



August 2016

## **CNH Issues Bidding Guidelines and Agreements for the First Pemex Farm-Out (Trion Project)**

On July 27, 2016, the Commissioners of Mexico's National Hydrocarbons Commission (the CNH) held a meeting to discuss and approve the invitation to bid, the Bidding Guidelines, and the exploration and production license agreement (the License Agreement) for the selection of the partner(s) for PEMEX Exploration and Production (PEP) for the exploration and production of hydrocarbons in deep waters in the Trion field through the first farm-out to be carried out by PEP.

The Trion field is located within the Perdido area offshore the Gulf of Mexico, which crosses the border into both the United States and Mexico. It is located 39 Km from the nautical border of the United States and is near the "Great White" field. Therefore, it is expected that Trion may have similar production capabilities. Trion has a surface of 1,284 km<sup>2</sup> (797.8 miles<sup>2</sup>), and, according to the information provided by the CNH, the field has a depth of 2,090 to 2,570 meters (6,856 to 8,431 feet). PEP has previously drilled two oil and gas wells – Trion 1 and Trion 1DL – within the Trion area and, according to the CNH, has already conducted 3D seismic studies in the entire area. According to PEP, the Trion area has certified 3P reserves of approximately 485 MMBOE.

### **Key Features Regarding the Bidding Process**

The bidding process will include the following phases:

> ***Publication of the Bid Documents***

The invitation to bid CNH-A1-Trion-C1/2016 for the international bid process number CNH-A1-Trion/2016 was published on July 28, 2016, in the [Mexican Federal Official Gazette](#).

On the same date, the CNH published the [Bidding Guidelines](#), the License Agreement model and the Joint Operating Agreement (JOA) model.

> **Access to the Data Room**

Access to the data room shall be through the National System of Hydrocarbons Information. In order to obtain access to the data room, bidders are required to pay a fee of MXP\$1.6 million (approximately USD\$85,000.00), to obtain a license to access the information, be allowed to carry out visits, and have virtual access.

According to the Bidding Guidelines, those interested parties who had prior access to the data room in the fourth bidding process of Round One may submit a letter to the CNH to request access to the data room for the CNH-A1-Trion/2016 bid process.

> **Registration**

In order to participate in the bid, the interested parties are required to register with the CNH and pay a registration fee to the CNH in the amount of MXP\$750,000.00 (approximately USD\$40,000.00).

> **Q&A**

Bidders may submit questions to and request clarifications from the CNH through a public Q&A process. This process will be divided in two phases. The first phase will be for issues related to the access to the data room, and the second phase will be for issues related to the Bidding Guidelines, prequalification phase, consortia, License Agreement and JOA.

> **Prequalification**

The Bidding Guidelines provide for bidders to prequalify as operators or as non-operators, and the requirements for information and capabilities (of the bidder) will depend on the character of the bidder (operator or non-operator). Operators or non-operators are required to be prequalified. The bidders shall form a consortium comprised of at least two operators in order to be able to participate. Each bidder to the consortium must be prequalified. Once the bidders are prequalified, they must obtain an authorization from the CNH to form the corresponding consortium and participate as bidders, indicating the designated operator, in the understanding that the selection of the members of the consortia shall be carried out by the bidders.

In order to be prequalified, bidders shall comply with similar legal, technical, and financial capabilities as in the other bidding processes issued by the CNH. In addition, in this bidding process, PEP will issue an opinion regarding the bidders.

Pursuant to the Bidding Guidelines, among the technical capabilities to be complied with, operators will have to provide evidence of their participation in at least one ultra-deep water project (depth equal to or greater than 1,500 meters in the last ten (10) years) and a total annual average production of at least 50,000 BOE/D in any year within the 2011-2015 period in deep or ultra-deep water projects. In addition, operators shall provide evidence of experience in the implementation and operation of Health, Safety, and Environmental (HSE) systems during the last five (5) years and submit certifications such as OHSAS 18001 and ISO 14001.

Regarding financial capabilities, operators must show a net worth of USD\$5 billion, or assets with a value of USD\$25 billion and a credit rating with an investment grade (Fitch Ratings, Moody's Investors Service, or Standard & Poors, rating services). In addition, operators must evidence investments in exploration and production projects of at least USD\$2 billion in the aggregate.

For the non-operators, it will be necessary to show a net worth of USD\$250 million.

According to the Bidding Guidelines for CNH-A1-Trion/2016, the following participating interests (PI) will be applicable to the project: (i) PEP – 45 percent; (ii) Operator 1 – from 30 to 45 percent; (iii) Operator 2 – from 10 to 25 percent; and (iv) Non-operator – maximum PI of 10 percent.

> **Submission and Opening of Proposals and Award**

All bidders are required to provide a bid guarantee in the amount of USD\$3 million through a letter of credit.

The Ministry of Public Finance will determine the minimum and maximum royalty amounts applicable to these Bidding Guidelines.

The successful bidder will be selected based on the bidder that offers the highest rate of additional royalty payable to the State through the Mexican Fund for the Stabilization and Development.

If there is a tie between two or more bidders, the successful bidder will be selected based on the bidder that offers: (i) the highest signature bonus for the State and (ii) an additional carry for PEP.

> **Execution of the License Agreement**

Once the CNH has selected the successful bidder, CNH and the bidder will execute the License Agreement. The License Agreement will include, among others, the following terms and conditions:

- > Thirty-five (35) year term with two (2) possible extensions, the first one for five (5) additional years and the second for ten (10) additional years;
- > Exploration Period – Four (4) years with two optional additional periods of three (3) years each;
- > Evaluation Period – Three (3) years;
- > Development Period – Twenty-two (22) to thirty-seven (37) years (including extensions);
- > Surrender of the Area;
- > Unitization;
- > Disposition of Production;
- > Compensation;
- > Guarantees – Performance Guarantee and a Corporate Guarantee through a parent or an affiliate (in the latter case, evidencing a net worth equivalent to the PI multiplied by USD\$14 billion);
- > Abandonment and Decommissioning;
- > Insurance;
- > Contractual and Administrative Rescission;
- > Assignment and Change in Control; and
- > Applicable Law (Mexican Law) and Dispute Resolution (UNCITRAL Arbitration seated in The Hague, Netherlands).

Before the execution of the License Agreement, the successful bidder and PEP shall execute a JOA. The JOA model issued by the CNH is based on the Association of International Petroleum Negotiators (AIPN) JOA model. The JOA with PEP will include, among others, the following terms and conditions:

- > Participating interests in terms of the License Agreement;
- > Designation of the Operator;
- > Operator's obligations and liabilities;
- > Operating Committee;
- > Work Programs and Budgets;
- > Sole Risk Operations;
- > Default;
- > Disposition of production;
- > Abandonment and Decommissioning;
- > Transfers and Change in Control;
- > Withdrawal; and
- > Tax payments.

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