

Trion Farmout

August 2016

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On July 28, 2016, the Mexican National Hydrocarbons Commission (“**CNH**”) published a call for tenders and the corresponding bid guidelines (the “**Bid Guidelines**”) for the International Public Tender CNH-A1-Trion/2016 process, to select a partner for Pemex Exploración y Producción (“**PEP**”), the productive subsidiary entity of Petróleos Mexicanos, to engage in upstream activities under a deepwater license contract (the “**Contract**”) in the contractual area known as Trion (the “**Trion Tender**”).¹

The Trion Tender involves the first *farmout*² offered by the Mexican Federal Government since the enactment of the Energy Reform in August 2014. The proportions of the contractor’s share in the execution of exploration and production activities must be split between PEP at 45%, with the remaining 55% to be assumed by the winning bidder (the “**Winning Bidder**”). The Winning Bidder must necessarily be a joint bidder consisting of either a joint venture or a consortium (the “**Joint Bidder**”), the members of which must consist of at least two operators (each, an “**Operator**”),³ one of which must be appointed as a designated Operator (the “**Designated Operator**”);⁴ and, as applicable, other non-operating parties may participate as financial sponsors (each, a “**Financial Sponsor**”).

¹ The Trion field covers a total area of 1,284 km² with deepwaters from 2,090 to 2,535 meters. It lies in the region known as “Cinturón Plegado Perdido” of the Gulf of Mexico, 200 km offshore of Matamoros and 39 km from the US border. It has total 3P reserves of 485 million barrels of crude oil equivalent (485 MMboe), with potential resources of approximately 140 million barrels of crude oil equivalent (140 MMboe). Furthermore, its 3D seismic data coverage extends to up to the 100% of the area, which shall be available in the relevant Data Room.

² It is important to note that the term “farmout” in the Mexican context has a different meaning than the one used in the rest of the global oil industry; namely, the partial assignment, to one or more third parties, of economic and operating rights in an ongoing hydrocarbon exploration and extraction project. Under the Energy Reform, the Federal Government used the term “farmout” to define the procedure described in Article 13 of the Hydrocarbons Law, which consists of the selection of a partner for PEP to undertake a migration from an Entitlement to a Contract, to be executed under an alliance or joint venture with private parties, *provided that* such selection be by public tender organized by the CNH as well as consistent with the technical guidelines and the fiscal terms established by the Ministry of Energy and the Ministry of Finance and Public Credit, respectively.

³ This term refers to a company that prequalifies by meeting the applicable technical and financial criteria and having sufficient capacity to assume a representative and leadership role in executing the upstream activities.

⁴ In view of the fact that the PEP partner selection procedure shall be by a public tender, the resulting partner may not necessarily be a suitable partner for PEP; as such the Bid Guidelines require at least two Operators within the Joint Bidder, as a mechanism to allow for some operating and negotiation flexibility between PEP and the Winning Bidder.

The Winning Bidder must enter into a joint operating agreement with PEP, which is part of the Bid Guidelines documents (the “**Joint Operating Agreement**”), and which establishes, among other aspects, that the equity structure between the aforementioned parties with respect to the Contract rights and obligations must be as follows:

Contractor Parties	Equity Interest
Pemex Exploración y Producción	45%
Designated Operator	30% (minimum) to 45%
Operator	10% (minimum) to 25%
Financial Sponsor	10% (maximum)

Clarification Stages of the Trion Tender

For the purposes of the Trion Tender, the CNH will hold the following two electronic clarification stages:

- (i) questions and answers regarding access to information in the Data Room as well as the registration stages; and
- (ii) questions and answers regarding the prequalification stage, integration of bidders, presentation and opening of proposals, awarding, award notice, Joint Operating Agreement and Contract.

The main components of the Trion Tender stages are as follows:

Stage One – Access to the Data Room

In order to gain access to information in the National Hydrocarbons Information Center data room (the “**Data Room**”), interested parties must obtain the relevant license for use from the CNH, along with the respective supplement, using the appropriate information code to gain access (TS, TP or TG), subject to the payment of fees equivalent to at least MXN \$1,600,000 (approximately USD 85,000).

Interested parties who have obtained access to the information in the Data Room during Tender 4 of Round 1 (deepwater) may be considered qualified to access the Data Room stage, *provided that* in the event they seek access to information regarding the Trion field, they must obtain the respective license for use and its supplement, subject to payment of the relevant fees.

Stage Two – Registration for the Trion Tender

All parties interested in participating in the Trion Tender must pay the sum of MXN \$750,000 (approximately USD 40,000) for registration, regardless of whether they seek to participate as Operators or Financial Sponsors.

Prior to the Presentation and Opening of Proposals stage, a Prequalification stage will be carried out in which the CNH, supported by the National Industrial Safety and Environmental Protection Agency of the Hydrocarbons Sector as well as the Financial Intelligence Unit of the Ministry of Finance and Public Credit (“**SHCP**”), respectively, shall verify the technical, development, financial and legal experience and capacity of the interested parties registered for the Trion Tender.

The Bid Guidelines provide that in order for each interested party⁵ to individually demonstrate its technical and financial capabilities, it must meet the following criteria:⁶

⁵ Each interested party may meet the required capabilities either on their own or through any subsidiary, affiliate or its holding entity.

⁶ Interested parties who, in Tender 4, Round 1, meet the aforementioned criteria and have submitted no changes may demonstrate this to the CNH through Form CNH-8 of the Bid Guidelines, in order not to have to resubmit such information.

Technical

- (i) Overall participation and experience as Operator in at least one ultra-deepwater project, in waters at least 1,500 meters deep, within the past 10 years;
- (ii) Production in deepwater and/or ultra-deepwater projects with a total annual average of at least 50,000 barrels of oil equivalent per day (50 Mboe/d) in any year during the 2011-2015 period; and
- (iii) Minimum five-years of experience in implementing and operating industrial safety, operational safety and environmental protection management systems in facilities or projects related to upstream activities, which shall be proven by means of certifications such as OHSAS 18001, ISO 14001, API RP 75, the IGS Code, or a favorable opinion issued by an international firm specializing in such matters.

Financial:

In the case of Operators:

- (i) A total net worth of at least USD 5 billion or, in the alternative, assets with a value of at least USD 25 billion and an investment grade credit rating; and
- (ii) Capital investments of at least USD 2 billion in hydrocarbon exploration and/or extraction projects.

In the case of Financial Sponsors, a total net worth of at least USD 250 million.

Once the Interested Parties prequalify individually, they must submit to the CNH, through a private joint proposal agreement, a description of how they will participate in the Trion Tender, in order to obtain authorization as a Joint Bidder and in which they shall appoint the Designated Operator, *provided that* the authorized participation structure may not be modified.

During the prequalification stage, the CNH will request PEP's opinion as to whether or not the requested requirements have been fulfilled, *provided that* such opinion shall not be binding on the CNH.

Stage Four – Presentation and Opening of Proposals

The form of Trion Tender awarding shall be under the *first price auction in sealed envelope* mechanism, which has been used for all other Round 1 bid procedures. The SHCP shall set, no later than on the date of publication of the final version of the Bid Guidelines, the date on which the *minimum and maximum values* considered acceptable valuations for the Joint Bidders' economic proposal will be disclosed.

The Winning Bidder shall be the bidder that submits the economic proposal with the highest percentage of additional *royalties*⁷ in favor of the Government.

In the event of a tie, the first criterion for determining the Winning Bidder will be an additional cash payment proposal to be paid to the State as a Contract's *signing bonus* or, if applicable, as a fund for the performance of the Contract. This will depend on the amount offered by the Winning Bidder.

If the tie persists, the CNH shall resort to a draw to select the Winning Bidder, notwithstanding the obligation to fulfill such cash payment.

Bid Security

Along with its economic proposal, the Joint Bidder must submit a stand-by letter of credit equivalent to a sum of USD 3,000,000 as *bid security*, which shall be valid for 100 calendar days as from the date of proposal presentation.

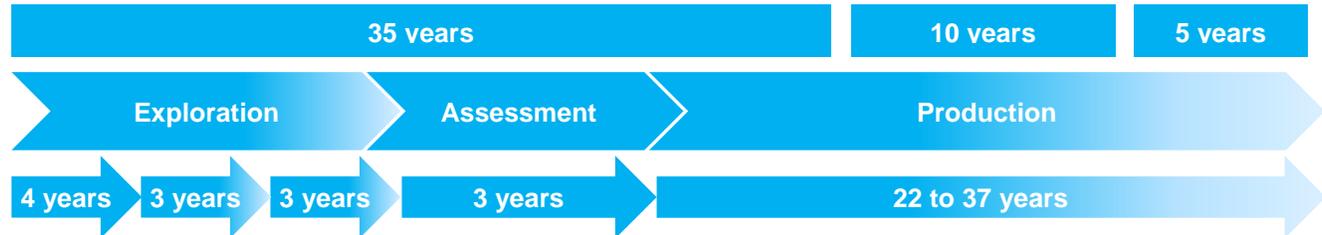
⁷ This term refers to the Mexican Government compensation as calculated on the basis of the contractual value of the hydrocarbons in question, pursuant to Article 24 of the Hydrocarbons Revenues Law.

Stage Five – Contract Signing

The Contract shall be signed within 90 calendar days from the publication of the Trion Tender award notice.

Essential features of the Contract

The Contract will be for a 35-year term, with the possibility of two extensions for 10 and 5 additional years, respectively. Such period shall consist of an initial four-year *exploration period* plus two additional three-year



periods each. Subsequently, there shall be an *assessment period* of up to three years following a hydrocarbon discovery under the Contract, and finally, the *production period* may run from 22 to 37 years, depending on the aforementioned possible extensions.

The Contractor must meet a minimum work program equivalent to 261,735 work units, plus such additional commitments as it might offer in its proposal. The minimum work program and possible additional commitments must be guaranteed through a performance bond.

In addition to the performance bond, each member of the Contractor must deliver a *corporate guarantee* issued by each of their holdings or any of their subsidiaries, in which case the latter must demonstrate it has at a minimum a total net worth equivalent to its equity interest provided in the Joint Operating Agreement, multiplied by USD 14 billion.

With respect to *national content requirements*, the Contract provides for percentages of 3% to 10%, depending on the stage at which the upstream activities are performed.

Joint Operating Agreement

The joint venture between PEP and the Winning Bidder shall be governed by the terms of the Joint Operating Agreement. The principal aspects governed by the agreement include, but are not limited to: (i) the equity structure of PEP and the members of the Winning Bidder with respect to rights and obligations under the Contract; (ii) the appointment of the Designated Operator; (iii) operating rules of an operating committee; (iv) work and budget programs; (v) payment of compensation; (vi) property of the production; (vii) tax payments, etc.

Another important aspect under the Joint Operating Agreement is the Winning Bidder's obligation to provide *cost financing* in favor of PEP for the sum of at least USD 464 million plus the additional amount resulting from the winning proposal, *provided that* PEP shall be exempted from paying any contributions until the Contractor's *joint account* exceeds such amount.

Trion Tender Schedule:

Stage		Date Or Period
Period for requesting and paying for access to information from the Data Room		7/28/2016 to 8/29/2016
Access to information from the Data Room		7/28/2016 to 12/02/2016
Registration to the Tender and request for Prequalification		7/28/2016 to 8/31/2016
Clarifications	Stage One (Access to information from the Data Room)	Receipt of questions: 7/28/2016 to 8/15/2016
		Publication of answers: 7/28/2016 to 8/19/2016
	Stage Two (prequalification, integration of Bidders, presentation and opening of proposals, awarding, award notice, Joint Operating Agreement and Contract)	Receipt of questions: 7/28/2016 to 9/23/2016
		Publication of answers: 7/28/2016 to 9/30/2016
Prequalification of Interested Parties	Payment for registration to the Tender and request for prequalification	7/28/2016 to 8/31/2016
	Receipt of prequalification documents	9/12/2016 to 9/15/2016
	Bid Committee Assessment Period	9/19/2016 to 11/04/2016
	Publication of prequalified interested parties	11/09/2016
Authorization to Joint Bidders	Request to CNH for authorization	11/14/2016 to 11/18/2016
	CNH resolution deadline	11/28/2016
Presentation and opening of proposals		12/05/2016
Award Notice		12/07/2016
Contract Signing		Within 90 calendar days following publication of the Award Notice

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