

## Energy Alert

June 20, 2017

### Mexico Tender Round 2.1: Shallow Water Oil Sells Big

On June 19, 2017, the Comisión Nacional de Hidrocarburos (CNH) completed the Presentation and Opening of Bid Proposals for the First Tender of the Ronda Dos (“Round 2.1”), which was first announced on July 20, 2016. Round 2.1 attracted 36 bidders: 20 individual companies and 16 consortia, including Petroleos Mexicanos, DEA Deutsche Erdoel, Talos Energy, Noble Energy, Chevron, Shell, Total and ConocoPhillips.

Round 2.1 included 15 contract areas with an estimated four billion BOE of dry gas, wet gas, light oil, heavy oil and extra heavy oil located in the shallow waters of Veracruz, Tabasco and Campeche.

Despite “lower for longer” oil prices, the auction was quite competitive compared to previous shallow water tenders in Mexico. For instance, only nine bidders competed in Rounds 1.1 and 1.2, and only five contract areas were awarded. In contrast, Round 2.1 had 36 bidders and awarded 10 contract areas. Many blocks received multiple bids and one block had to be decided by the tiebreaker bonus. The aggressive nature of Round 2.1 compared to the prior rounds is indicative of the strong potential that the international energy industry sees in Mexico.

CNH evaluated the bids based on proposed state participation and investment factor. The results of the bidding process are shown in the following chart:

License Area	Winner	Surface (km2)	Projected Volume (MMboe)	Minimum Work Program Units	Well Value in Work Units <sup>1</sup>	State Participation	Economic Proposal	Investment Factor (x)
Tampico Misantla 1	No bids	544	23.1	57,100	29,000	-	-	-
Tampico Misantla 2 <sup>2</sup>	PEMEX/ DEA Deutsche Erdoel	549	44.1	76,200	23,000	57.92%	63.49%	1%
Tampico Misantla 3	No bids	546	62.2	78,500	29,400	-	-	-

<sup>1</sup> Value per working unit is tied to the price of Brent crude. For comparison, when Brent is \$40 per barrel, the value of a working unit is approximately \$949. When Brent rises closer to \$50 per barrel, the value per working unit rises to approximately \$1,030.

<sup>2</sup> ENI and Lukoil came in at second place with state participation of 55.14 percent, an additional investment factor of 1.5 percent and an economic proposal of 63.261 percent.

License Area	Winner	Surface (km2)	Projected Volume (MMboe)	Minimum Work Program Units	Well Value in Work Units <sup>1</sup>	State Participation	Economic Proposal	Investment Factor (x)
Tampico Misantla 4	No bids	557	79.4	72,100	31,000	-	-	-
Veracruz	No bids	825	35.6	55,000	34,200	-	-	-
Cuencas del Sureste 1 <sup>3</sup>	Petronas-Ecopetrol	559	36.4	39,500	27,800	65.19%	71.18%	1%
Cuencas Sureste 2 <sup>4</sup>	ENI/Cairn Energy/Citla	591	7.1	46,400	35,000	75%	84.83%	1.50%
Cuencas Sureste 3	PEMEX/Ecopetrol	586	18.8	40,800	25,800	20.10%	20.10%	0%
Cuencas Sureste 4 <sup>5</sup>	Cairn Energy/Citla	562	56.2	43,200	27,000	75%	84.83%	1.50%
Cuencas Sureste 5 <sup>6</sup>	ENI	533	30.9	41,500	27,000	75%	84.83%	1.50%
Cuencas Sureste 6 <sup>7</sup>	Repsol/Sierra Perote	533	101.9	67,500	39,000	62.28%	62.28%	0%
Cuencas Sureste 7	Lukoil	521	73.8	61,100	31,000	75%	81.55%	1%
Cuencas Sureste 8	No bids	565	45.5	69,000	51,000	-	-	-
Cuencas Sureste 9	ENI/Citla	466	40.5	80,200	31,000	37.27%	37.27%	0%
Cuencas Sureste 10	Total/Shell	972	16.2	53,800	33,400	30.11%	30.11%	0%

<sup>3</sup> Murphy Sur, Talos Energy and Ophir Mexico placed a bid with state participation of 64.75 percent, an additional investment factor of 1 percent and an economic proposal of 50.150 percent.

<sup>4</sup> Repsol, Premier Oil and Sierra Perote placed a bid with state participation of 69.58 percent, an additional investment factor of 1 percent and an economic proposal of 75.819 percent.

<sup>5</sup> ENI lost in a tie, and placed a bid with state participation of 75 percent, an additional investment factor of 1.5 percent and an economic proposal of 84.825 percent. ENI offered a \$20.5 million bonus, but the winner offered a cash bonus of \$30 million.

<sup>6</sup> DEA and Diavaz placed a bid with state participation of 68.73 percent, an additional investment factor of 0 percent and an economic proposal of 68.73 percent.

<sup>7</sup> CNOOC placed a bid with state participation of 35 percent, an additional investment factor of 0 percent and an economic proposal of 35 percent.

**Contact Information**

If you have any questions regarding this alert, please contact:

**Steven P. Otilar**

[sotillar@akingump.com](mailto:sotillar@akingump.com)

713.250.2225

Houston, TX

**Dino Elizardo Barajas**

[dbarajas@akingump.com](mailto:dbarajas@akingump.com)

310.552.6613

Los Angeles, CA

**Eduardo Canales**

[ecanales@akingump.com](mailto:ecanales@akingump.com)

713.250.2131

Houston, TX