General IOC Perspectives on Mexican Energy Reform

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General IOC Perspectives

• Mexico is an excellent host, performing extremely well on a steep learning curve, and proving responsive to both public and industry concerns
• Transparency is exceptional
• A significant cultural shift is underway -- from State monopoly and historic distrust of foreign energy investment, to competition and encouragement of foreign capital investment
• Mexico has excellent resource potential but still competes for investment capital with other energy opportunities worldwide
  – Low oil price environment requires selectivity and good portfolio fit
General IOC Perspectives
Many Uncertainties

- Granting instruments and regulations untested or unknown
  - Deep Water License or PSC?
  - Risk allocations appropriate?
  - Minimal Mexican petroleum industry case law & potential misalignment with typical industry practices
  - PEMEX migration conditions & JOA terms
- Investment protection concerns are significant
  - Administrative Rescission remedy & process clarifications
  - Dispute resolution
  - Trade/investment treaties (TPP, NAFTA, etc.)
- Untested administrative capacity, decision-drivers, and ability to make timely decisions
  - High level of administrative oversight/approvals in PSCs (like a services contract)
  - Delayed/slow decisions are costly
  - Value-driven decisions v. cost recovery and volume
Initial Bid Rounds

• Round 1.1 – 2 of 14 Shallow Water Exploration blocks awarded
  – Block sizes, materiality
  – Minimum government take not disclosed
• Round 1.2 – 3 of 5 Shallow Water DRO blocks awarded
  – Disclosed minimums reduced uncertainty and increased participation
  – Competition produced government takes in excess of required minimums
• Round 1.3 – Onshore
• Round 1.4 – Deep Water (conv., heavy, explr., and DRO)