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Energy Monthly News

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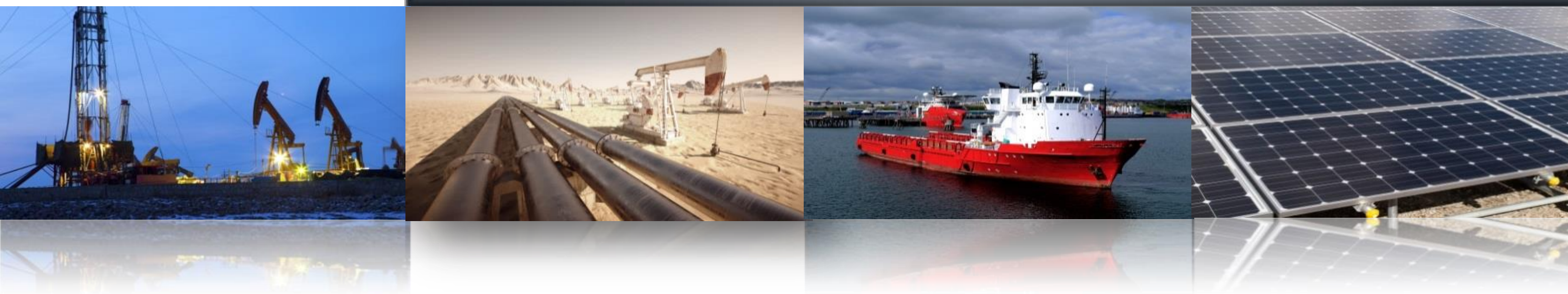
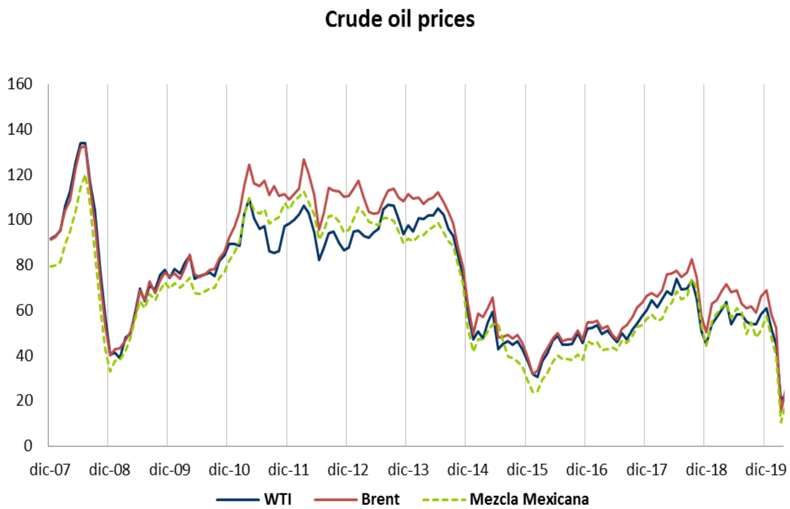


Table of Contents



Crude oil Price* US/BD	WTI 34.85 BRENT 36.17 MME 28.65	
NG price* US/MMBTU	Henry Hub 1.93	
Mx crude production MMbd	1.746	*(Apr-20)*
Mx NG production MMpcd	4,826	*(Apr-20)*
US crude production MMbd	12.83	*(Feb-20)*
FX Rate**	22.36	

** 26/05/2020 **27/05/2020*
Source: EIA. El Reforma, Pemex, Banxico, and CNH

Oil & Gas

Hokchi begins production at shallow-water field – *El Reforma*

Hokchi Energy began producing oil from its shallow-water field, marking first oil from Hokchi-4DEL, a well approved in December 2019. Hokchi, a subsidiary of Argentine E&P Pan American Energy, originally won the 263 km² area, Block 31 in Mexico's oil-rich Cuencas del Sureste, in 2018's auction Round 3.1.

The Hokchi field could yield 148Mboe and 45.4bcf of gas. "With an early production strategy, Hokchi is taking advantage of the constructed transport infrastructure to carry the hydrocarbons from the platform to land, where the oil and gas will be separated so that it can be sold at Pemex's Ceiba Battery Port,". Separation will take place in the town of Paraíso, Tabasco State. Already one of Mexico's principal oil hubs, the area is also the site of Pemex's under-construction refinery at Dos Bocas.

The investment committed in the Hokchi project amounts to more than a billion dollars, of which includes the construction of two production platforms, a process plant, various land and marine transportation pipelines, a water injection plant and a generation plant electric power, among other types of infrastructure.

CNH approves exploratory wells to Pemex – *CNH*

CNH has approved two well plans in Pemex's Uchukil field. In the shallow water Uchukil assignment AE-0148-Uchukil, Pemex will drill Camatl-1EXP in water 27 meters deep, at a location about 98 km southeast of Dos Bocas port. Pemex expects Camatl to have 53Mboe (million barrels of oil equivalent), and expects a 50% geological probability of success. Pemex expects to begin drilling the Camatl well on June 11 and terminate the exploratory well on August 16, 2020. It will spend a total of USD $21.6 million, USD $14.2 million on drilling and USD $7.4 million on termination.

During the same regulatory session, Pemex also won approval to modify its drilling plan for the exploratory well Chi-1EXP, also in 27 meters waters in the Uchukil field. Pemex expects 9Mboe from Chi, with a 58% geological probability of success. Pemex expects to spend USD $5.4 million on the amendment. The modified Chi well will be drilled from May 15 with termination date on June 4.

CNH approves Newpek exploratory well in Burgos – *CNH*

Newpek Exploración y Extracción received approval to drill Las Prietas-1EXP on its Burgos onshore assignment, CNH-R02-L03-BG-03/2017. Since 2017, one of the operator's principal exploratory activities has been to complete seismic 3D studies of the assignment. Drilling around Las Prietas, though, has been snared by delays in environmental permitting and floods. With the approval, Newpek will begin drilling on June 1 and aims to terminate the well on August 9.

The 30-day termination period, is drawn out by the likelihood that the company does not find oil and abandons the site. Newpek expects to spend USD $6.1 million on drilling and termination of Las Prietas. While the area has prospective reserves of almost 84Mboe, the geological probability of success is only 22%.

Investment from the bidding rounds total USD $40,415 million as of April – *CNH*

The investment approved in exploration, evaluation and development plans following the approval of the Energy Reform in 2013 has totaled USD $40,415 million up to April 2020. The largest amount of investment approved is concentrated in the third and fourth bidding for round one. Most of the investments in exploration, evaluation and development of the blocks tendered during the three rounds will be carried out beyond 2025.

The company with the largest committed investment is Eni with USD $7,861 million in the Miztón, Teocalli and Amoca fields, followed by Fieldwood Energy and Petrobal with an investment of USD $7,757 million in the Ixachi and Pokoch fields. In third place is Pemex with an investment of USD $7,652 million dollars in the Ek-Balam field.

Pemex contractor notches up US$440mn loan – *Bnamericas*

Pemex oil services contractor Servicios Compresión de Gas has received a nearly USD $443 million loan for the construction of its shallow-water platform in Mexico's high output Ku-Maloob-Zaap field "KMZ". The total amount combines a syndicated loan of around USD $404 million, with a recent USD $38.7 million loan from investment finance bank Bancomext. In 2017, Dragados Offshore de México, Dragados Offshore and Dragados Industrial y Avancia Instalaciones formed Servicios Compresión de Gas Ca-Ku-A1 as a Pemex contractor. The platform and services contract is worth over USD $1 billion. International law firm Garrigues represented the lender in the syndicated loan.

Pemex tendered the Ca-Ku-A1 oil platform in early 2017. As tracked in BNamericas projects database, construction finished after almost two years in July 2019. Saipem, a subsidiary of Italy's Eni, installed the platform. Operations for Pemex started in February. The KMZ oil field, in shallow waters off Tabasco and Campeche states, about 105km from Cuidad de Campeche, has over the past decade become Pemex's most productive. The Ca-Ku-A1 platform handles wet sour gas with high and low contents of nitrogen currents, and it includes tripods and bridges. The compression platform receives and processes gas from three separate gas pipelines.

Pemex invested nearly USD $2 billion from 2002-08 to lift production. Since then, KMZ's rising output has in part offset declining production from the one-time super field Cantarell. The company commissioned another KMZ platform, Abkatún-A2, from McDermott. That platform was last reported to be nearing final installation in October 2019. Meanwhile, the older Abkatún-A platform continues in operation despite a COVID-19 outbreak in April. KMZ output has been around 750,000b/d in 2020, comprising roughly 43% of national oil production.

Qatar enters into three exploration blocks in Mexico – *Qatar Petroleum Press Release*

Qatar Petroleum entered into three farm-in agreements to acquire about 30% of Total's participating interest in blocks 15, 33 and 34 located in the Campeche basin, offshore Mexico.

Each of the farm-in agreements is subject to customary regulatory and other approvals by Total's existing partners and the government of Mexico. Mr. Saad Sherida Al-Kaabi, the Minister of State for Energy Affairs, the President and CEO of Qatar Petroleum said, "We are pleased to sign these agreements, which further expand Qatar Petroleum's footprint in Mexico, and demonstrate our commitment to achieving our international growth strategy, with Latin America as a core area in our international portfolio." The three offshore blocks are situated in the Campeche basin and within 30 to 90 km of the giant Cantarell and KMZ oil fields. The total area covered by the blocks is approximately 2,300 km², with water depths ranging from about 10 meters to 1,100 meters.

Repsol announces deepwater oil find in Gulf of Mexico – Reuters

A consortium led by Repsol including Wintershall DEA and PTTEP have discovered two deepwater oil fields in the Gulf of Mexico. The Polok-1 and Chinwol-1 wells, are located in Block 29 of the Salina Basin, off the southeastern states Veracruz and Tabasco. "Both wells confirm that the area has great potential". The statement added that the reservoirs in Mexican waters are more than 200 and 150 meters deep, respectively.

Repsol has a 30% stake in the consortium while PC Carigali Mexico Operations, a Petronas subsidiary, has 28.3%. Wintershall DEA holds another 25% and PTTEP Mexico 16.67%. The consortium would evaluate the data from the two wells to prepare an exploration plan that will better determine the size of the finds to be presented before the end of the year to the National Hydrocarbons Commission.

Pemex's oil reserves replacement rate jumps in 2019 – *Reuters*

The replacement rate of proven oil and gas reserves estimated by Mexican national oil company Pemex soared in 2019 compared to the previous year, according to the firm's annual filing with the U.S. Securities and Exchange Commission.

Pemex's 2019 replacement rate, a measure of new discoveries compared to ongoing production, jumped to 120.1% due to new discoveries and revisions. The figure represents a marked improvement on 2018, when the replacement rate stood at 34.7%, far below the industry standard of aiming to replace 100% of yearly output with new discoveries. Loss-making and heavily-indebted Pemex has been dealt a further blow in recent months by the drastic drop in oil prices. But its replacement rate was helped by discoveries of six new fields, four of them in shallow water in the Gulf of Mexico, both with gas and crude.

Pemex rescue plan hobbled by record $23 billion loss – *Bloomberg*

Pemex posted a staggering USD $23 billion record loss for the first quarter in yet another sign of trouble for President AMLO's big plans to rescue the country's battered cash cow. The results show Pemex, which is struggling to pay down more than USD $100 billion of debt and halt more than a decade of production declines, had been hit hard by crude's historic crash and the pandemic-driven collapse in energy demand even before the height of the energy crisis this month.

The company's strategy of accelerating drilling in onshore and shallow-water fields has hit a roadblock as cities all over the world came to a halt amid efforts to stem the Covid-19 outbreak. Because of the crisis, AMLO, has recently said new wells would be shut, dealing a blow to one of the country's biggest sources of tax revenue.

AMLO made Pemex's recovery and Mexico's energy self-sufficiency into one of the pillars of his government. A nationalist that made his first steps in politics in his native oil-producing state of Tabasco, Lopez Obrador has sought to reverse a move by the previous administration to open the energy industry to private investors. Under his leadership, Mexico is building the USD $8 billion Dos Bocas refinery even as international gasoline prices collapse. Pemex's first-quarter loss, the biggest on record in data going back to 2004, coincides with the announcement that Mexico's gross domestic product in the three months through March fell 1.6% from the previous quarter, the worst result in 11 years.

Murphy Oil differs investments in Mexico by 2021–*Murphy Oil Press Release*

In response to challenging macroeconomic conditions, the severe decline in commodity prices and reduced demand for crude oil and natural gas, Murphy lowered its 2020 planned capital expenditures to a midpoint of USD $780 million, representing an approximate 50% decrease from the original capital guidance; 94% of the budget cut will be made in activities in the Gulf of Mexico and the remaining 6% in Canada.

The budget adjustment includes the deferral of drilling two exploratory wells in Mexican deep waters for next year, which were scheduled to start in the fourth quarter of the year. Murphy Oil operates Block 5 in Mexican deep waters of the Gulf of Mexico in which it is a partner of PC Carigali, Ophir and Sierra Oil & Gas, which was awarded during the fourth round one tender. During 2019, the operator drilled the Cholula-1 exploratory well, which was successful and motivated the modification of the exploration plan to add a new investment of USD$ 78 million for the drilling of two other exploratory wells. In March of this year, it signed a contract with Pacific Drilling to drill two wells within the block, which were scheduled to start in November and be completed in February 2021.

Eni's latest Mexico well disappoints – *Rigzone*

Operations have been completed on the Ehecatl-1 exploration well on Block 7, located in the Sureste Basin Offshore Mexico, according to Cairn Energy. However, the well did not find hydrocarbons and it has now been plugged and abandoned. The well is 65 km offshore. It was drilled by the Valaris 8505 semi-submersible rig in water depth of 426 meters and reached a total depth of 4,451 meters.

Eni is the operator and Cairn has a 30% working interest through its subsidiary, Capricorn Energy Mexico. Logging, sampling and data collection during the well operations will help the companies calibrate the seismic data, improve understanding of the Lower Miocene target and inform the second well decision.

Eni has been present in Mexico since 2006, and the region is a core country in its organic growth strategy. The company is currently producing about 15,000 barrels of oil equivalent per day (boed) from Area 1 and expects to reach a plateau of 100,000 boed in the first half of 2021. Eni is also planning an exploration campaign in the other licenses held in Mexico. Eni holds rights in eight exploration and production blocks (six as operator) in the Gulf of Mexico.

Pemex and Talos share Zama field – *CNH*

CNH has determined that the deposit located in the Gulf of Mexico has hydraulic connectivity between block 7 and the AE-0152-Uchukil Pemex assignment.

Both companies are going through a preliminary unification process - which expires in September - to determine which of the two companies will operate the marine field, with more than 600 million barrels of oil equivalent in contingent resources, in case Pemex verifies that it is extends within your allowance. The consortium has drilled four wells: three delimiters and one exploratory. Pemex is still pending drilling the Asab well to evaluate the area in question. Commissioner Néstor Martínez clarified that although there is continuity in both blocks, the evidence is insufficient to determine the size of the field on Pemex side.

Talos Energy reported that it owns 60% of total oil and gas resources, according to an assessment by Netherland, Sewell & Associates, on January 7. The case reached its most controversial point when Pemex, declared that it owns the majority of the deposit, according to his technical analysis. But to date, the CNH lacks evidence to support its statements. The block tendered to private oil companies during round 1.2 is a shared production contract for 30 years. Talos owns 35%, DEA Wintershall 40% and Premier Oil 25%. If Pemex and Talos do not reach an agreement, the Ministry of Energy has the power to determine who the operator will be.

Power/Renewable Energy

Renewable firms in Mexico must contribute to grid backup: CFE chief – *Reuters*

Private renewable energy firms in Mexico should pay for part of the baseload power underpinning the flow of electricity on the grid, the head of the state power company said, as a dispute on the future of the local industry roils the market.

Manuel Bartlett, director of the Comisión Federal de Electricidad “CFE” said he favors more clean energy and wants to reduce Mexico’s use of fuel oil as a major source of power generation. But he said renewable operators had not been pulling their weight in contributing to the infrastructure that sustains them. “Wind and photovoltaic (plants) don’t pay the CFE for the backup,” said Bartlett, referring to the cost of power generation from fossil fuels, mostly natural gas, to guarantee uninterrupted flow. The firms should also start helping to pay transmission costs, he said. Renewable companies argue they can produce more efficiently than the CFE and help Mexico reduce its emissions.

Mexican court provisionally suspends renewable energy plant freeze order – *Reuters*

A Mexican judge has provisionally suspended an official order that froze the opening of new renewable power plants and sparked complaints from some of Mexico's main allies, including the European Union, judicial sources said. In a decision dated May 18, the judge said the order by market regulator CENACE risked distorting free competition to the detriment of the consumer, and Mexico's commitments to promote a clean environment.

CENACE suspended the plants, arguing that the intermittency of wind and solar power threatened the reliability of the national power supply during the coronavirus crisis. However, after several suits were filed to contest that suspension, the judge found that the risks cited by CENACE were less serious than the implications of undermining competition and jeopardizing Mexico's transition towards clean energy.

Mexico halts new clean-energy plans, blaming virus – *Bloomberg*

Mexico's Centro Nacional de Control de Energía "CENACE", which oversees the electrical system, indefinitely suspended critical tests for new clean-energy projects as the nation grapples with the spread of the coronavirus.

Preoperative tests of intermittent power plants would be suspended along with other measures to increase the reliability of the national electrical system, CENACE said. Tests that haven't yet started will also be suspended. The agency said that it will apply the "actions and operational strategies to strengthen the reliability of the electrical supply."

Critics worry that the new measures, which don't mention older non-renewable plants operated by Mexico's state-owned utility CFE, will hurt renewable producers at the expense of their state-run rival. Calls to CENACE outside of normal business were not answered. "This is not in line with the care that one should take of consumers and markets," said Eduardo Perez Motta, the former head of Mexico's antitrust regulator in an interview. Clean-energy producers may have a case to make before regulators as the new guidelines displace competition, Perez Motta said. "It creates enormous uncertainty for these operators, because at any moment they can cut off the possibility of power distribution". Tensions between the clean-energy industry and the administration of President AMLO came to a head in December after an Energy Ministry decision to grant old, government- run plants credits that were designed to spur new development. In the end, a judge granted a full suspension of the rule change.