

INSIGHTS

## Integrated Exploration and Extraction Service Contracts: the new model to be used by Pemex to reactivate fields and increase production

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The 2019-2023 Business Plan for Pemex and its Subsidiaries (the “Business Plan”) provides that Pemex aims to promote partnerships between the public and the private sectors under a risk-sharing scenario that expects to achieve optimal exploitation and increase crude oil production. To achieve this goal, Pemex seeks to enter into 40 Integrated Exploration and Extraction Service Contracts (“CSIEEs”) over the next four (4) years (“CSIEE Model”).

A model similar to the CSIEE Model was used in 2018 (“2018 CSIEE Model”) for the fields of Blasillo and San Ramon. Pemex modified the 2018 CSIEE Model used in the past administration by opening a public consultation on the general terms and conditions, which concluded on August 30, 2019.

In accordance with the Business Plan, the CSIEE Model will be used to (i) reactivate the non-associated gas fields in the Burgos basin and in Veracruz and (ii) to increase the recuperation of oil and associated gas in mature fields in the Southeast basin and in Tampico Misantla.

Under the CSIEE Model, Pemex, as operator, can contract integral services from third party service providers for the exploration and production of hydrocarbons, such as drilling and preparation of the fields for the production stage, integration of artificial systems, and construction of production and transportation infrastructure. All such services would be carried out under the authorization and supervision of Pemex.

The Business Plan also provides that each CSIEE will be designed to have a duration of 15 to 20 year terms. The third party service providers will carry out the activities set forth in each CSIEE and provide 100% of the capital expenses (CAPEX) and operating expenses (OPEX).

Each third party service provider will be paid a variable fee in USD per unit of produced hydrocarbons. These fees will be calculated by taking into account the risk involved, required investment and operating efficiency. The fees can also vary depending on the development stage of the field.

Pemex will consider the following aspects to evaluate project viability: (i) improvement in the fiscal conditions; (ii) implementation of segregated accounts or trusts to ensure that the revenue of each project ensures the compliance of the contractual obligations; and (ii)

adjustments in fees due to relevant changes in the hydrocarbon market.

In conclusion, after the CSIEE Model to be used is finalized, Pemex will be seeking private investment to reactivate its fields and increase crude oil production.