

AMENDMENTS TO THE BIDDING GUIDELINES AND THE MODEL CONTRACT OF THE THIRD INVITATION TO BID OF ROUND ONE

On the 9th of November the National Hydrocarbons Commission (CNH) agreed to amend the bidding guidelines and the model contract for the third invitation to bid of the “Round One” (CNH-R01-L03/2015). Even though the last versions of these documents will be published on November 20, the CNH made significant changes. From the most important aspects of the amendments, we can underline the following:

I. Amendments of the bidding guidelines

The amendments to the bidding guidelines are numerous. Below those we consider most relevant or important are being presented.

(i) Bidding process calendar.

To begin with, the amendments to the calendar of the bidding process in general are of major importance. Noteworthy is that the review period for prequalification has been extended until November 25, and the period for visiting the contractual areas has been extended to November 27.

Secondly, the deadline to execute the contracts has been extended from 120 days to 140 days from the date of the bidding process’s award.

Potentially the most relevant date will be November 30, which according to Section III, Subsection 16.1 of the bidding guidelines, will be the deadline until when the Ministry of Finance and Public Credit (SHCP) will have published the acceptable minimum values to be met in the **economic** proposal.

(ii) Guarantees.

Economically relevant are further the amendments found in Section III Subsection 13. (*Integración de la Propuesta*), where the requirements for the “seriousness” guarantee are stipulated, which are intending to secure responsibility of the successful bidder.

(iii) Bidders financial capabilities.

One of the most important amendments is the fact that simultaneous and multiple bids are possible. This is because the bidder may opt to submit an economical proposal for each of the contractual areas of his interest, and in case he is awarded with one or more contractual areas, his authorized stockholders' equity (depending on the type of contractual area US\$5 million (Type 1) and US\$200 million (Type 2)) will be reduced inasmuch as he is awarded with a contractual area or is declared second place bidder.

In this context, it is worthwhile mentioning that the order in which the bidding will be conducted has been established: at first bids for Type 2 contractual areas will be opened, subsequently those for Type 1.

(iv) Contractual areas.

The geographical coordinates of certain contractual areas have been corrected such as the Benavides (Primavera), Mundo Nuevo as well as Tajón (both now split into A and B), Paso de Oro (now A, B, C instead of 1 and 2) and Mayacaste (A, B, C).

II. Amendments of the licensing agreement:

In addition, the amendments to the licensing agreement are numerous. Below those we consider most relevant or important are being presented.

(i) Preliminary plan.

According to the clause 5.1, in case that in the contractual area, at the time the contract is awarded, there are production activities ongoing, the contractor shall present a preliminary or provisional plan in advance of the evaluation and development plan. This plan has to (i) include the proposed operational activities to ensure continuance of production during the first year from the effective date, and (ii) define the procedures for delivery and receipt of hydrocarbons in the contractual area in compliance with applicable regulations. Concerning that period, clause 15.1 stipulates that any production falling in that period shall be treated as regular production.

(ii) Synchronization of plans.

The filing date for the evaluation plan has been modified, in order to be synchronized with the filing date of the development plan.

(iii) Exploration Activities.

The contractor is given the opportunity to conduct exploratory activities in addition to the production activities under the contract.

(iv) Guarantees.

The clause 16 stipulates performance (16.1) and corporate (16.2) guarantees. In the most recent amended version of the license contract, bonds are now accepted as guarantees during the evaluation period.

As well, clause 16 now clarifies, that the contractor has the right to request back the initial guarantee after completion of (and compliance with) the evaluation program. Not new, but nevertheless worth to draw attention to in this newsletter is that according to the clause 16.2 (b)(1) and (2) a corporate guarantee of US\$ 300 million is set for Type 2 contractual areas and US\$ 7.5 million for each Type 1 contractual area.

III. Conclusions for interested investors

The latest amendments are a very positive sign of development of the licensing agreement. Nevertheless, there remain certain drawbacks, e.g. the broad causes for administrative recession in combination with the restriction to contractual recession within the arbitration clause.

However, the described changes are aimed at potentially increasing the number of bids, and thus to increase the probabilities to award more contractual areas, including those that might appear less attractive than others might. Ultimately, this can lead to a higher number of awarded contractual areas, meaning higher investments into the Mexican hydrocarbon sector.



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Sincerely,

Von Wobeser & Sierra, S.C.

Mexico City, November 13th, 2015.