

## **NEUQUEN BIDDING OF TWO AREAS IN VACA MUERTA**

The Province of Neuquén where Vaca Muerta, the largest deposits of shale of Argentina, is located will offer two areas to domestic and foreign investors by the end of the month. The technical specifications for these two areas called Loma Ancha and Parva Negra Oeste will be published in the coming weeks.

These areas are part of the 10 areas that the governor of Neuquén Jorge Sapag and Energy Minister William Coco presented at a "road show" in Houston last April (see presentation attached).

The bid will probably be one of the last ones including a carry provision by which the State Provincial oil company Gas y Petróleo (GyP) will be adjudicated part of shares of the venture without putting capital but just giving the property titles of the areas and compensating the shares with future profits. The National Government at the request of YPF has presented a draft of legislation limiting this option.

The main contractual aspects would be that the companies shall partner with GyP by forming a joint venture. GyP shall have a percentage stake in the joint venture. A Right of Partnership payable to GyP shall be required. GyP shall retain exclusive ownership of the exploratory permit and the possible exploitation concession. Companies associated with GyP must ensure compliance with their contractual obligations by an equivalent amount of the work committed to.

Neuquén government understands that these two provincial areas have potential and that there are investors interested in entering. Still, the difficult financial situation in the country by the recent technical default situation has forced to implement more flexible requirements. For example, the minimum participation by Carry of GYP was reduced from 10 to 5%.

On the other side, beyond the political situation, there is a need of funds for the provincial government. So they will look to charge a fee for entry to these blocks that will be then transferred to the provincial treasury via either profit sharing or placing a note, a mechanism already used in the past.

The two areas that will be bidding are the ones that received the best response on the promotional tour in Houston in April of this year mentioned above. The most attractive is undoubtedly Parva Negra Oeste, which is a detachment of the neighbouring area of Parva Negra Este, already operated by Exxon in partnership with Petrobras and where there is a prospect for four shale gas wells.

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