Mexico’s Round One: Update and Next Steps

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Deputy Secretary of Energy for Hydrocarbons
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MEXICO’S ENERGY REFORM: SETTING THE STAGE

Constitutional Reform
Articles 25, 27, 28

• Hydrocarbons in the subsoil belong to the Nation.
• E&P as strategic activities can be performed by PEMEX through assignments, or by companies through Contracts.
• Strengthening of regulatory bodies.
• Establishment of the Mexican Petroleum Fund.

Upstream Secondary Legislation
• Hydrocarbons Law
• Hydrocarbons Income Law
• Mexican Petroleum Fund Law

Flexible Contractual Models
• Licenses
• Production Sharing
• Profit Sharing
• Service Contract
**Exploration in Shallow Waters**
**Contract Model: Shared Production**
**2nd Block: Veracruz**
**7th Block: Tabasco**

**Milestones**
- Launch: Dec. 11, 2014
- Award date: July 15, 2015
- Contract signature: Sept. 4, 2015

**Winner**
Talos Energy (operator)
Sierra Oil & Gas
Premier Oil

**Estimated Investment***
*2.7 billion USD*

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* Throughout the length of both contracts.
**Round One: 2nd Bid Results**

**Amoca, Miztón, Teocalli**
- ENI International
- Light oil (33°API) and gas
- 1P Reserves: 63 mmboe
- Investment (5 yr): 1.2 Bn USD
- Peak production: 35 mbd

**Hokchi**
- Pan American / E&P Hidrocarburos y Servicios
- Medium oil (26°API) and gas
- 1P Reserves: 21 mmboe
- Investment (5 yr): 844 MMUSD
- Peak production: 30 mbd

**Ichalkil, Pokoch**
- Fieldwood / Petrobal
- Medium oil (30° API) and gas
- 1P Reserves: 42 mmboe
- Investment (5 yr): 1 Bn USD
- Peak production: 25 mbd

**Allocation of offered 2P Reserves**
- **Amoca, Miztón, Teocalli**
- **Hokchi**
- **Pokoch, Ichalkil**
- **Misón, Nak**
- **Xulum**

77%
**Round One: An Evolving Process**

- Enriching and transparent dialogue.
- Adjustments to the contract and bidding guidelines.
- Balancing risk and return (contract model, terms and conditions).
- Competitive fiscal regime.

*The 1st and 2nd Bids have resulted in the creation of a new industrial ecosystem.*
**Round One: Defining the New Contracts**

The definition of the contract models and the terms and conditions requires a close interaction between government agencies and a transparent dialogue with the private sector.

Industry’s feedback regarding the contract model and the terms and conditions has focused on:

- **Legal conditions**: Administrative rescission, guarantees.
- **Fiscal terms**: Disclosure of minimum bidding values, short vs. long term returns.
- **Red tape**: Optimizing the number of reports companies need to present.
ROUND ONE: MOVING FORWARD

The Hydrocarbons Law (Art. 18), the Hydrocarbons Income Law and their Regulations establish the contract models and the payments and compensations the State will receive from the companies preforming E&P activities.

Concessions are banned by the Mexican Constitution.
**Round One: Third Bid**

Extraction in Onshore Fields  
25 bidding areas, 25 fields  
Contract model: License  
Regions: Nuevo Leon, Tamaulipas, Veracruz, Tabasco and Chiapas

**Important dates**  
- Launch: May 12, 2015  
- Final contract: Nov. 10, 2015  
- Award: Dec. 15, 2015

**Registered for prequalification**  
59 companies, 39 Mexican ones

**Estimated Investment**  
623 million USD

*Estimated investment in the first 5 years, considering 100% contract allocation.*
• Exploration in deep waters Perdido Area and Salina Basin

• Extraction of extra heavy oil Salina Basin

• Contract model: To be determined

• Launch date: Autumn 2015
Farm - Outs

• Through *farm-outs* companies can establish **partnerships** with Pemex to develop **frontier fields**.

• *Tenders* will be carried out to select Pemex’s partners.

• Pemex has requested the migration (farm-out) of **14 assigned fields** into **8 new contracts**.

• The JOAs must include some **non-negotiable terms** in accordance to the **Hydrocarbons Law** (Art. 29).
In accordance with the **Constitutional Reform Decree**, the **Hydrocarbons Law** and its **Regulation**, **Pemex** and its **partners** can request the migration of pre-established contracts to new contracts without the need for new tenders as long as the new contracts present **advantages in terms of production, reserves, and investment**.

### CIEPs & COPFs

<table>
<thead>
<tr>
<th>AREA</th>
<th>CONTRACTOR</th>
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<tbody>
<tr>
<td><strong>CIEP</strong></td>
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</tr>
<tr>
<td>1</td>
<td>Santuario - El Golpe</td>
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<td>2</td>
<td>Magallanes-Tucán-Pajonal</td>
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<td>3</td>
<td>Arenque</td>
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<td>4</td>
<td>Pánuco</td>
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<td>5</td>
<td>Miquetla</td>
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<td>6</td>
<td>Ébano</td>
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<td>7</td>
<td>Altamira</td>
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<td><strong>COPF</strong></td>
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<td>8</td>
<td>Misión</td>
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<tr>
<td>9</td>
<td>Olmos</td>
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- **Petrofac**
- **Operadora de Campos DWF**
- **DS Servicios Petroleros / D&S Petroleum**
- **Petrolera de Altamira Co./ Cheiron Holdings Ltd**
- **Servicios Múltiples de Burgos**
- **Lewis Energy**
E&P Five Year Plan: A Dynamic and Inclusive Process

1. Surveys (state government & industry)
   Interest and tender programming (years)

2. Open feedback (industry)
   Technical criteria and areas vicinity

3. Nominations (industry)
   New bidding areas

4. Technical information (CNH)
   Seismic data, compete structures and associated resources
E&P Five Year Plan 2015-2019

First Proposal (June 30, 2015)

Survey Period (Data quality, size and depth of the blocks, terms and conditions)

Feedback, Analysis and Adjustments


- **Four** bidding rounds.
- **Total surface area:** 235,000 km² (a 56,515 km² increase, compared to the proposal presented in June 2015).

A NEW MEXICAN ENERGY INDUSTRY

Local Content Requirements
An average of 25% by 2015 and 35% by 2025*, including:
  • Technology transfer
  • Human resources development
  • Construction work
  • Goods & services
  • Infrastructure

Industrial Development Comprehensive Strategy
  • Development of local and regional value chains.
  • Advisory Council (industry, government, academia).
  • Research and technology development
  • Human Resources Program

* Excluding projects in deep waters.
New requirements to enhance certainty and foster sustainability:

- **Social Impact Study.**
- **Social Impact Evaluation.**
- Free and Informed **Prior Consultation** to indigenous communities.
- **Negotiation** mechanisms to establish **fair compensations**.
TRANSPARENCY AND ACCOUNTABILITY

Mexico’s new energy regime establishes unprecedented transparency standards providing greater certainty to investors and fostering the optimal use of Mexico’s natural resources and wealth.

Round One:
www.ronda1.gob.mx

Mexican Petroleum Fund:
http://www.fmped.org.mx/

Five Year Plans:
www.sener.gob.mx

EITI:
https://eiti.org/
Annex: 2nd Bid Results
A Competitive and Transparent Environment

Amoca, Mitztón, Tecoalli

<table>
<thead>
<tr>
<th>Company</th>
<th>Economic Offer (%)</th>
<th>SHCP Minimum Value</th>
<th>Estimated Government Take</th>
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<tbody>
<tr>
<td>CNOOC</td>
<td></td>
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<td>Lukoil</td>
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<td>Talos/ Sierra/ Carso</td>
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<td>Fieldwood/ Petrobal</td>
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<td>67.59</td>
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<td>Petronas/ Galp</td>
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<tr>
<td>ENI International</td>
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<td>52.71</td>
<td>78.25</td>
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<td>Pan American/ E&amp;P</td>
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<td>Statoil</td>
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<td>DEA Deu. Erdoel</td>
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Annex: Mexico’s E&P Contracts Fiscal Terms

The fiscal terms related to E&P Contracts are established by the Hydrocarbons Income Law, the Contract and the Public Tender as follows:

<table>
<thead>
<tr>
<th>Hydrocarbons Income Law</th>
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<tbody>
<tr>
<td>Income Tax</td>
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<tr>
<td>Contractual fee during exploration phase</td>
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<tr>
<td>Exploration and Extraction Activities Tax</td>
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<td>Basic Royalty</td>
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<tr>
<td>Ring-fencing</td>
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<thead>
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<th>Contract</th>
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<tr>
<td>Adjustment Mechanism</td>
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<tr>
<th>Public Tender</th>
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<tbody>
<tr>
<td>State’s participation in the Operating Utility</td>
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<tr>
<td>Additional royalty</td>
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Annex: Round One Fiscal Terms

Fiscal terms of the **License Contract used in the Third Bid** contain key elements that differ from those established in the **Production Sharing Contracts** used in the **First and Second Bids**:

<table>
<thead>
<tr>
<th>PSC (1st and 2nd Invitation)</th>
<th>License Contract (3rd Invitation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensations are calculated based on net profits (Gross Income – Royalty – Net Costs)</td>
<td>Compensations are calculated based on Gross Income</td>
</tr>
<tr>
<td>Considers Cost Recovery</td>
<td>Does not consider Cost Recovery</td>
</tr>
<tr>
<td>Adjustment mechanism based on the projects’ profitability</td>
<td>Adjustment mechanism based on production volume and the hydrocarbon market price</td>
</tr>
</tbody>
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