

INSIGHTS

Mexico's National Hydrocarbons Commission Issues Round One's Third Bid For Onshore Fields

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By: [Manuel Vera](#)

Mexico's National Hydrocarbon Commission (*Comisi3n Nacional de Hidrocarburos*) ("CNH"²) announced on May 11 the terms for the third bid of Round One. Unlike the two earlier bids which covered 19 shallow water areas, the third bid covers 26 onshore areas that contain approximately 2.5 billion barrels of oil equivalent (BOE) most of them with 3P reserves. The contract areas will be auctioned off contractually using license agreements as opposed to the production sharing agreements previously used during the first two bids. Under a license agreement, the private company will have the right to the hydrocarbons once the hydrocarbons have been extracted from the ground, but would first be required to make economic payments to the Mexican government as follows: (i) an upfront signing bonus to be determined by the Ministry of Finance; (ii) a monthly quota during exploration; (iii) a royalty payment on production once production begins; and (iv) compensation to the government based on either operating profit or the contractual value of the hydrocarbons produced. The third bid of Round One is the continuation of a historic auctioning process that will eventually encompass a total of 169 offshore and onshore blocks. Key aspects of the third bid include the following:

- The blocks contain 17 crude oil fields and 9 natural gas fields.
- The oil and gas blocks are spread across five states: Chiapas, Tabasco, Tamaulipas, Coahuila, and Veracruz.
- The depth of the blocks range from 500 meters to 6,900 meters.
- The blocks up for auction are separated into two groups: 22 minor fields (less than 100 MM BOE) and 4 major fields (more than 100 MM BOE). Bids for the minor fields require the bidding group to have a minimum net worth of \$5 million per each block of interest. Bids for the major fields will require the bidding group to have a minimum net worth of \$200 million per each block of interest.
- The license agreements will have a term of 25 years extendable for 2 additional periods of 5 years each.
- The CNH changed how they judge the required level of technical experience. Previously technical experience was judged at the company level, but now the experience of the

staff employed for the project will be considered. This is designed to allow domestic Mexican players to participate in the bidding.

- Important dates for this third bid include the following:
 - a) Request Access to the Data Room: No later than August 14, 2015
 - b) Deadline to Submit the Prequalification Documents: October 2, 201
 - c) Submission and opening of economic proposals: December 15, 201
 - d) Deadline to execute the applicable agreement: February 8, 2016