King & Spalding

Client Alert

Global Transactions Practice Group

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Pemex Requests E&P Areas from SENER

On March 21, 2014 Petróleos Mexicanos (Pemex) submitted its round zero proposal to the Secretaría de Energía (SENER), Mexico's department of energy. Although the details of the proposal are not yet public, SENER has indicated Pemex seeks to retain control of all areas in which it is currently producing hydrocarbons in commercial quantities and all exploration areas in which it has made a commercial discovery, including areas in the deep waters of the Gulf of Mexico. In the southern basins, Pemex seeks to retain control of all exploration areas which overlap with producing areas and in which it has made significant investments under an exploration program.

In all, Pemex has requested an assignment of over 83% of the total proved and probable (2P)[1] reserves and 31% of all prospective resources known to exist within the Mexican territory (*see* map below).[2] These include all areas that are currently being explored and developed under fourteen full service contracts (*contratos de servicios integrales*) and a few shale areas in which Pemex intends to develop know-how for future unconventional exploration and production.

Under the proposal, Pemex releases significant blocks within Chicontepec and Mexico's northern shale areas. These sub-areas will revert to the State and be offered in future international bidding rounds under the new legal framework.

Pemex now has until mid-September 2014 to show SENER that it has the technical, financial and execution capacities to efficiently and competitively explore and exploit hydrocarbons from the areas it is requesting in assignment.[3] How Pemex will do that, however, is unclear at this time.

Though the burden will be low with respect to an area in which the company is currently producing hydrocarbons,[4] the burden with respect to some exploration areas, particularly those in deep waters and those containing shale resources, will be greater. Pemex simply does not have the technical capacity to develop such areas nor the financial capacity to on its own acquire or develop the technology to explore and exploit hydrocarbons therein. Thus, it is not unlikely that Pemex will seek to quickly partner-up with domestic or foreign-owned oil companies and

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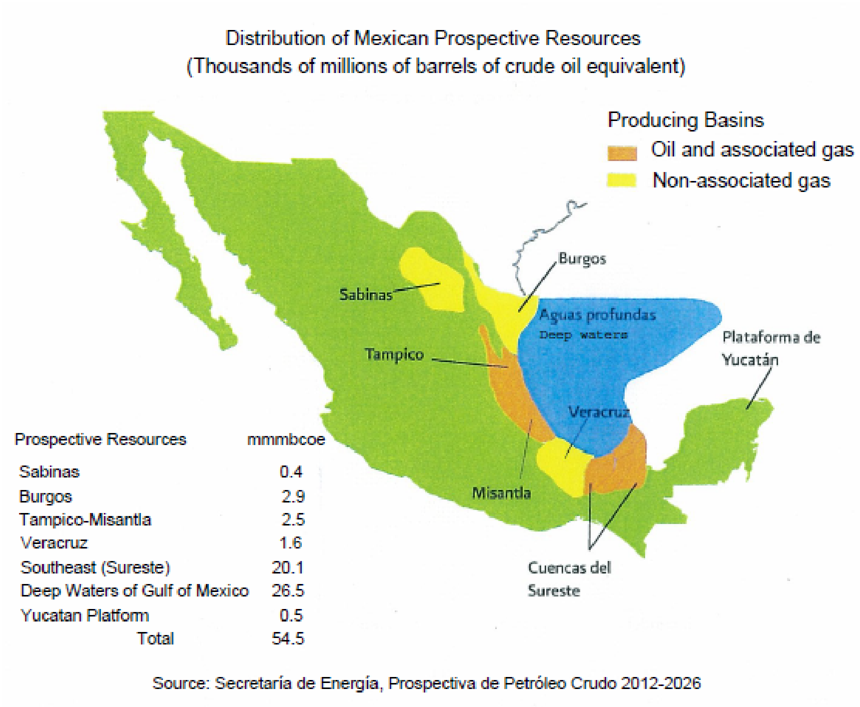
through them prove to SENER that it has one or more of the required capacities.

Once an assignment is completed, Pemex will have the ability to request its conversion to a license or other authorized form of upstream arrangement, provided that if Pemex seeks to enter into a contract with a private party, the upstream regulator will need to conduct a public bidding process to select a contractor.

All areas released by Pemex, including 69% of Mexico's prospective areas, will be subject to international public bidding once the government enacts implementing legislation. According to a few unofficial pronouncements, the government may call for bids as early as June 2015.



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[1] These likely include all of Pemex's shallow water projects and most onshore projects.

[2] The distribution of Mexican prospective resources made by SENER and the Comisión Nacional de Hidrocarburos, the upstream regulator, vary significantly with respect to unconventional resources. The latter adds 34.8 billion barrels of crude oil equivalent (bbscoe) to the Tampico-Misantla basin, 15 billion bbscoe to the Burgos basin, 0.6 billion bbscoe to the Veracruz basin and 9.8 billion bbscoe to the Sabinas basin, for a total of 114.8 billion bbscoe of prospective resources. *See* Comisión Nacional de Hidrocarburos – Mexico´s Energy Reform Institutional Framework, March 2014.

[3] In an exploration area, SENER will also have to verify that Pemex has indeed made the commercial discoveries and investments it claims to have made and accept Pemex's proposed exploration program.

[4] Although SENER's approval of an assignment of such an area appears to be ministerial in nature, SENER does have the discretion to establish production depths and even carve-out fields or formations therefrom to maximize the recovery of prospective resources.