

WHAT WAS LOST IN ROUND 1.1

The process met expectations, the outcome did not

IN RELATION TO THE PUBLIC AUCTION ON JULY 15 of 14 exploration blocks, the widespread impression in Houston and Mexico is that while there was much to applaud in relation to the process (Table 1), there was much to lament in relation to the outcome.

This report focuses on what did not meet government expectations.

A cold itemization of misplaced expectations is a necessary, preliminary step to understanding what must be changed in order to avoid a similar outcome in subsequent auctions.



Bidder envelopes being deposited on July 15

In body language, the outcome was a rebuke to the authorities in the ministries of energy and finance: 8 of 14 shallow-water blocks (nearly 60%) received no bids at all. Of 25 prospective bidders, only 7 participated. Of 14 blocks, only two were awarded. In many dimensions, the two awards failed to meet the government's expectations (Table 2).

An unmistakable conclusion is that the blocks, terms and investment framework also failed to meet the expectations of most prospective bidders.

One lesson is that to have gained a commitment from top-tier oil companies, Round 1.1 would have auctioned deepwater blocks in Perdido where there is nearby infrastructure and a transboundary regulatory framework.

Contents

SUMMARY	2
INTRODUCTION	3
BACKGROUND	4
DISCUSSION	5
Why it made sense not to participate	5
Misplaced government expectations	5
Lessons for Round 1.2	5
OBSERVATIONS	6
CONCLUSIONS	8
Tables	
Table 1. What went well in the process of Round 1.1	3
Table 2. Where expectations were not met in Round 1.1	5
Titles of related MEI reports	9
About this report	8

MEXICO ENERGY INTELLIGENCE® (MEI) is a commercial and policy advisory service offered by BAKER & ASSOCIATES, ENERGY CONSULTANTS, a management consultancy based in Houston. MEI reports facilitate two-way communication between Mexican public and private institutions and the global environment. Our reports examine policy, institutional and cultural issues as they affect the operating environment, energy regulation, and government and private investment in Mexico's energy sector. Reports are distributed principally on a subscription basis. Energia.com contains public-interest reports, title lists, calendar postings and interviews with stakeholders and observers that are available as a public service.



MEI report titles related to Round One

Year	Topic	File #	Pages	Chart
2015				
Jul 18, 15	SHCP Awards in Round One: How the policy of “zero discretionality” backfired The auction of 14 offshore blocks on July 15, 2015, by officials from the Hydrocarbon Commission (CNH) was an historic first in Mexico’s century long history as an oil exporter. That it went well is to the credit of the Peña Nieto administration; but the blame for the failure of 8 of 14 blocks to receive bids goes primarily to the Finance Ministry (SCHCP), which, by law, set the bidding parameters for the auction. The report asks: What lessons are to be derived from this first auction of petroleum blocks?	1000076	9	4
Jul 14, 15	Zero CNH Discretionality: The Counter-Arguments A week before the CNH auction scheduled for July 15 for awarding blocks for 14 shallow-water fields, Energy Secretary Pedro Joaquín accompanied by other senior officials briefed the press on what to expect during the day. Emphasis was given to the transparency of the process, evidenced by a policy of “zero discretionality” and by the participation of multiple government agencies, as if to suggest that a system of checks and balances was in place. This report sets forward counter-arguments that support giving the Hydrocarbon Commission (CNH) discretionality in determining the best offer in each case.	1000075	6	3
Jul 10, 15	Mexican Codex: Untangling the meaning of “secondary legislation” This report takes as its premise that “constitución” and “constitution” are false cognates, for which reason the finding an article of the Hydrocarbon Law as “inconstitucional” carries a meaning quite different from a case in a common-law jurisdiction in which a law were ruled as unconstitutional.	787	8	3
May 28, 15	Prospective Bidders in Round One: Great, but subtle, expectations This report asks about the indirect benefits that are likely to come from successful bidding rounds: As expectations of increasing oil production and oil exports improve, the cost of borrowing in international capital markets will fall, and the exchange rate of the Mexico peso against the dollar will stabilize. Much depends on the character of those companies who actually bid on the initial 14 blocks. Table 1 sorts the names of prequalified bidders for the initial 14 blocks by region and country. Table 2 sorts them by reference to their size or market niche.	784	4	2
Apr 27, 15	Ideological Constraints in Mexico’s Bid Round One In this report, we examine the ideological and political constraints that explain the rationale for the many points of unexpected misalignment between Mexico’s new petroleum regime and standard conventions in other jurisdictions. Consider that the petroleum regime must be designed in such a way that it will not become a major campaign issue for populist parties in the general elections of 2018. For this reason alone the regime must give the impression of strict adherence to Mexico’s traditional petroleum narrative.	781	9	3

MEXICO ENERGY INTELLIGENCE® (MEI) is a commercial and policy research and advisory service offered by BAKER & ASSOCIATES, ENERGY CONSULTANTS, a management consultancy based in Houston. MEI reports facilitate two-way communication between Mexican public and private institutions and the global environment. Our reports examine policy, institutional and cultural issues as they affect the operating environment, energy regulation, and government and private investment in Mexico’s energy sector. Reports are distributed principally on a subscription basis. Energia.com contains reports, title lists, calendar postings and interviews with stakeholders and observers that are made available as a public service.



MEI report titles related to the U.S.-Mexico Transboundary Hydrocarbon Agreement of 2012

File #	Published	Updated	Topic	Pages	Table/ graph
100157	• Mar 08, 13	Mar 9, 13	US-Mexico Transboundary Hydrocarbon Agreement (Part IV) This report identifies some of the technical issues and agreements that need to take place between the licensees in a joint venture of the kind that would be formed to exploit a cross-border reservoir in the framework of the US-Mexico Hydrocarbon Agreement of 2012 (TBA). Because of the political sensitivity of the topic in Mexico, attention is given to the selection of the operator of the venture. The TBA is likely to be more important to Mexico for its heuristic value than for its facilitating oil production in the Perdido Area. The TBA is an exercise in imagining an equity-based JV of the kind Pemex needs outside Perdido as well.	11	5
100156	• Feb 22, 13		U.S.-Mexico Transboundary Hydrocarbon Agreement (Part III) This report, the third in a series, examines the outlook for approval and implementation of the Agreement of 2012. A year later, the Obama administration has not formally sent it to the Congress, on the grounds that the political timing is not yet right. The report observes that there are reasons associated with the language of the agreement that will likely give congress cause for concern. One of these is the apparent unwillingness of the Mexican side to commit to a single unit operator for a unitized field; a second concern involved the ability of Pemex to invoke sovereign immunity in the event of an oil spill.	10	1
110512	• Nov 05, 12		Panel Presentation on the US-Mexico Transborder Hydrocarbon Agreement One of the panels at the national conference of the US Association for Energy Economics (USAEE) concerned the US-Mexico Transboundary Agreement of 2012. Panelists were Juan Carlos Zepeda, Lourdes Melgar and George Baker. For a summary of the panel discussion and selected slides, see USAEE DIALOGUE (January 2013): http://dialogue.usaee.org/index.php?option=com_content&view=article&id=218:panel-presentation-on-the-us-mexico-transborder-hydrocarbon-agreement&catid=56:volume-21-number-1&Itemid=837	4	3
100124	• Apr 24, 12		US-Mexico Transboundary Hydrocarbon Agreement (Part II) This report examines problematic aspects of the Transboundary Agreement, paying particular attention to the objections and concerns of the minority of senators who voted against immediate approval (69 in favor, 21 against). Sen. Pablo Gómez (PRD), who was the principal voice of the opposition, asked about why the CNH had not been designated at the executive agency that would represent the Mexican government in the administration of the Agreement. Another question concerned the omission from the agreement of the first 9 miles that the US said were under Texas jurisdiction. An outline of the debate is Exhibit C.	8	5
100121	• Mar 19, 12		US-Mexico Transboundary Hydrocarbon Agreement: A New Face for Pemex's Incentive Contract? Until 2012, neither Mexico or the U.S. had signed a cross-border agreement related to petroleum. Lease auctions of blocks continuous with Mexico on the U.S. side received no bids. The agreement provides a scaffolding of public oversight for the unitization of cross-border fields and for the eventual formation of a joint operating agreement between "licensees" on both sides. At this stage, the agreement is limited to sharing information, not risk.	9	0



BAKER & ASSOCIATES, ENERGY CONSULTANTS

*Management consulting
Industry, policy and regulatory reports*

A management briefing is available on the topics covered in this report.

(832) 434-3928 (text/cell)

Mailing Address:

Box 271506

Houston TX 77277-1506

*To learn about our reporting,
consult the title lists, by year or category, on
<http://www.energia.com>, or write to us at*

INFO@ENERGIA.COM