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Energy Monthly News

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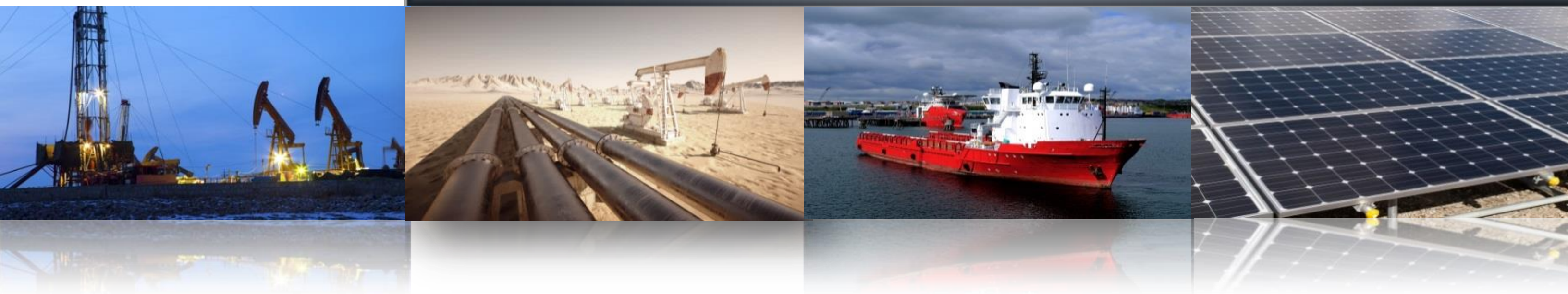

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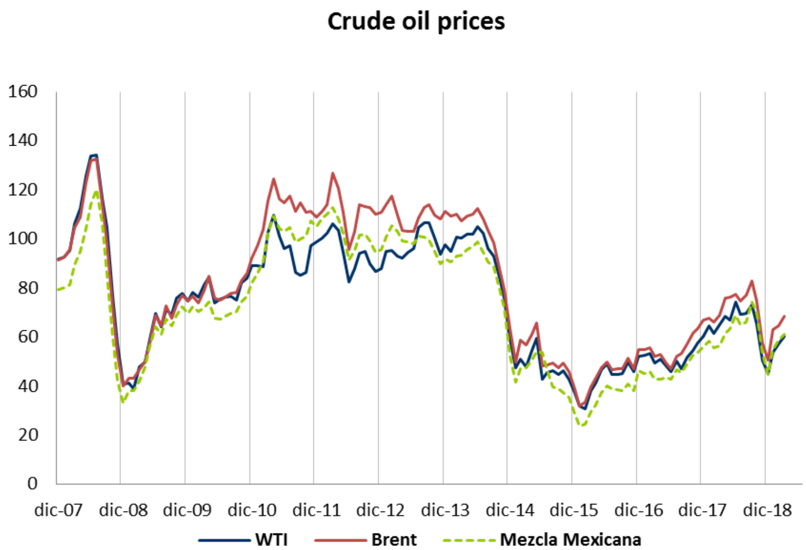

Crude oil Price* US/BD	WTI 62.72 BRENT 74.93 MME 64.57	
NG price* US/MMBTU	Henry Hub 2.62	
Mx crude production MMbd	1.689	(March-19)
Mx NG production MMpcd	4,832	(March.-19)
US crude production MMbd	11.68	(Feb.-18)
FX Rate**	19.06	

** 17/05/2019 **24/05/2019*
Source: EIA. Pemex BDI, Banxico, and CNH

Oil & Gas

Pemex's crude oil production and exports tumble in april – *Reuters*

Pemex's oil exports dropped by 11% in April compared to the previous month, while production slipped by 0.9%, data from the Mexican state oil firm showed. Exports of Maya crude, the only type Pemex has been selling abroad for almost a year, fell to 1.023 million barrels per day (bpd) in April from 1.150 million bpd in March, the data showed. Crude output dipped to 1.675 million bpd from 1.691 million bpd.

Pemex has been struggling to cope with financial debts and years of dwindling output. AMLO has pledged to revive the company, cutting its tax bill and lifting oil production by at least 50% by the end of his administration in 2024.

Pemex says Mexico plans $7.3B in tax breaks – *Bloomberg*

Mexico is seeking as much as $138.7 billion pesos (USD $7.3 billion) worth of tax breaks for Pemex in 2020 and 2021. The government will propose changes to the Hydrocarbons Revenue Law on Sept. 8 that would affect Pemex's profit-sharing duty, known as DUC, which represents more than 85% of direct taxes on Pemex's oil production, the document said. The proposal would reduce the current profit-sharing duty from 65% today, to 58% next year and 54% in 2021, resulting in savings of $47.1 billion pesos and $91.6 billion pesos, respectively.

The gradual cuts are expected to replace a previous Finance Ministry proposal to transfer $7 billion to Pemex from the Oil Revenue Stabilization Fund, known as FEIP, Romero told Bloomberg in a May 16 interview. The yield on Pemex bonds maturing in 2027 pared a rise earlier in the day to just 0.3 basis points, to 6.49%. "Pemex faces a high tax burden, which is why the government of Mexico has decided to modify its fiscal regime to lighten it," the document said. "This modification will be made gradually over the next few years, in such a way that it does not generate fiscal imbalances for the government."

The proposal is the latest in a string of measures aimed at shoring up the finances of Pemex, whose USD $106.5 billion debt is the highest of any oil company. Pemex faces 14 years of oil production declines and its refineries are operating at about 35% of their capacity.

Mexico's Pemex aims for 1 million bpd rise in crude output by 2024 – *Reuters*

Pemex is striving to increase oil production by 1 million bpd by the end of 2024 by developing existing oilfields and others yet to be discovered. Pemex Chief Executive Octavio Romero said the company is developing 20 new fields, including Ixachi, in the southeastern state of Veracruz, which could yield 1.3 billion barrels of potential reserves, according to updated figures. "Ixachi and the rest of the fields under development will achieve production of around 320,000 bpd of oil and 900 million cubic feet (daily) of gas by the end of 2021". He added that further production will result from sites already in exploration. "With this, we estimate reaching production of more than 1 million bpd of oil and 2,700 million cubic feet of gas at the end of this administration".

With an estimated $106 billion in financial debt, Pemex is under intense scrutiny from credit ratings agencies. Analysts and experts have said the company needs to increase its spending on exploration and production to discover reserves and develop them, halting the firm's long-running decline in output.

Pemex receives credit line, easing short-term pressures – *The Economist*

Pemex, has received a US$8bn credit line, which will ease its financing burden for the remainder of the year. The US$8bn credit line consists of US$2.5bn in debt refinancing, along with US$5.5bn in revolving credit offered by three major global investment banks, HSBC, JP Morgan and Mizuho.

Pemex's finances, as well as the reality of dwindling oil production, have raised concerns over possible further credit ratings downgrades, which would raise its cost of financing even more. The credit line extends the maturity of the refinanced debt to five years at a rate of 4.85%. AMLO, has so far struggled to convince investors that his government has a credible plan for reversing the company's declining fortunes, although some positive news was received in that Pemex managed to slightly cut its total debt in the first quarter of 2019 (by around Ps 18bn) while raising income and investment spending. Unfortunately, Mexico's oil production continues to fall, recording 8.3% year-on-year decline in March (to just 1.7m barrels/day). Despite the credit line, many obstacles remain, not least a recent decision to build the new Dos Bocas refinery by Pemex itself rather than private companies.

Eni and Lukoil will invest USD $142 million in shallow water block – *Oil and Gas Magazine*

Mexico's Hydrocarbons Commission "CNH" approved Eni and Lukoil exploration plan, the work program and budget for a block in shallow waters of round three, for which it will invest between USD $142 and USD $226 million.

The area was awarded to the consortium during the first tender of round three is located in shallow waters of the Gulf of Mexico in the oil province of the Southeast Basin, 20 kilometers off the coast of Veracruz. The objective of the exploration plan approved is to identify additional exploration prospects, for which the drilling of two exploratory prospects called Nabte-1 and Nacóm-1 is contemplated.

The drilling works of the two exploratory wells are planned for the end of 2020 and the middle of 2021, depending on the geological studies carried out. Under a first scenario, the consortium contemplates an investment amount for the drilling of the wells of USD $102 million, in the case of the incremental scenario the budget rises to USD $170 million considering a drilling of a third well.

BHP will drill a third well in Trión, invest USD $80 million – *Notimex*

Mexico's Hydrocarbons Commission “CNH” approved BHP Billiton to drill an evaluation well in deep waters of the Gulf of Mexico, in the Trión field. The company will invest USD $80 million, of which USD $69.4 million will be destined for the drilling program.

The Trión-3Del well is the third that the Australian does as part of the evaluation work, with a water depth of two thousand 595 meters in the area of Lost Fold Belt. For this field, Pemex made a farmout or association with BHP Billiton, which offered an additional royalty of 4.0%. The drilling work will begin on June 7 and end on July 25 this year, using a Transocean drilling ship, while completion work will begin on June 26 and conclude on August 10.

CNH approves Jaguar E&P exploration plan in Tabasco – ***Oil and Gas Magazine***

Mexico's Hydrocarbons Commission “CNH” approved the exploration plan for Block 6 of the Southeast Basins for Jaguar E&P. The block was awarded to the operator during the 3.2 round bidding; it is 47 km from Villahermosa, Tabasco in the oil province of Cuencas del Sureste.

The plan is to evaluate the areas associated with the upper and lower Amate formations through the drilling of 4 exploratory wells, where it is expected to find dry gas. Jaguar E&P plans to drill Aken-001EXP, Teotl-001EXP, Haab-001EXP and Kuun001-EXP wells to the southwest of the contract area.

Mexico approves modified Capricorn exploration plan – *Bnamericas*

Mexico's Hydrocarbons Commission “CNH” approved a modification to the exploration plan and budget for offshore area 9 in the southeast basin operated by Capricorn Energy, a subsidiary of Scotland’s Cairn Energy, in a consortium with Mexican independent Citla Energy. The modification entailed changing the order of planned exploration wells, according to a CNH livestream session. Capricorn will now drill its Alom well first in 3Q-2019 followed by Kukulkán/Bitol in 4Q-2019.

Alom will aim for 103Mb of prospective reserves at a depth of 1,550m with an estimated geologic success rate of 52%. Kukulkán/Bitol will target 151Mb of prospective reserves at a depth of 765m, with a 66% chance of geologic success, and 111Mb down to 3,980m with a 17% chance of geologic success. The change includes a nearly USD $8 million increase in the budget to USD $126 million, with 90% of spending for drilling. CNH also approved a $716 million pesos (USD $38 million) plan by state oil company Pemex to drill the Tenantli-1EXP exploratory well in its shallow water AE-0008-4M-Amoca-Yaxché assignation in the southeast basin.

Chevron will invest USD $354 million in deep water exploration – *El Economista*

Chevron estimates to invest up to USD $354.2 million for the exploration of contract area 22, located in deep waters of the Salina Basin of the Gulf of Mexico. According to the proposal approved by the National Hydrocarbons Commission, in the baseline scenario, the company proposes the acquisition, processing and reprocessing of simile of almost three thousand km² of 3D Waz, eight exploratory studies, the drilling of a well, as well as the integration of results and updating of studies. For this, the oil company estimates an investment of USD $215.1 million, of which 70% of the resources would be for the drilling of wells, 19% for geophysics, 6.0% general expenses, 4.0% safety, health, and environment, while the remaining 1.0% in geology.

Chevron also proposed a scenario where it would do the drilling of an additional well, as well as the integration of results and updating of exploratory studies, with which the investments would rise to USD $354.2 million. The prospectus proposed by the company is Colel Cab, which is at a depth of 7,600 vertical meters below sea level, prospective resources of 289 million barrels of oil equivalent and a probability geological 17%.

Pemex 1Q results – *Pemex, Natural Gas Intelligence*

Pemex saw non-associated natural gas production fall by 15% year/year in 1Q-2019 to average 934 MMcf/d, or one-fourth of total gas output.

"Non-associated production decreased due to reallocation of resources to crude oil producer assets in the northern region," the 100% state-owned company said in a quarterly earnings presentation on Tuesday. The update follows a three-year postponement by President AMLO of upstream bid rounds 3.2 and 3.3, which would have awarded contracts to develop blocks in the gas-rich Burgos Basin of northern Mexico.

During Pemex's first quarter earnings conference call, CFO Alberto Velázquez told analysts that the company is aiming for average as production of 3.486 Bcf/d in 2019, down from 3.886 Bcf/d in 2018. The goal for full-year average crude oil output is 1.725 million b/d, versus 1.833 million b/d last year.

Natural gas production fell by 6.9% year/year to average 3.665 Bcf/d during the quarter, while production of crude and condensates dropped by 11.8% to 1.66 million b/d. Associated gas output averaged 2.732 MMcf/d, down 105 MMcf/d from the year-ago period. The decline in associated gas production "can be explained due to water-oil contact at the Xanab field and natural decline of mature fields," Pemex said.

In addition, Pemex reported a net loss of 35.7 billion pesos (-$1.88 billion) in the first quarter, down from a net profit of 113.3 billion pesos ($5.98 billion) in the corresponding 2018 period. Pemex attributed the result to "a $30.4 billion foreign exchange profit, as compared to a $120.9 billion pesos profit in 1Q-2018 due to the appreciation of the Mexican peso against the U.S. dollar in the period," Pemex's total debt, acknowledged to be the highest among the global oil majors, was estimated at USD $106.5 billion at the end of March, up 0.9% from the end of 2018, which it blamed on the exchange rate's appreciation.

CNH approves modification to exploration plan at Ixachi– *Oil and Gas Magazine*

The National Hydrocarbons Commission "CNH" approved Pemex to modify the exploration plans for the Cotaxtla-01 and Joachín-02 assignments, within the Ixachi field, for which an investment of up to USD $150 million. At the end of 2018, Pemex PEP requested to regulate the modification of previously approved plans with the objective of adding activities that were not considered in the plan approved in 2017.

With the changes approved, Pemex intends to add new reserves in Ixachi. The assignments are located in the state of Veracruz within the geological province of Veracruz. PEP considers in the incremental scenario the drilling of three exploratory wells, Boxju-1 and Ixachi-1101 in Cotaxtla-01 and Ixachi-2001 in Joachin-02.

The Ixachi-1101 well will be drilled to a depth of 8,000 mvbnm with prospective resources of 120 mmbpce While Boxju-1 will be drilled to a depth of 7,700 mvbnm to reach a prospective resource of 183 mmbpce. Pemex will allocate USD $641,712 dollars in the base scenario. However, in the incremental scenario which includes the drilling of three wells, the investment would increase to USD $150 million.

Pantera E&P will invest USD $10.4 million in drilling wells in Tabasco – *Oil and Gas Magazine*

The National Hydrocarbons Commission "CNH" approved Pantera E&P the exploration plan for area 10 of the first tender for round two, which envisages an investment of USD $15.6 million. The area is located 60 km southeast of Villahermosa, between the municipalities of Macuspana and Jonuta in the oil province of Cuenca del Sureste.

The aim of the exploration plan presented by Pantera E&P is to evaluate the Amate Superior, Caliza Macuspana and Oligocene age successions. For this, the purchase and analysis of seismic information, the evaluation of geological models, VCD studies and the drilling of three exploratory wells are contemplated. Pantera plans to drill Congo-001EXP which is expected to recover 9.7 MMMf3 of gas, the Pitahaya-001-ExP well with which it hopes to incorporate up to 7.00 MMMpc and the drilling of the Guiro-1001-EXP well where the operator expects to incorporate resources for 14.52 MMMcf. Pantera E&P will invest USD $15.6 million, where USD $10.4 million will be allocated to the drilling of the three wells.

Power/Renewable Energy

Iberdrola to invest US $1.3 billion in five electrical plants – *El Financiero*

The Spanish electric utility company Iberdrola is planning to invest US $1.3 billion in five new power generation plants that will market electricity to private enterprise. Iberdrola México CEO Enrique Alba explained that the new facilities — two combined heat and power plants, two wind farms and a combined-cycle power plant — will be built this year and the next, and will meet the growing demands of the country's manufacturing and industrial sector. The investment is part of Iberdrola's plan to invest a total of $5 billion in Mexico over the next six years.

Region's first utility scale solar-plus-storage project comes online in Mexico – *Solar Power Mexico*

Spanish company Elmya has completed construction of the Aura Solar III PV plant for Mexican developer Gauss Energía. Located in the western part of northern Mexico that benefits from one of the nation's highest irradiation rates, Aura Solar III is near the town of La Paz, in Baja California Sur and benefits from a sunlight level of 5.8 kWh/m²/day.

The 50-hectare project incorporates 94,080 panels, each generating 340 Wp of power. With a generation capacity of 32 MW, the site produces enough electricity to supply half of La Paz' residential users, according to Elmya. The new facility is Latin America's first large scale solar power project to be combined with a lithium-ion battery system. The storage aspect of the $45 million project has a 10.5 MW/7 MWh capacity and string inverters.

Aura Solar III has a generation permit granted by Mexico's Energy Regulatory Commission under a distributed generation regime. The energy produced by the plant – an estimated 65 GWh per year – is being sold exclusively to the Federal Electricity Commission (CFE) through a 20-year power purchase agreement. The CFE pays for the energy according to the local marginal price of power in La Paz. Aura Solar III, which is owned by Mexican investment group Corporación Aura Solar, interconnects with the Olas Altas substation through a new 1km, 115 kV transmission line.