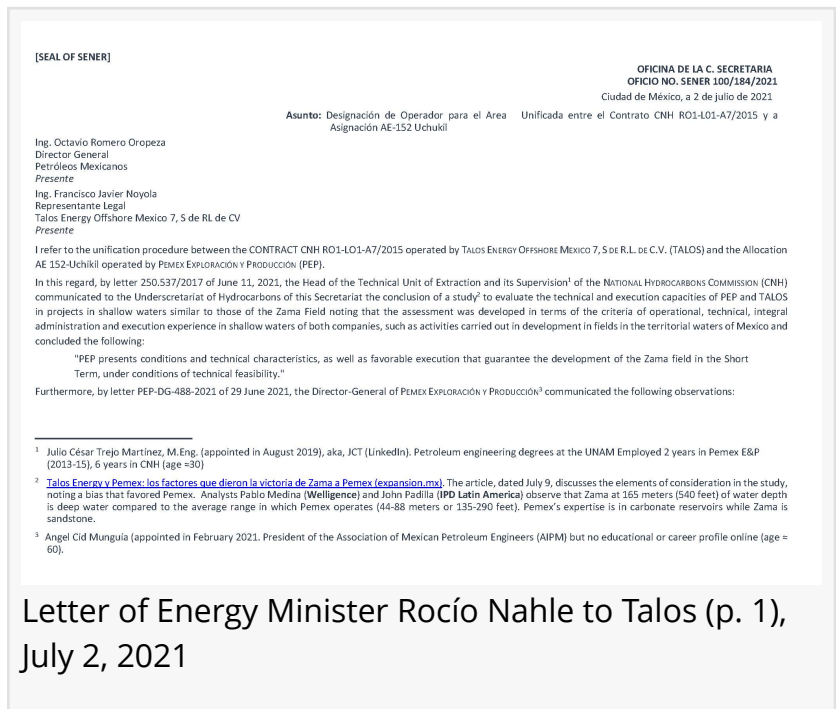


Zama oil reservoir ruling that favors Pemex to be challenged (resumen en español)

The arguments cited by Energy Minister Rocío Nahle to support the designation of Pemex as the operator of Zama will not withstand review

HOUSTON, TX, USA, July 20, 2021 /EINPresswire.com/ -- On July 2, Energy Minister Rocío Nahle, P.Eng., 57, in [a 2-page letter](#) advised Pemex and Talos Energy that Pemex had been designated the operator for the development of the Zama reservoir. Discovered by the Talos-led consortium in 2017, the reservoir, with recoverable 600-plus million barrels, is the largest [in a generation in Mexico](#).



Letter of Energy Minister Rocío Nahle to Talos (p. 1), July 2, 2021

The reservoir in Talos's Block 7 seems to extend beyond the eastern lease line into an area claimed by Pemex, but the offset, confirmatory well (named Asab-1) that would document Pemex's share of the reservoir has not yet been drilled. In 2019, using Talos's data, reservoir consultants Netherland, Sewell & Associates (NSAI) estimated that 40% of the reservoir lies on the side of Pemex, a finding, however, that one skeptical, consulting geologist regards as "fudged" to overstate Pemex's share.



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Tim Duncan, CEO Talos Energy

Negotiations with Pemex over the percentage of ownership and cognate matters such as redetermination rules and cost accounting dragged out for 30 months (September 2018-March 2021) without either a unitization

agreement or a joint operating agreement (JOA). On March 26, the Ministry took responsibility for determining how the reservoir would be developed.

Industry observers in Mexico and abroad discern that Minister Nahle was poorly advised by the National Hydrocarbons Commission (CNH) and Pemex Exploration & Production (PEP).

Observers believe that none of the arguments of CNH or PEP will withstand review by Mexican courts or international arbitrators.

The consortium and trade officials and industry associations from the U.S., U.K. and Germany (the nationalities of the investors) will ask Mexican authorities to reconsider the ruling in the light of evidence and arguments to be presented regarding technical, environmental, and safety matters.

In the Hydrocarbons Commission, a committee led by Julio César Trejo Martínez, age \approx 30, improperly concluded that the ability of Pemex to design and install a production system at the Zama reservoir was equivalent to that of Talos. Industry observers Pablo Medina (Welligence) and John Padilla (IPD Latin America) note that where Pemex operates in shallow water depths of 44-88 meters (135-290 feet), the Zama reservoir lies in 165 meters (540 feet) of water depth and is beyond Pemex's operational experience. Pemex's recognized expertise is in carbonate reservoirs (>90% of production); Zama is in sandstone.

The newly appointed director-general of PEP, Angel Cid Munguía, age \approx 60, improperly opined favorably about the financial ability of Petróleos Mexicanos to be the operator responsible for bringing the Zama discovery into sustainable production. Finance Minister Rogelio Ramírez de la O, 73, would be right, industry sources believe, to doubt the wisdom of Pemex's taking on another billion-dollar international obligation for a responsibility for which it may not have the people or experience and which would likely result in delays of execution and trigger complaints from Mexico's trading partners.

The Pemex official cited by Secretary Nahle referenced an unnamed expert that had determined that Pemex holds 50.43% of the Zama reservoir. The official wrongly insinuated that Pemex should therefore be designated as the operator. Geologists insist, however, that absent well data and production history, any estimate of the distribution of hydrocarbons would have an error range of +/- 10%, likely much more given the absence of a well on Pemex's side of Talos's block. (In a vote on June 6, CNH commissioners approved a development plan for Pemex's adjoining block that did not include the well Asab-1, which had long been planned to document Pemex's claims.)

That Pemex has midstream infrastructure in place argues for a tolling regime for shared use (a topic ignored in the Energy Reform of 2013-14), not for Pemex becoming the designer and installer of new production infrastructure.

In short, the Ministry still has no information that would support the designation of Pemex as the operator-developer of Zama. Not only Talos, but all investors in Mexico's oil industry should be very disappointed with SENER's sudden decision to award operatorship to Pemex.

To insist on Pemex having the initial role of operator-developer would be a blunder, some observers believe, on the scale of the Oil Law of 1958, which, until abrogated in 2014, served for

nearly six decades to prevent Pemex from having equity partners who could supply financing, technology, and international exposure. "National oil companies from around the world have leases in the U.S. Gulf of Mexico, but Pemex, sitting next door, does not," George Baker, an oil market and policy analyst in Houston, wryly observes.

The Ministry need not, however, insist on following a misguided course. Some industry sources urge a compromise: Designating Talos as the operator to design, install and start up a production system at the Zama reservoir offers the shortest path to oil production and the flow of royalty payments to Mexico's national Petroleum Fund (FMP). Afterward, operatorship could be transferred to Pemex.

El 2 de julio, la Secretaria de Energía, Rocío Nahle, 57, en una carta de 2 páginas, informó a Pemex y Talos Energy que Pemex había sido designado como operador para el desarrollo del yacimiento de Zama. Descubierta por el consorcio liderado por Talos en 2017, el embalse, con más de 600 millones de barriles recuperables, es el más grande en una generación en México.

El embalse en el Bloque 7 de Talos parece extenderse más allá del área contratada hacia un bloque de Pemex, pero la verdad aguarda la perforación de un pozo del lado de Pemex. Las negociaciones con Pemex sobre el porcentaje de propiedad y asuntos cognados se prolongaron durante 30 meses sin llegar a ni ningún acuerdo de unificación tampoco un acuerdo de operación conjunta (JOA). El 26 de marzo, la Secretaría asumió la responsabilidad de determinar cómo se desarrollaría el campo.

Observadores de la industria en México y en el extranjero advierten que la Secretaria Nahle fue mal asesorada por la Comisión Nacional de Hidrocarburos (CNH) y Pemex Exploración y Producción (PEP). Los observadores creen que ninguno de los argumentos de CNH o PEP resistirá la revisión de los tribunales mexicanos o los árbitros internacionales.

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