



What's Next for Mexico's Oil and Gas Industry

The following is the last chapter in a four-part Commentary discussing the groundbreaking reforms to Mexico's oil and gas sector.

The Mexican government continues to take impressive steps to give effect to the country's transformative energy reform package. While the reforms that have been passed so far have been sweeping in scope, they have not always been specific in detail, and we expect the next phase of the reforms to focus both on implementing measures that have already been passed and on clarifying the details and logistics that will be necessary to accomplish those measures.

Round Zero

On March 21, 2014, Pemex, Mexico's state-owned petroleum company, presented to the Mexican Ministry of Energy a list of the exploration areas and producing fields that Pemex would like to continue operating and developing. Pemex sought to retain all the areas where it currently has production, together with all areas where commercial discoveries have already been made. The list submitted by Pemex totaled 83 percent of Pemex's proven reserves and 31 percent of Pemex's unproven reserves.

On August 13, 2014, the Ministry of Energy, with technical assistance from the Mexican National

Hydrocarbons Commission ("CNH"), published a list of the exploration areas and producing fields that will continue to be explored and developed by Pemex. The list consisted of the following:

- 120 assignments to Pemex, consisting of 71 percent of the company's current oil production and 73 percent of the company's current natural gas production;
- 12.45 million barrels oil equivalent ("MMBOE") of proven reserves, which are almost all reserves that Pemex requested;
- 20.6 MMBOE of prospective resources, which is 67 percent of the reserves that Pemex requested.

As a result of the August 13, 2014 announcement, Pemex will hold rights to 83 percent of Mexico's proven reserves and 21 percent of Mexico's unproven reserves, ranking Pemex among the world's top 10 oil companies in terms of reserves. In addition, Pemex will also have the right to participate in upcoming bid rounds for future blocks, alongside competitors from the private sector.

Round One

Also on August 13, 2014, the Ministry of Energy published a list of the fields and exploration areas to be auctioned through a public bidding process that will be open to private participation.

Round One will offer 169 blocks for auction, of which 109 will be exploration projects and 60 will be development projects. The total surface area of the Round One blocks will be 28,500 km², with approximately 91 percent corresponding to exploration projects and 9 percent corresponding to development projects. Generally, Round One will include a mixture of pure exploration plays, areas that are already producing, areas with conventional resources, and areas with unconventional resources. It will also include a combination of onshore, shallow offshore, and deepwater offshore fields, including the Chicontepec fields and several heavy oil fields.

In addition, Pemex made an announcement with respect to a number of the blocks that were assigned to it in Round Zero. Some of those blocks were already being developed by Pemex in cooperation with private parties under the previous “Integrated Services Contract” regime, which did not allow the private parties to book reserves or own production. Pemex has announced that these blocks will be migrated from the Integrated Services Contract regime to a Production Sharing Contract regime and will continue to be developed through cooperation between Pemex and private entities.

The Ministry of Energy has announced the following timetable for Round One bids:

First half of November 2014. Call for bids for the exploration of shallow water fields; the farm-out of the Bolontikú, Sinan, and Ek fields; and the migration of the Arenque field.

First half of December 2014. Call for bids for the exploration of extra-heavy oil fields and the farm-out of the Ayatsil-Tekel-Utsil field.

First half of January 2015. Call for bids for the exploration of new areas of Chicontepec and unconventional fields, along with the migration of the Humapa, Miquetla, Soledad, Pitepec, Amatlán, and Miahupán fields.

First half of February 2015. Call for bids for the exploration of onshore fields; the farm-out of the Rodador, Ogarrio, and Cárdenas–Mora fields; and the migration of the Monclova,

Nejo, Pánuco, Carrizo, Magallanes, Santuario, Altamira, San Andrés, Olmos, Pirineo, Ébano, Misión 1, Misión 2, Cuervito, Tierra Blanca, and Fronterizo fields.

First half of March 2015. Call for bids for the exploration of deepwater fields and the farm-out of the Kunah-Piklis, Trion, and Exploratus fields.

The first contracts are expected to be awarded by the second half of May 2015, and the Ministry of Energy hopes to award all Round One contracts by the end of October 2015.

On November 28, 2014, the general rules that will apply to the Round One bidding were published.

The reforms to Mexico’s oil and gas sector will continue to unfold, and the measures that have been taken so far are only the first steps in what will be an evolving process. The Jones Day team will continue to publish regular updates on the opportunities and challenges arising from the exciting transformation of Mexico’s energy landscape.

Lawyer Contacts

For additional information about the reforms in Mexico, or for previous installments of this *Commentary*, please contact your principal Firm representative or one of the lawyers listed below. General email messages may be sent using our “Contact Us” form, which can be found at www.jonesday.com.

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