an affiliate. The requirements in general include the following:
1. **Experience.** The Individual Bidder or Consortium designated operator must evidence:
 - a. Experience as an operator in at least one exploration and production project in shallow in the past five years, or capital investments in exploration and/or production projects for a minimum cumulative amount of US\$1 billion
 - b. That it has experience in industrial and environmental safety in exploration and/or production projects for the past five years
 2. **Financial.** The Individual Bidder or Consortium designated operator must evidence:
 - a. A net equity (assets minus liabilities plus reserves) of at least US\$1 billion
 - b. Assets totaling US\$10 billion with an investment-grade credit rating

(n) **Limit to Awarding of Blocks.** There is not a limit on the number of blocks for which a Bidder may bid. A Bidder may submit bids for all blocks. However, a company may not submit more than one bid for the same block, whether individually, through direct or indirect participation in a Consortium, or individually through companies in which it has control or that belong to the same economic group.

(o) **Timeline of Award Process**

- **Date of the Invitation to Bid and Publication of the Bid Rules:** September 28, 2017
- **Registration Payment and Request Prequalification Meeting:** From September 29, 2017 to January 19, 2018
- **Registration for Data-Room Access:** From October 16, 2017 to January 16, 2018.
- **Access to the Data Room:** From October 16, 2017 to March 26, 2018.
- **First Clarification Stage (Data-Room Access):** From September 29, 2017 to January 12, 2018.
- **Second Clarification Stage (Prequalification and Bidder Integration):** From September 29, 2017 to February 28, 2018.
- **Third Clarification Stage (Submission and Opening of Bids, Award and Contract):** From September 29, 2017 to February 26, 2018.
- **Delivery of Prequalification Documents:** From January 22, 2018 to January 24, 2018.
- **Prequalification Document Review by Bid Committee:** From January 25, 2018 to February 23, 2018.
- **Publication of the List of Prequalified Bidders:** February 26, 2018.
- **Application for Authorization for Integration of Bidders:** From March 6, 2018 to March 8, 2018.
- **Final Version of the Bidding Guidelines:** February 26, 2018.
- **Final Version of the Model Production-Sharing Contract:** February 26, 2018.
- **Date for the Submission and Opening of Bids, and Declaration of Winning Bidders:** March 27, 2018.
- **Issuance of the Award and Request for its Publication:** April 2, 2018.
- **Deadline for Contract Signing:** Within 90 calendar days of the publication of the award of the contract in the *Federal Official Gazette*.