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TS WOC 15

Mexico's — Energy Sector Reform

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Mexico's Energy Sector Reform

- Finally!
- Launched the first week of December 2013
- Constitutional reforms open up the sectors
- President Nieto points out that in Mexico the petroleum industry is: “almost a **religious** issue”. (Understandable)
- To most Mexicans PEMEX **is** the petroleum industry

The Old “PEMEX” System

- Oil Profits Tax - IRP 34%
- Oil Extraction Rights (all based on after-IRP income)
 - DEP 52.3%
 - DEEP 25.5%
 - DEAP 1.1%
 - 78.9%
- The Effective Tax Rate (i.e. “Take”) **87%**
(Only under very propitious conditions)
- The Effective Royalty Rate —60.8%
- Extremely inflexible and regressive

The New Petroleum Industry in Mexico

- **SENER** = Secretary of Energy – the Secretaria Sets Policy
Contracts are entered into with SENER and CNH
- **CNH** = Comisión Nacional de Hidrocarburos
Regulator and licensing administrator
- **PEMEX** = Petróleos Mexicanos
- **SHCP** = Secretaría de Hacienda y Crédito Público
Ministry of Finance — The ‘Hacienda’ Fiscal Design/???

The New Direction

- SENER and CNH may grant contracts through four types of structures:
 - 1. Service Contracts
 - 2. Production Sharing Contracts
 - 3. Profit Sharing Contracts, and
 - 4. Licensing Agreements

Previous Licensing Chronology:

- **Multiple Service Contracts (MSCs or COPFs) 2002?**
- **Round 1 (Mature Fields) – August 2011** (Fee-based \$/BBL)
- **Round 2 (Mature Fields) – June 2012** (Fee-based \$/BBL)
- **Chicontepec – July 2013**
(Fee-based \$/BBL)

- **Official Reforma Announcement – December 2013**
- **Round Zero – Autumn 2014**
SENER announced results of Pemex retained acreage and projects
- **Round One – 2015**
Contracts are signed with SENER and CNH

Mature Fields Rounds

- **Fee-based** - for Incremental Production (IP)
Fees ranged from \$**0.01**/BBL to \$**9**/BBL
Fees for Base Production = 21% of IP
- Reimbursement for (only) 75% of Recoverable Costs
- Government (PEP) Participation 10% ('Heads up')
- Remunerate and reimburse out of 'Available Cash Flow'
(roughly 40-60% of Gross Revenues)
- Mexican Corporate Income Tax 28% (30%?)
- Some Blocks had up to 9 bids — Government take >90%

Round 2: San Andres (Mature) Onshore Field

Contract Area: San Andres	
PEMEX Fee: Minimum \$3.00/BOE Maximum \$7.57/BOE	
Bidders	\$/BBL Fee Bid (US\$)
Monclova Pirineos Gas / Alfasid del Norte	3.49
Petrofac / Schlumberger	3.60
Perfolat de Mexico / Servicios Asociados	4.48
Operadora de Campos Poza Rica	6.99
SAIMEXICANA S.A. / Calfrac de Mexico / Gas Mediterraneo / Grupo Angeles Energia	8.00
Haliburton	8.93
Grupo R Servicios Industriales/Industrial Perforadora de Campeche	9.00

The Proposed New System — Round 1 2015

- **PSC-based**
- Sliding scale **Royalty** from 7.5% - 20%
Based on oil prices (roughly 1% increase for every \$8/BBL)
- ROR-based pre-tax **Profit Oil** split ('Bid Item')
- **Cost Recovery Limit** 60% for oil 80% for gas
All costs expensed for cost recovery purposes
- **Corporate Income Tax** 30%
Capex depreciated over 5 years (generally) but multiple categories

Round 1 — 2015

Area	Type	Volume (Mmboe)	Blocks / Fields
Deep Water Perdido area	Resources	1,591	11
Deep Water South	Resources	3,222	17
Chicontepec and Non Conventional	Reserves 2P	2,678	28
	Resources	8,927	62
Land, Shallow Taters and extra heavy oils	Reserves 2P	1,104	32
	Resources	724	11
Non Conventional	Resources	142	8

- **What kind of response is expected?**
- Mexicans still celebrate “**Oil Expropriation Day**”
National Holiday 18 March (1938)
- **Contract Language** and ‘**Terms**’ = **Work in progress**
- **Geology will rule!!!**
- **Some notable *Openings* or *Rounds*:**
 - Burma (Myanmar) 1989/1990 — over 50 years
 - Syria 1994 — Following Shell’s discoveries
 - Venezuela 1996 — 22 years
 - Libya 2005/2006 — some blocks received 15 bids
- **Mexico is Hot!**