



# GLOBAL OIL & GAS INSTITUTE

May 18, 2015 | Houston, Texas

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# GLOBAL OIL & GAS INSTITUTE

May 18, 2015 | Houston, Texas

## Lunch Panel: Insights into the Revolutionary Mexico Energy Reforms



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Mexico



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General Counsel  
Pemex



## Energy Reform in Mexico



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## INTRODUCTION

- The enactment of the Energy Reform, established a new historic era not only for Petroleos Mexicanos (PEMEX), but also for the Mexican energy industry.
- Pemex has been transformed into a State-owned Productive Enterprise whose main purpose is to develop economic, industrial, commercial and management activities.
- The entire legal transformation of PEMEX as a State-owned Productive Enterprise, will set the foundations to achieve the results that Mexican society is expecting.

**Marco A. de la Peña**  
**General Counsel**

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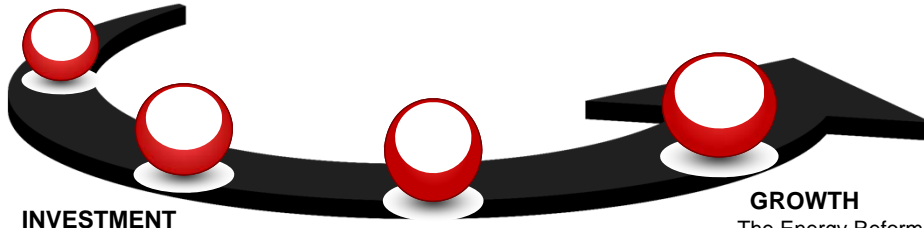
- **The Energy Reform**
- **Constitutional Reform**
- **Secondary Legislation**  
Hydrocarbons Law
- **PEMEX as a State-owned Productive Enterprise**
- **Conclusions and perspectives**

- **The Energy Reform**
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### OPPORTUNITIES

Mexico is an attractive country that will provide great opportunities for companies in the energy sector

## Energy Reform



### INVESTMENT

The Energy Reform will increase investment levels in our country.

### STRONG NOC

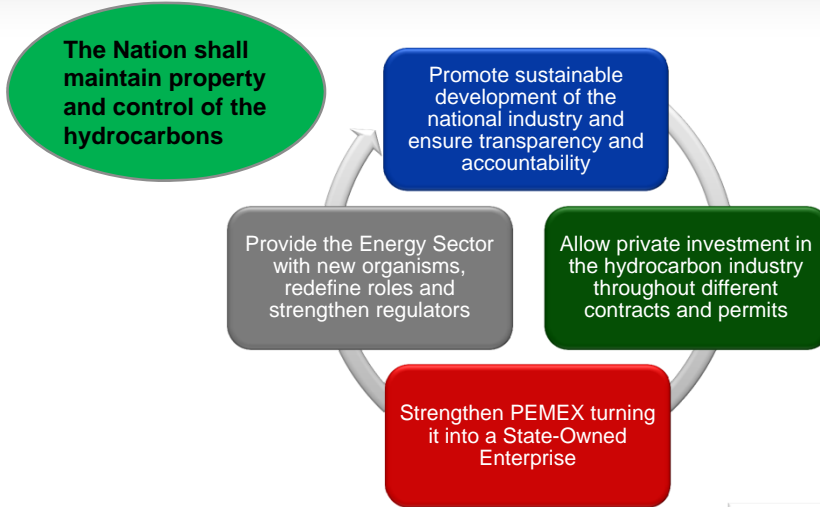
PEMEX, will remain as the most important player in the hydrocarbons sector, with an aggressive investment plan.

### GROWTH

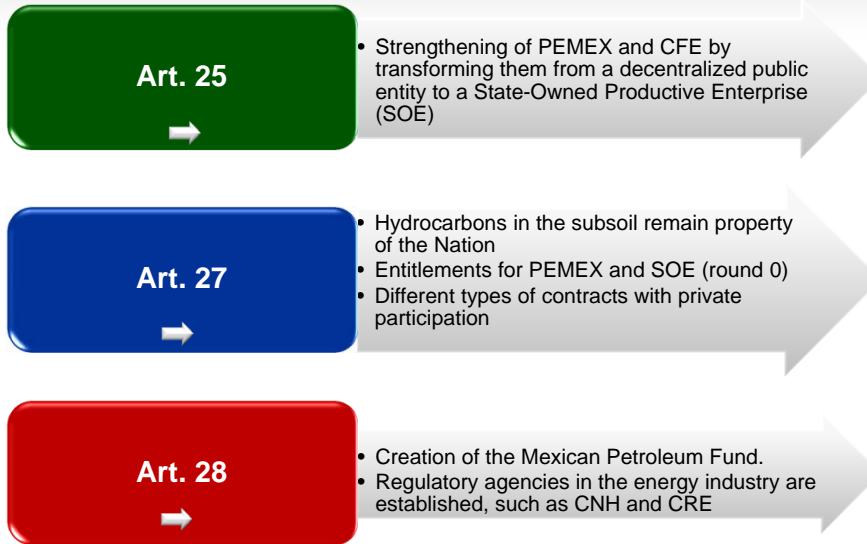
The Energy Reform will be a catalyst for economic growth.

## Contents

- The Energy Reform
- Constitutional Reform
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  - Hydrocarbons Law
- PEMEX as a State-owned Productive Enterprise
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Articles



- The public sector will be in charge, on an exclusive basis, of the strategic areas established in article 28, fourth paragraph of the Constitution, the Federal Government shall keep the property and control over all State-Owned entities and productive enterprises to be created.
- The exploration and production of oil and other hydrocarbons shall be carried out by the nation, in terms of paragraphs six and seven of Constitutional article 27.
- In regard to the above activities, the law shall establish the regulations concerning the administration, organization, operation, contracting procedures and related legal acts to be carried out by the State-owned Productive Enterprises, as well as the remunerations regime applicable to their personnel, to guarantee their performance, efficiency, honesty, productivity, transparency and compliance, based on the industry's best practices.



- Solid, liquid or gaseous hydrocarbons in the subsoil are of the inalienable property of the nation and are not subject to any limitations, modalities or allowances.
- In order to attain the necessary long-term State revenues for the Nation, the Nation shall carry out the E&P oil & gas activities through allotments to State-owned Productive Enterprises or contracts with private parties, in terms of the applicable regulations. In any case, subsoil hydrocarbons shall remain the property of the nation and this provision must be included in all of the entitlements or contracts.

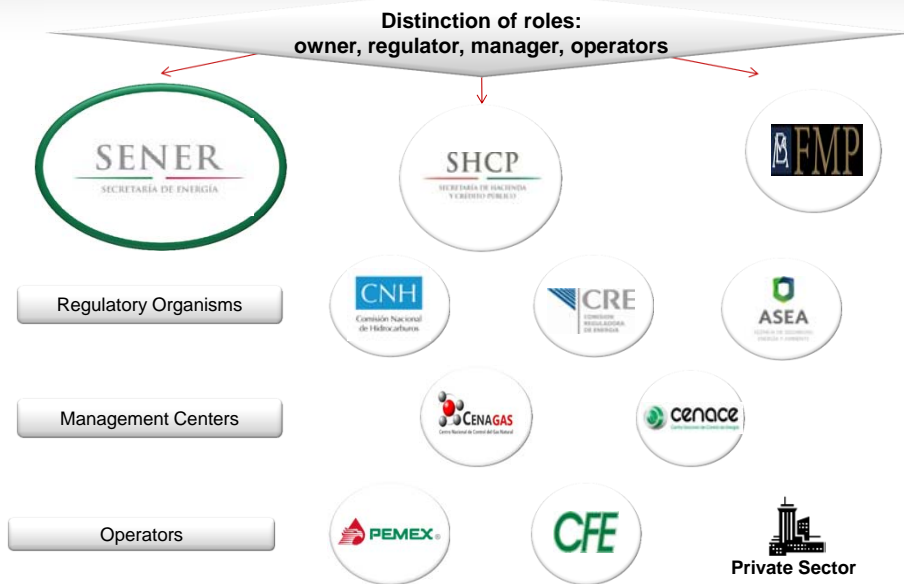


- The Nation will create a public trust named Mexican Petroleum Fund for the Stabilization and Development, whose trustee will be the central bank (Banco de México), in order to receive, administer and distribute the revenues from the allotments and contracts referred in paragraph seven of I article 27 of the Constitution.
- The executive branch will have two coordinated regulators, the National Hydrocarbons Commission and the Regulatory Energy Commission, which will be vested with new faculties.



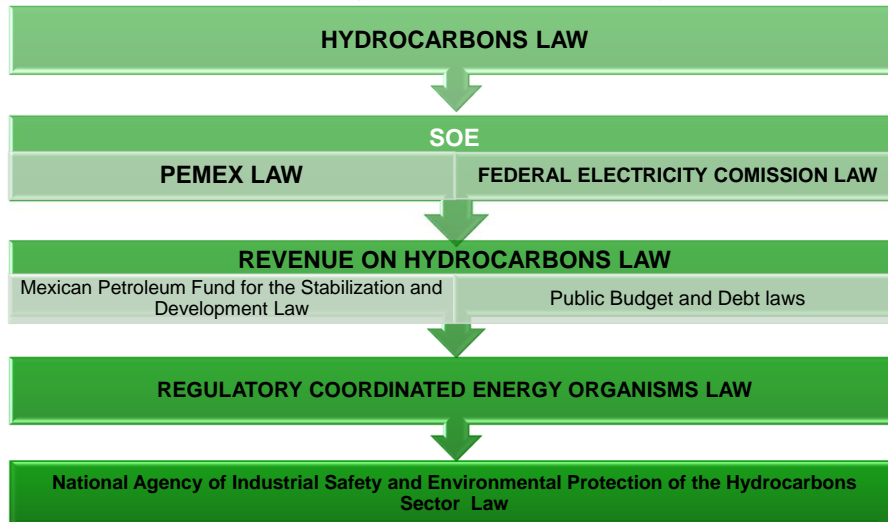
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### NEW INSTITUTIONAL STRUCTURE OF THE ENERGY INDUSTRY

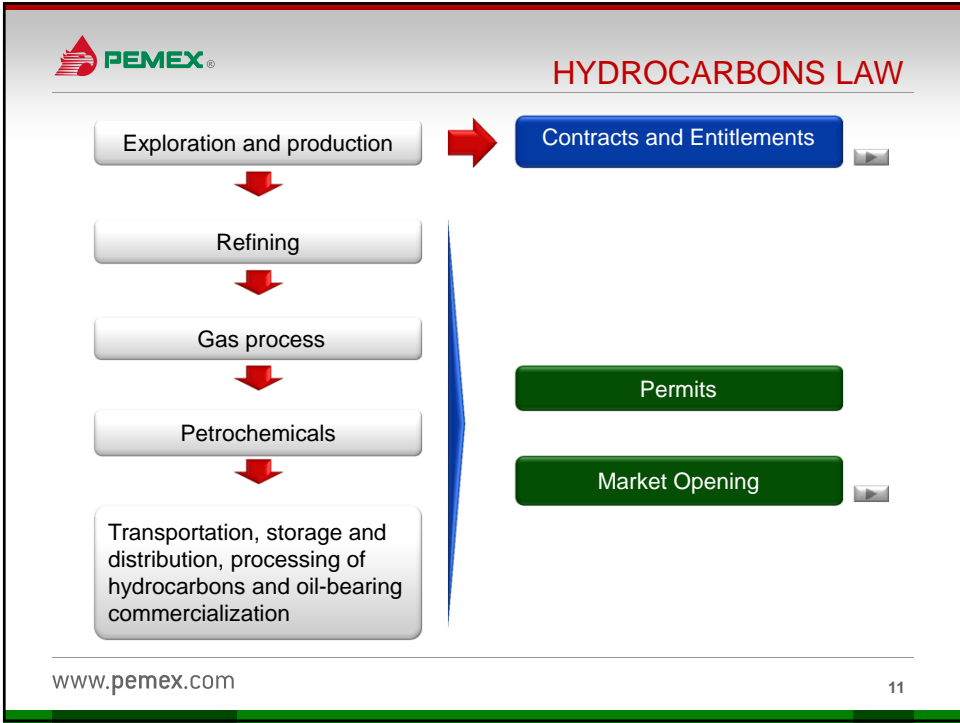


- The Energy Reform
- Constitutional Amendment
- **Secondary Legislation**
  - Hydrocarbons Law
- PEMEX as a State-owned Productive Enterprise
- Conclusions and perspectives

21 Laws (9 new and 12 modified)







**PEMEX** **ENTITLEMENTS AND CONTRACTS**

**ENTITLEMENTS:** The Federal Government through the Energy Department may grant and modify entitlements to PEMEX or to an SOE. SENER

**CONTRACTS:** The Federal Executive through the CNH may enter into contracts for exploration and extraction, as follows: CNH

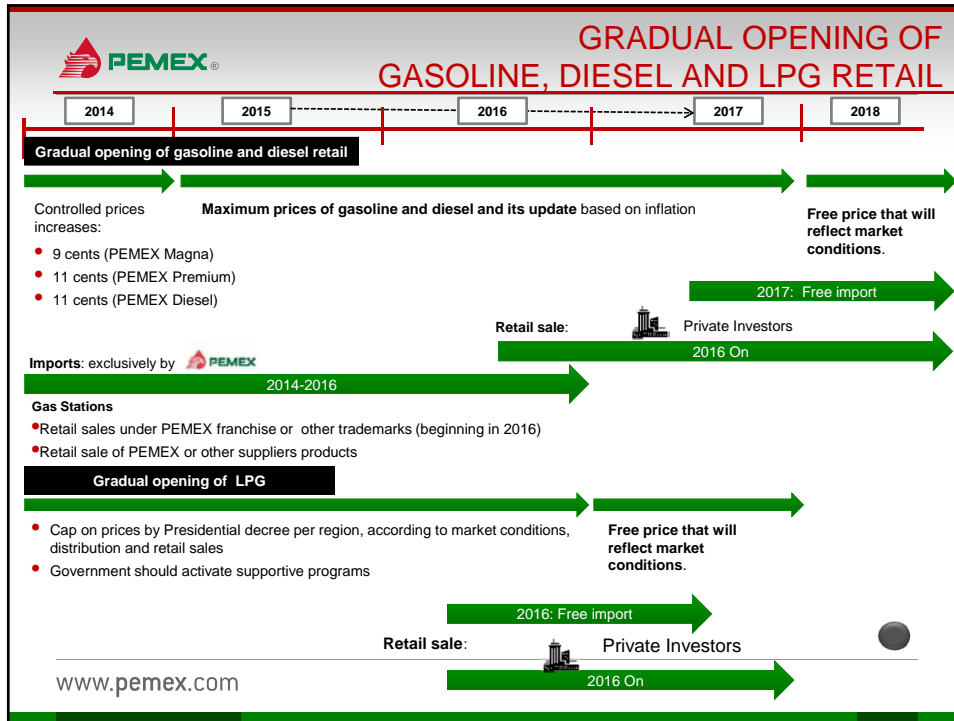
**Who can participate?**

- PEMEX or SOE
- PRIVATE SECTOR (IOC)
- PEMEX or SOE + PRIVATE (IOC)

TYPES OF CONTRACTS FOR EXPLORATION AND EXTRACTION		PAYMENT MODES
Service		Cash
Profit Sharing Contract		Profit percentage
Production-Sharing Contract		Obtained production percentage
License Agreement		Onerous transference of hydrocarbons

- Bidding process: SENER establishes the contractual model of each area.
- The payment mode will abide to the Revenue on Hydrocarbons Law.

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**PEMEX**

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**SOE: generate economic value**



Economic, industrial and commercial purposes, equity, social and environmental responsibility

- Exclusive property of the Nation
- Special legal regime in which certain rules must apply:
  - PEMEX Law and Regulation determined by the Board of Directors
  - Additionally, the civil and commercial law
- PEMEX can take advantage of any areas of opportunity in the new legal framework establishing relations with potential strategic partners:
  - Alliances
  - Joint ventures

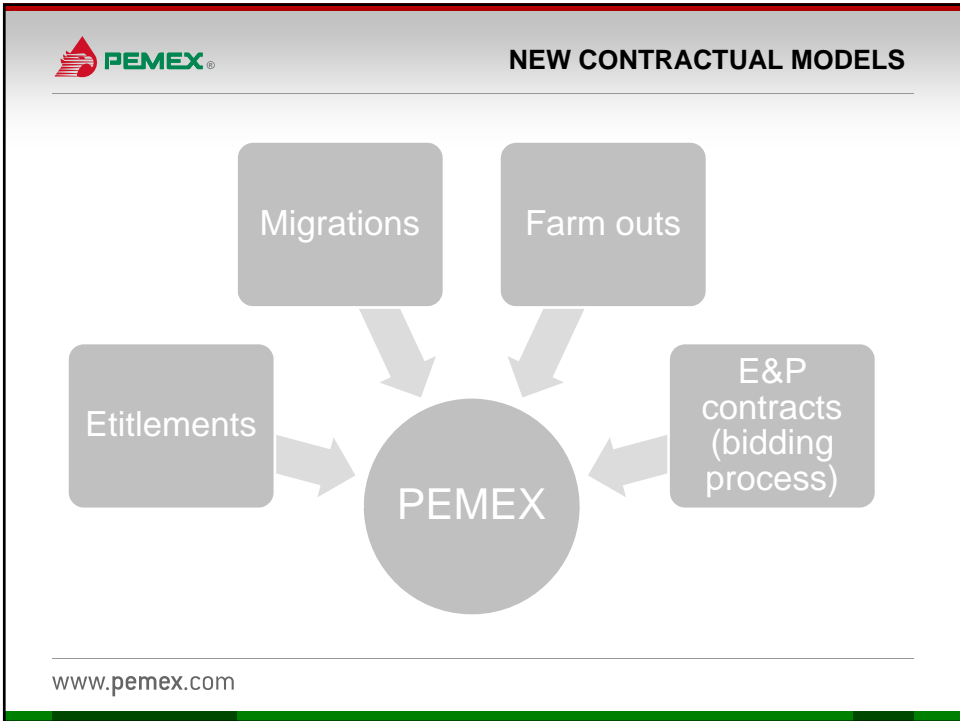
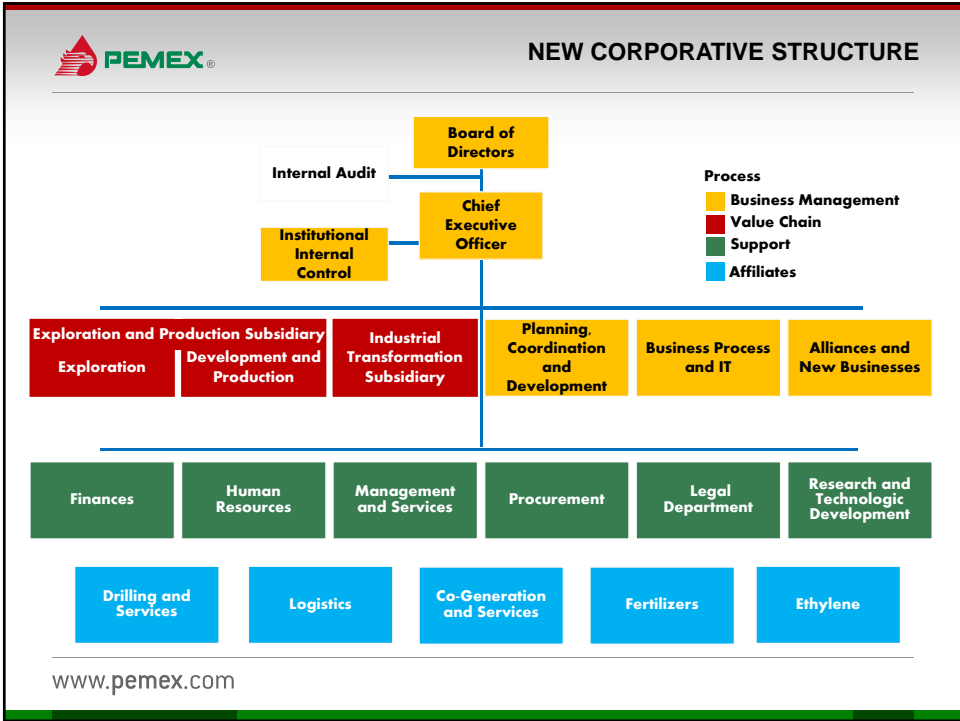
**PEMEX ceases to operate as a monopoly to become a major player in the industry**



### Mission:

Being the most competitive enterprise in the Mexican oil industry and an international referent.







**SENER**  
SECRETARÍA DE ENERGÍA



## ¿What is Round 0?

PEMEX chose the fields based on commercial discoveries or investments made in exploration and according to its ability to operate .

Was the responsible for determining the entitlements granted to Pemex, since its request.

Results

Dual Objective

- 1) Strengthen Pemex by providing it with the necessary resources to ensure production levels in an efficient and adequate reserve restitution.
- 2) Multiply investment in exploration and production of oil and gas in Mexico, through bidding rounds in which the oil industry participates, and where Pemex can compete.

<http://www.energia.gob.mx/rondacero/>

[www.pemex.com](http://www.pemex.com)

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In March 2014, Pemex requests SENER:

- ✓ 83 % of 2P reserves, which are those that have at least a 50% probability of production.
- ✓ 31% of prospective resources of the country, equivalent to 34.8 billions of oil barrels, are those whose existence can be inferred from technical information.

## Reserves and granted prospective resources

Classification	Given Volume (Bbpce)	Granted/ Requested (%)	Granted Area (km2)	Reserves/ Production (years)
<b>Reserves</b>				
2P	20.59	100	17,010	15.5
<b>Prospective resources</b>	23.44	68	72,897	5.0*
Conventional	18.22	70.9	64,489	
Non Conventional	5.22	58.5	8,408	

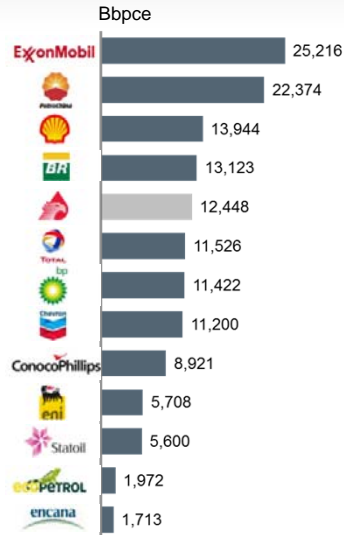
Pemex will have 83% of 2P reserves and 21% of prospective resource of Mexico. Thereby establishing a floor for Pemex to produce approximately 2.5 million barrels per day for the next 20.5 years.

[www.pemex.com](http://www.pemex.com)

Billions of crude oil barrels or equivalent

Deposits	Acum Prod.	Reserves			Prospective Resources	
		1P (90%)	2P (50%)	3P (10%)	Conv.	No Conv.
Total México	55.0	13.9	26.2	44.5	54.6	60.2
Round 0: PEMEX			83%		21%	
Following Rounds			17%		79%	

- The reserves granted to PEMEX in Round 0 make PEMEX the fifth place worldwide in tested reserves.
- With Round 0 PEMEX holds enough fields to keep its current production level of 2.5mmbpce stable during the next 20 years.



www.pemex.com



Round 1 proposal, consists of one balanced portfolio of fields and areas of different characteristics coordinated by:



<http://www.ronda1.gob.mx/index.html>

The total estimated investment for Round 1 and farm-outs is of 12.6 billion Dollars per year; 50.5 billion Dollars during the period 2015-2018 .

	BLOC	SURFACE (km2)	VOLUME (Bbpce)	4 years estimated investment (Busd)	Annual estimated investment (Busd)
Exploration (prospective resources)	109	25,903	14.60	19,000	4,750
Extraction	60	2,597	3.78	15,100	3,775
PEMEX Farm-outs (2p)	14 (10 contracts)	612	1.55	16,400	4,100
<b>Total</b>	<b>183</b>	<b>29,112</b>	<b>19.95</b>	<b>50,500</b>	<b>12,625</b>

\* Data obtained from URL: <http://sener.gob.mx/webSener/rondauno/doc/Reforma%20Energetica%20Ronda%201.pdf>

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## Round 1 Advances

- First round of bids for the hydrocarbons Exploration and Production Contracts will take place (Production Sharing Contracts), assuring that the winner represents the best technical alternative and brings fiscal benefits to the nation.

Currently

First phase Bid

Second phase Bid

Third phase Bid

This way, Round 1 and the first associations of Pemex with other operators will allow the State achieve its objectives of increasing the oil rig.

CHARACTERISTICS	FASE 1	FASE 2	FASE 3
Contracts	14	5	26
Fields	14	9	26
Type of fields	Exploration Shallow waters	Production Shallow waters	Production Onshore
Type of Contract	Production-sharing contract	Production-sharing contract	License
Resources	276 mbpce (prospective)	671 mbpce (3p)	2,000 mbpce
Expected investment	16.760 billion USD	4.487 billion USD	3 billion USD
Award	July 15th	September 30th	December 15th
Localization	Campeche, Tabasco, Veracruz	Campeche, Tabasco	Coahuila, Tamaulipas, Nuevo León, Veracruz, Tabasco, Chiapas



## ROUND 1/FIRST INVITATION

### First invitation to Bid

The CNH published the call on December 11, 2014 (CNH-R1-C01/2014)

#### Object:

Production Sharing Contracts to carry out exploration and production of hydrocarbons in contractual shallow water areas.

- A contract for each Contractual Area will be celebrated.

- Bidding phases:

- ✓ Publication of bases (December 11).
- ✓ Database access (Until March 16).
- ✓ Bid downpayment.
- ✓ Clarification (Until March 16).
- ✓ Prequalification (April 27).
- ✓ Presentation and opening proposals (July 14).
- ✓ Awarding and bids's verdict (July 17).
- ✓ Contract signature (August 21).

- Will be coordinated and directed by a Comitee.

- In order to have the right to present the documentation and be subject for prequalification, the applicants must cover the following amounts:

Information Access to the 14 contractual areas \$5,300,000.00

Bid Inscription \$280,000.00

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## ROUND 1/SECOND INVITATION

### Second invitation to Bid

The CNH published the call on February 27, 2015 (CNH-R01-L02-2015)

#### Object:

Production Sharing Contracts to carry out exploration and production of hydrocarbons in contractual shallow water areas.

- A contract for each Contractual Area will be celebrated.

- Bidding phases:

- ✓ Publication of bases.
- ✓ Database access (February 27).
- ✓ Bid downpayment.
- ✓ Clarification.
- ✓ Prequalification (July 3).
- ✓ Presentation and opening proposals (August 14).
- ✓ Awarding and bids's verdict (September 30).
- ✓ Contract signature.

- Will be coordinated and directed by a Comitee.

- In order to have the right to present the documentation and be subject for prequalification, the applicants must cover the following amounts:

Information Access to the 5 contractual areas \$5,300,000.00

Bid Inscription \$280,000.00

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- The Energy Reform
- Constitutional Amendment
- Secondary Legislation  
Ley de Hidrocarburos
- New Legal Framework for PEMEX
- Conclusions and perspectives



The constitutional and legal reform renewed the legal framework of the energy sector.

After more than 70 years PEMEX transforms itself into a State-owned Productive Enterprise, vested with economic, commercial and industrial purposes.

PEMEX, as a SOE shall manage itself efficiently as well as other energy corporations do in the same level playing field, and its contractual proceedings shall be ruled by the commercial legislation

First stages:

- 1) Transformation of PEMEX as SOE
- 2) Round 0
- 3) Round 1
- 4) Farm-outs



**THANK YOU**



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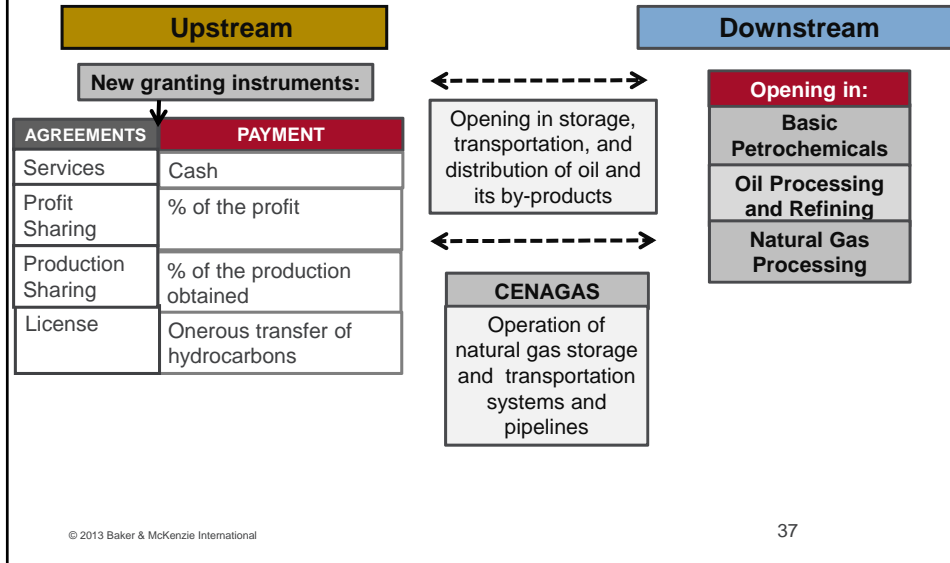
## Insights into the Revolutionary Mexico Energy Reforms: Round One Update

Second Annual Global O&G Institute  
May 18, 2015  
Houston, Texas

Benjamin Torres-Barron



## Energy Reform: Hydrocarbons Sector



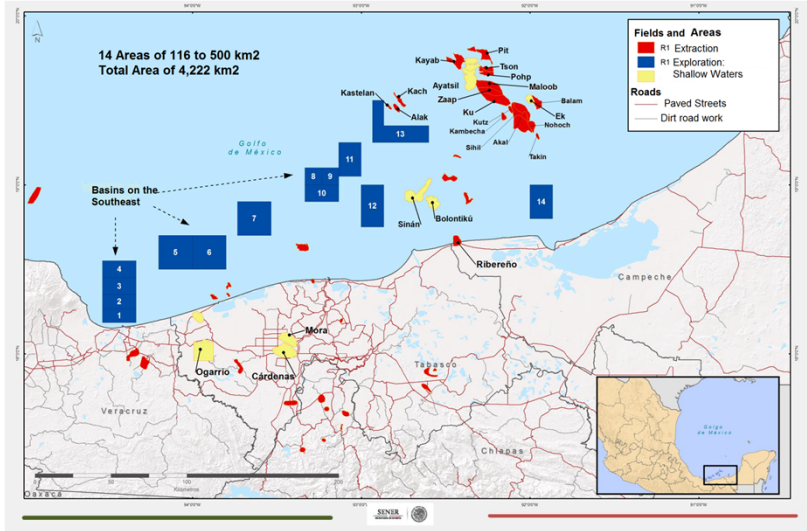
## Round One

- 169 blocks; 109 exploration and 60 extraction
- Reserves 2P of 3.8 and 3P of 14.6 Bboe
- Expected yearly investments of USD\$8.5 Billions between 2015 and 2018

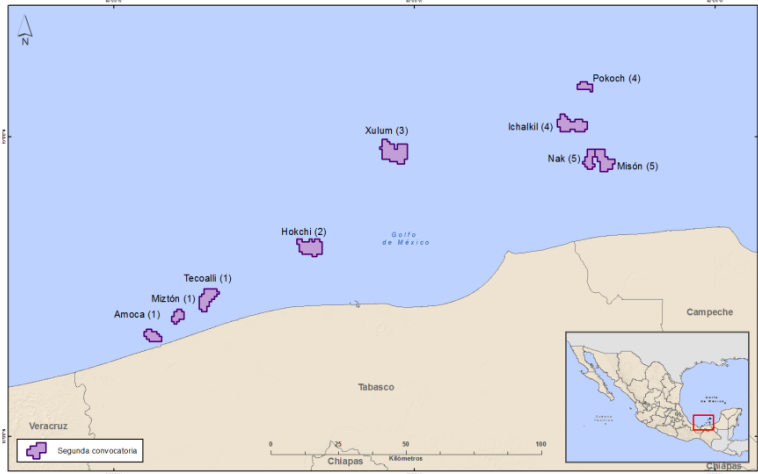
AREAS	FIELDS
Deep Waters	Perdido
	South
Chicontepec and non-conventionals	ATG (Gulf Tertiary Oil)
Onshore, shallow waters and extra-heavy oil	Pit, Pohp, Alak, Kach and Kastelan
Non-conventional gas	Sabinas

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Source: PEMEX

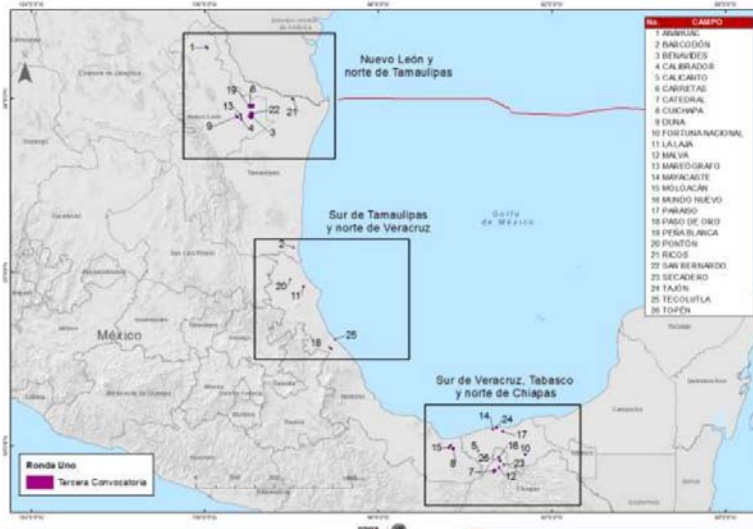
# Round 1: Shallow Waters – First Bid



# Round 1: Shallow Waters – Second Bid



## Round 1: Onshore Fields – Third Bid



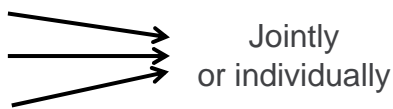
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## Round 1 – Shallow Waters

Who may participate?

- Mexican Companies
- Foreign Companies
- State Productive Companies



Companies may only be part of 1 consortium or A in P	Large-Scale Oil Companies can not associate themselves
Proposals in up to 5 contractual areas (except for 3 <sup>rd</sup> Bid)	Documents to be submitted in Spanish*

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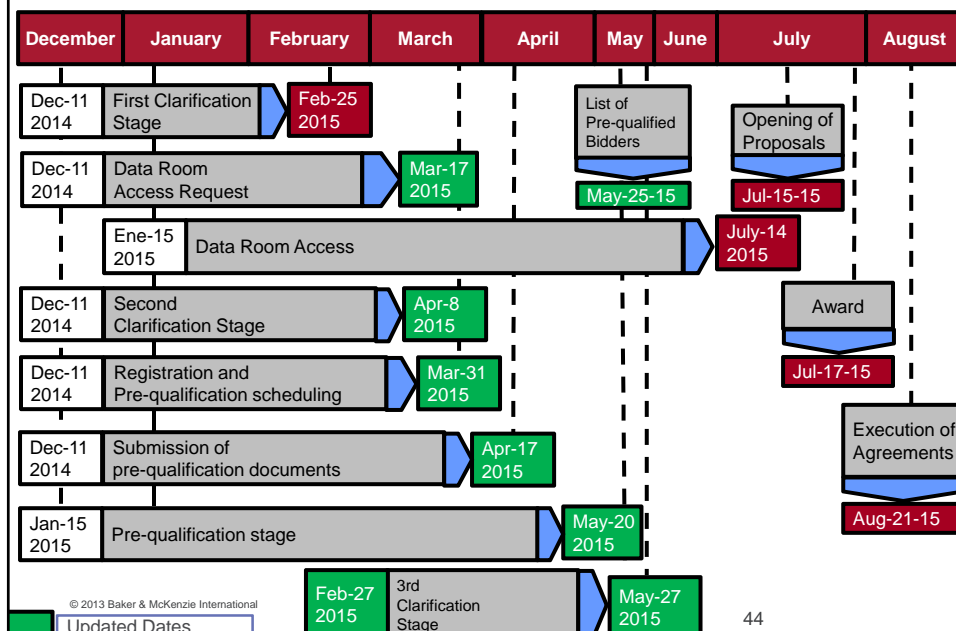
## Relevant Tender Requirements

- Payment of \$5,300,000.00 Mexican Pesos (approx. \$350,445.00 US Dollars), to access the Data Room information (**1<sup>st</sup>** and **2<sup>nd</sup>** Bid); \$2,500,000.00 (approx. \$165,305.00 US Dollars) (**3<sup>rd</sup>** Bid).
- Payment of \$280,000.00 Mexican Pesos (approx. \$18,515.00 US Dollars), for the registration in the tender
- Equity of at least 1 Billion USD (**1<sup>st</sup>** and **2<sup>nd</sup>** Bid); 5 MM - 200 MM USD (**3<sup>rd</sup>** Bid)
- **First Bid:** (i) Experience as operator in at least 1 E&P offshore project, or have participated as partner in at least 2 E&P offshore projects and (ii) at least 3 E&P projects or 1 Billion in E&P projects investment in the last 5 years.
- **Second Bid:** Experience as operator in at least 1 production offshore project and evidence a total minimum production of 10,000 DBOE (in any year 2010-2014)
- Staff with at least 10 years of management and operational experience, in the administration of E&P offshore/onshore projects

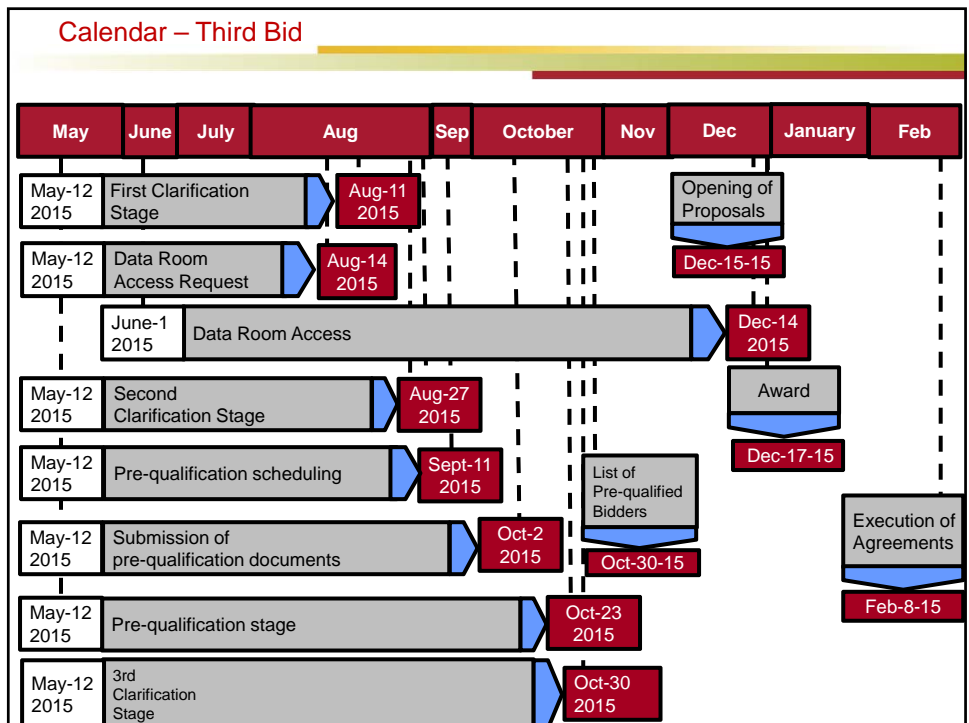
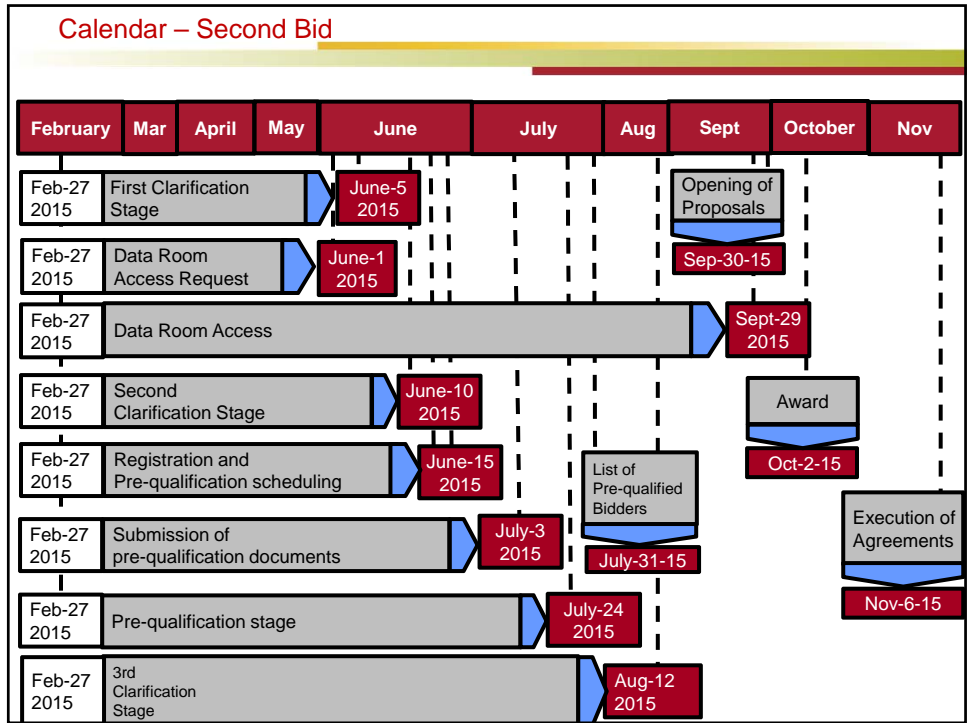
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## Calendar – First Bid (Recent Update)

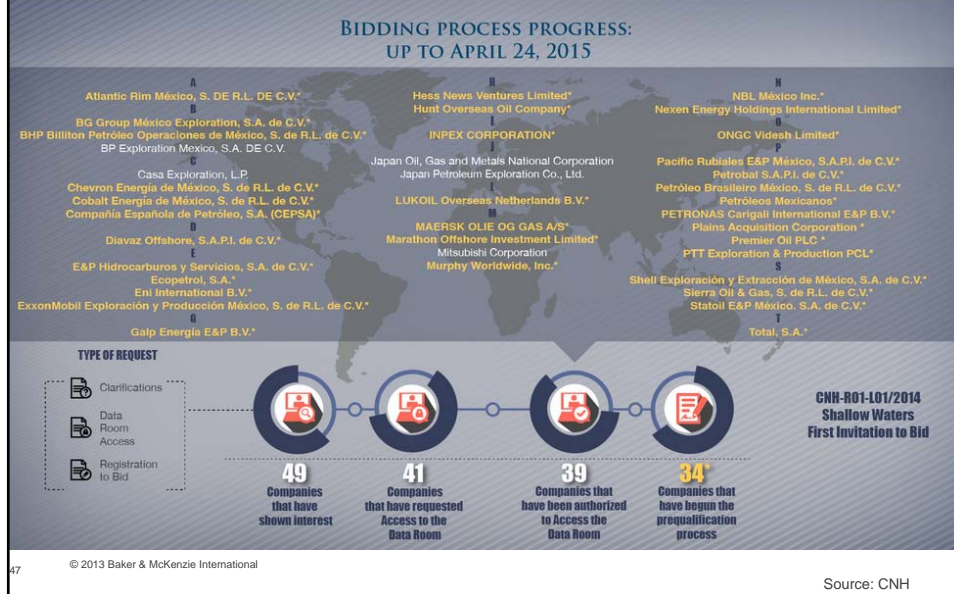


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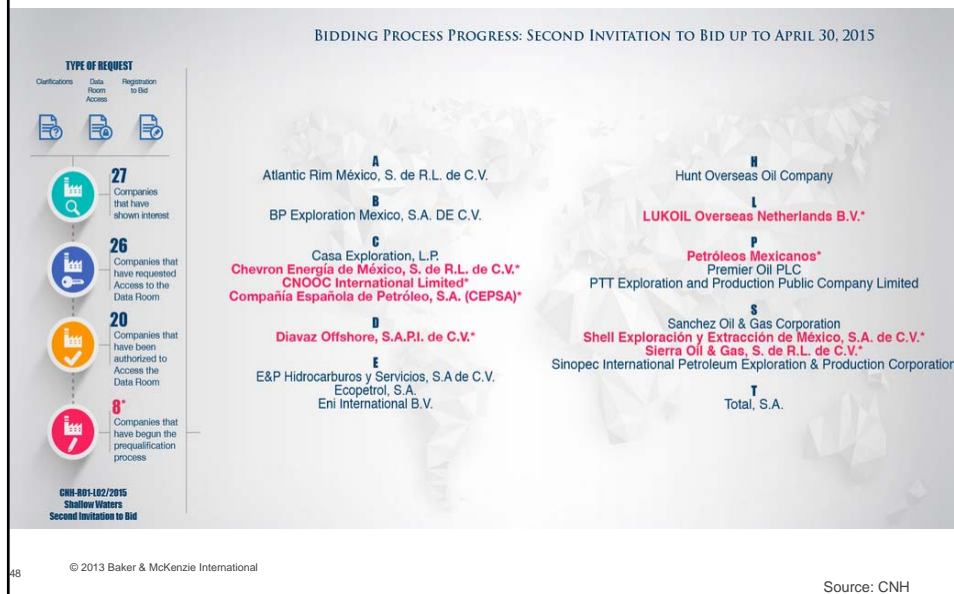




## First Bid – Process as of April 24, 2015



## Second Bid – Process as of April 30, 2015





## Thank You

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[www.bakermckenzie.com/mexico](http://www.bakermckenzie.com/mexico)

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