Economic analysis of the fiscal terms of a production share contract in shallow waters of Mexico

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1. Motivation

- The objective of this study is to evaluate the performance of a PSC awarded by the CNH to ENI Mexico in 2015.
- This contract is the first PSC awarded by the Mexican Government after a energy reform that became effective in 2013.
- The Mexican Government expect to reverse a decrease in oil production, collect high revenues and at the same time to increase foreign investment.
- Evaluating the project performance and the fiscal terms of the contract is vital to determine feasibility and revenues distribution.

General information	
Basin	Southeastern, Mexico
Unit bussiness	Litoral de Tabasco
Location	Water shallow near Tabasco
Fields	Amoca, Mizton and Tecoalli
Area, km2	67
Distance to shore, km	93
Depth water (m)	33
API oil degree	33
Contractor	ENI International B.V.

Reserves (January 2015)				
		1P	2P	3P
Oil	mmb	55.6	106.7	160.1
Gas	mmmpc	32.9	69.3	187.6
Oil equivalent	mmb	62.8	121.6	187.6

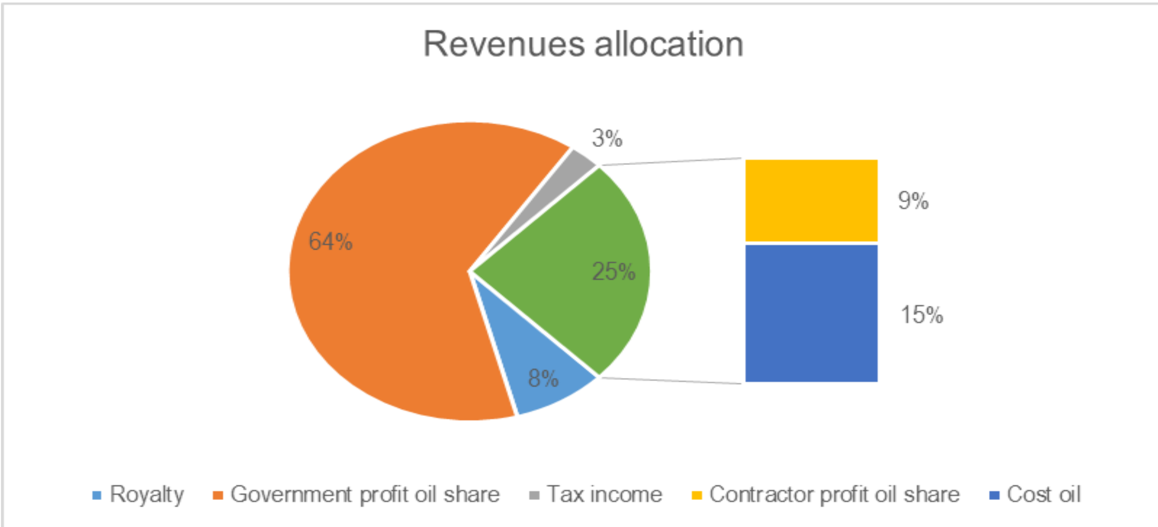
Field	Amoca	Mizton	Tecoalli	Total
1P	27	29	7	63
2P	34	70	18	122
3P	48	87	53	188

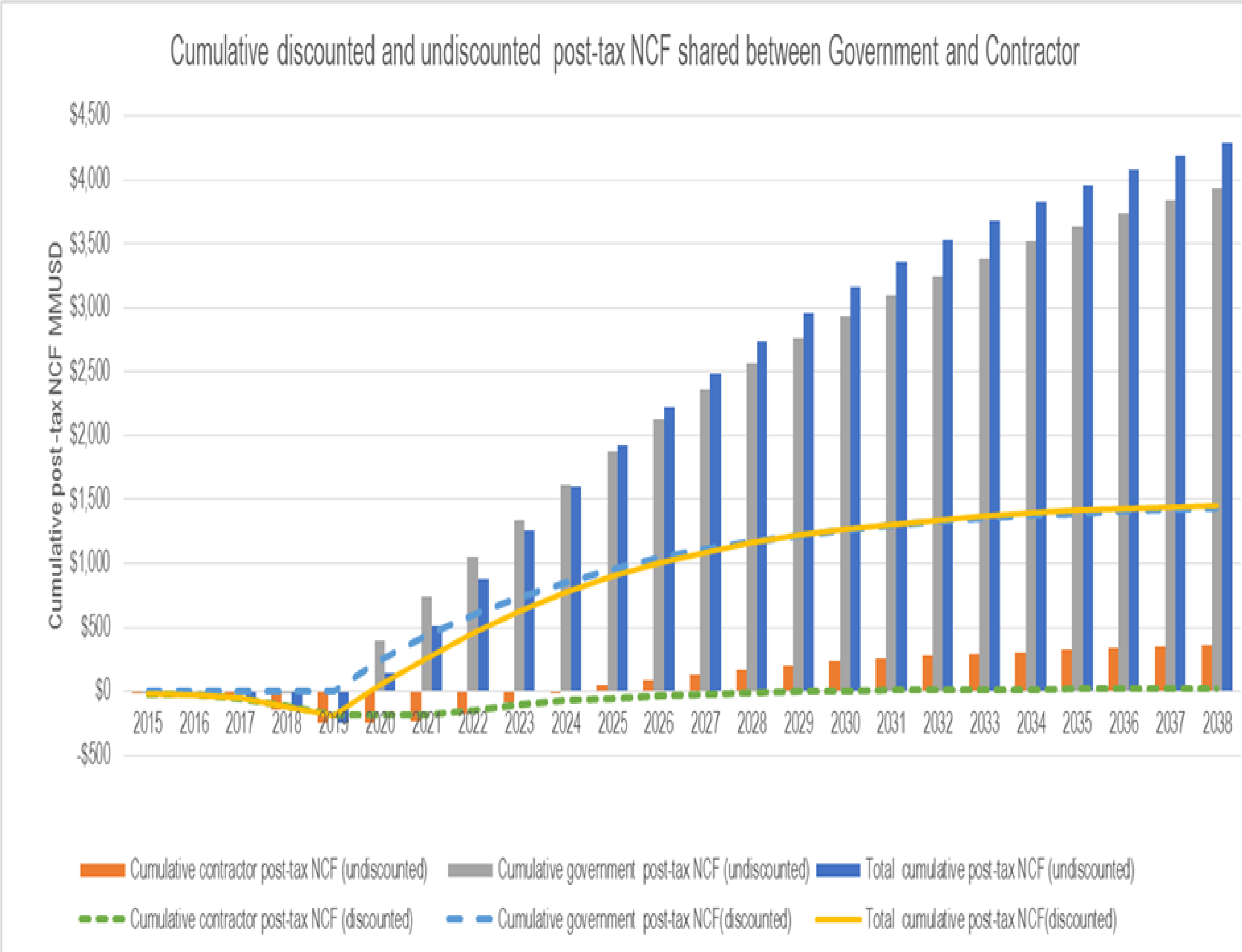
2. Methodology

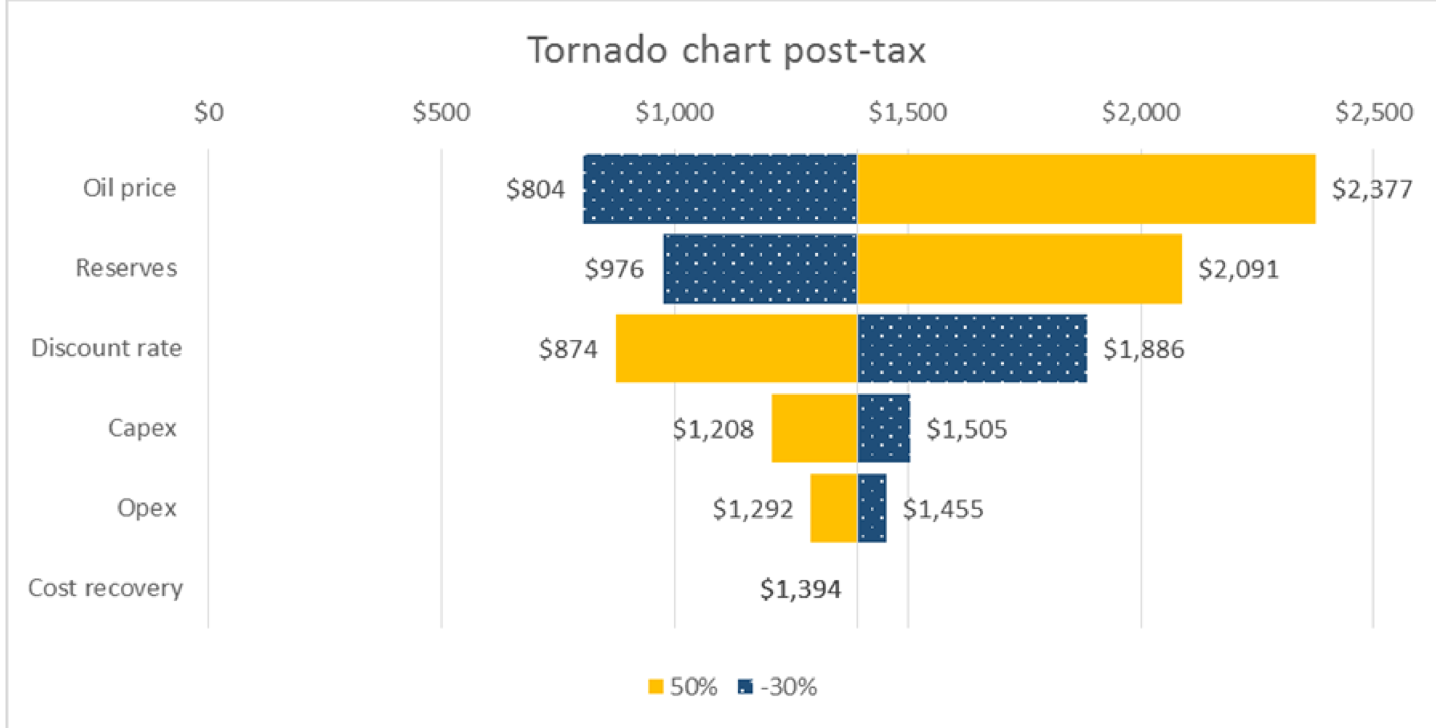
- Net Present Value
- Internal Rate of Return
- Sensitivity Analysis

3. Main results

Financial summary (MM USD$)	Contractor	Government	Total
Gross revenues generated by the project			$5,227
PSC revenue (pre-tax)	$1,455	$3,772	$5,227
PSC revenue (post-tax)	$1,299	$3,929	$5,227
% of total	25%	75%	100%
Net present value (pre-tax) @10%	$73	$1,383	$1,456
Net present value (post-tax) @10%	$25	$1,432	$1,456
% of total	2%	98%	100%
IRR	12%		
Payback period (years)	5		







- Overall, the project is profitable generating MMUSD 5,227 of gross revenues, a NPV of MMUSD of 1,456 and a IRR of 12%.
- Government and contractor post-tax revenues are 75% and 25% respectively.
- Government and contractor post-tax NPV share is 98% and 2% respectively.
- The results obtained are consistent with the fiscal terms of the contract. It allows to the State to collect royalties with a minimum 7.5% of royalty tax that increases for oil prices greater than $48 USD/barrel. In addition, Government will receives profit oil that ranges from 83.75% to 96%. Furthermore, the state also obtains income tax (30% corporate income tax).
- Sensitivity analysis shows oil price is the variable with the highest incidence on the project performance, follow by reserves and the discount rate.

4. Conclusions

- The project is feasible under terms of the contract & main considerations.
- Fiscal terms are strongly favourable for the Mexican State.
- Contractor obtains a marginal post-tax NPV share.
- Implications: Low contractor profits can discourage investment and eventually premature abandonment.

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