ENERGY REFORM IN MEXICO
FIRST ROUND ONE TENDER RESULTS

On July 15, 2015, the National Hydrocarbons Commission (the “CNH”) awarded the first production sharing contracts in Mexico’s history as a result of the first of five Round One tenders for 14 exploration blocks (each, a “Block”) located in shallow water areas in the Gulf of Mexico (the “Tender”). This Client Alert provides a brief summary of the Tender results and includes commentary regarding the overall significance of the Tender in connection with the Mexican oil and gas industry.

I. SUMMARY OF RESULTS

Although there were 25 potential bidders (18 individual companies and seven consortiums), only the following bidders actually registered to participate in the bid submission ceremony:

- Atlantic Rim México, S. de R.L. de C.V.
- Cobalt Energía de México, S. de R.L. de C.V.
- Pan American Energy LLC
  E&P Hidrocarburos y Servicios, S.A de C.V.
- ENI International B.V.
  CASA Exploration, L.P.
- Hunt Overseas Oil Company
- Murphy Worldwide, Inc.
  PETRÓNAS Carigali International E&P B.V.
- ONGC Videsh Limited
- Talos Energy LLC
  Sierra Oil & Gas, S. de R.L. de C.V.
  Premier Oil PLC
- Statoil E&P México, S.A. de C.V.

The CNH received proposals for six blocks; however, only the proposals for Block 2 and 7 included values for State participation above the minimum amount previously determined by the Finance Ministry for each Block. Both Blocks were awarded to the consortium formed by Talos Energy LLC, Sierra Oil & Gas, S. de R.L. de C.V., and Premier Oil PLC. The remaining 12 blocks were left unawarded.

II. WHAT IS NEXT?

The second (shallow-waters extraction) and third (onshore extraction) Round One tenders are underway, where awards are scheduled to occur in September and December of this year. Although there seems to be more enthusiasm for the second and third rounds, participating companies have expressed
some of the same concerns that may have factored in their decision not to participate in the proposal submission ceremony of the Tender.

Some of these concerns include (i) high risk and limited upside for small contractual areas; (ii) complex cost recovery system limited to 60%; (iii) early termination, rescission, and guarantee provisions that depart from international standards; and (iv) partnering restrictions during the bid process. No doubt, the current low oil and gas price environment contributed to what turned out to be a disappointing Tender. Industry participants are hoping that the outcome in the Tender will encourage regulators to take a hard look at the fiscal and contractual terms for the second and subsequent bid rounds.

Despite the results of the Tender, we remain confident that Mexico will continue presenting attractive upstream/midstream and downstream investment opportunities. Interestingly, the Energy Ministry recently announced an aggressive five-year bidding plan that considers four bid rounds over a total of 178,554 km², for a potential of 68,205 MMboed of 3P reserves and total prospective volumes of 39,254 MMboed for exploration areas (click here for more information).

The five-year plan projects a significant increase in activity and development for Mexico’s hydrocarbon resources, which, if and when the Energy Ministry offers more attractive terms for bidders, is likely to result in a renewed interest from participating companies. Given the level of accessibility the Mexican government has shown to date, it is also likely that Mexico’s petroleum regime (laws and regulations), as well as the model agreements for subsequent rounds, will continue to evolve and adjust as the process unfolds. We look forward to continuing to assist our clients in this historic process and will provide periodic updates.

If you have additional questions or are interested in understanding the full scope and content of the Tender, do not hesitate to contact the Thompson & Knight attorney with whom you regularly work or one of the attorneys listed below.

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