

Dear Friends and Clients,

With our newsletter we would like to inform you of recent and significant legal developments in the field of energy law in Argentina.

Best regards,

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THE ARGENTINE OFF SHORE BIDDING ROUND 1

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On July 2018, the Federal Government, through the Secretariat of Hydrocarbon Resources of the Ministry of Energy and Mining (“MINEM”), will call for bids in accordance with Sections 46 and 47 of the Hydrocarbons Law, to award exploration permits over off-shore blocks in the Austral, West Malvinas and the northern portion of the Argentina Basin (the “Off-Shore Round 1”).

MINEM has invited the main industry players to participate

in meetings and VCCs to contribute ideas to shape the legislation containing the final terms and conditions that shall govern those exploration permits, which is expected to be issued during July 2018, while bids are intended to be received in November 2018.

Bids will be required to be made on the basis of committed Working Units (“WU”) for the Exploration Period. The offer for each block should include a minimum number of WUs (depending on the size and available information on the block).

Minimum technical and financial conditions will be required to participate as a partner, and more restrictive ones to act as an operator, all of which are currently under analysis. MINEM will open a registry of participants, to prequalify bidders for each of the blocks, and only Registered and Prequalified companies may bid.

An initial grid of blocks to be nominated is expected to be published on May 15, 2018 granting interested companies 20 days to nominate up to 8 blocks. Companies will be encouraged to submit non-binding proposals to nominate blocks different from those proposed by MINEM. Proposals shall be kept confidential up to the bidding date. New blocks are intended to be announced up to 3 months before the bidding date.

The Promotional Regime for the Investment in Hydrocarbon Exploitation shall apply for projects amounting to a direct investment of at least USD 250 million for the first 3 years. The benefits shall apply as from the third year from the start-up of the project, including:

- The exemption from export taxes

- The exemption from the obligation to repatriate any export proceeds on sale of the hydrocarbons production for export with respect to 60% of production from wells with a depth of at least 90 meters below sea level (shallower projects shall enjoy benefits in respect of a 20% of their production),

- Obtaining for the 60% exportable production a price that is not lower than the export parity price when domestic production of hydrocarbons is insufficient to cover domestic needs and exports of oil and gas are limited or prohibited,

- Tax incentives facilitating the import of capital goods and supplies needed for the investment project.

A "Period of Suspension for lack of Commercial Feasibility" of up to 10 years is projected to be introduced, which would apply for gas in all blocks and for oil only in relation to Deep and Ultra Deep blocks.

Finally, MINEM is considering a royalty rate in the range of 5% to 12% depending on a revenues-to-costs ratio (R Factor), and a UNCITRAL arbitration clause to serve as dispute resolution mechanism.

PAYMENT PLAN FOR DEBTS UNDER THE "GAS PLAN"

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On April 3, 2018, the Ministry of Energy and Mining issued Resolution No. 97/2018 (the "Resolution") by means of which a payment plan was established for the National State to cancel all debts outstanding under past Gas Plans (including Gas Plan I), with respect to natural gas injections made during 2017 (the "Payment Plan"). The Payment Plan includes accruals both with respect to the monthly periods that already obtained a "payment resolution" by the Government, and the monthly periods in relation to which payment has not yet been approved.

THE PAYMENT PLAN CONSISTS MAINLY IN:

- 30 monthly, equal and consecutive installments, each payable within the same month in which the resolution ordering each payment is issued. This resolution should be issued during the first 10 days of the calendar month.

- The first installment will become due on January 2019.

- The estimated amount owed by the National Government to each producer is included in Sub-Annex 1 of Resolution 97/2018.

- Payments will be made in Argentine Pesos at the reference exchange rate of the Central Bank.

Natural gas producers can subscribe to the Payment Plan within 20 business days following publication of the Resolution (i.e., April 3, 2018, since April 30 and May 1 were holidays in Argentina), by filing an executed note in accordance with the template available as Annex II of the Resolution.

The filing of such note implies the producer's waiver of the right to bring any claim with respect to the gas injections made during 2017.

However, the Resolution states that producers may file an appeal against the payment orders issued under the Payment Plan, when they fail to cover the compensation owed to the relevant producer in full.

THE PROVINCE OF MENDOZA SETS FORTH REGULATION FOR OIL SECONDARY RECOVERY

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On March 12, 2018, the Irrigation Agency's Administrative Court of the Province of Mendoza (the "Agency") issued Resolution No. 81/2018 (the "Resolution") by means of which it established a new regulation with regards to the control of water injection wells –whether active or inactive– used as a means of secondary recovery or final disposal in the context of oil exploitation activities, in both productive and non-productive formations.

In accordance with the terms of the Resolution, the Environmental Protection Agency (the "EPA") must authorize any new injection well or sump, as well as the shift of producing wells into injection wells, and their setup. The control of such activities shall be carried out by both the EPA and the General Irrigation Agency (the "GIA").

The GIA shall also control and monitor the amount and quality of the water available and assigned for such usages. Failure to comply with the applicable regulations shall result in sanctions such as warnings, fines and closures.

The Resolution was issued in response to a series of irregularities detected in some injection wells which did not have adequate protection facilities to prevent environmental damage in aquifers located within the Province.

THE NEW “BASURA CERO” LAW

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On May 3, 2018, the Government of the City of Buenos Aires enacted the Law 5,966 (the “Law”) that amends Law No. 1,854, known as the “Basura Cero Law” (in English, the “[Zero Waste Law](#)”). The Law reduces the amount of waste that is deposited in landfills to the maximum extent possible.

The Law defers the scheduled reduction milestones, which are currently at 30% by 2010, 50% by 2012 and 75% by 2017, as per the figures provided by *Coordinación Ecológica del Área Metropolitana* Sociedad del Estado (commonly referred to as CEAMSE, a state-owned company established by the Province of Buenos Aires and the City of Buenos Aires to manage solid waste in the City of Buenos Aires and its adjacent area) in 2004 (1.5 million tons). The new milestones set by the Law are: 50% by 2021, 65% by 2025 and 80% by 2030, based on 2012 levels (2.2 million tons).

Furthermore, Zero Waste Law forbidden all forms of incineration of urban solid waste, either with or without energy recovery. On the other hand, the Law only forbids the incineration of waste without energy recovery. Therefore, the Law allows the use of Waste-to-Energy technologies (“[WtE](#)”) to generate heat and/or electricity by recovering the energy contained in solid wastes left after recycling and other industrial, agricultural, and forestry residues. These technologies play an important role in providing energy and establishing a sustainable waste management system through the use of WtE plants.

Finally, the Law sets forth the possibility of transforming waste through chemical methods (hisogeneration, wet oxidation or hydrolysis), thermal energy recovery or biochemical processes.

THE PROVINCE OF RIO NEGRO REGULATES THE HYDROCARBON WELL DECOMMISSIONING

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By means of Resolution No. 339/SAYDS/2018, published in the Official Gazette on March 22, 2018 (the “[Resolution](#)”), the Secretariat of Environment and Sustainable Development of the Province of Río Negro (the “[SAYDS](#)”) issued a decommissioning schedule for hydrocarbon wells.

The Resolution orders the decommissioning of wells which are inactive, have previously been declared inactive by the concessionaire and have so been authorized by the Enforcement Authority.

Before decommissioning a well, the concessionaires must obtain a decommissioning license from the SAYDS. A Technical Evaluation Commission (“[CET](#)”) has been created by the Resolution to evaluate Well Decommissioning Programs submitted by the concessionaires. The Concessionaire must submit an annual abandonment schedule before January 31 every year, which must detail the proposed start and end periods for the respective decommissions.

THERE ARE TWO TYPES OF WELL DECOMMISSIONING

Temporary Well Decommissioning:

It may be granted for a maximum period of 5 years. Once expired, the concessionaire must provide enough reasons why the definitive Well Decommissioning should not proceed. The Resolution sets forth the techniques to be adopted for Temporary Well Decommissioning.

Definitive Well Decommissioning:

The Resolution establishes the techniques that must be carried out for Definitive Well Decommissioning.

Furthermore, the Resolution creates the Registry of Wells Decommissioning Operators, in which companies that will execute the decommissioning works must register. These companies will be responsible for surface remediation works, aimed at their restitution and/or revegetation. Both operators and companies authorized under the Resolution must purchase Environmental Insurance.

The Resolution further states that an inspector shall be appointed by the SAYDS to oversee the decommissioning process.

Failure to comply with the Resolution result in sanctions such as the suspension of the Environmental Permit, loss of the Environmental Permit and closure of the operations, or the application of fines.

ENARGAS INCREASES SANCTIONS AFTER 26 YEARS

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By means of Resolution No. 22/2018 (the "Resolution"), published in the Official Gazette on May 3, 2018, the Argentine Gas Regulatory Authority ("ENARGAS") increased existing sanctions related to the transportation and distribution of natural gas through networks.

THE RESOLUTION SETS FORTH THE FOLLOWING ADJUSTMENTS

- Fine applicable to non-licensees third parties, set forth in section 71.a of Law No. 24.076: the Resolution amends the minimum amount to AR\$ 1,650 (approx. USD 75) and a maximum amount of AR\$ 1.65 million (approx. USD 75,000)
- Fine applicable to the licensees and subdistributors, provided in Section 10.5 of the "Basic Rules of the Transportation and Distribution License": the Resolution amends the minimum amount to AR\$2,800 and a maximum amount of AR\$2.8 million

- Fine stipulated in Section 10.5 of the "Basic Rules of the Transportation and Distribution License" applicable to licensees or subdistributors that: had persisted in breach despite the notice of the enforcement authority or; (ii) produce a breach of serious social repercussion: the Resolution establishes that the fine could be raised up to AR\$ 140 million.

The aforementioned amounts are applicable to breaches committed as of the effective date of the Resolution.

Furthermore, the Resolution provides that the ENARGAS shall update the amounts annually (in April), in accordance with the evolution of the Internal Wholesale Price Index ("IPIM"). In case of significant differences between the evolution of the IPIM and the general development of the natural gas distribution activity, ENARGAS may adjust the sanctions applicable to the licensees and subdistributors in accordance with the economic variables of the natural gas distribution activity.

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