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Deepwater key to Mexico's reforms

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Industry participants and observers say the overall success of Mexico's Round One likely hinges on its deepwater offerings, which are expected to attract widespread bidding despite current low oil prices.

Ruben Cruz, lead partner of KPMG's energy and natural resources in Mexico, estimated it will take an operator 8-10 years to develop a deepwater discovery, adding KPMG's clients are basing their future project plans using oil price assumptions of $55-65/bbl.

"It's the first time Mexico's deepwater has been open to the private sector, and we expect it will be a very competitive process," Cruz said. Deepwater development could help reverse Mexico's declining production rate. Pemex has lost 1.2 million b/d in 12 years.

"It's likely that the same or more reserves can be found," in Mexico's Gulf of Mexico as in the more widely explored US Gulf of Mexico, Cruz told OGJ in a telephone interview from his Mexico City office.

If international oil companies widely bid on Mexico's Phase 4 Round 1, that likely would serve as an affirmation for smaller industry players still tentative about doing business in Mexico under its emerging energy reforms.

The National Hydrocarbons Commission (CNH) said 31 companies expressed interest with 20 actually accessing the data room. As OGJ went to press last week, CNH was working with a short list of 15 companies.

As of presstime, the list of companies included Atlantic Rim Mexico, BP Exploration, BHP Billiton, Chevron, CNOOC, ExxonMobil, Hess, Inpex, NBL Mexico, Petronas Carigali, Pemex, Ophir Energy, Royal Dutch Shell, Statoil, and Total. Companies making a final list will be invited to bid.

Phase 4 involves 10 exploration blocks—six in the Salina basin and four in the Perdido belt. Phase 4 covers 3,185 sq miles in 1,640-9,842 ft of water.

Contract terms

CNH officials note that changes to contract terms are possible un-til early November. In some previous tenders, clarifications by government have restructured the contract terms. Although Dec. 5 has been published as a final bid date, CNH cautioned deadline date is provisional and subject to change.

Michiel Soeting, KPMG International chairman for global energy and natural resources, told reporters in Houston in May that he believes some Asian national oil companies are apt to participate as financial partners for other Phase 4 bidders.

Mexico requires bidders to have experience with at least one project in 3,280 ft of water during the last 5 years and to have at least $2 billion in capital investments. The contracts will have terms of 35-50 years. Terms are geared to ensure that companies have sufficient financial capacity.

"The investments are huge so only companies with strong balance sheets" are being courted to ensure that they can afford to develop whatever they find, Cruz said.

Another way for companies to explore and develop Mexico oil and gas is through a series of long-delayed farmout agreements. Trion field was the first to be offered.

In a noncompetitive Round Zero during 2014, Pemex kept control of certain properties with the condition that it develop them within a certain period.

Trion field is thought to contain about 485 million bbl of reserves and estimated to cost $11 billion to develop. While the agreement will be in the form of a license, Trion contract details have yet to be released. Companies selected for the Trion farmout are expected to be announced in December. OGJ