

## *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 FEDERAL GOVERNMENT GRANTS OFFSHORE EXPLORATION PERMITS

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During September, October and November 2019, the Federal Secretariat of Energy (the “**FSE**”) issued several offshore exploration permits (the “**Permits**”)¹, granting the right to carry out hydrocarbons exploration activities over blocks located in the Malvinas Oeste, Austral and Argentina Norte basins (the “**Blocks**”)².

The Permits were issued within the framework of the Offshore Bidding Round called by means of Resolution FSE N° 65/2018, in accordance with Decree N° 872/2018 and Resolution FSE N° 276/2019, which formally declared the awardees. Prior to the issuance of the Permits,

foreign awardees had to register a local vehicle with the Public Registry of Commerce and enroll in the Upstream Companies Registry governed by Resolution FSE N° 407/2007.

The Permits were granted for a period of up to eight (8) years as from their effective date, divided into two (2) exploration sub-periods of three (3) or four (4) years each, and may be extended for an additional 5-year period. Permit holders shall have the right to obtain an exploitation concession upon a commercial discovery of hydrocarbons in their respective Blocks.

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## ENARGAS INCLUDES IEASA IN THE “ACCUMULATED DAILY DIFFERENCES” PROGRAM

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By means of Resolution No. 624/2019, dated October 8, 2019 (the “**Resolution**”), the Argentine Gas Regulator (“**ENARGAS**”) included Integración Energética Argentina S.A. (“**IEASA**”) in the program establishing the payment of “accumulated daily differences” (please refer to our article titled “ENARGAS approves methodology to determine the accumulated daily differences between the natural gas purchased by distributors and the gas value of the tariff schedules” in our August 2019 Energy Newsletter - <https://mhrlegal.com/newsletter-energy-august19/> ) (the “**Program**”).

IEASA has a dual role as gas seller and executes gas supply agreements. As gas seller, in some cases, IEASA purchases the gas from natural gas producers and sells it to the natural gas distributors through networks.

In this regard, the Resolution modifies Section 2 of Resolution 466/2019 of the ENARGAS (“**Res. 466**”), and

establishes that the application for inclusion to the Program (the “**Application**”) must be submitted before October 15, 2019, by the natural gas distributors through networks, the natural gas producers and IEASA.

In addition to the Application, IEASA, the natural gas distributors through networks and the natural gas producers, must submit before ENARGAS the agreements evidencing the restructuring of their commercial relationship as required under the Program.

Furthermore, once the corresponding monthly installment has been received from the natural gas distributors through networks, IEASA must transfer the total amount received to the natural gas producers adhered to the Program within five (5) business days. Said payments must be made according to the percentage participation determined in accordance with the provisions of Section 2 of Annex III of Res. 466.

<sup>1</sup>The Permits were issued by means of Resolution FSE No. 524/2019, Resolution FSE No. 525/2019, Resolution FSE No. 597/2019, Resolution FSE No. 598/2019, Resolution FSE No. 600/2019, Resolution FSE No. 603/2019, Resolution FSE No. 604/2019, Resolution FSE No. 645/2019, Resolution FSE No. 648/2019, Resolution FSE No. 657/2019, Resolution FSE No. 673/2019 and Resolution FSE No. 676/2019, Resolution FSE No. 676/2019, Resolution FSE No. 691/2019, Resolution FSE No. 694/2019, Resolution FSE No. 695/2019, Resolution FSE No. 696/2019, Resolution FSE No. 702/2019 and Resolution FSE No. 703/2019.

<sup>2</sup>The Blocks include MLO\_113, MLO\_117 and MLO\_118 (granted to QP Oil and Gas S.A.U. and ExxonMobil Offshore Exploration and Production Argentina S.R.L.), CAN\_107 and CAN\_109 (granted to Shell Argentina S.A. and QP Oil and Gas S.A.U.), CAN\_114 and CAN\_113 (granted to Total Austral S.A. and BP Exploration Argentina Limited Sucursal Argentina), MLO\_122 (granted to Tullow Argentina LTD Sucursal Argentina), MLO\_119 and MLO\_114 (granted to Tullow Argentina Limited Sucursal Argentina, Pluspetrol S.A. and Wintershall DEA Argentina S.A.), MLO\_124 (granted to Eni Argentina Exploración y Explotación S.A., MEPML0 S.A.U. and Tecpetrol S.A.), and AUS\_106 (granted to Equinor Argentina AS Sucursal Argentina).

## NEW PROCEDURE FOR GAS CARRIERS

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By means of Resolution No. 627/2019, dated October 8, 2019 (the “**Resolution**”) the Argentine Gas Regulator (“**ENARGAS**”) approved the procedure that the Gas Carriers (“**Carriers**”) must follow to inform ENARGAS about their technical operations (the “**Procedure**”).

The purpose of the Procedure is to have reliable information regarding the operation of gas transportation and to replace the old data system. The Carriers must follow the Procedure attached to the Resolution and provide the required information to the ENARGAS within a term of sixty (60) calendar days following notification of the Resolution.

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## PROPOSED AMENDMENTS TO RULES GOVERNING NATURAL GAS DISTRIBUTION SYSTEMS EXPANSION WORKS

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By means of Resolution No. 630/2019, dated October 9, 2019, the Argentine Gas Regulator (“**ENARGAS**”) submitted for public consultation a proposal (the “**Proposal**”) to amend ENARGAS Resolution No. I-910/09, which governs procedures for expansion works of gas distribution systems. Interested parties shall have a period of twenty (20) calendar days to submit their comments.

The Proposal focuses on the methodology for the financial evaluation of projects together with the calculation of the compensation to future users or third parties that financed the project.

THE MAIN ASPECTS OF THE PROPOSAL INCLUDE:

- If the cost of the project is not assumed or financed by the

Distributor, it must nonetheless make a financial contribution in the project that is equivalent to -at a minimum- the so-called “Business Value” of the relevant project, in accordance with the evaluation methodology provided for in the proposal.

- A distinction is made between interested third parties, non-residential users and residential users in order to opt for different compensation alternatives to be agreed with the Distributor. In particular, in cases where the project is financed by future residential users, the compensation must be made exclusively in cubic meters of gas converted to 9,300 kcal / m<sup>3</sup>.
- Establish an investment horizon of thirty-five (35) years as a methodology for the economic evaluation of the project and focus on the incremental costs associated with the project.

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## NEW PROCEEDING FOR NATURAL GAS EXPORTS

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By means of Disposition No. 284/19, dated October 29, 2019 (the “**Disposition**”), the Under-Secretariat of Hydrocarbons and Fuels established the operational procedure for the export of natural gas (the “**Procedure**”).

The Disposition follows Resolution No. 417/19 of the Secretariat of Energy, which entrusted the Under-Secretariat of Hydrocarbons and Fuels with the drafting and approval of an operating procedure for the export of natural gas, for use in case of a risk to the security of supply to the domestic market.

THE DISPOSITION

- approves the Procedure set out in the Disposition;

• establishes the validity of the Procedure from publication of the Disposition in the Official Gazette until September 30, 2021; and

• orders its departments to evaluate the performance of the Procedure and prepare a report of results and recommendations sixty (60) days before the expiration of the Disposition.

THE PROCEDURE ESTABLISHES THAT:

- During the summer period (01/10 of a given year until 30/04 of the following year), the regulatory authorities, carriers and exporting entities shall hold fortnightly meetings, in order to analyze the domestic supply context during the following

fifteen (15) days and the implications thereof on exports.

- During the winter period (01/05 to 30/09 of a given year), the regulatory authorities, carriers and exporting entities shall hold weekly meetings, in order to analyze the domestic supply context during the following seven (7) days and the implications thereof on exports.

After each meeting, a report will be prepared indicating the relevant transportation system variables and the potential risks involved in modifying meeting's evaluation.

Whenever the domestic supply is at risk, natural gas exporters

must adjust their natural gas exports to what is resolved within the framework of the Procedure, and in accordance with Resolution No. 104/18 of the former Ministry of Energy, Resolution No. 417/2019 of the Secretariat of Energy and Disposition No. 168/2019 of the Under-Secretariat of Hydrocarbons and Fuels.

In case it is necessary to restrict natural gas exports in order to protect supply to the domestic market, notification by the carriers shall imply an obligation on the exporters involved to comply with such restrictions. Failure to comply with this requirement may result in the expiration of the Gas Export Permit.

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## CHANGES IN STATISTICAL TAX RATE (CUSTOM DUTY) APPLICABLE TO CAPITAL GOODS IN NON-CONVENTIONAL EXPLOITATIONS

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By means of Joint Resolution No. 2/2019, dated November 1, 2019 (the "**Resolution**"), the Ministry of Labor and Production jointly with the Secretariat of Energy established that the capital goods set forth in the Annex of the Resolution, i.e., certain capital goods to be used within the context of investments in non-conventional hydrocarbons production reservoirs, shall be governed by Section 1, paragraph (a) of Decree No. 361/19 (the "**Decree**").

The Decree establishes that, until December 31, 2019, the custom duty known as "statistical tax" (tasa estadística) established under section 762 of the Customs Code (which applies to imports and exports, whether definitive or temporary) as applicable to imported capital goods to be used within the framework of investments in the production of hydrocarbons from non-conventional reservoirs, shall be of 0%.

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