Mexico unlikely to tap its Eagle Ford Shale, expert says

Posted on October 31, 2013 at 8:30 pm by Emily Pickrell in Eagle Ford, Latin America

HOUSTON — Despite the huge potential of the Mexican Eagle Ford Shale, the high costs and low potential returns likely will deter Mexico's national oil company from developing those resources for decades to come, an industry expert said Thursday.

Luis Miguel Labardini, a partner at energy consulting firm Marcos y Asociados (left); Kenneth Medlock, senior director of the Center for Energy Studies at Rice University's Baker Institute (center); and Airel Ramos, a partner at Haynes and Boone, discuss opportunities for investment in shale gas in Mexico during a forum hosted by the Baker Institute in Houston on Oct. 31, 2013. (Emily Pickrell/Houston Chronicle)

Petroleos Mexicanos, or Pemex, is not likely to develop its shale gas resources because of the high number of wells needed, the high labor costs and the company's lack of experience, said Luis Miguel Labardini, a partner with Mexican energy consulting firm Marcos y Asociados, speaking at an energy forum hosted by the Rice University's Baker Institute in Houston.

Shallow-water plays and a huge deep-water offshore play, Cantarell, have higher internal rates of return, **drawing Pemex's limited investment capital**, Labardini said. That leaves its natural gas resources almost untouched, despite Mexico's dependence on natural gas, he said.

Foreign interest: Eagle Ford's future might lie in Mexico's demand

Pemex drilled its first shale gas well in 2010. There are only five shale gas wells in the country today.

The relatively untouched shale resources **could provide opportunities for US companies** if Mexico implements a proposed constitutional change that would open it up to international investment.

However, even if **the constitution is amended to allow investment**, the shale plays in Northern Mexico might not be attractive to international investment, because of security issues and a lack of infrastructure to bring the natural gas to market, said Kenneth Medlock, senior director for the Center for Energy Studies at Rice University's Baker Institute.

"Companies that operate currently in the Eagle Ford are extremely reticent to invest south of the border, even if the reforms pass," Medlock said.

One challenge is that shale plays require thousands of wells to be drilled in order to understand where the "sweet spots" are, Medlock said, pointing out that it took 10 years and thousands of wells for Texas' Barnett Shale to become profitable.

Natural gas: Declining Barnett Shale could remain strong producer

Because Pemex budgeting is tied closely to the country's federal budget, making an upfront investment that will not provide immediate cash flow is unattractive to policy makers, Medlock said.

Ariel Ramos, a partner with Haynes and Boone, said that when Mexico's shale gas plays are developed, U.S. companies will be positioned to provide the needed expertise, which will force better contract terms for companies.

If the constitutional amendment passes, the Mexican government is already considering offering a one percent royalty for wet gas production and a zero percent royalty for dry gas in order to encourage development, Ramos said.

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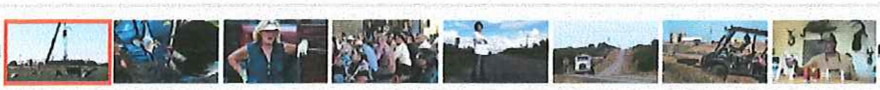

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Mexico energy reform could bring $1.2 trillion to border towns

Posted on **January 28, 2014 at 12:35 pm** by **Emily Pickrell** in **Latin America**

HOUSTON — As Mexico moves to open its energy sector to international companies, the new investments and increased activity could mean a bonanza for border towns on both sides, attracting as much as $1.2 trillion in economic activity to the region in the next decade, according to a BBVA Compass economist.

Petroleos Mexicanos oil platforms in the Cantarell oil field in the Gulf of Mexico. (Photo: Pemex/Bloomberg)

Investment in Mexican Eagle Ford Shale, increased pipeline development and improvements to the electric grid could help to transform border cities in Texas and Mexico, bringing millions of jobs and ancillary businesses, said BBVA Compass economist Marcial Nava in a webinar Tuesday.

The Birmingham, Ala.-based financial services firm, owned by Spanish bank BBVA, is one of the largest banks operating in Mexico and Texas.

2.5 million jobs

The Mexican energy reforms are **a series of constitutional changes passed in December that ends the monopoly of Mexican oil company Pemex and opens all segments of the energy sector to private firms**. Mexico's congress currently is debating the supporting rules that will provide key information on how the new policy will be implemented and regulated.

Oil boom: North America to drown in oil as Mexico ends monopoly

But while the details are still forthcoming, the investment and new projects expected to flow from these reforms could create 2.5 million jobs in Mexico by 2025, according to BBVA, opening the door to residents who had not had these opportunities before, particularly in northern Mexico.

"More jobs in Mexico could potentially reduce illegal immigration," Nava said, noting that a significant portion of the new jobs would be well-paid.

Mexico's shale

The Mexican side of the Eagle Ford is to date largely unexplored. In 2012, the Mexican government only authorized the drilling of three shale oil and gas wells, a stark contrast to the 9,100 in the U.S. for the same time period, according to a report BBVA issued on Mexican energy reform opportunities.

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The reforms will remove the limitations that prevented international investment from developing Mexican shale plays, especially in the Burgos Basin, which is the portion of the Eagle Ford Shale that extends into Mexico. This play could hold more than 300 trillion cubic feet of technically recoverable shale gas, while Mexico's other shale plays — the Sabinas, Tampico and Veracruz Basins — are estimated to hold more than 1 trillion cubic feet of natural gas reserves.

Shale gas: Eagle Ford pipeline moves forward for delivery to Mexico

While shale plays in northern Mexico are complicated by water access issues, infrastructure limitations and security concerns, Nava suggests that the wealth of the resources could draw some big players, especially if the implementing legislation currently being drafted permits contracts with sufficient incentives for international companies.

"Companies familiar and experienced with the Eagle Ford such as EOG Resources, Chesapeake, and ConocoPhillips, have comparative advantages and could lead Mexico's shale gas transformation," Nava wrote in the BBVA report.

Importing gas

But while Mexico will be looking to increase its supply of natural gas, this could come through exploration or **through increased pipeline infrastructure to the United States**, Nava said.

"Even if the country continues to import natural gas, it needs the infrastructure for that natural gas and to lower the prices to households," Nava said.

The United States is Mexico's largest natural gas supplier, providing 80 percent of imports. More than 60 percent of the natural gas supplied comes from Texas through pipelines that link the Lone Star state with its southern neighbor, Nava said.

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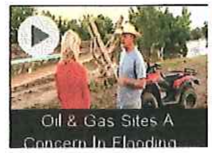

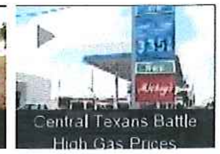

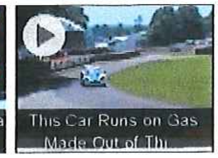

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