

## Editor's Choice

### ANALYSIS: Without other prospects, Chicontepec development will continue - Mexico

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Mexico's state oil company [Pemex](#) is in a mode of self-evaluation. The company still has nothing to show for the billions of dollars spent on drilling contracts to turn up new production at the Chicontepec field, which Pemex repeatedly promised would offset the natural decline of its prolific Cantarell field.

National production has fallen rapidly over the last five years from nearly 3.5Mb/d down to some 2.5Mb/d. With Chicontepec holding 40% of 3P hydrocarbons reserves in the country, or 17.4Bboe, immediate and large-scale development seemed like a no-brainer, particularly given Pemex forecasts that production would hit 600,000b/d by the end of 2020.

However, the field's complicated geology requires the drilling of thousands of wells and has seen production unchanged throughout 2009 at an average 29,511b/d. Discontent has turned to dismay, and upstream watchdog CNH last year called for a reassessment of the project. The recommendation roiled controversy, and Pemex is in the process of determining how best to move forward with the project.

#### BIG QUESTIONS AHEAD

"Chicontepec is absolutely a question mark. I think there's a lot of internal discussion as to what they're doing and where they want to take all that. I think that's absolutely the case," John Padilla, managing director of consultancy IPD Latin America, told BNamericas.

Analysts and Pemex-watchers largely believe development of the field in 2010 should continue with more caution.

Despite the controversy generated over Chicontepec, Pemex appears to want the field to remain one of the five largest recipients of spending from its capex budget. Activity, however, is not likely to increase from 2009 levels, Mexican energy analyst David Shields said.

The state firm had 47 rigs operating in Chicontepec in 3Q09, and Pemex-watchers should "not expect much more than that" this year, Gianna Bern, the president of consultancy Brookshire Advisory and Research, told BNamericas, citing a Pemex presentation given last month.

Indeed, oil field service providers with contracts in Chicontepec - including [Schlumberger](#) (NYSE: SLB) and [Weatherford](#) (NYSE: WFT) - have indicated they expect a slowdown at the field, at least in the first months of 2010.

"A lot of that I think has to do with the CNH wanting to assert its role and get in the middle of it. The fact is that a lot of money has been spent and they haven't come close to the targets, so it's not completely irrational to reduce some of the expenditures when you're not getting the results," Jeremy Martin, director of the non-profit Institute of the Americas' energy program, told BNamericas.

"I don't think they should [go ahead] the way they've been doing it, which is the 'drill, baby, drill' approach. I think they should really - and this is where I completely agree with the CNH - step back, look at a comprehensive plan, take a deep breath, stop throwing all kinds of money and drilling like crazy," Martin added.

## LITTLE ELSE TO DO

Moving forward with Chicontepec may stem not as much from the promise it holds, but rather the lack of known prospects elsewhere.

"It is the best project that Pemex has, but in fact it is the only one. I don't want to speak of figures at this time, but I think there will be less oil than they say. It's going to be expensive, but they should continue developing it," José Manuel Muñoz, president of Observatorio Ciudadano de Energía, an NGO, told BNamericas.

Muñoz said the company should learn to successfully manage this type of field from the start using improved techniques such as gas injection. An extensive geological analysis and characterization of the field's various segments could also help. In the meantime, Pemex should also look for new prospects.

## NEW INCENTIVES, UNCERTAINTY

Chicontepec is widely expected to be the testing ground for the incentive-based contracts made legal by the 2008 energy reform. It is hoped that these contracts, if successful in finally lifting output, could redeem Pemex's Chicontepec endeavors.

A constitutional challenge to the law that enabled the contracts, however, was passed by the lower house and is currently being evaluated by the supreme court. It seems highly unlikely that Pemex or service providers would be willing to sign contracts until the court reaches a decision.

Given the holding pattern caused by general doubts about how to proceed with Chicontepec as well as the virtual inability to sign new incentive-based contracts, it remains unclear what will happen with surplus equipment in Chicontepec while Pemex gets its act together.

Weatherford, for example, said in its year-end conference call that in Q2 and

perhaps Q3 the company plans to move assets out of Mexico to North America and the eastern hemisphere, in addition to Colombia and Ecuador.

"[PEP](#) [Pemex's exploration and production subsidiary] is running around trying to change the way that it is doing business in general. I think it's a crapshoot. I don't think it's clear given all those different moving parts, and there are a lot of them, what's going to happen with rigs," Padilla said.

In the meantime, the company has been modifying existing contracts signed under the public works law as a stopgap measure.

"They've modified some of these contracts to permit these guys under the existing service contracts to utilize more new technology. But if you're sitting on one of those contracts, what's your incentive to invite new technologies? I don't think there is one," Padilla said.

"So do I expect a whole heck of a lot of change there? No. That doesn't mean there won't be more activity, because I think there is going to be a lot more desperation when you take a look at Cantarell production, which continues to decline, and particularly when you begin to see dips in Ku-Maloob-Zaap production. There's not really any other alternative," he added.

Chicontepec's 2P reserves are 8.8Bboe while 1P reserves are just 700Mboe. As of 3Q09, the field had 933 wells operating.

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