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Mexico Round Two – Second Public Bid

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The Mexican government announced the second bid of Round 2 on August 23, 2016. This will be the seventh upstream bid round in Mexico since passage of the energy reform in mid-2014. The new bid round (named Round 2.2), comprises 12 onshore blocks for exploration in the Burgos and Southeastern Basins, covering collectively 5,006 km², with prospective resources of approximately 643.2 million barrels of crude equivalent and an original volume of approximately 93.2 million 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 1 (four sub-rounds, Rounds 1.1 through Round 1.4), Pemex Associations (so far only one, “Trion”), and Round 2, so far comprising two sub-rounds (Rounds 2.1 and 2.2). 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 and 2.1, and Trion (still in process) cover, respectively, 10 blocks in deep waters, 15 exploration blocks in shallow water, and the “Trion” block in deep water within part of Round 1.4.¹

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

General Description of Round 2.2:

On August 23, 2016, the CNH formally announced the second international public bid of Round 2 (Round 2.2) to award 15 **license contracts** for **onshore** production of hydrocarbons. The bid rules and the model contract were published on August 20, 2016. This is the second bid covering onshore blocks and is the third time license contracts are used in Mexico. Nine of the 15 blocks are located in the Burgos Basin in northern Tamaulipas and northern Nuevo León, while three are located in the Southeastern Basin in northern Chiapas and Tabasco.

¹ To read more about the international public bids 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](#)

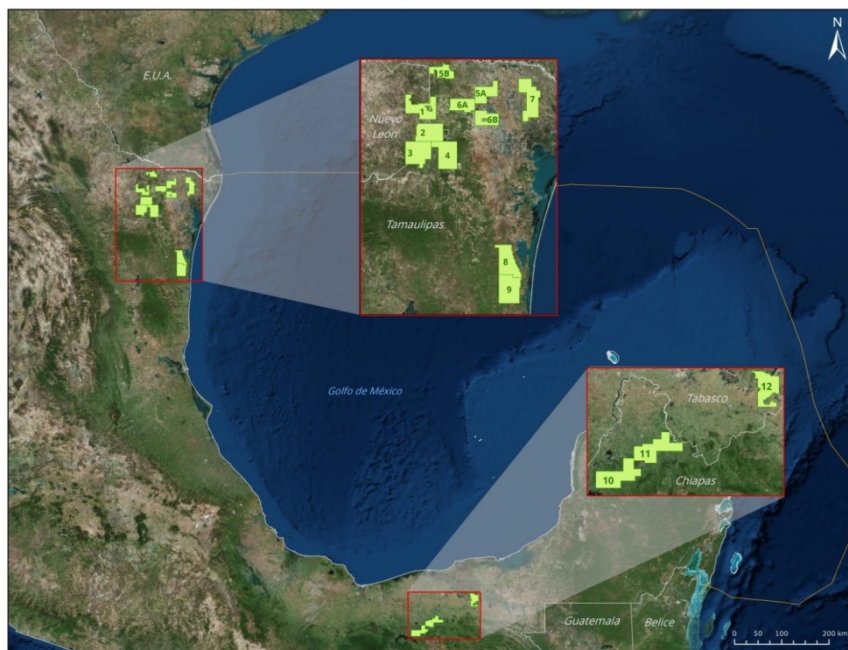
[Mexico Round One - Fourth Bidding Process](#)

[Mexico Round Two - First Bidding Process](#)

- 1. Size of the Blocks.** The total area of the blocks to be auctioned is 5,006 km², with prospective resources of approximately 643.2 million barrels of crude equivalent and an original volume of approximately 93.2 million barrels of crude equivalent, broken down as follows:

Type of Block	Block	Location	Area (Km ²)
Onshore	1	Burgos Basin	360.3
	2		374.6
	3		447.9
	4		440.3
	5		444.6
	6		479
	7		445
	8		416.1
	9		464
	10		Southeastern Basin
	11	418.9	
	12	349	

- 2. Location of the Block**



[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 24 and 34 years, considering the two extensions to the term of the contract.
- (d) **Local Content.** At least between 26 percent and 28 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 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*), 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, and in the Southeastern Basin in northern Chiapas 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.

(n) 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.

(o) **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. Experience as an operator in at least three exploration and/or production projects or capital investments in exploration and/or production projects for a minimum cumulative amount of US\$250 million between 2012 and 2016; and
- b. That they have experience in industrial and environmental safety in exploration and/or production projects in shallow or deep waters for five years.

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

- a. A net equity (assets minus liabilities plus reserves) of at least US\$500 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\$300 million and the other consortium members must evidence an aggregate net equity of at least \$200 million.

(p) **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.

(q) **Timeline of Award Process**

- **Date of the Invitation to Bid and Publication of the Bid Rules.** August 24, 2016.

- **Registration Payment and Request Prequalification Meeting.** From September 5, 2016 to December 8, 2016.
- **Registration for Data-Room Access.** From September 5, 2016 to December 5, 2016.
- **Access to the Data Room.** From September 5, 2016 to April 4, 2017.
- **First Clarification Stage (Data-Room Access).** From August 24, 2016 to November 28, 2016.
- **Second Clarification Stage (Prequalification).** From August 24, 2016 to December 12, 2016.
- **Third Clarification Stage (Submission and Opening of Proposals, Award and Contract).** From August 8, 2016 to March 8, 2017.
- **Delivery of Prequalification Documents.** From December 19, 2016 to December 23, 2016.
- **Prequalification Document Review by Bid Committee.** January 9, 2017 to March 3, 2017.
- **Publication of the List of Prequalified Bidders.** March 8, 2017.
- **Application for Authorization to Modify Structure of Bidders.** March 9, 2017 to March 10, 2017.
- **Final Version of the Bidding Guidelines.** March 8, 2017.
- **Final Version of the Model License Contract.** March 8, 2017.
- **Date for the Submission of Bids, Opening Thereof and Declaration of Winning Bidders.** April 5, 2017.
- **Issuance of the Award and Request for its Publication.** April 7, 2017.
- **Date of Execution of Contracts.** Within 140 days after the publication of the award of the contract in Mexico's Official Federal Gazette.



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