

# Building & Operating Offshore Infrastructure in Mexico; a New Paradigm

**IPLOCA 2017**  
**Mexico City**

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# Oil & Gas Legal Framework

**Ownership: The Nation owns the hydrocarbons in the subsoil**

**Operation.-**

**1938 to 2013. Only state-owned companies could carry out core activities. PEMEX could hire services.**

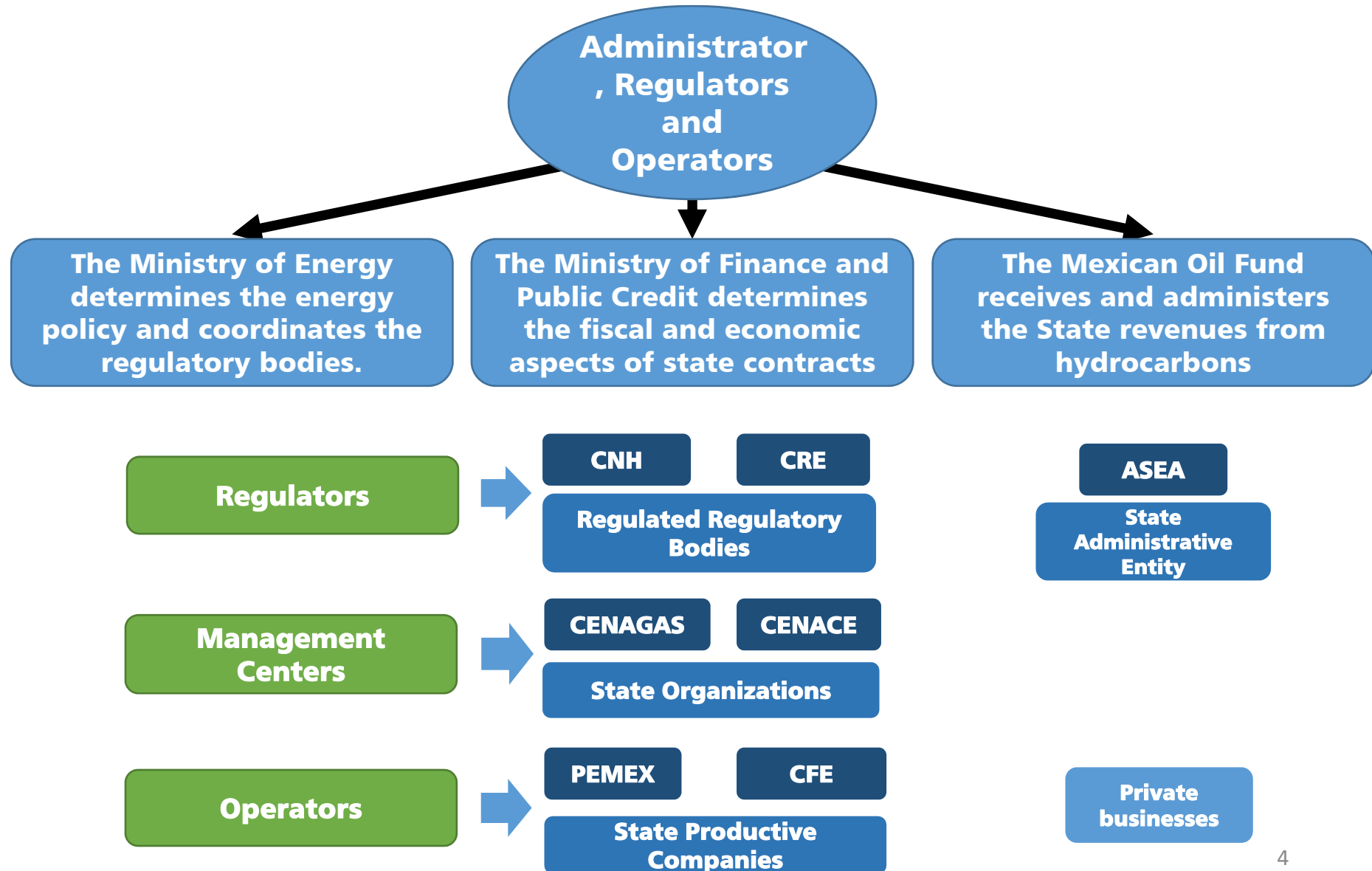
**Operation.-**

**Starting in 2014. Private companies can be awarded contracts to develop fields.**

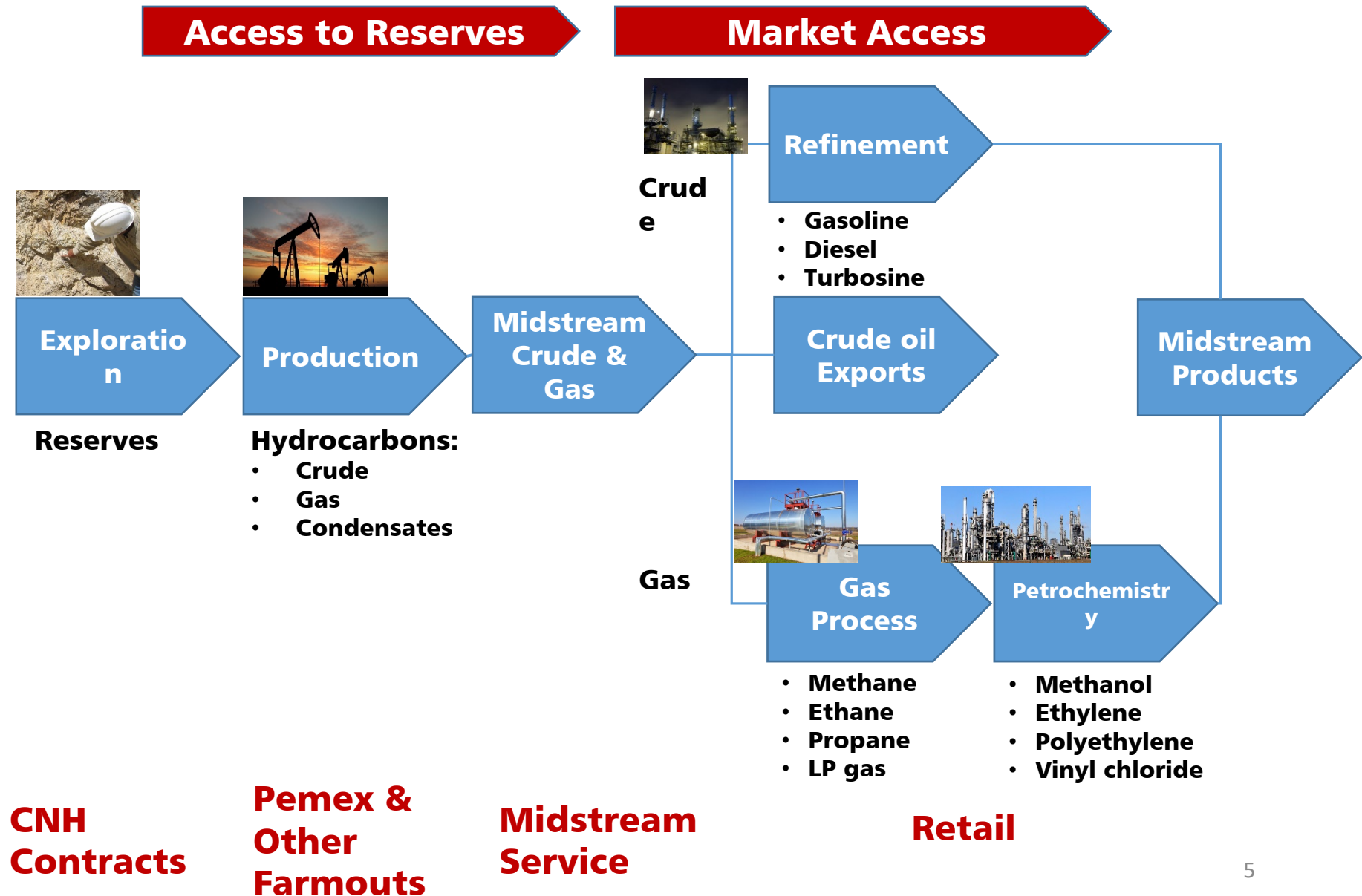
- **The state receives its participation through the payment of royalties and taxes.**
- **Companies also pay taxes on profits like any other activity.**

**In order to carry out other activities in the oil industry such as participation in Midstream and Downstream, Processing and Retail private parties must obtain permits.**

# Structure of the Energy Industry in Mexico



# Segments of the Oil Industry



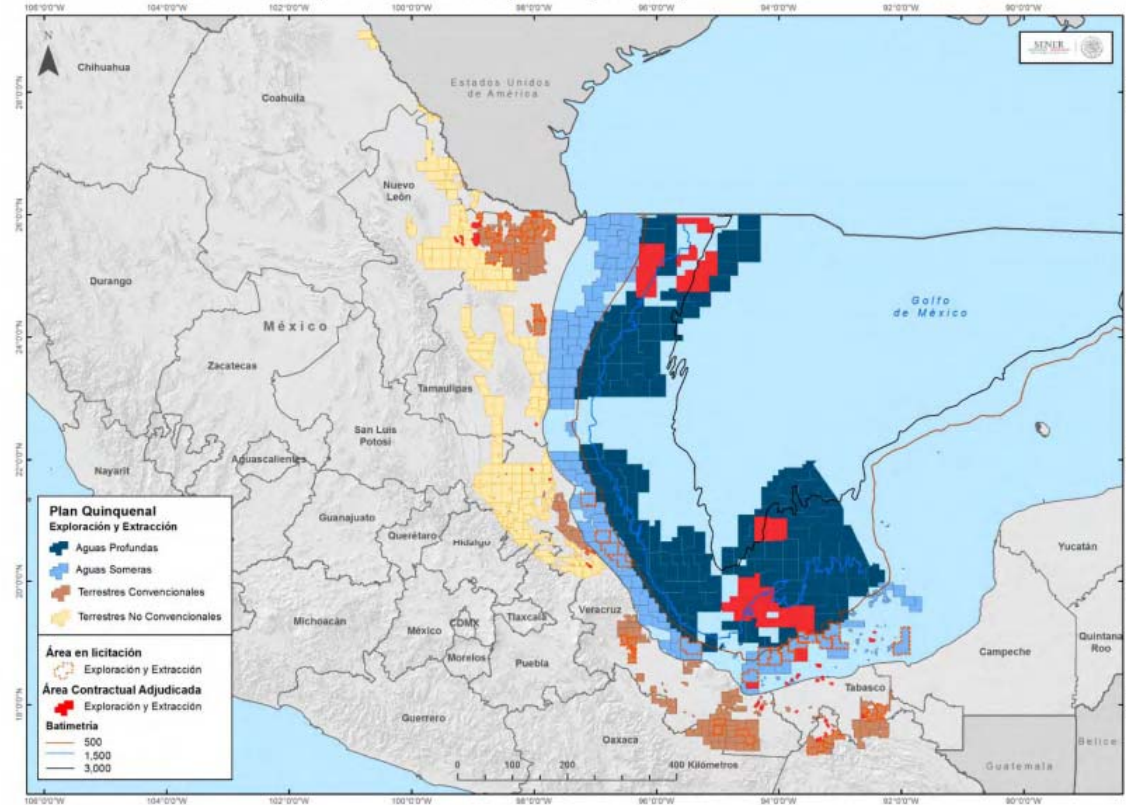
# The 5 Year Plan

The bidding rounds have attracted numerous international operating companies

**SENER has published a very attractive 5 year bidding plan that encompasses:**

- 509 **Exploration and Production blocks**
- 237000 **square kms.**
- 70% **offshore**
- 82 **production fields**
- 2240 **square kms**

Mapa 5. Plan Quinquenal de Licitaciones para la Exploración y Extracción de Hidrocarburos 2015-2019



Source: SENER five-year plan

**The contract models for exploration and extraction activities are:**

**Assignments.- Development through state owned enterprises**

**(i) Licenses**

**(ii) Production Sharing**

**(iii) Profit Sharing Contracts**

**(iv) Service Contracts**



**State and  
private  
companies**

**The Hydrocarbons Law establishes the economic aspects related to contractual models.**

# Bidding Rounds Up To Now

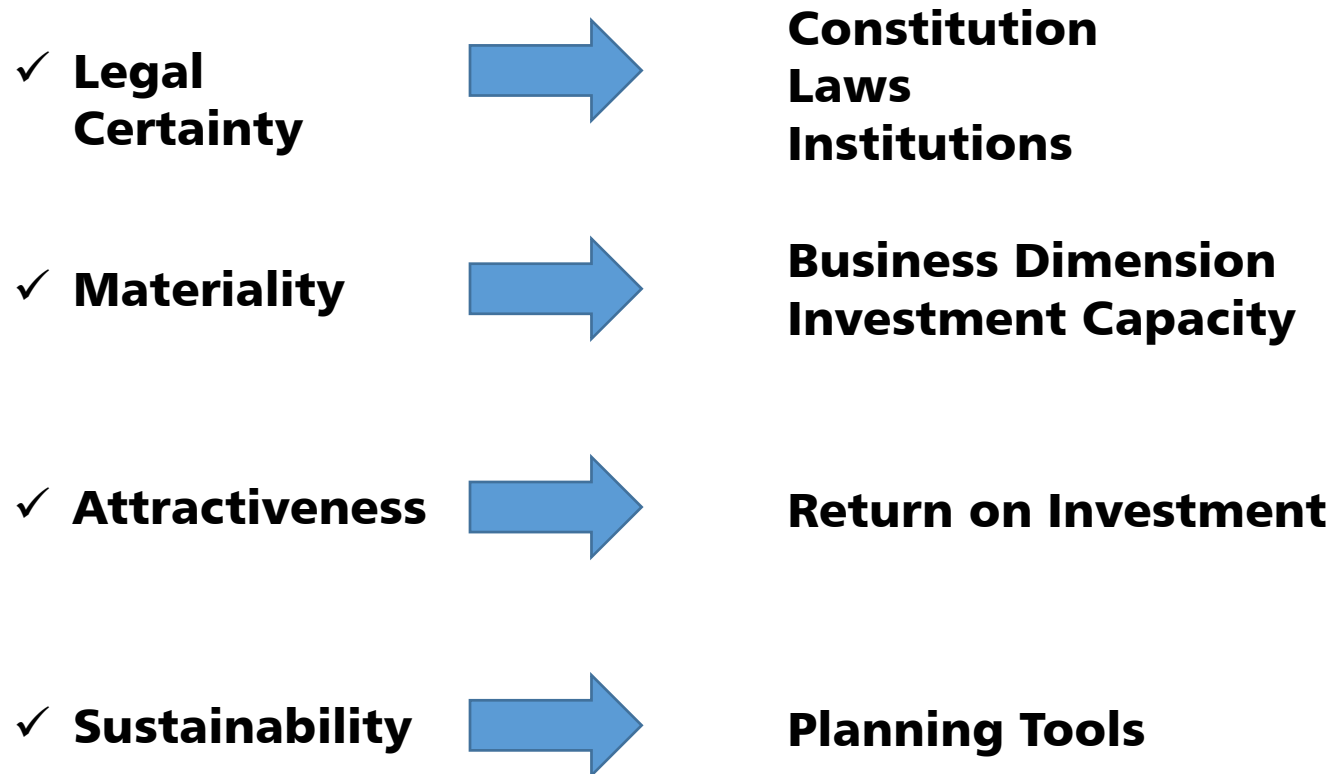
Bidding round	Type of fields	Bidding Areas	Areas Awarded	Areas Non Awarded
1.1	Shallow waters	14	2	12
1.2	Shallow waters	5	3	2
1.3	Onshore	25	25	0
1.4	Deep waters	10	8	2
2.1	Shallow waters	15	10	5
2.2	Onshore	10	7	3
2.3	Onshore	14	14	0
Trion	Deep waters	1	1	0
Total:		94	70	24

# Biddings in progress

Bidding Round	Type of Fields	Bidding Areas	Bid Submissions
Ayin-Batsil	Shallow Waters	1	4 october 2017
Cárdenas Mora	Onshore	1	4 october 2017
Ogarrio	Onshore	1	4 october 2017
2.4	Deep Waters	30	31 january 2018
Nobilis-Maximino	Deep Waters	1	31 january 2018

# What are companies looking for?

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# Regulatory enforcement and compliance

## Navigating Uncertainty

### Regulatory risk and compliance for oil and gas companies

#### The new scenario:

- A growing number of companies
- Increasing Environmental, Technical and safety regulation
- Regional differences
- Growing number of regulatory bodies
- The response capacity

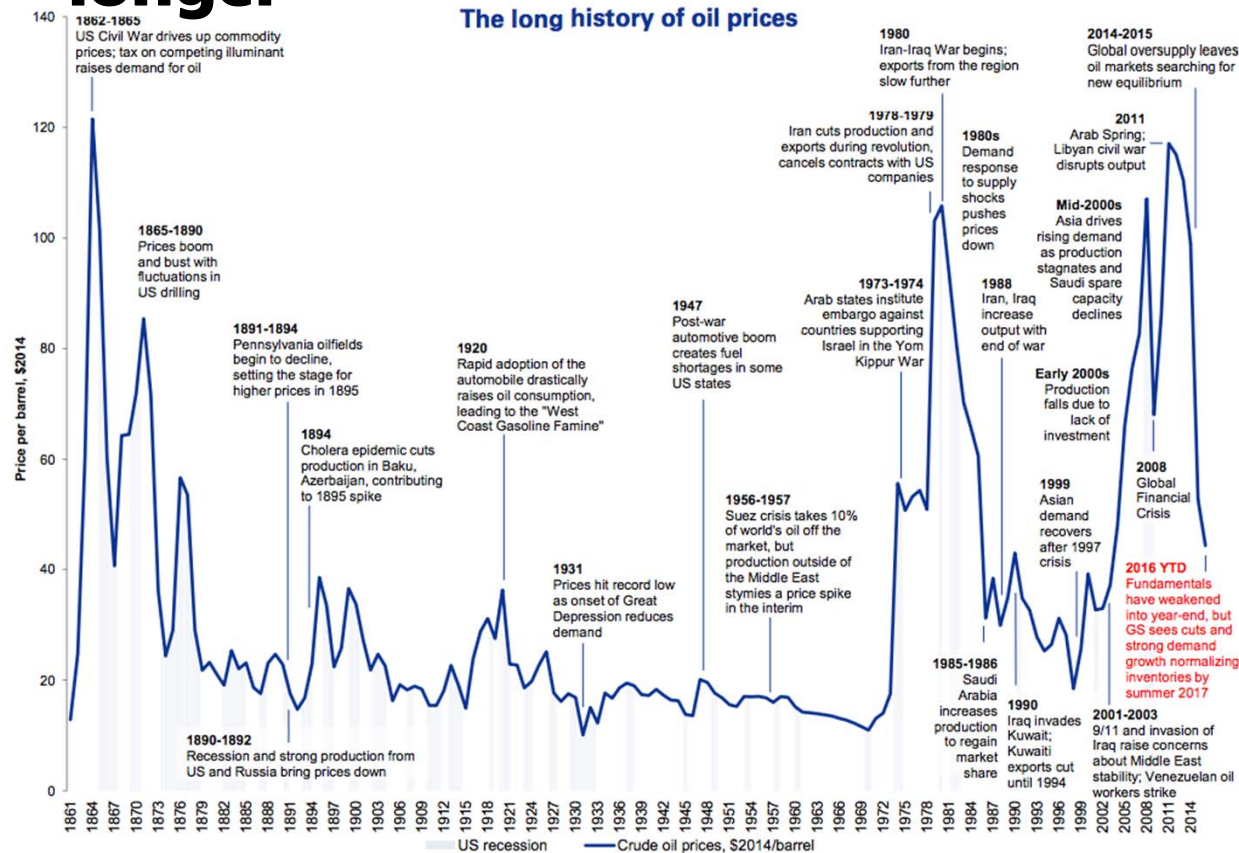
#### The foreseen consequences:

- Production Delays
- Cost Overrun
- Physical Security Risks
- Cost of non-compliance

#### The required response:

- Implementation of an effective risk management system
- Rethink the approach for compliance
- Reduce exposure

## What is Lower; What is longer



An earlier version of this chart appeared on pg. 16 of Top of Mind Issue #52: OPEC and Oil Opportunities.

Note: 2016 price shown is YTD average as of Dec. 19, 2016.

Source for data: BP, NBER/Federal Reserve Bank of St. Louis, Haver Analytics.

Source for annotations: ©James Hamilton, "Historical Oil Shocks," University of California, San Diego, February 2011; various news sources; Goldman Sachs Global Investment Research.

## Oil price changes:

- Structural
- Geopolitics
- Speculation
- Wars
- Epidemics
- Natural Disasters
- Technology

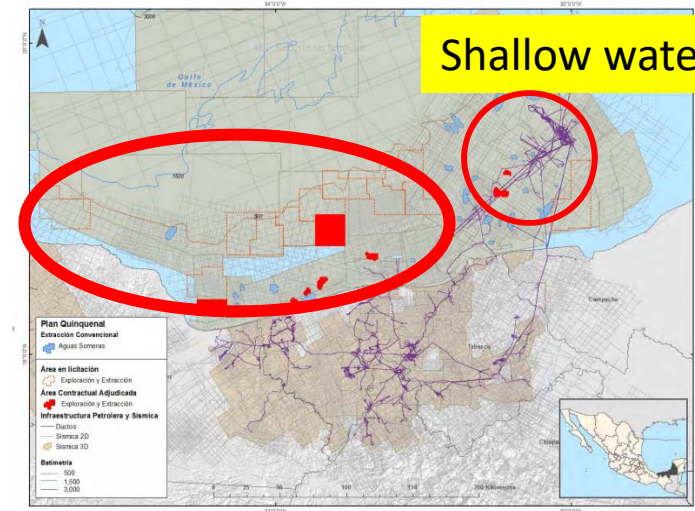
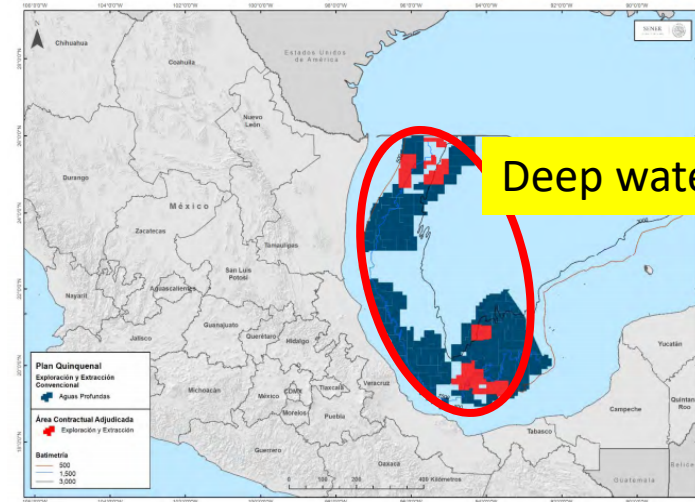
# Offshore Areas That Will Require Infrastructure

**The offshore areas that have been awarded to private operators will demand additional pipeline, production and storage facilities infrastructure.**

**Future construction activities will be focused in shallow water projects in the southern Gulf of Mexico and in deep water, north and south GOM.**

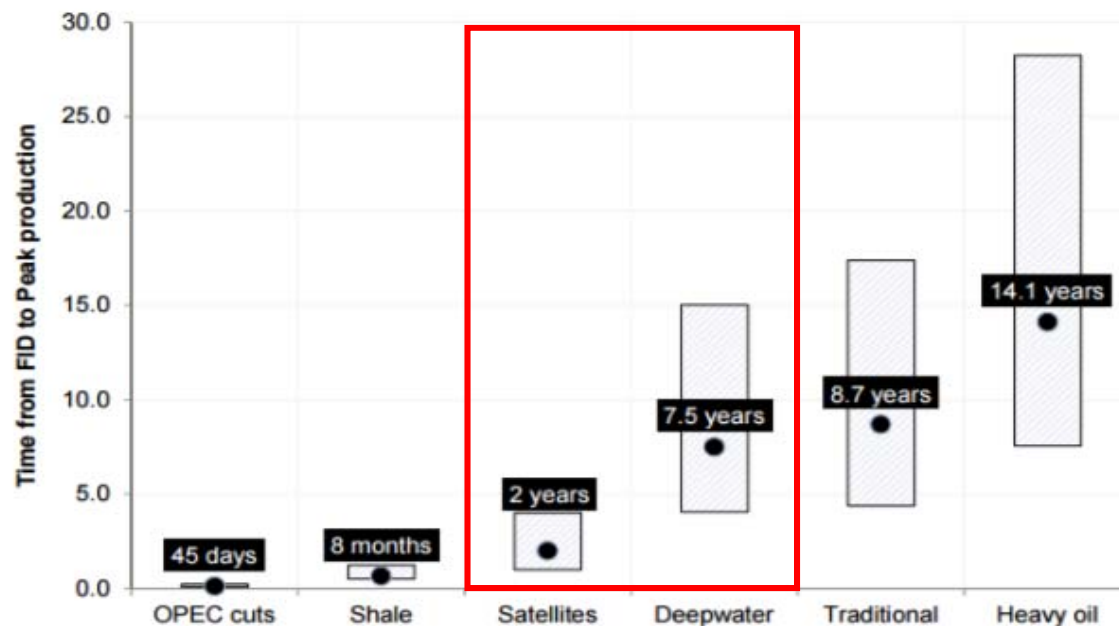
**Still some construction remains in areas hold by Pemex and those that will be farmed out by the state Company.**

Mapa 6. Exploración y extracción de hidrocarburos en aguas profundas





- Time will be a critical factor, for suppliers and contractor companies.
- Offshore projects will start to come back in 2 years, with early birds in a year from now.



Source: Goldman Sachs Global Investment Research

# Prices and Cost Correlation

## New Price level recognition; resilience

The Impact of Low Oil Prices on Upstream Costs / January 2016

### Forecast: Oil price and the UCCI



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- **Optimistic:**  
Prices will go back and cost will go back

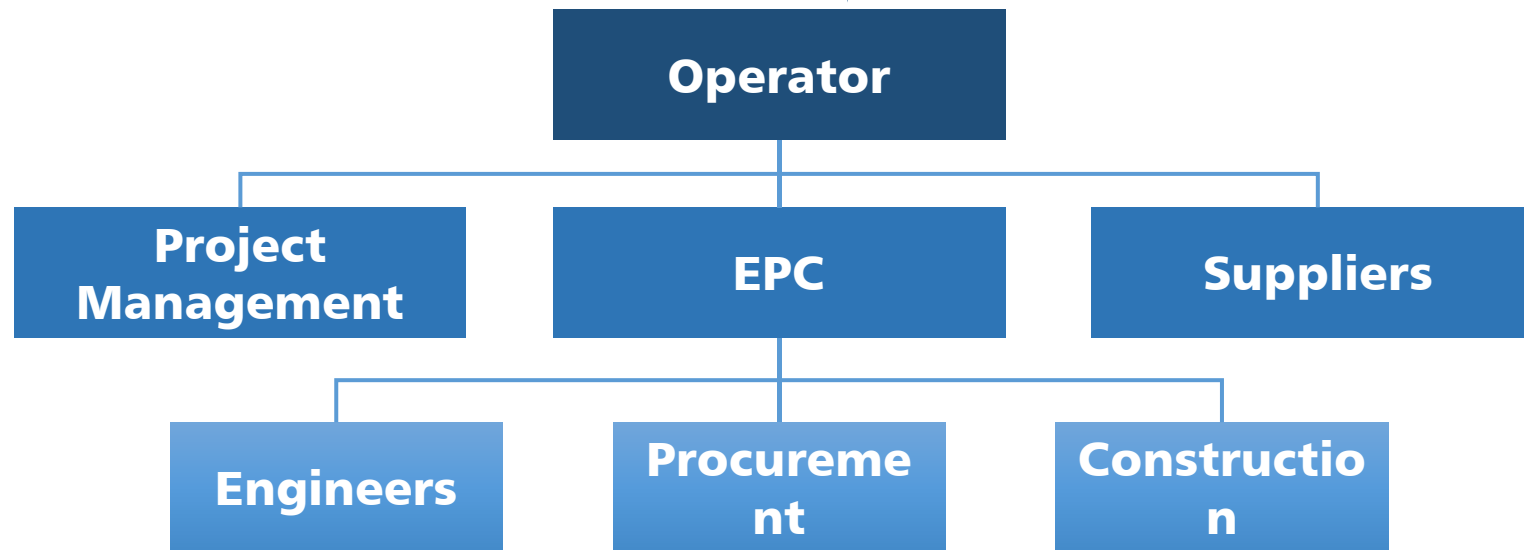
- **Realistic:**  
Prices will stay moderate and cost will remain moderate

- **Pessimistic:**  
Prices will collapse and business will stop

# What's to be done?

- **There are new players in the upstream business in Mexico**
- **It will take some time for the new players to assume a relevant role**
- **Pemex will continue, at least for some time, to be the relevant player**
- **Projects must respond to new Price scenario**
- **Projects have to be developed at cost and on time**

- **Collaborative approach**
- **Innovation**
- **Accelerated learning design**
- **Efficient organization, processes and governance**
- **Leaner and more effective designs**
- **Sharing risk and rewards**



**Thanks.**