Marcos y Asociados

20+Year Experts

Energy Monthly News

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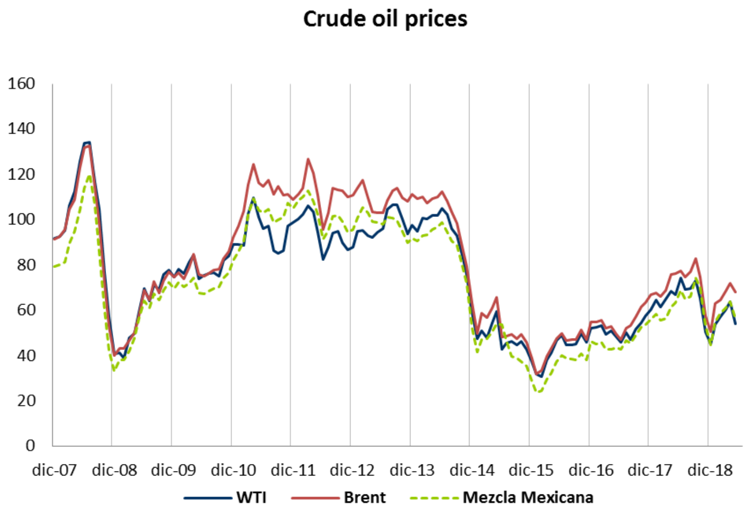

Crude oil Price* US/BD	WTI 56.49 BRENT 62.39 MME 59.65	
NG price* US/MMBTU	Henry Hub 2.50	
Mx crude production MMbd	1.683	(Aug-19)
Mx NG production MMpcd	4,922	(Aug.-19)
US crude production MMbd	12.08	(June-19)

FX Rate**	19.63

** 25/09/2019 **26/09/2019*
Source: EIA. Pemex BDI, Banxico, and CNH

Oil & Gas

Mexico's Pemex to open bidding process for public-private contracts- *Reuters, Oil and Gas Magazine*

Mexico's Finance Minister Arturo Herrera said that Pemex is exploring 15 so-called integrated exploration and extraction contracts "CIEE", a type of public-private partnership. The bidding process for the 15 contracts would be opened between November and the first quarter of 2020. PEP scheduled the first tender fields. These are five fields: Akal, Sihil, Ayin, Bacab and Lum, which are located in shallow waters of the Gulf of Mexico. The tender will take place in November and so far, Petrobal, Diavaz, Jaguar E&P, Potrexa and Mexoil have registered.

Pemex head of crude oil trading leaves company – *Bloomberg*

Pemex head of crude oil trading Victor Briones has left the company. Briones, who worked for two decades at PMI, the trading arm of Mexico's state-owned oil company, left amid an external review of new formulas created to price oil sales to refiners in the U.S. and elsewhere, one of the people said. Pemex Chief Executive Officer Octavio Romero raised questions about the marketing of Mexico's crude by PMI's management team, two people said.

The review has caused delays in presenting the pricing to customers. The new formulas for pricing the nation's crude seek to eliminate fuel oil as a result of new regulations issue by the International Maritime Organization, known as IMO 2020, that require ships to burn cleaner fuels from January of next year. It is expected to push down prices by reducing the demand for fuel oil. The formulas underpin not only all physical crude sales made by Pemex, but also Mexico's annual sovereign hedge, the largest of its kind. The delay in finalizing the formula could complicate banks' efforts to mitigate their risk from the hedge, as they need to use a combination of liquid oil futures and options.

Private companies will close the year with 50 thousand barrels per day: *AMEXHI, Oil and Gas Magazine*

Private oil companies that won hydrocarbon exploration and extraction contracts during the bidding rounds held in the last six years will contribute 50,000 barrels a day to national production later this year.

The forecast of the association includes the production of Eni, which was 8 thousand barrels per day during the month of August, which come from the Miztón field, as well as the production of the winners of the mature terrestrial fields, CIEPS and the COPS. "The industry estimates that by the end of the year we will be contributing 50 thousand barrels per day to production." AMEXHI reiterated that the production commitment for the closure of the six-year term is 280 thousand barrels per day.

Eni gets nod for Ehecatl well offshore Mexico – *CNH, Energy Today*

Italian oil company Eni has received an approval from the CNH to drill the Ehecatl-1 exploration well in the Block 7. Eni got hold of the block as part of the licensing round in 2017. Eni's partner in the Block, Cairn Energy, said that the spud of the Ehecatl was scheduled for November. Cairn exploration director Eric Hathon said Eni would drill the Ehecatl well following the Saasken well in Block 10 scheduled to spud this month.

The well is expected to be drilled to a total depth of 4,400 meters, in a water depth of around 420 meters, taking around 70 days to complete. It is targeting gross mean prospective resources of 140 mmboe.

South Texas-Tuxpan marine pipeline starts commercial operation – *El Financiero*

Marine Infrastructure of the Gulf, an alliance between TC Energy Corporation and IEnova, started the commercial operation of the South Texas-Tuxpan marine gas pipeline. With a transportation capacity of 2.6 billion cubic feet of natural gas daily, the South Texas pipeline will significantly increase the natural gas supply to Mexico in order to meet the growing demand in the central and south-south east from the country. "Having reached an agreement with the Federal Electricity Commission "CFE" and with the Government of Mexico, this important energy infrastructure project provides a fundamental link between the abundant supply of low-cost natural gas and the growing markets in Mexico for decades to come, "said Mr. Jones, President of TC Energía in Mexico.

The South Texas pipeline supplies fuel to feed several generation plants located in Altamira, Tuxpan and in the central region of Mexico through its interconnections with the Tuxpan and Tamazunchale gas pipelines of TC Energía and with the Transportation and Storage System National Integrated Natural Gas, the national system operated by CENEAGAS.

The project represents approximately USD $2.6 billion of infrastructure investment and involved the creation of more than 3,000 jobs during its construction phase. The 772 km pipeline runs offshore from the U.S. border near Brownsville, Texas, to Altamira in Tamaulipas, where it continues to Tuxpan in Veracruz.

Petrofac sells its remaining Mexico assets – *Petrofac, Rigzone*

Petrofac Limited has signed an agreement to sell its remaining 51% interest in its Mexico operations to UK-based independent Perenco International Limited for USD $110 million. This includes Petrofac's operations in Santuario, Magallanes (both onshore fields) and Arenque (offshore field). The net assets had a carrying amount of USD $548 million at Dec. 31, 2018.

The transaction will grant Petrofac an initial USD $37.5 million upon signing and an additional minimal payment of USD $82.5 million upon completion. The deal will give the French independent full ownership of the portfolio; having acquired an initial 49% stake in October 2018 for USD $200 million (contingency payments could take it to USD $274 million). Upon completion of the transaction (expected in 2020), Petrofac will exit Mexico as an upstream player.

Petrofac will use the money to reduce debt. "This disposal reinforces our position as a capital-light business and represents further progress in our stated strategy to enhance returns," Ayman Asfari, Petrofac's CEO.

The Magallanes and Santuario fields are in the Sureste Basin. They were discovered and developed in the early-1960s by Pemex but had been in steady decline for decades. The NOC offered them as service contracts in 2011 to turn production around, with Petrofac winning the 25-year contracts. The Santuario contract, which was converted to a PSC in December 2017, has been the focus of development. Arenque was one of Mexico's first offshore discoveries in 1970. By 1990, an increasing water cut resulted in lower oil production. Furthermore, low reservoir pressure has led to operational challenges. In 2012, Petrofac was awarded a service contract to develop the field.

CNH approves Wintershall DEA exploration plan – *CNH*

The National Hydrocarbons Commission CNH approved to Wintershall DEA for the exploration plan for the TMV-02 shallow water block.

The consortium integrated by Pemex and CEPSA was granted the block during the first tender of round three. The block is located in shallow waters of the Gulf of Mexico off the coast of the state of Veracruz. The plan objective is to identify prospects that can later be drilled and allow the incorporation of reserves, through the reprocessing and interpretation of 3D seismic and magnetic data, as well as regional geological studies. The estimated investment is USD $10.8 million in the baseline scenario and USD $13.1 million in the incremental scenario.

Pemex sells $7.5 billion of bonds to refinance short-term debt – *Bloomberg*

Pemex, offered senior unsecured bonds; initially told investors it was seeking between USD $5 billion and USD $6 billion before launching the deal at USD $7.5 billion on the back of a $37 billion order book, according to people with knowledge of the transaction.

The longest portion of the sale, with a 30-year maturity, will yield 7.7% after initial price talk of around 8%. The proceeds of the bond sale will be used to refinance short-term debt, and the company also expects to launch an exchange offer targeting dollar-denominated notes with maturities between 2022 and 2048. While markets have welcomed government support of almost USD $10 billion this year, some credit raters say that it's not enough to move the needle. The company has a heavy tax burden and has to reverse almost 15 years of production declines. The company needs to invest more in upstream without affecting its balance sheet anymore, in order for it to be able to stabilize its ratings," said Lucas Aristizabal, an analyst at Fitch Ratings.

Pemex announces a transaction to repay and refinance debt – *Pemex Press Release*

Pemex announced a series of measures intended to improve its financial condition. This operation considers a capital contribution from the Federal Government equivalent to USD $5 billion to be used for the prepayment of debt.
In line with the strategy of strengthening the company's finances under a zero net indebtedness premise in real terms, the following transaction in the international debt markets was announced:

The transaction is structured in three parts:

1. Pemex will receive a capital contribution equivalent to USD $5 billion. The company intends to use the proceeds for the prepayment of bonds in the short part of the curve with maturities between 2020 and 2023.
2. A new issue in 7, 10 and 30 years for the refinancing of short-term debt.
3. Finally, Pemex will launch an exchange offer to the effect of providing additional support to maturities in the short, intermediate and long part of the curve, in order to improve the company's amortization profile.

Proceeds from this transaction will be used to ensure a reduction in the outstanding balance of Pemex's debt, an improvement in its liquidity indicators, reducing short-term maturities and generating savings on interest expense, which is aimed at strengthening the financial position of Pemex, in accordance with its Business Plan.

The transaction will have participation of investors from the United States, Europe, Asia and Mexico. Goldman Sachs, J.P. Morgan, Citi, HSBC, Mizuho, Crédit Agricole and Bank of America will act as bookrunners.

Pemex will invest USD $22 million in Amatitlán field – *CNH*

The National Hydrocarbons Commission CNH approved to Pemex the modification to the exploration plan of the Amatitlán field, where USD $22 million dollars will be invested.

Amatitlán field is located between the states of Veracruz and Puebla, 53 km northwest of Poza Rica, Veracruz in the Tampico-Misantla Basin. The modification to the plan aims to give continuity to exploration activities, change the strategy from unconventional to conventional objectives, the incorporation of hydrocarbon reserves and the drilling of the Kela-1EXP and Taxtunu-1EXP prospects.

Kela-1EXP has prospective resources of 16 million barrels with a probability of geological success of 40% with a possible incorporation of reserves of 6.4 million barrels. Taxtunu-1EXP at the tip of two geological targets, one at 2,100 meters deep with a prospective resource of 9 million barrels and another at 3,050 meters with resources for 29 million barrels with a possible incorporation of 12.87 million barrels. The investment contemplated in the plan modification is USD $15.8 million for this year and USD $6.1 million for 2020.

Talos gets extension and more time for additional exploration in Mexico *– CNH, Energy Today*

Talos Energy has received a two-year contract term extension as well as regulatory approvals for additional exploration activities on Block 7, located in the offshore portion of Mexico's prolific Sureste Basin. Talos is the operator of Block 7 in a consortium with its partners Sierra Oil & Gas, a Wintershall DEA company, and Premier Oil.

On September 9, 2019, the CNH approved the Consortium's modified exploration plan for Block 7. The extended contract term in combination with the expanded plan allows the Consortium to evaluate additional exploration prospects on the block in the future following the successful appraisal of the globally-recognized Zama discovery that was completed earlier this year, the company added.

The Consortium has identified multiple potential exploration targets on Block 7, including the Xlapak and Pok-A-Tok prospects, among others, with typical gross unrisked resources ranges between 75–150 million barrels of oil equivalent (MMBoe) each. The additional identified inventory is within close proximity of Zama, potentially allowing for significant development cost synergies if successful.

Due to the recent high level of activity on Block 7, the Consortium has already fulfilled the minimum work commitments that would otherwise be required for extension, and any future exploration activities would benefit from cost recovery mechanisms under the Block 7 contract terms.

As a result, the modified exploration plan and related approvals provide the Consortium with significant optionality for future evaluation of additional, material exploration prospects within the block. The Block 7 production sharing contract requires the consortium to relinquish approximately half the acreage on Block 7 upon obtaining the two-year term extension, but the Block 7 modified exploration plan, approved by CNH, retains the acreage covering all of the Consortium's identified potential exploration targets. After rapidly completing the Zama appraisal program, the Consortium is continuing its Zama unitization discussions with Pemex while simultaneously moving forward with its Front-End Engineering and Design (FEED) work in anticipation of a 2020 FID milestone.

Mexico's CFE gives green light to three natural gas power plants – *NGI*

Mexico's state power utility, the CFE, has approved the construction of three natural gas-fired combined cycle power plants with total capacity of 1,720MW. The projects will be built in the center and northeast of the country. At present, the CFE's 157 power plants have a combined effective capacity of 43GW.

The CFE also plans to build the 42MW Baja California Sur VI internal combustion plant by 2022. CFE officials have mentioned that they aim to conclude all construction in three years.

Mexico's Pemex seeks $1B for Ixachi gas project in 2020 – *NGI*

Pemex will seek to allocate $1.04 billion of next year's capital expenditures to the Ixachi onshore natural gas and condensate project in Veracruz state, making Ixachi Pemex's third-largest upstream project in the country. The figure is part of President Andrés Manuel López Obrador's 2020 budget proposal, which the Finance Ministry presented to congress on Sunday.

Pemex is seeking a 2020 budget of 523,425 billion pesos, or about $26.8 billion, an 8.8% increase from the amount approved by legislators for 2019. The document proposes a capital expenditure (capex) budget of 269.2 billion pesos, or about $13.8 billion, for the company's upstream unit, PEP, a 28% increase from this year.

Ixachi is one of 20 fields for which Pemex is accelerating development in order to reverse more than a decade of declining hydrocarbon output. Of the 20, Ixachi is by far the most relevant in terms of expected natural gas output. Pemex in June obtained approval from upstream hydrocarbons regulator CNH for a $6.4 billion development plan at the field. Pemex plans to drill 47 wells at Ixachi, where natural gas output is expected to peak in 2022 at 638.5 MMcf/d.

PEP's proposed 2020 budget also includes $6.2 billion pesos ($316mn) for the Chicontepec formation in the Tampico-Misantla basin, nearly double the amount allocated for 2019. Pemex so far has been unable to tap Chicontepec's vast oil and gas resources, due to the formation's technical complexity. CNH in June approved a $39 million plan by Pemex to drill a horizontal exploration well at Chicontepec at a depth of nearly 12,000 feet.

The budget also allocates $238 million for seven shale oil and gas pilot projects in the Sabinas, Burro-Picachos, Burgos, Tampico-Misantla, and Chihuahua basins, up from $171 million approved for the same projects in 2019. Other gas-focused line items in the budget include the Integral Veracruz and Burgos projects, which received allocations of $384 million and $157 million, respectively.

Mexico budget assumes oil output growth not seen since 1982 – *Bloomberg*

Mexico's conservative budget for next year depends in part on its oil company boosting production by about 17%, something that the country hasn't achieved in almost four decades.

Pemex is expected to increase its output to 1.951 million barrels per day on average next year, according to the 2020 budget plan. That increase from July levels of 1.671 million barrels means Pemex would have to reverse almost 15 years of consecutive production declines. In fact, the last time the embattled company managed to reach growth of that magnitude was in 1982, after the start of Cantarell, a giant deposit in the Bay of Campeche that propelled oil production in Mexico for decades and is now almost depleted.

Mexico's lower house has until Oct. 20 to approve the revenue law, which must then be passed by the Senate by October 31. The spending law, which only needs lower house approval, must be passed by November 15.

Finance Minister Arturo Herrera said that the government is being prudent in estimating oil exports will average $49 per barrel next year. Although the current price is $55, it dipped as low as about $47 a barrel in August amid US-China trade tensions. The nation also plans to hedge its oil exports for next year against a price decline, according to people with direct knowledge of the transaction. Yet analysts warn the estimate is too optimistic and risks a shortfall in revenues next year.

- AMLO's growth forecasts also look overly optimistic.

Oil revenue accounted for about 16% of federal government income in the second quarter, according to Finance Ministry data. That's down from more than 30% at the start of the presidency of AMLO's predecessor, Enrique Pena Nieto, before a tax overhaul and acceleration in the tumble for production.

It would cost about $4 billion in revenue, about 0.3% of GDP, if Mexico doesn't increase output from current levels, said Barclays chief economist Marco Oviedo. The budget forecasts a total deficit of 2.6% of gross domestic product and a primary surplus, which excludes debt interest payments, that's equivalent to 0.7%.

A major concern is that the Dos Bocas refinery, an USD $8 billion project to be managed by Pemex, could distract it from its core business of drilling as oil production has halved from a 2004 peak and its debt has risen to USD $104.4 billion, the highest of any oil company in the world. Pemex has said it will not raise new debt this year or next. It risks a downgrade from another credit agency after Fitch Ratings cut its bonds to junk in June.

Power/Renewable Energy

IFC and FRV secure financing for Potrero Solar – *EAI*

The International Finance Corporation "IFC", Fotowatio Renewable Ventures "FRV", part of Abdul Latif Jameel Energy and a leading global developer of renewable utility-scale projects, has announced the financial close for Potrero Solar (296 MW), the company's second solar farm in Mexico.

IFC and FRV reached a financial close with Bancomext. The plant it's expected to be fully operational by mid-2020. With an approximate area of 700 hectares, Potrero Solar will be located in Lagos de Moreno, in the state of Jalisco, México, and will use bifacial photovoltaic modules, a new technology that has the ability to capture both direct sunlight from both the front and reflected light from the rear side.

The solar power farm will generate around 700 GWh of clean energy each year, enough to supply around 350,000 average Mexican homes and reduce the emission of 345,000 tons of CO2 annually. Potrero Solar is FRV's first project in Mexico to be financed before having any of its products (energy, CELs or capacity) committed in the tender schemes and one of the largest merchant PV projects worldwide. Once operational, the plant will trade the electricity generated as well as the associated clean energy certificates at the country's energy market.

Wholesale electricity market to reach maturity – *Renewable Energy Mexico*

Deacero becomes the first qualified user to operate without the representation of a qualified supplier in the Wholesale Electricity Market "MEM". In addition, Vitol starts the process to commercialize products such as energy, power and CELs in a private platform.

According to CENACE, as of July 2019 the MEM had the participation of 89 generators, 42 qualified suppliers and 21 non-supplier commercializers. Currently there are no companies participating in the market without the representation of a qualified supplier. Deacero will have the possibility of obtaining additional income through the sale of other products in the MEM, among which are power, related services, CELs and Financial Transmission Rights. Deacero currently serves diverse industries and markets with a presence in Mexico and in more than 20 countries including the United States, Canada, Guatemala, Chile, Colombia, Costa Rica, Peru, Spain and the United Kingdom.

Vitol starts process to commercialize energy in the Mexican market – ***Renewable Energy Mexico***

Vitol, the leading global energy trading company, starts process to commercialize energy in the Mexican market.

Through the mexicoelectrico.com platform, electricity generators and consumers will be able to access the commercialization (purchase and sale) of electrical energy and associated products, through long-term coverage contracts that will provide liquidity to the participants of the electricity industry and will contribute to the expansion and strengthening of the sector at the national level.

The project has the potential to detonate investments of up to one billion dollars in the next 10 years and will allow both private organizations and productive companies of the State to finance projects that contribute to the generation and use of electricity throughout the country. The goal is to obtain contracts that represent 3 terawatts per year (TWh) for 10 years, which represents a quarter of the energy consumed in Mexico City.

The process is open to all actors, including suppliers, marketers and generators, industrial and commercial customers, as well as productive companies in the state. With this process, Vitol joins public and private initiatives to boost the development of the electricity industry in Mexico.