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Mexico: Round Two – Fourth Public Bid

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The Mexican government announced, on July 19, 2017, the fourth bid of Round Two. This will be the 14th upstream bid round in Mexico since passage of the energy reform in mid-2014. The new bid round (named Round 2.4) comprises 30 offshore blocks for exploration in the Perdido Belt, the Salina Basin, the Mexican Ranges (*Cordilleras Mexicanas*), and the Yucatán Platform in the Gulf of Mexico, covering collectively 70,844 km², with prospective resources of approximately 4.2 billion barrels of crude equivalent.

The National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos*) (“**CNH**”) has so far organized the bid rounds into three main groups, Round One (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,” and “Ogarrio,” currently in process), and Round Two, so far comprising four sub-Rounds (2.1, 2.2, 2.3, and 2.4). 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 exploration and production blocks. Rounds 2.1, 2.2, and 2.3 covered, respectively, 15 exploration blocks in shallow water, 10 onshore exploration and production blocks, and 14 onshore exploration and production blocks. Trion covered and Ayin-Batsil, Cárdenas Mora, and Ogarrio (currently in process) cover, respectively, the deepwater “Trion,” the shallow-water “Ayin-Batsil,” the onshore “Cárdenas Mora,” and the onshore “Ogarrio” 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 and Ogarrio rounds, and production sharing contracts in the Ayin-Batsil round.

General Description of Round 2.4:

On July 19, 2017, the CNH formally announced the fourth international public bid of Round Two (Round 2.4) to award 30 **license contracts** for **offshore** exploration and production of hydrocarbons in **deepwaters**. The bid rules and the model contract were published on July 20, 2017. This is the third bid covering deepwater blocks and is the sixth time license contracts are used in Mexico.

Nine of the 30 blocks are located in the Perdido Belt in the northwestern Gulf of Mexico, 10 in the Mexican Ranges in the southwestern Gulf of Mexico, 10 in the Salina Basin in the southern Gulf of Mexico, and one in the Yucatán Platform in the eastern Gulf of Mexico.

¹ To read more about the international public bids in Rounds One and Two 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](#)

1. **Size of the Blocks.** The total area of the blocks to be auctioned is 70,844 km², with prospective resources of approximately 4.2 billion barrels of crude equivalent, broken down as follows:

Type of Block	Block	Location	Area (Km ²)
Offshore in Deep Waters	1	Perdido Belt	1,998
	2		2,146.2
	3		2,061.8
	4		1,900.2
	5		2,732.7
	6		1,890.6
	7		1,967.9
	8		2,061.7
	9		2,008.7
	10	Mexican Ranges (Cordilleras Mexicanas)	1,999.3
	11		2,001.5
	12		3,099.4
	13		1,967
	14		2,241.8
	15		2,041.9
	16		2,047.4
	17		3,009.7
	18		2,917.1
	19	3,003.1	
	20	Salina Basin	2,079.5
	21		2,029.7
	22		2,879
	23		1,852.9
	24		1,921.9
	25		2,107
	26		2,030.4
	27		2,118.1
	28		3,066.8
	29	3,253.6	
	30	Yucatán Platform	4,440.9

2. Location of the Blocks/Contract Areas

Deepwater offshore blocks are located in the Perdido Belt in the northwestern Gulf of Mexico, the Salina Basin in the southern Gulf of Mexico, the Mexican Ranges (*Cordilleras Mexicanas*) in the southwestern Gulf of Mexico, and the Yucatán Platform in the eastern Gulf of Mexico. The maps of the Contract Areas and related information can be found on [CNH's website](#).

Bid Information:

- (a) **Type of Exploration and Production Contract.** License Contracts.
- (b) **Term of the Contract.** 35 years from the date of execution of the contract. The term of the contract may be extended for two additional terms of five and 10 years, respectively, for a maximum total of 50 years.
- (c) **Periods:**
 - Initial exploration period of up to four years, with two additional periods of three years each;
 - Appraisal period of up to three years; and
 - Development period of between 22 and 37 years, considering the two extensions to the term of the contract.
- (d) **Local Content.** At least between three percent and 10 percent 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 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*), Administrative Rules for the Tender of E&P Contracts (*Disposiciones Administrativas en materia de Licitaciones de Contratos para la Exploración y Extracción de Hidrocarburos*), Law of the National Industrial Safety and Environmental Protection 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 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\$3,000,000.00 for a term of 100 days from the date of submission of the proposals.
- (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\$39,300,000.00 for data room access.

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

(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 License Contract. The members of a Consortium may either jointly create a single Mexican entity to sign the License Contract, or may individually create their own Mexican entities to sign the License 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 the obtains prior consent from CNH;
- A company that prequalified in Round 1.4 may prequalify in Round 2.4 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; and
- 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/or production project in deep waters with a depth of at least 500 meters in the past five years;
 - b. Capital investments in exploration and/or production projects for a minimum cumulative amount of US\$2 billion; and
 - c. 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\$2 billion or assets totaling US\$10 billion with an investment grade credit rating; and
 - b. That the designated operator has at least 30 percent of the economic interest in the Consortium.

(n) **Limit to Awarding of Blocks.** There is not a limit. A Bidder may submit Bids for all blocks. However, a company may not submit a 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.** July 20, 2017.
- **Registration Payment and Request Prequalification Meeting.** From July 20, 2017 to November 3, 2017.
- **Registration for Data Room Access.** From July 20, 2017 to November 3, 2017.
- **Access to the Data Room.** From July 20, 2017 to January 30, 2018.
- **First Clarification Stage (Data Room Access).** From July 20, 2017 to October 26, 2017.
- **Second Clarification Stage (Prequalification).** From July 20, 2017 to November 1, 2017.
- **Third Clarification Stage (Submission and Opening of Proposals, Award and Contract).** From July 20, 2017 to December 20, 2017.
- **Delivery of Prequalification Documents.** From November 6, 2017 to November 10, 2017.
- **Prequalification Document Review by Bid Committee.** From November 13, 2017 to December 15, 2017.
- **Publication of the List of Prequalified Bidders.** December 20, 2017.
- **Application for Authorization to Create Structure of Bidders.** From January 11, 2018 to January 12, 2018.
- **Final Version of the Bidding Guidelines.** December 20, 2017.
- **Final Version of the Model License Contract.** December 20, 2017.
- **Date for the Submission and Opening of Bids, and Declaration of Winning Bidders.** January 31, 2018.
- **Issuance of the Award and Request for its Publication.** February 2, 2018
- **Deadline for Contract Signing.** Within 90 calendar days of the publication of the award of the contract in the *Federal Official Gazette*.