

# Round 1 oil field public bidding results – More than meets the eye

July 15, 2015

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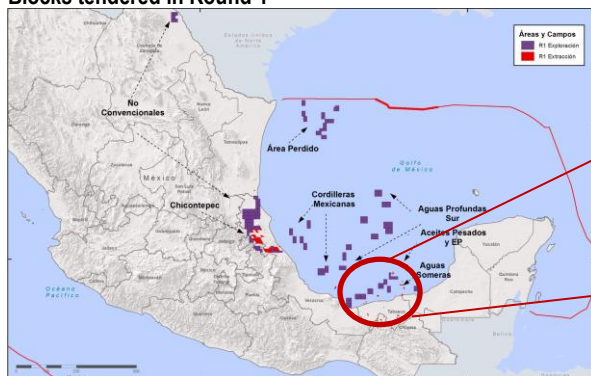
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- The *National Hydrocarbon Commission* announced today the winners of the first tender under Round 1
- Two out of the 14 blocks tendered (14.3%) were allocated, a lower number compared to what the government was expecting (~30%) which, in our view, was explained by:
  - (1) Persistently-low oil prices, which judging by international experience, have played an important role for investment incentives
  - (2) It seems that shallow-water fields are at the moment less appealing for investors, compared to on-shore or deep-sea drilling projects
- The results of the next group of projects will be announced in September

**First public bidding of projects under Round 1.** The *National Hydrocarbon Commission* (CNH) announced the winners of the first tender under the so-called Round 1 (a.k.a. Round 1.1). We highlight that this round represents the first effort by the government to allow private-sector investments into full-blown oil-related projects. This first package of projects includes 14 blocks, equivalent to 1.1 billion barrels of oil. These blocks comprise 4,222 square kilometers of shallow water exploration located in the Gulf of Mexico, as shown in the table below. According to the Ministry of Energy, these regions are expected to have light crude oil with low production costs. The projects will be developed under production sharing contracts with a time horizon between 3-5 years.

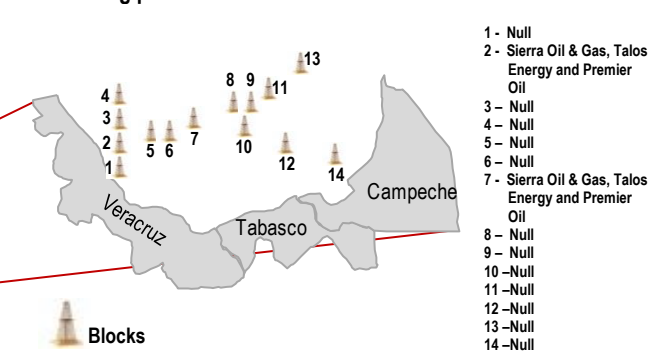
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Blocks tendered in Round 1



Source: Ministry of Energy

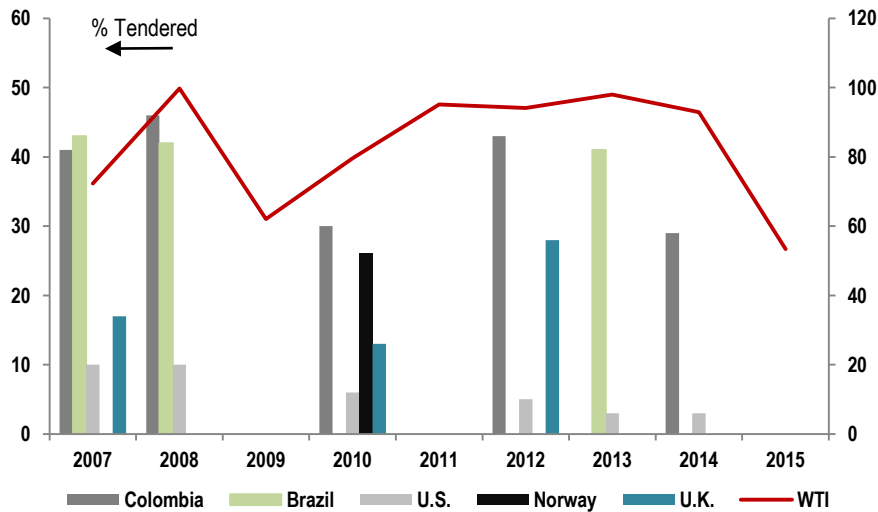
First bidding process



Source: Ministry of Energy

**Lower than expected allocation of projects.** Two of the 14 blocks (14.3%) tendered were allocated. This number was lower compared to what the government was expecting (~ 30%). In our view, this was mainly due to two factors: (1) Persistently-low oil prices, which judging by international experience, have played a major role in the incentives to invest. In fact, as it can be seen in the chart below, there has been a high positive correlation between oil prices and the percentage of projects allocated in selected countries, so we consider it was reasonable to expect a lower number of projects on the back of persistently-low oil prices; and (2) it seems that shallow water fields are at the moment less appealing compared to conventional onshore and/or deep-water fields. According to experts, the largest oil companies have greater interest in deep-sea fields, -despite low oil prices and high costs of extraction-, given the longer time horizon in which they invest. Moreover, the initial investment required to invest in conventional onshore fields is much less than what is required to explore and produce in shallow water fields, despite their low operating costs.

**Percentage of auction tendered and WTI price performance**  
 %, US\$/BBL



Source: Ministry of Energy and Bloomberg

**Participants of the public bidding process.** A total of 25 participants –18 individual companies plus seven consortiums-, submitted documents to pre-qualify, although five of them decided to leave the process. In the end, nine bidders submitted their envelopes with proposals: (1) *Statoil*; (2) *ENI* in consortium with *House*; (3) *ONGC Videsh*; (4) *Sierra* in consortium with *Talos*; (5) *Premier Hunt*; (6) *Atlantic Rim*; (7) *E&P Oil & Services* in consortium with *Pan American Energy*; (8) *Murphy* in consortium with *Petronas*; and (9) *Cobalt Energy*. The consortium formed by *Sierra Oil & Gas* and *Talos* won both blocks allocated.

**Bidding results**

Area	Geologic province	Area in km2	# fields	Estimated costs US\$bn	Company awarded with contract	% of operational utility shared with government
1	Cuenca Salina	195	2	112.6	-	-
2	Cuenca Salina	194	2	113.3	Sierra Oil & Gas, Talos Energy, Premier Oil	55.99%
3	Cuenca Salina	233	2	103.2	-	-
4	Cuenca Salina	233	2	103.9	-	-
5	Cuenca Salina	466	2	89.4	-	-
6	Cuenca Salina	466	2	122.2	-	-
7	Cuenca Salina	465	2	93.4	Sierra Oil & Gas, Talos Energy, Premier Oil	68.99%
8	Cuenca Salina	116	1	77.2	-	-
9	Cuenca Salina	116	1	57.7	-	-
10	Cuenca Salina	232	2	134.3	-	-
11	Cuenca Salina	309	2	150.0	-	-
12	Cuenca Salina	387	2	171.0	-	-
13	Cuenca Salina	501	2	112.5	-	-
14	Macuspana	310	2	114.7	-	-

Source: SENER and Mayer Brown

**The results for the next bidding process will be in September.** This tender includes 9 production blocks in shallow waters with probable reserves of about 0.35mm boe, representing only 0.4% of the prospective resources in Mexico.

**Results more than meets the eye.** In conclusion, the result of Round 1, even though it was below expectations, we do not believe that this is bad news *per se*, but reflects two fundamental aspects that discourage incentives to invest in such projects: Persistently low levels of oil prices –allocation of projects is normally reduced in a low price environment-, along with the relative degree of attractiveness of fields tendered (*i.e.* shallow water) vs conventional onshore and deep-sea drilling operations, where we would expect more interest going forward.

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