

# Proposed E&P Unitization Guidelines

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Mexico's Ministry of Energy ( *Secretaría de Energía*) ("SENER") has sent for notice and comments a proposed draft of the Guidelines establishing the procedure to instruct the unitization of shared reservoirs and approve the terms and conditions of unit agreements (the "E&P Unit Guidelines").

The Hydrocarbons Law (*Ley de Hidrocarburos*), its Regulations (*Reglamento de la Ley de Hidrocarburos*) and the terms and conditions of entitlements (*asignaciones*) ("Entitlements") and hydrocarbons exploration and extraction contracts ("E&P Contracts") foresee the possibility of SENER instructing the formation of oil and gas units (each a "Unit") whenever an Entitlement holder or contractor believes a reservoir or field may be shared with an adjoining Entitlement area, E&P Contract area or acreage devoid of any of the foregoing.

Recent oil and gas development by private operators in the Gulf of Mexico has shown the possibility of existing shared field(s) or reservoir(s). The proposed E&P Unit Guidelines are aimed at regulating the formation of Units, approval of unit operating agreements proposed by operators (each a "UOA") and, where appropriate, issuance of the so-called Unit Orders (*Resolución de Unificación*) (each a "Unit Order") when a UOA is not reached or approved.

The E&P Unit Guidelines, among others:

- Introduce international oil and gas legal and technical principles used in unit operations, such as the "*rule of capture*", field-wide rules, and redetermination procedures under UOAs and Unit Orders;
- Expressly establish that SENER's actions and authority, within the scope of the E&P Unit Guidelines, shall be enforced considering the "*national interests*";
- Include the possibility of preliminary UOAs whenever there is not enough information to determine the existence of shared fields of reservoirs, but there is a possibility of one;
- Introduces provisions aimed at limiting liability of adjoining operators/contractors for drainage while a UOA or Unit Order is not in effect;
- Provide that hydrocarbons produced in an area different to a relevant E&P Contract area or Entitlement area, as the case may be, shall be deemed to have been produced under the original granting instrument;
- Foresee the possibility of Entitlement holders and IOCs to conduct activities in areas exceeding their acreage if such area(s) is(are) devoid of an E&P Contract or Entitlement; and
- Establish the minimum terms and conditions that UOAs shall have, and foresee the possibility of SENER and/or the National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos*) issuing a model UOA at a later date.

In all cases, whether a UOA is reached by the parties involved or through a Unit Order, SENER has exclusive

jurisdiction to declare the existence of a shared field or reservoir, approve the terms and conditions of UOAs and, when necessary, issue Unit Orders.

The transitory provisions of the E&P Unit Guidelines are generally silent on whether the unitization provisions of E&P Contracts and Entitlements will continue to govern such instruments, or whether the E&P Unit Guidelines shall be understood to invalidate or otherwise apply on a “*gap-filling*” basis.

## Your Key Contacts



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