

SENER

SECRETARÍA DE ENERGÍA

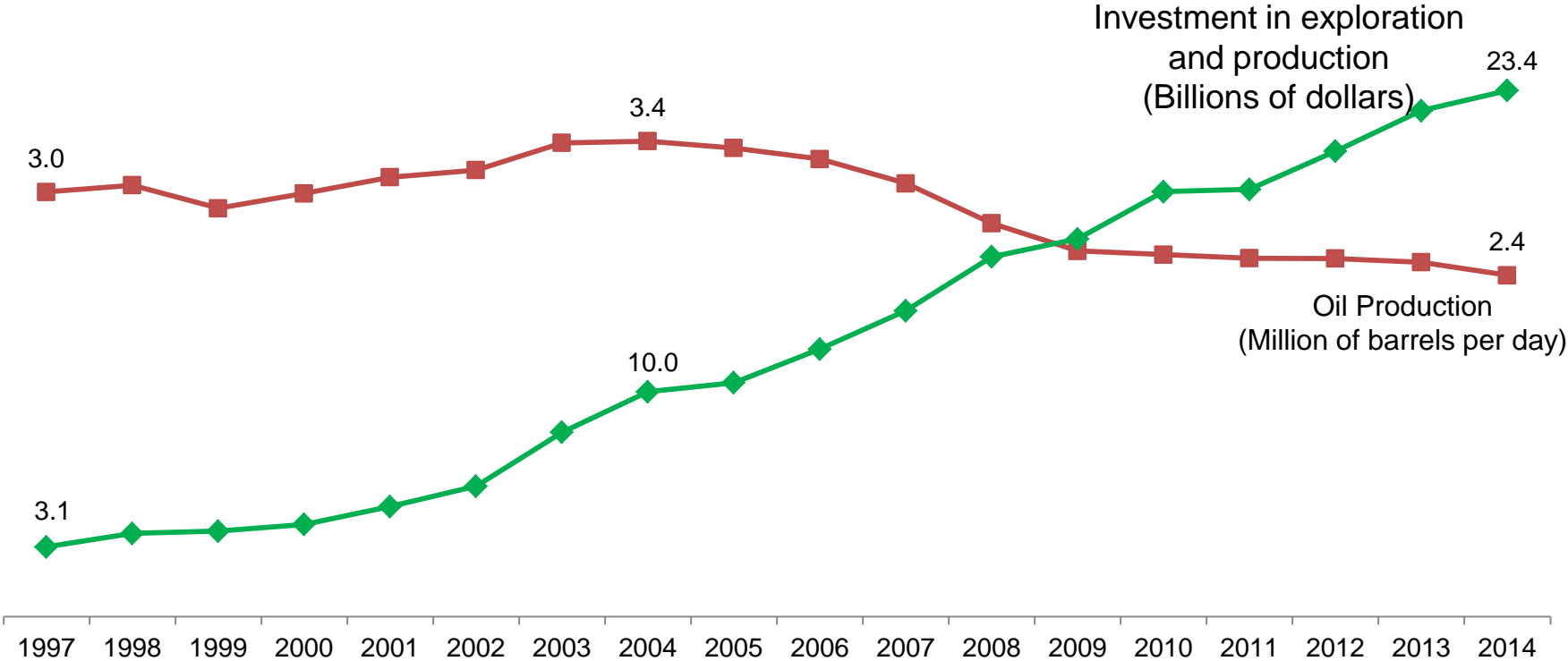
# Implementing Mexico's Energy Reform

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# Despite an increase in investment in exploration and production, Mexican oil production has declined from 3.4 million barrels per day in 2004 to 2.4 million in 2014.



\* January – December, 2014.

Sources: Production: Pemex Institutional Database, 1997– 2014. Investment: Pemex Annual Statistics, 1997-2014.

# Fundamental Principles of the Energy Reform

- 1 Hydrocarbons in the subsurface belong to the Nation.
- 2 Free market access and direct and fair competition amongst state-owned enterprises and private companies.
- 3 Strengthening of regulatory bodies.
- 4 Transparency and accountability.
- 5 Sustainability and environmental protection.
- 6 Maximizing the State's revenue for the Nation's long-term development.

# New Institutional Arrangement

- The institutional framework has been updated with new specialized bodies, with the strengthening of existing ones, as well as with the enactment of clear rules, the definition of specific mandates and enhanced interaction between entities to ensure checks and balances.



## Coordinating Council of the Energy Sector

Chaired by the Energy Ministry, will issue recommendations and approve coordination mechanisms to ensure the fulfillment of Mexico's energy policy.

ASEA: National Agency of Industrial Safety and Environmental Protection of the Hydrocarbons Industry

# Reform: Entitlements and Contracts

## Entitlements

- Awarded to Pemex in Round 0.
- Exceptionally awarded only to State Productive Enterprises (SPEs) in the future.
- New competitive fiscal regime.

## Exploration and Extraction Contracts

- The **State** may **sign contracts** with both SPEs and/or with private companies through the CNH.
- **Administrative termination due to major contract breaches.** **International arbitration** will take place following the Mexican legislation and in Spanish.
- **Booking of expected economic benefits** will be allowed for **accounting and financial purposes** only, every contract shall clearly state that hydrocarbons in the subsurface belong to Mexico.
- **The State may mandate direct participation in three cases:** (1) when fields coexist, (2) to promote technological transfer, and (3) when it has an economic interest to participate through a Special Purpose Vehicle (SPV). For cases (2) and (3), maximum of 30% participation will be established.

# The Mexican State's Bidding Rounds: Contractual Process

## 1. Contract design

**Selection of contractual areas**

With technical support from:  
  
 Comisión Nacional de Hidrocarburos



**Technical design (incl. local content requirements)**



**Economic-fiscal terms**



## 2. Bidding process

**Bidding guidelines**



**Data rooms and bidding rounds**



**Award and contract signing**



## 3. Operation

**Technical approval of exploration and development plans**



**Authorization of surface exploration and well-drilling**



**Management of contracts**



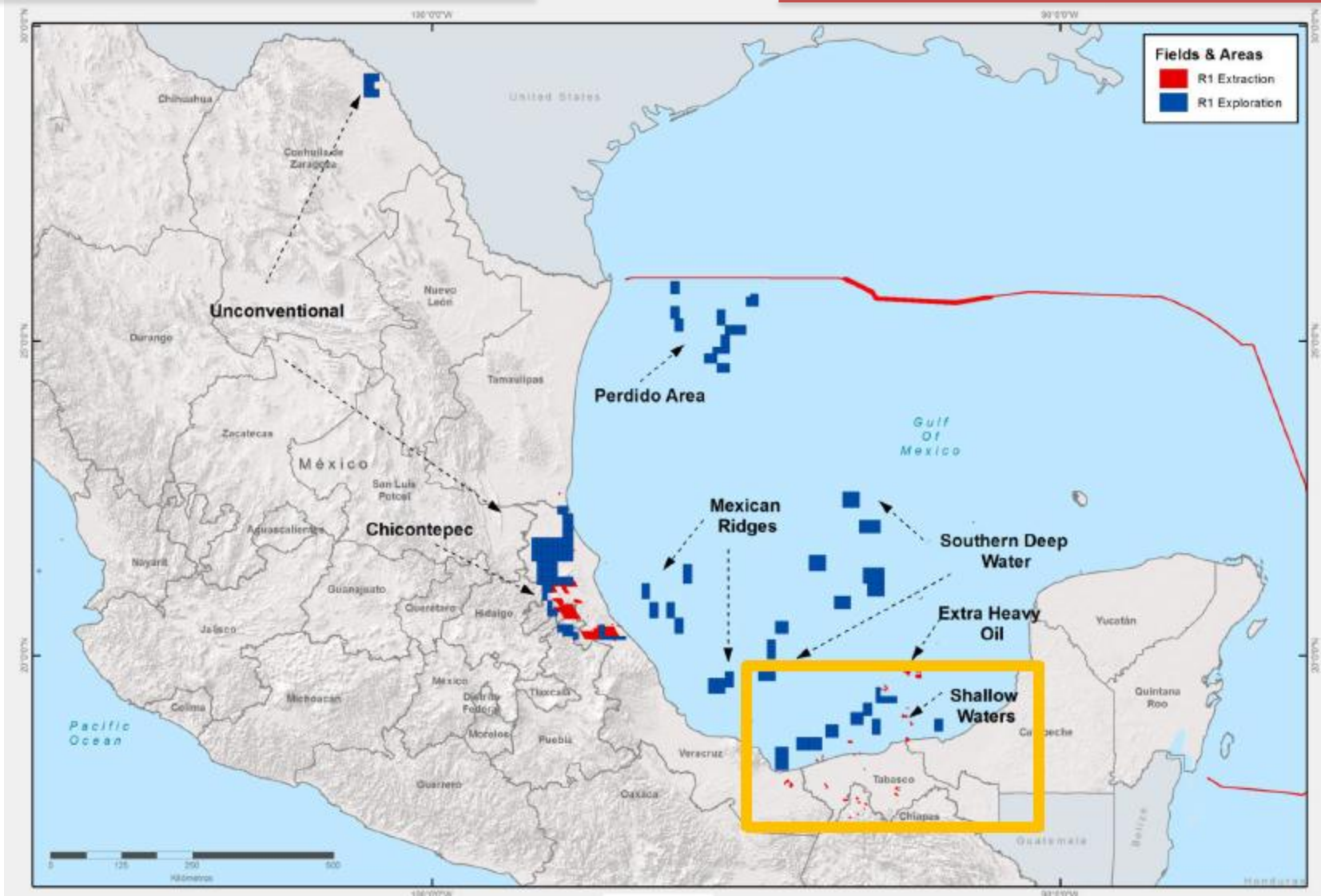
**Environmental and industrial safety regulation and oversight**



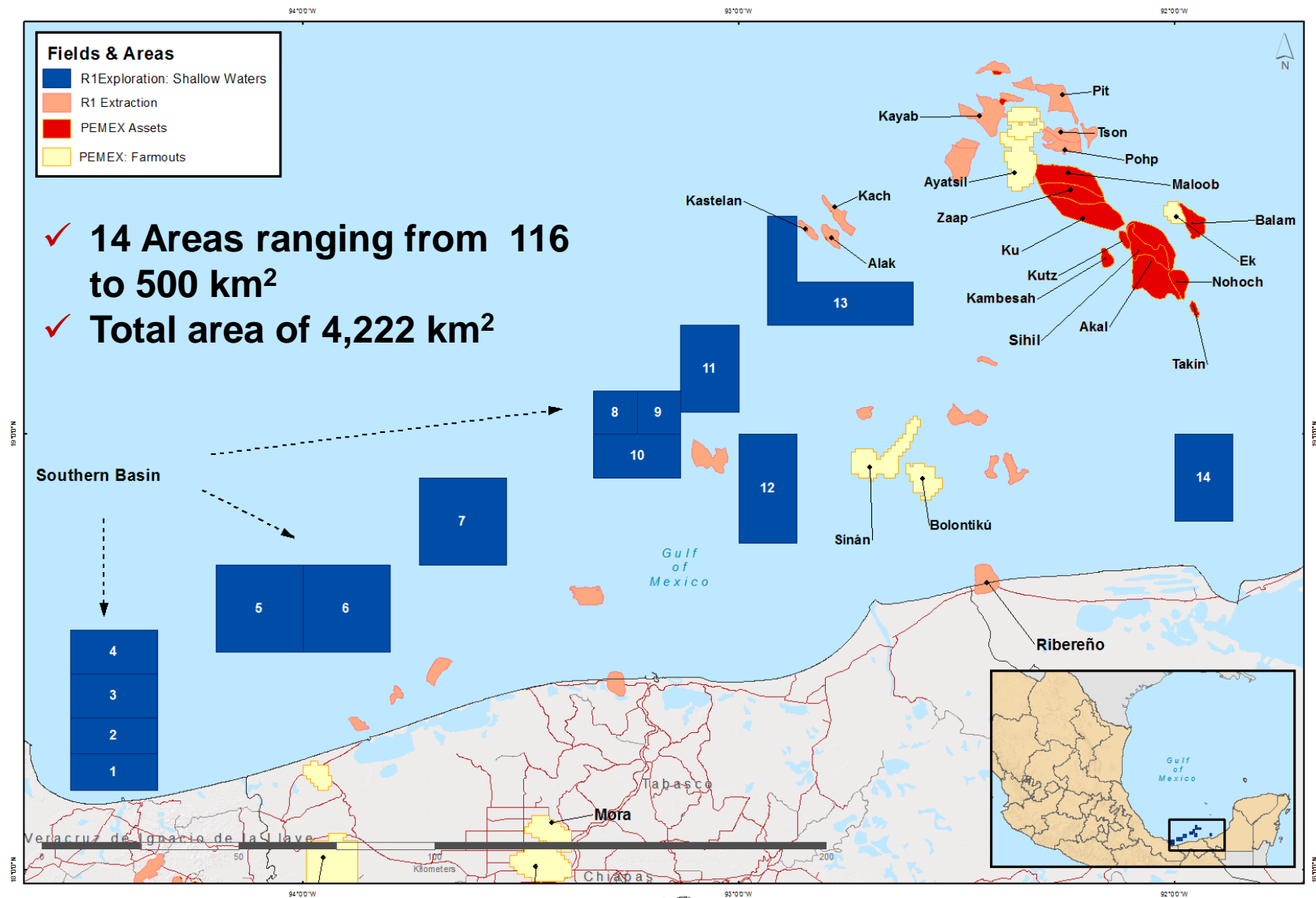
## 4. Oil income management

The Mexican Petroleum Fund for Stabilization and Development will be in charge of paying to contractors and managing the State oil revenues.

# Round 1: First Approach

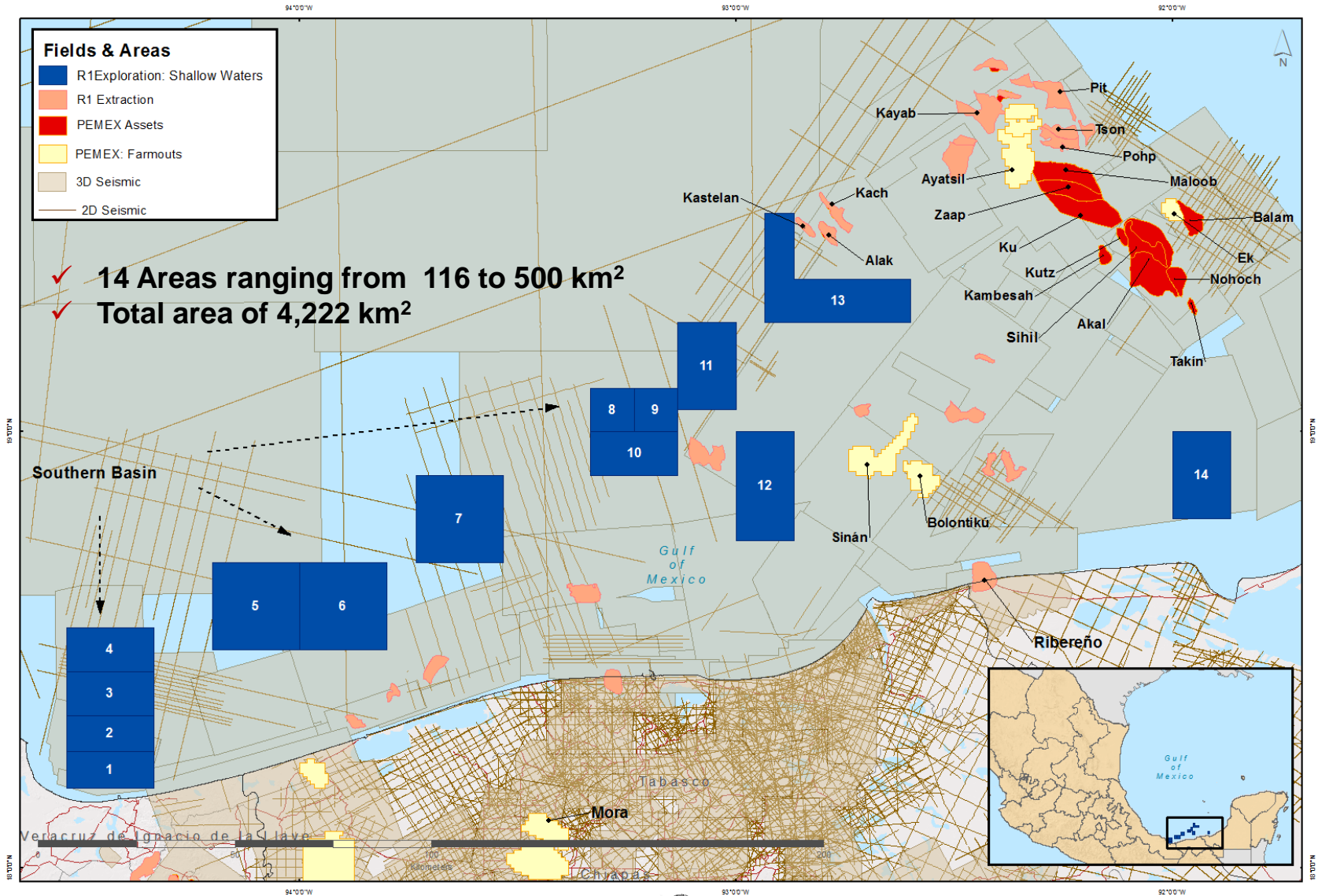


# Round 1: First Bid

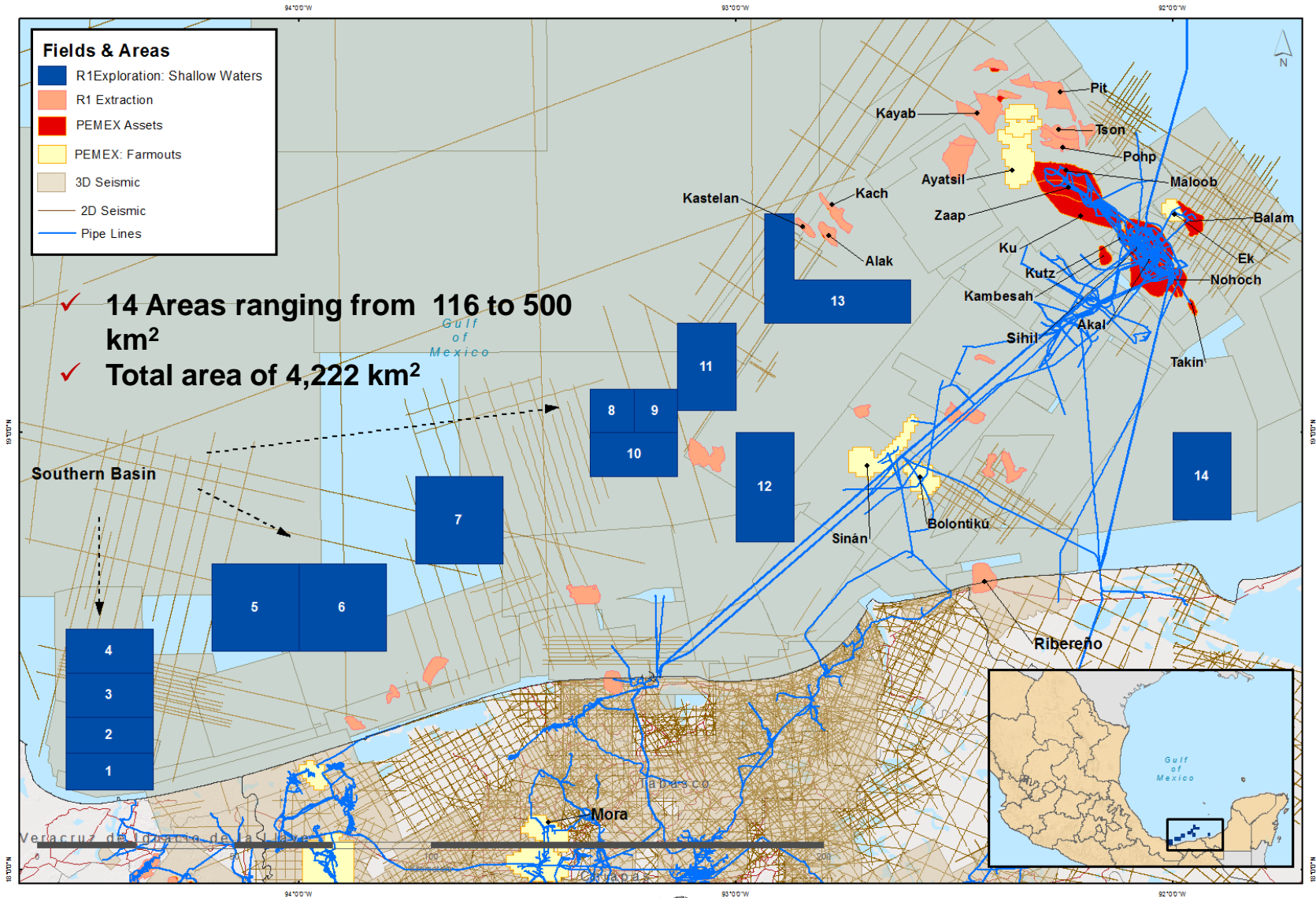




# First Bid: 14 Exploration Areas (Seismic map)



# First Bid: 14 Exploration Areas (Infrastructure)



# First Bid

## Production Sharing Contract

- ✓ Widely used internationally.
- ✓ **Awareness about the costs of** exploration and extraction, as well as the **technology** usually used in shallow waters.
- ✓ Designed to **protect the interests of the State** without reducing investors' incentives.



## State

- ✓ **Will receive the hydrocarbons production**, part of it will be used to pay for the exploration and production costs, as well as a reasonable return for the contractor, as determined in the bidding process.



## Contractor

- ✓ Will carry out exploration and extraction **at its own risk**.
- ✓ Will begin receiving payments only at the production stage.



## Production Sharing Contracts: Key Elements

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- ✓ One model for **companies bidding individually** and another one for **consortia**.
- ✓ Awarded through **public international bidding process and signed by the State** through CNH.
- ✓ Establishes **fiscal and economic terms**, including an **adjustment mechanism** in order to capture oil rent.
- ✓ Defines the minimum percentage of **local content** as well as the work program that needs to be fulfilled on a yearly basis (13% in the exploration phase and 25% to 35% in the extraction phase).
- ✓ Establishes obligations regarding **industrial safety and environmental protection** including risk management and insurance.
- ✓ Internationally unprecedented transparency rules.

# Production Sharing Contracts: Stages, Incentives to Accelerate Reserve Restitution And Increase Production



## Minimum work commitment

- ✓ **The drilling of at least 26 exploratory wells** is expected in the next 36 months within this 14 exploration areas.



## Gradual restitution to the State of non developed areas

- ✓ 50% of the non developed area will be returned in the 3<sup>rd</sup> year.
- ✓ 50% of the remaining area of the 3<sup>rd</sup> year, that is non developed, will be returned in the 4<sup>th</sup> year.
- ✓ 100% of the remaining area of the 4<sup>th</sup> year, that is non developed, will be returned in the 5<sup>th</sup> year.



## Rent per km<sup>2</sup> of the exploration area

- ✓ An incentive to prevent idleness in exploratory areas.



# Prequalification: Requirements

Any Mexican or foreign companies and state productive companies individually or in consortium, interested in participating in the bidding process must proof:

## Technical Capabilities

- ❑ **Must demonstrate verifiable experience as Operator during the period 2010-2014**, regardless of whether the project started before or ended within this period:
  - At least three E&P projects, o
  - Capital investments, in E&P projects at least one billion dollars in the aggregate.
  
- ❑ **Must proof it has been the operator in at least one offshore E&P project or participated, as partner, in at least two offshore E&P projects in the past five years.**
  
- ❑ **Must proof that the proposed personnel for key management positions has at least 10 years of experience** in managing offshore E&P projects.
  
- ❑ Experience in the areas of **industrial safety and environmental protection** during the past five years.

# Prequalification: Requirements

- ❑ **Financial Capability: Prove a net worth of at least one billion dollars,**
  - In case of a consortium, the operator must proof at least 600 million dollars.

## **Alternatively:**

- Total assets of at least ten billion dollars, and
- An investment-grade credit rating according to any major rating agency.

- ❑ **Rules to promote competition**

- No Company may take part in more than one consortium.
- No Large-Scale Oil Company\* may associate with another Large-Scale Oil Company in order to take part in a consortium.\*\*
- Companies or consortia may submit Bids for up to five Contractual areas in the Bidding Process.

\* A Large –Scale Oil company is any oil company that individually or in combination with any of its affiliates or companies under its control, and that has an average production of crude oil, natural gas or condensate equal to or greater than 1.6 MMBCOE.

\*\* This restriction will not apply for deepwater projects, extra heavy oil and unconventional areas.

# Round 1

## Unofficial Bidding Calendar

**First invitation to bid**

December  
2014

February  
2015

March  
2015

April  
2015

May  
2015

**Opening of data rooms**

January  
2015

February  
2015

March  
2015

April  
2015

May  
2015

**New Areas and Fields**

Shallow  
Waters  
Exploration

Shallow  
Waters  
Extraction

Onshore

Chicontepec  
and  
unconventional

Deep  
Waters

**Areas**

14  
exploration  
areas

### First invitation Update (February 5):

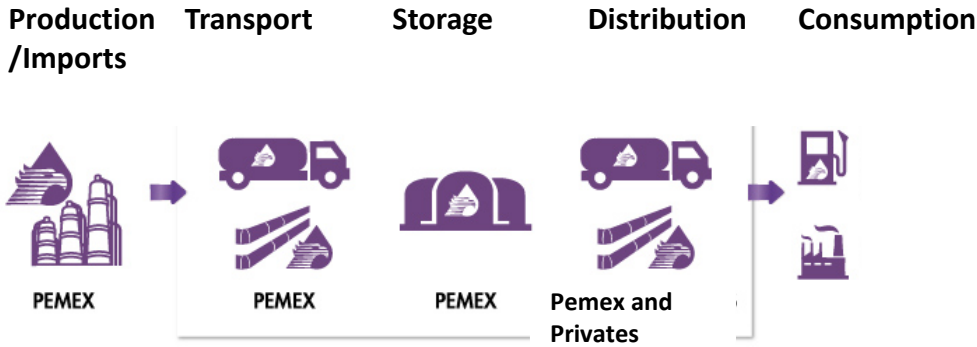
38 companies interested

- 26 requested access to the data room (22 approved).

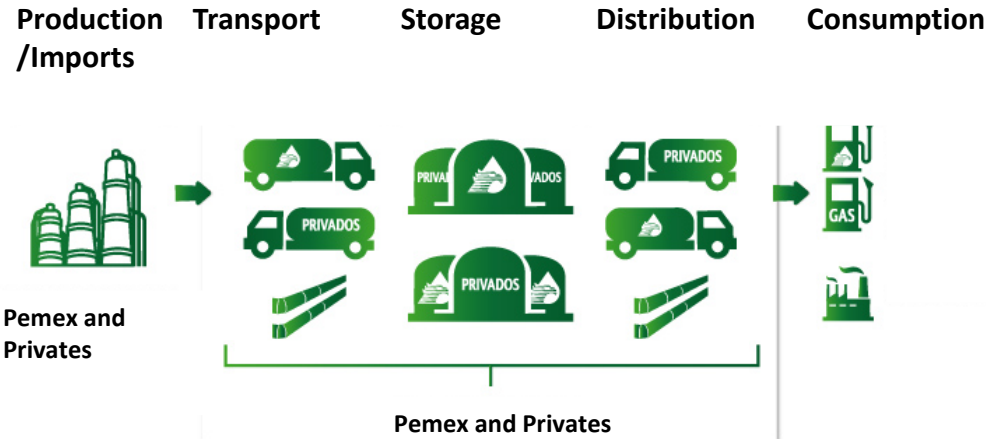


# New Model for Oil Refined Products

## Before



## After



## Industry Regulation

**SENER** is in charge of the public policy intended to ensure an adequate supply of oil products.



Issues permits for:

- Oil refining
- Natural gas treatment
- Oil products imports/exports

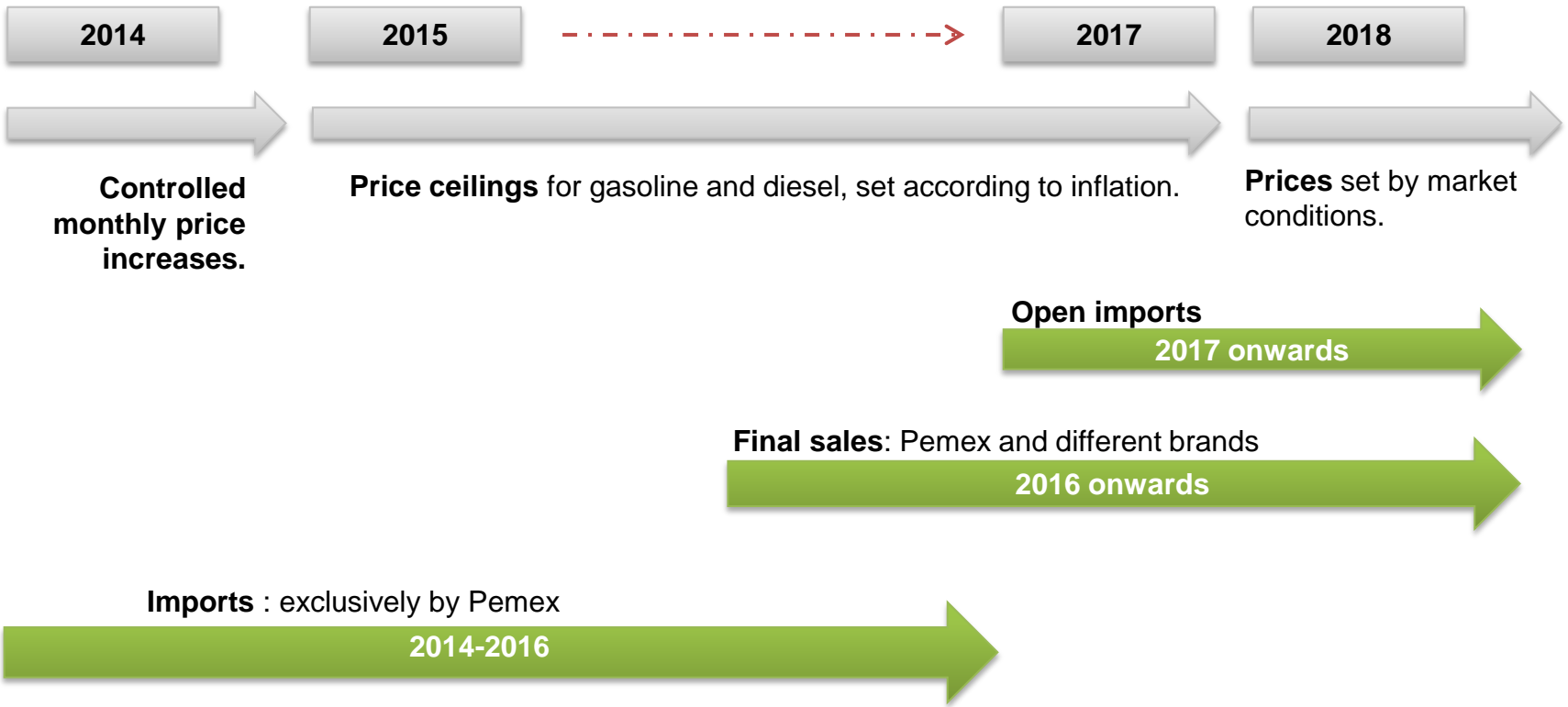
The **CRE** issues regulation to avoid unfair discrimination and guarantee open access to the pipeline system and storage infrastructure.

- Sets fees for regulated activities.
- Determines the criteria for infrastructure to qualify as self use.
- Regulates end use retail activities if effective competitive markets don't exist, in agreement with the Federal Commission for Economic Competition (COFECE).
- It issues permits for the sales, transportation, storage and distribution of hydrocarbons and its products, and retail.

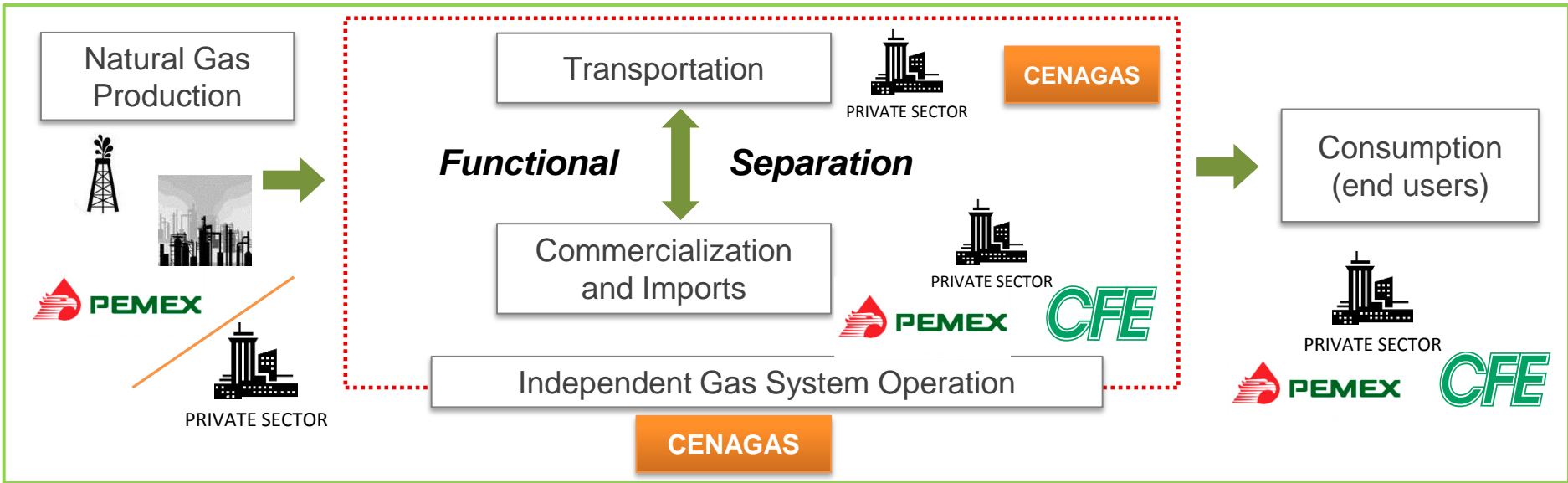


# Gradual Liberalization of the Gasoline and Diesel Markets

- From 2016, gasoline and diesel will be sold by Pemex franchises or other brands.
- The liberalization of the gasoline and diesel retail sector will be carried out in stages.
- Products will be sold by Pemex and other suppliers.



# The new natural gas model



## Objectives

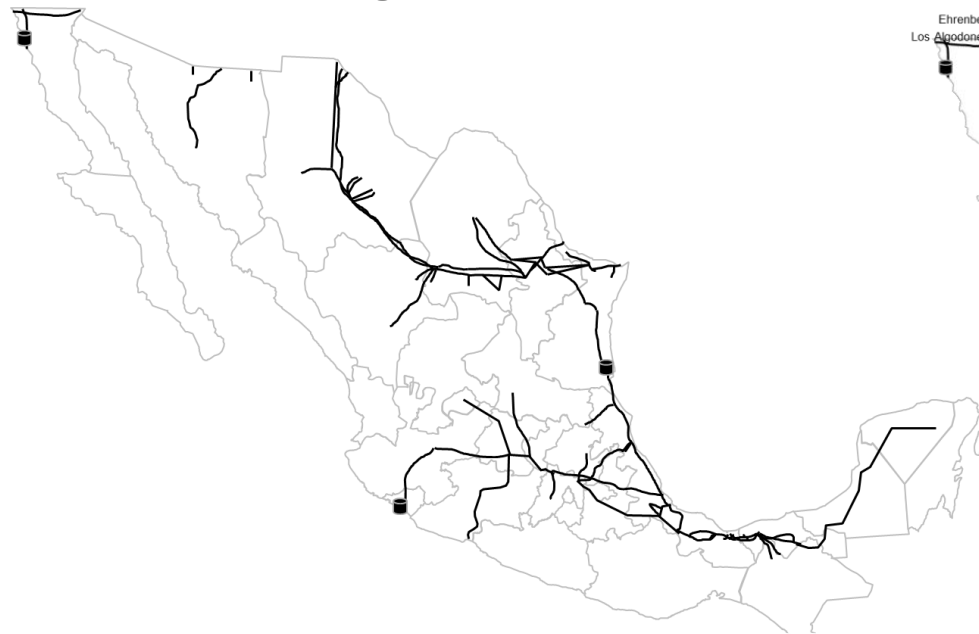
- Enhanced energy security
- Infrastructure development
- Open access to all producers
- Guaranteed fuel supply
- Strong authorities

## New rules

- Existing Pemex infrastructure was transferred to CENAGAS.
- Controls to prevent monopolistic behavior in gas transportation.
- Centralized planning, authorized by the Ministry of Energy in consultation with the Energy Regulatory Commission
- CENAGAS will bid strategic projects through open and transparent bidding processes.








# Natural gas transport infrastructure plans (2014 – 2018)

## Existing Infrastructure



## Expected Infrastructure by 2018



-  LNG regasification terminals 2014
-  Operating pipelines, 2014
-  Operating pipelines
-  State financed pipelines
-  NG liquefaction/compression plant proposal
-  NG regasification/decompression plant proposal
-  NG maritime supply route

### New Opportunities

- 18 natural gas transport projects.
- 10,000 km of additional pipelines.
- An expected investment of 13.3 billion USD.

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[www.ronda1.gob.mx](http://www.ronda1.gob.mx)

# Crude Oil Outlook 2014 – 2018

It is expected to maintain oil production above 2.5 million barrels per day of crude oil from Pemex and its probable partners and to increase the production up to 3 million barrels in 2019 from the bidding rounds. The average investment between 2015 and 2028 is approximately of 3.7 billions dollars.

## Crude Oil Production (Thousand barrels per day)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Oil Production Pemex + Joint Ventures	2450	2537	2650	2850	3006	3143	3215	3580	3778	3799	3670	3540	3560	3550
Bidding Rounds	2450	2537	2543	2595	2656	2695	2810	3124	3295	3289	3203	3073	2913	2883
			107	255	350	448	405	456	483	510	467	467	647	667

Source: Crude Oil and Refining Products Outlook 2014-2028. Ministry of Energy

# Production Sharing Agreement

