Marcos y Asociados

20+Year Experts

Energy Monthly News

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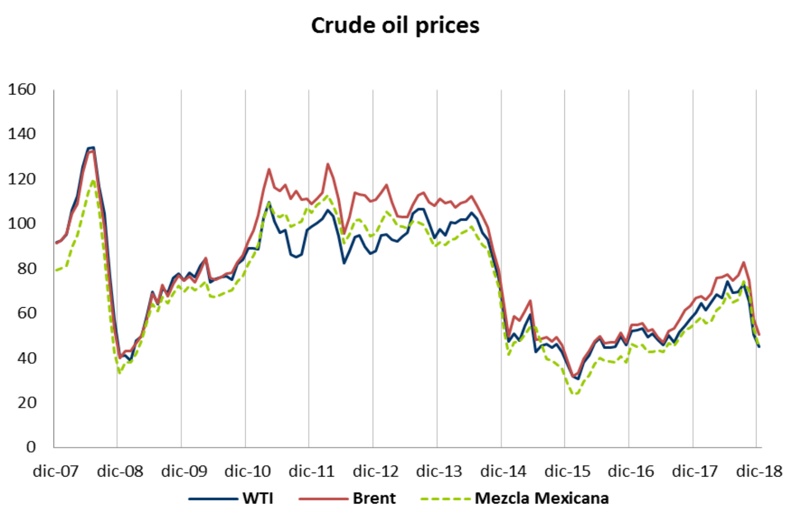

Crude oil Price* US/BD	WTI 53.48 BRENT 61.93 MME 54.12
NG price* US/MMBTU	Henry Hub 3.15
Mx crude production MMbd	1.695 *(Nov.-18)*
Mx NG production MMpcd	4,753 *(Nov.- 18)*
US crude production MMbd	11.53 *(Oct.-18)*

FX Rate**	19.12

** 25/01/2019 **22/01/2019*
Source: EIA. Pemex BDI, Banxico, and CNH

Oil & Gas

Fitch downgrades Pemex's IDRs to 'BBB-'; Outlook Negative – *Fitch*

Rating agency Fitch downgraded the credit rating of Mexican state oil company Pemex. Mexico's deputy finance minister said the downgrade didn't come as a surprise and that the country's sovereign rating was not at risk.

Fitch Ratings has downgraded Pemex Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'BBB-' from 'BBB+' and its National Long-Term ratings to 'AA (mex)' from 'AAA (mex)'. The Rating Outlook is Negative. These downgrades apply to approximately USD $80 billion of notes outstanding and all national scale long-term issuances.

The downgrade reflect the continued deterioration of Pemex's standalone credit profile (SCP) to 'CCC' from the previous assessment of 'B-' as a result of persisting negative FCF and material under-investment in the company's upstream business. Fitch projects that Pemex will have negative free cash flow of between USD3 billion to USD4 billion for both 2018 and 2019. This deficit is understated and Fitch estimates that it would be between USD $12 billion to USD $17 billion higher if Pemex were investing at a level that would stabilize its production. Fitch also expects Pemex to report a total debt-to-proved reserve (1P) of approximately USD15/boe as of yearend 2018, and for FFO adjusted leverage to continue exceeding 10x, which Fitch considers commensurate with a CCC rating category. Pemex has been technically insolvent since 2009 by having a negative total equity balance.

BHP Billiton strikes oil at Trion appraisal well – *Offshore Energy*

BHP Billton, said the first appraisal well at Trion in Mexico (Trion-2DEL) encountered oil, "in line with expectations. A downdip sidetrack of the Trion-2DEL well commenced on 4 January 2019 to further appraise the field, including the oil-water contact," the company said.

BHP Billiton is using the Deepwater Invictus drillship for the operation. The rig, built in 2014, is owned by Transocean. The Australian energy and mining company acquired a 60%t stake in Mexico's Trion field in late 2016, with Mexico's Pemex holding the remaining 40 percent. Pemex had been looking for an experienced deepwater player to share costs at the Trion discovery due to its depth and complexity.

The agreement was a historic one as it marked the first such deal for Pemex with a foreign company. According to previous reports, the Trion resource, once fully appraised, is expected to be in the top 10 fields discovered in the Gulf of Mexico in the last decade. The Trion agreement includes a commitment to deliver a minimum work program, which consists of drilling one appraisal well, one exploration well and the acquisition of additional seismic data.

The Trion field, located in the Perdido belt in the Mexican part of Gulf of Mexico, was discovered in 2012. Earlier reports by Pemex put Trion's total P3 reserves at around 485 million barrels of oil equivalent. First production from the Trion find could be expected in mid-2020s at the earliest. This will require a multi-billion dollar investment.

CNH authorizes well drilling to PC Carigali - *CNH*

The National Hydrocarbons Commission "CNH" approved to PC Caligari the modification of the exploration plan for area 4 of Round 1.4. The block is located in deep waters located in the geological province of Salina del Istmo off the coast of the states of Veracruz and Tabasco, has an area of 2 thousand 358 square kilometers with a water depth of approximately 1,000 to 1,500 meters.

The original exploration plan contemplated the investment of 34.5 million dollars and with the drilling of the well the investment program of the oil company amounts to 146.5 million dollars, of which 92.2 million dollars will be invested in the drilling of the well during 2019.

PC Caligari identified three more prospective areas (from de expected seven), and will evaluate the prospective resources and confirm the potential of the area. In case the drilling of the well is positive, the company must submit an evaluation plan to the regulator.

Mexican driller Latina is said to bid for Pemex contract – *Bloomberg*

Pemex has invited a short list of groups, one of which includes Latina, to submit offers this month for 13 offshore platforms and 176 kilometers of pipelines, two of the people said. Seeking to ramp up production, Pemex is targeting a 22% increase in 2019 capital expenditures to a total of $13.7 billion. Most of the budgeted outlays will be allocated for upstream operations: 78% will be aimed to boost output, with the remainder aimed at downstream operations. A Pemex spokeswoman declined to comment by phone on the names of the consortia invited to bid as the auction is private.

Perforadora Latina has hired the legal service of BGBG Abogados law firm to help the company obtain at least one of the contracts. The contract is crucial for Latina as the auction comes at the time it's asking holders of the company's $306 million of outstanding bonds for a waiver, after having missed a $15 million interest payment due Jan. 3. Yields on the first-lien bonds due in October have raised 300 basis points to 59.18% since the company announced Dec. 21 that it would miss this month's interest payment and seek a waiver from bondholders.

Offshore Drilling Holding SA is also seeking partnerships to submit offers. The offshore services provider has $950 million of bonds reaching maturity in 2020. ODH, as well as Perforadora Latina, will have to adapt their vessels or seek partnerships with other companies as these projects don't require deep water drillers.

AMLO doubles down to end fuel theft after PEMEX explosion – *Bloomberg*

Mexico President AMLO is doubling down on a controversial strategy to end fuel theft at Pemex after a pipeline explosion caused by an illegal tap left at least 91 people dead and many injured. He joins a long line of presidents who have tried to fix Mexico's struggling state oil producer with little to show for it.

AMLO has sought to combat the $3.5 billion trade in illicit fuel by increasing pipeline surveillance, improving technology and using more tanker trucks to transport gasoline. Lopez Obrador said the explosion won't sway him from his strategy to end fuel theft. "Rather than stopping the strategy, the fight against the illegality and theft of fuel will be strengthened".

Hundreds of people ignored orders from soldiers and gathered in Tlahuelilpan, in the central state of Hidalgo, to steal gasoline from a pipeline leak when it caught fire. The situation swiftly became unmanageable as crowds swelled and the army was unable to control it.

The blast is the latest in a series of problems facing Pemex, which has seen oil output decline every year since 2004 and is Latin America's most indebted borrower. Pemex reports as many as 41 illegal pipeline taps a day and the fact that the blast occurred in spite of the government fuel theft crackdown.

<u>Investor Concern</u>

The new president's recent actions have done little to persuade investors that his plans for Pemex will fare better. Convinced that eradicating corruption will cure all the problems of the ailing state-oil behemoth, AMLO appointed a political ally with no background in oil, Octavio Romero, as its chief executive. Earlier this month, Pemex's new chief financial officer, Alberto Velazquez, bungled his first meeting with bondholders in New York. The president's proposal to build an $8 billion refinery in his home state of Tabasco echoes Calderon's failed initiative to install a $12 billion refinery in Hidalgo. After racking up millions of dollars in accrued expenses, the project was eventually scrapped under Pena Nieto's administration.

The mounting cost of keeping pipelines closed and expending resources to buy tanker trucks and deploy the military is very hard to maintain over the long-term, warns IPD's Padilla. "If there's anything that this tragedy shows, it's that this is a highly complicated, multipronged issue that is not going to be resolved overnight".

Mexico fuel sellers said to seek Pemex alternative – *Bloomberg*

Private gasoline retailers including BP Plc and Repsol SA are scrambling for alternatives to state-owned Pemex to supply their service stations in Mexico that are running out of fuel.

Companies that have relied on Pemex for supply could turn to private truckers to carry gasoline and diesel from ports to their stations, according to people with knowledge of the situation. The firms are also evaluating importing fuel by rail and ship. Pemex's fuel pipelines, shut as part of

President AMLO's efforts to rein in fuel theft, are not expected to fully reopen for several months, two of the people said.
Given that tankers holding the equivalent of about 16% of Pemex's daily fuels sales are waiting at Mexico's ports, importing more gasoline and diesel may be a challenge. The government's actions, including shutting Pemex pipelines and increasing surveillance of refineries and terminals, have led to major distribution delays and sparked nationwide shortages at gas stations.

Some of the world's biggest oil companies, including Exxon Mobil Corp., Koch Industries Inc. and Glencore Plc, have piled into the Mexican fuel market over the past several years following landmark legislation in 2014 that ended Pemex's monopoly in the sector. Pemex still owns a majority of Mexico's distribution networks and infrastructure, however, with only a handful of private importers such as Koch and Glencore moving their own product into the country. Pemex is prioritizing its own service stations before supplying private clients such as BP.
Mexico's Energy Regulatory Commission has granted permits to only 15,334 vehicles to transport fuel, of which only 36% are located in the six states.

The problem is compounded by congestion at Mexico's Gulf coast fuel import terminals as weather-related port closures in the past months have resulted in record numbers of ships waiting to unload fuel cargoes. Pemex could divert the tankers to the Pacific coast, which would significantly raise costs. So far, PMI has continued to make fuel purchases in spite of the backlog.
At least 33 tankers carrying 7 million barrels of gasoline, diesel and jet fuel were waiting late at Mexico's ports to unload. The bulk of them are stuck at the Gulf Coast ports of Pajaritos and Tuxpan, where there are a combined 21 tankers carrying about 5.4 million barrels. Demurrage, or fees for detaining vessels beyond the scheduled time, typically runs about $22,000 to $24,000 a day.

Mexican oil theft even reached drilling rigs – *Reuters*

President AMLO said that widespread fuel theft extended to oil drilling platforms and he pledged to take actions to alleviate shortages sparked by his crackdown on gasoline thieves. Lopez Obrador said there had been "acts of sabotage at crude oil drilling platforms," without providing further details. "We have identified the problem and we are also going to face it".

In a bid to halt rampant fuel theft, Lopez Obrador has ordered the closure of important fuel pipelines, which has caused shortages at gas stations and concerns of an impact to the economy if the shortfalls are prolonged. Lopez Obrador said that the government was looking at purchasing an additional 500 tanker trucks to distribute gasoline and that officials were asking private companies to increase fuel imports.

Power/Renewable Energy

Acciona completes construction of 405 MW project in Mexico – *Solar Power Mexico*

Spanish company Acciona Energía has completed construction of a 405 MW solar plant in Mexico, for which more than a million PV panels were installed in two months. Acciona owns half the project, in partnership with Tuto Energy. After an investment of $349 million, the Puerto Libertad plant is expected to be grid connected by May.

Miguel Ángel Alonso, CEO of Acciona Energy Mexico, said: "To date we had never reached such a pace of activity in the construction of a photovoltaic plant. In Puerto Libertad we have achieved very efficient working practices, born of our experience in previous projects, and this has enabled us to complete the assembly of the plant in record time, and also contribute to a major increase in our installed capacity in Mexico." Construction employed an average of 600 people with peaks of activity in which 1,300 jobs were created. In the operation phase, the plant will give stable employment to 38 people.

Puerto Libertad consists of 1,222,800 polycrystalline silicon panels installed on 1,496 horizontal tracking structures, with a solar capture surface of 2.4 km^2. It is in the municipality of the same name, on the coast of the Sea of Cortés in the Gulf of Baja California, around 200 km northwest of Hermosillo. The plant will produce 963 GWh annually and could meet the electricity demand of around 583,000 homes.

Acciona signed a PPA for a 112 MW block of the Puerto Libertad plant in February 2017 and the project added a 227 MW block in the second clean energy auction held by the Mexican government. Acciona now has 1,144 MW of installed solar capacity in Mexico.

Enel began the construction of wind power park in Nuevo Leon – *Solar Power Mexico*

With an anticipated investment of 280 million dollars, Green Power Mexico began the construction of the 244 MW wind power park Dolores in China, Nuevo Leon. It is expected to start functioning during the first half of 2020 generating about 850 GW/h per year what equals the average consumption of more than 650 thousand homes.

The CEO of Enel said that the wind power park will generate approximately 850 GW/h per year, with what will be avoiding the annual emission of about 470,000 tons of CO2 towards the atmosphere. The construction of Dolores will be based on the model of "Sustainable Construction Site" of Enel, which includes the measurement of the partner environmental impact of the project and actions addressed to incorporate the rational use of resources, for example, through water management, and a wastes recycling project for reusing site wood to produce ecologic furniture and shipment containers to be used by the local community.

The new project is supported by a contract that stipules the sale of specific volumes of energy to the Chamber for Compensation National Center for Energy Control (CENACE, by its Spanish initials) during a period of 15 years and of the related certificates of clean energy for a period of 20 years.

Dolores is one of the four wind power plants awarded to the Grupo Enel for a total capability of 593 MW on the third auction at long term of the Energy Reform of the country. In addition of the plant in Nuevo Leon, the Group received the projects Amistad II and Amistad III, with an installed capability of 100 MW each, and Amistad IV, with an installed capability of 149 MW, all located in Acuna, Coahuila.

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