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Mexican Officials Believe Next PEMEX Auction Could Attract Strong Interest

by Carlos Navarro

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The discovery of a large reserve of crude oil in the Gulf of Mexico could attract a large number of participants to Mexico's next auction of exploration and drilling rights, which is scheduled to take place in January 2018, private analysts and public officials said.

In mid-July, a partnership involving Britain's Premier Oil Plc, Mexico's Sierra Oil & Gas, and US-based Talos Energy LLC, reported the discovery of a deposit containing a potential 1.4 billion to 2 billion barrels of crude oil in the southern Gulf of Mexico. The exploration well, known as Zama-1, is located about 60 km (37 miles) from the port of Dos Bocas in Tabasco state.

"This is both a historic and significant discovery, and we could not be more proud of the highly skilled personnel from Mexico and the US who have been working together in a safe and efficient manner to make it a reality," said Talos president and CEO Tim Duncan.

Other recent developments confirm a promising potential for oil in the Gulf of Mexico. In mid-July, Italian oil producer Eni Spa said a well drilled in the Amoca block reveals the potential for 1 billion barrels of crude. The Italian company won a concession in Mexico's first auction following the opening of the energy sector ([SourceMex, July 22, 2015](#)).

The Amoca block is located 200 km west of Ciudad del Carmen in Campeche state. According to Eni Spa, the discovery confirms the presence of crude oil in multiple reservoirs within the Amoca block. The Italian company said production at the site could begin as soon as 2019.

New reserves in southern gulf

The exploration activities for both the Zama-1 and the Amoca projects were conducted by private entities rather than the state-run oil company PEMEX, which analysts see as evidence that the opening of exploration and extraction activities to the private sector is yielding positive results ([SourceMex, Dec. 18, 2013](#), and [Aug. 6, 2014](#)).

Even though private entities are given the task of conducting exploration and extraction activities, the Mexican government receives a large share of revenues from oil developed at the various sites. According to calculations from Sierra Oil & Gas, Mexico stands to receive a profit share of almost 69% from every barrel produced in the Zama-1 block.

Mexican and private analysts expect strong interest in the next round of PEMEX exploration bids, which will take place at the beginning of 2018. At that time, Mexico plans to offer 30 blocks for deepwater exploration in the fourth auction of Round 2.

According to Energy Secretary Pedro Joaquin Caldwell, several of the blocks available during the Jan. 31 auction include areas where natural gas supplies are ample. Preliminary estimates from the Mexican government indicate that the auction could fetch about US\$31 billion.

The discoveries in the Zama-1 block and the confirmation of ample supplies in the Amoca block mean there is less risk for potential investors. "There are a host of companies on the US side of the Gulf of Mexico that may now consider participating in upcoming auctions because this is a way of showing them that the process works, and can lead to a discovery," Jeremy Martin, vice president of energy and sustainability at the California-based Institute of the Americas, said in an interview with Bloomberg.

Pablo Medina, an analyst at the consulting firm Wood Mackenzie, agreed that future bids will likely be more aggressive. "This obviously increases the attention people will pay," he said in an interview with Bloomberg. "The area contiguous to this block is going to go up in value, no question."

Juan Carlos Zepeda, president of the commission in charge of oil regulation (Comisión Nacional de Hidrocarburos, CNH) said the oil finds confirm that ample supplies of oil exist on the Mexican side of the Gulf of Mexico. "International and national interest is awakening," he said.

Because of the news about the discovery of the reserves, the Mexican government decided to delay the coming auctions until the end of January, which would give potential participants more time to prepare their bids.

"The delay was a very positive sign," said Arturo Carranza, an energy consultant at the Instituto Nacional de Administración Pública (INAP). "As information emerged on the blocks on offer, the authorities realized that it was much more positive than they had originally envisaged, and they needed to adjust the terms of the auction accordingly."

Several prominent multinational companies like Exxon Mobil, Chevron, BP, Royal Dutch Shell, and Total have already won bids to participate in the Mexican oil sector, and these companies could be among the participants in the 2018 auction. However, a number of potential investors who are not involved in the oil industry have also expressed interest.

According to reports in the London-based Financial Times and Mexico's daily business newspaper El Financiero, the list includes Mexican telecommunications mogul Carlos Slim, as well as Florentino Pérez, president of Spain's first-division soccer club Real Madrid. Pérez is also head of Grupo Avanzía, a financial entity involved in the petrochemical sector and in electricity generation.

Mexico-Canada consortium wins recent auction

As part of Round 2 of the auctions, PEMEX already awarded, in mid-July, an exploration and production bid to a Canadian-Mexican consortium composed of Canada's Sun God Energía and Mexico's Jaguar Exploración y Producción de Hidrocarburos. The consortium will work on six of 10 onshore sites located primarily in the Burgos basin, which spans the northeastern states of Nuevo León and Tamaulipas. The same consortium also won exploration and production rights in the Cuencas del Sureste site in Tabasco state.

The reserves in the Burgos basin consist primarily of wet gas, while the site in Tabasco contains super light crude oil

Another consortium, created by the Mexican-Spanish group Iberoamericana de Hidrocarburos and the Mexican-based Servicios PJP4, won the exploration and production rights for a single area in the Burgos basin.

PEMEX officials said no bidders have stepped forward for three of the 10 oil-producing areas being offered at the auction.

Coldwell said the government plans to launch four more oil and gas auctions before President Enrique Peña Nieto completes his term in November 2018, including auctions for deepwater sites, fields in shallow water, and shale areas rich in natural gas deposits.

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