ENERGY POLICY RESEARCH FOUNDATION INC.
EPRINC Est. 1944

Energy Policy Research Foundation, Inc.
1031 31st Street, NW, Washington, DC 20007-4401
www.eprinc.org

Phone: 202.944.3339
Fax: 202.944.9830
E-mail: contact@eprinc.org

EPRINC Translation of *El Financiero* Op Ed
by Emily Medina
Published December 13, 2019

Should Pemex Assume All the Risk?

Last Friday, Octavio Romero Oropeza, general director of Petróleos Mexicanos (Pemex) announced the discovery of the onshore field Quesqui with reserves of 500 million barrels of oil equivalent (MMboe) of category 3P (proven, probable and possible). Also, it is estimated that 2P reserves are 30 percent to 40 percent of the 500 million barrels of oil equivalent according to a person close to the matter.

The Quesqui-1 DEL delimiter well is also being drilled, which will be completed in January 2020 representing an additional reserve estimated at 200 million barrels of oil equivalent.

Romero Oropeza estimated that once the 11 wells of the Quesqui field of around 34 square kilometers located in Tabasco operate in 2020, around 69 thousand barrels of crude oil and up to 300 million cubic feet of gas will be produced.

However, these estimates announced by Romero Oropeza seem to be too optimistic, since much depends on the extraction in the Quesqui field being commercially viable. Although President Andres Manuel Lopez Obrador says that the barrel of oil in Quesqui will cost six dollars and that there is infrastructure in the area to expedite the process, there are other factors that must be taken into account to know if they are truly commercially recoverable reserves.

First, the announced 3P reserves are not yet confirmed or classified by independent third parties as determined by the CNH. Second, there is a 10 percent chance to convert 3P reserves to 1P, a conversion process that takes around five to ten years. Third, there is no development plan yet. The recent discovery of Quesqui, will hardly be reflected in increased oil production in this field, since Pemex's operational methods are at risk due to its financial state.

By wanting Pemex - the world's most indebted oil company with a debt of 100 billion dollars - to rescue the energy sector on its own it is increasing the risk of meeting its production goals and at the same time adding more 1P reserves. Pemex's technological capabilities and financial resources are not sufficient to meet AMLO's production objectives and, in turn, replace 1P reserves avoiding depletion, since production levels are higher than the additions of Pemex historical average 1P reserves.

Energy Policy Research Foundation, Inc.
1031 31st Street, NW, Washington, DC 20007-4401
www.eprinc.org
Phone: 202.944.3339
Fax: 202.944.9830
E-mail: contact@eprinc.org

According to data from the National Hydrocarbons Commission (CNH), in 2003 when Pemex reached a peak in its production with 3 million 454 thousand barrels of oil daily, 1P reserves were 20 thousand 77 million barrels of equivalent crude oil (MMboe). This year the 1P reserves are around 7,897.26 million barrels of oil equivalent, and according to Octavio Romero as of December 1st of this year, production was recorded at 1 million 712 thousand barrels per day. 1P reserves have fallen to more than half in that period along with production.

Mexico's government objective is to increase national production to 2.6 million barrels per day (mmbd) by 2024. Although the Pemex Business Plan contemplates a greater investment in exploratory projects onshore and in shallow waters, according to CNH data there are still 3 billion barrels of crude oil equivalent left unassigned, which represents a missed opportunity to add larger 1P reserves.

A report written by Rafael Sandrea of the Energy Policy Research Foundation, a think-tank based in Washington DC, estimates that during the 2018-2024 period, the private sector will invest about 14 billion dollars in exploration and development activities associated with the projects awarded till date. While the Mexican Association of Hydrocarbon Companies (Amexhi) estimates that the nation could have received an additional 104 billion dollars in investments in the energy sector until 2040 if the government had not interrupted the oil rounds.

If the Mexican government really wants to boost the development of Mexico through the energy sector, it should reactivate the farmouts and oil rounds, in order to let private companies share the risk and their best operating practices with Pemex. This will leave the state company in a better position to meet its production targets through onshore production in fields such as Quesqui, without risking the depletion of 1P reserves and Mexico's public finances.

Emily Medina is a Fellow at EPRINC