

## SEEKING SYNERGY IN PERDIDO

### *Paths to partnership in Pemex's Round Zero blocks*

**T**HE MEXICAN UPSTREAM REFORM is at an inflexion point: for the first time in more than a decade there will be a bid round in which major American oil companies will likely participate (see insert). Should any of them register as bidder and submit a winning bid, international confidence in Mexico's petroleum geology and investment framework will grow. Should none bid, confidence will shrink.

At the Mexico Panel of the 2016 Offshore Technology Conference (OTC) that took place on May 3, Hydrocarbons Undersecretary Lourdes Melgar informed the 300+ members of the audience that Pemex's deep water blocks would be auctioned simultaneously with the government's blocks that have already been scheduled for auction in December. The logic for the simultaneous scheduling of acreage was explained by Dr. Melgar at a roadshow held in Houston in October 2014: it would be the synergy inherent in the juxtaposition of Pemex and government blocks that would motivate associations with Pemex.

With just six months before the scheduled date for the auction of the government's blocks, Pemex belatedly proposed on June 10 that working interest in two of its three leases in the Trión area be auctioned on a schedule that would correspond to that of Bid Round 1.4. A month later, information regarding the contract model, fiscal terms or bidding variable has not been released.

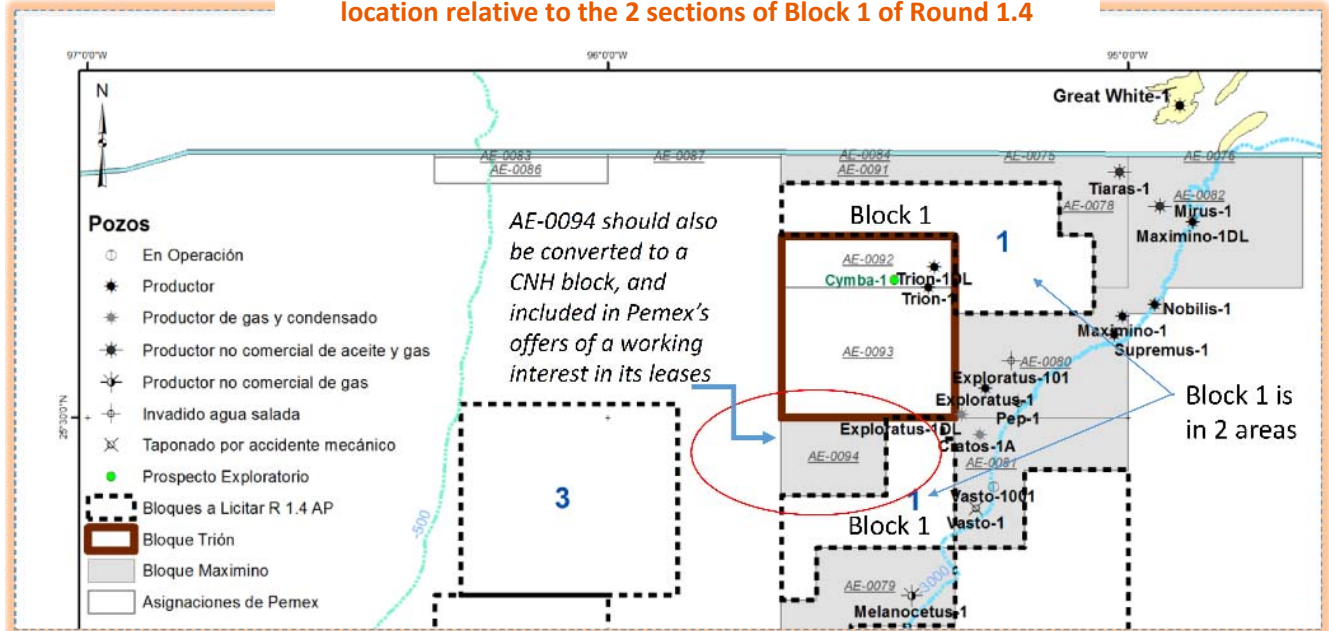
We conclude that the auction for Block 1 in Round 1.4 should be rescheduled for a time when Pemex and the government are ready with viable ways for bidders to earn a working interest in the three blocks in the Trion area.

Aguas Profundas Cuarta Convocatoria	
Companies that requested access to the CNH Data Room (as of February 26, 2016)	
<b>American</b>	
	Atlantic Rim México, S. DE R.L. DE C.V. (Anadarko Petroleum)
	Chevron Energía de México S. de R.L. de C.V.
	Exxonmobil Exploración y Producción México S. de R.L. de C.V.
	Hess México Oil and Gas, S. de R.L. de C.V.
	NBL México, Inc. (Noble Energy, Inc.)
<b>Other</b>	
	Cobalt Energía de México, S. de R.L. de C.V.
	BHP Billiton Petróleo Operaciones de México, S. de R.L. de C.V.
	BP Exploration México, S.A. de C.V.
	Japan Oil, Gas, and Metals National Corporation
	Petro-Canada (International) Holdings B.V.
	Shell Exploración y Extracción de México, S.A. de C.V.
	Statoil E&P México, S.A. de C.V.
	Total E&P México, S.A. de C.V.
	Data: CNH

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Map 1. Trión area and CNH Block 1

**Configuration of Trión Block as proposed by Pemex, showing its location relative to the 2 sections of Block 1 of Round 1.4**



Source: <http://bit.ly/1WKMT4R>



## Selected report titles related to IOC partnerships

Year	Topic	File #	Pages	Chart
<b>2016</b>				
Jun 07, 16	<b>Paths to Pemex Partnership: Farmout, Cash Sale and Carried Interest</b> This report identifies three contract models that could serve in partnerships between IOCs and Pemex in Pemex blocks: 1) Farmout, 2) Standard Production Sharing Agreement (PSA), 3) Carried Interest PSA. Table 1 provides a list of the advantages and disadvantages of each model from the perspective of the original lessor. The report calls attention to the need for an auction round of Pemex blocks in the Perdido Area to complement the blocks offered by the government in Round 1.4. A video from 2008 on Pemex's challenges in deep water areas is instructive: <a href="http://bit.ly/1WIM3WI">http://bit.ly/1WIM3WI</a> .	10037	6	1
Mar 22, 16	<b>Pemex E&amp;P organizes for Partnerships</b> This report focuses on the on the way that Pemex' Exploration & Production (PEP) has been reorganized to give priority to partnerships with other oil companies. Table 1 displays the dozen-plus instances where farmouts are mentioned in PEP's Internal Statutes of July 3, 2015. Table 2 lists the names of executives, department heads and managers whose areas have farmout responsibilities.	807	8	2
Mar 15, 16	<b>Outlook for Farmouts in Mexico</b> A Reuters news article on July 24, 2104, noted Pemex's plans for farmout agreements; moving forward, at Pemex Investor Day in London on Oct. 6, 2016, Pemex gave details of 17 projects for a farmout. This report provides a basic description of a farmout agreement, and the then examines the terms and concepts of Mexico's hydrocarbon legislation to see how closely they match international usage. Absent from the discussion in Mexico is the eventual need of the CNH contractor for the commercial figure of farmout. Exhibit C defines and translates 18 terms in global usage in English related to farmouts.	799	42	10
Mar 10, 16	<b>Farmout Economics: The Basics</b> This report describes the economic aspects of the farmout agreement from the perspective of oil companies (and their shareholders) and the nation. The report argues that the full potential of a hydrocarbon block or a country cannot be attained without a widespread use of farmouts. The report draws on interviews with industry sources.	806	5	0

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**Selected report titles related to IOC partnerships**

Year	Topic	File #	Pages	Chart
<b>2015</b>				
Dec 29, 15	<b>Pemex's Farmout Strategy: International Expectations</b>	10036	13	3
	<p>As far back as July 2014--three weeks before the promulgation of the energy reform legislation--Pemex told Reuters about its plans for farmouts, using a term that had scarcely been heard before in Mexico. During the following 15 months Pemex identified blocks that would be candidates for farmouts. Together, these blocks covered some 525,000 acres with an expected investment of some \$50 billion. This report is an examination of the nature of a farmout agreement, its core concepts and terms. In a separate report, we shall examine the legal issues to be resolved before a farmout agreement can be signed.</p>			
Dec 17, 15	<b>CNH Lease Auction 1.3: Jump-starting small oil producers in Mexico</b>	798	8	2
	<p>With an expectation by the Energy Ministry that only 5 of 25 blocks would be awarded the third lease auction of petroleum blocks on December 15, it was an euphoric news that all 25 blocks had been awarded. The Hydrocarbon Commission (CNH) was praised for its efficiency in conducting a transparent process. This report looks at the process and outcome from the perspective of the members of the physical and online audiences: there were many places where there was unnecessary confusion. Table 1 lists bidders and winners in alphabetical order. Table 2 lists forced and unforced errors by CNH.</p>			
Jun 20, 15	<b>Anáhuac-Gate: How AHMSA caused the CNH to reset the 3rd cycle of Round One</b>	1000074	10	4
	<p>This report comments on the decision by the Energy Ministry to remove the Anáhuac non-associated gas field from the list of onshore blocks that had been scheduled for auction in the 3rd cycle of Round One. The decision was prompted by a court order that suspended the right of CNH to award an exploration block in an area where a coal concession had already been granted. In laws and regulations, the Mexican government had defined the terms by which a concession-owner could produce coalbed methane. In asking for injunctive relief, AHMSA claimed that a CNH contractor would violate its rights.</p>			