Marcos y Asociados

20+Year Experts

Energy Monthly News

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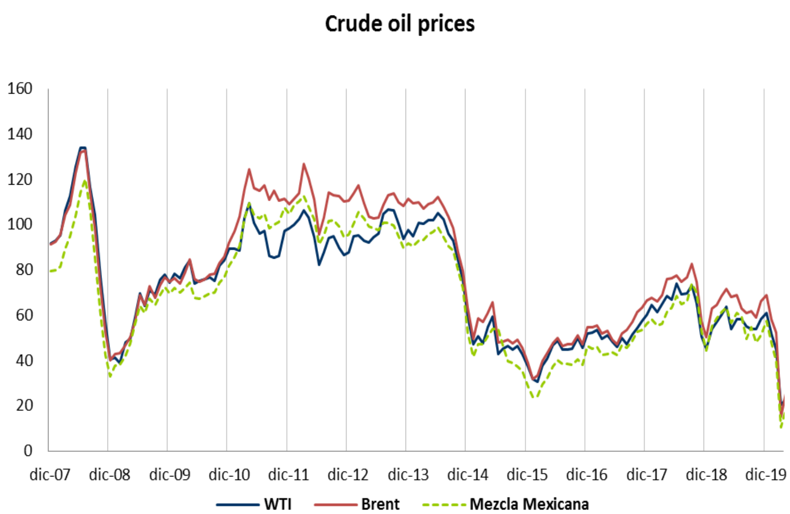

Crude oil Price* US/BD	WTI 41.60 BRENT 43.41 MME 37.77	
NG price* US/MMBTU	Henry Hub 1.79	
Mx crude production MMbd	1.64	*(May-20)*
Mx NG production MMpcd	4,449	*(May-20)*
US crude production MMbd	12.06	*(April-20)*
FX Rate**	21.96	

** 27/07/2020 **28/07/2020*
Source: EIA. El Reforma, Pemex, Banxico, and CNH

Oil & Gas

Pemex 2Q-2020 results – *Pemex*

During 2Q20, total sales decreased 51.8%, reaching $181.6 billion pesos as compared to the same period last year, mainly as a result of a decrease in domestic sales by 54.4% and a decrease in export sales of 48.0%.

Pemex reduced losses during the second quarter even as crude prices fell during the coronavirus pandemic. For 2Q20, net loss recorded $44.3 billion pesos, as compared to $52.8 billion pesos net loss in 2Q19. While production of crude oil and condensates was flat at 1.673 million barrels per day, prices for Mexico's crude export mix averaged about $24 per barrel during the quarter or about 60% less than during the same period in 2019. Pemex total natural gas production amounted 3,604 MMcfd, a 32% decrease compared to 2Q19.

During the quarter, Pemex's financial debt rose nearly USD $2.4 billion to USD $107.2 billion, mainly due to the depreciation of the Mexican peso. According to Pemex, the company financial policy will be focused on optimizing its financing sources with the commitment of not increasing debt in real terms and after 2022 implement a gradual reduction of total debt level from higher cash flows due to an increase in oil production.

For the first half 2020, Pemex recorded revenue for a total of $465.8 billion pesos, representing a decrease of 36.4% compared to the first half of 2019. On the other hand, crude oil production averaged 1.7 million barrels per day during the first half of the year, an increase of 1.9% compared to that period of 2019. Also, the production of natural gas grew by 0.2% to stand at 3,659 MMpcd not counting nitrogen or partner production. Pemex's liabilities, which include short and long-term debts, taxes and rights, as well as labor liabilities, they amount to USD $191.5 billion, 12.4% more than at the end of 2019.

The total financial debt of Pemex amounted to USD 107,153 million, 24.1% more than that registered at the end of 2019.

SENER gives Talos, Pemex 120 days to hammer out details on Zama field – *NGI*

SENER has ordered the unification of the Zama discovery offshore Mexico and has given Talos Energy Inc. and Pemex 120 days to come up with terms of how to carry out joint development of the field.

In May, Mexico upstream regulator CNH found that there was reservoir connectivity between Zama and the neighboring block controlled by Pemex. SENER said the purpose behind the decision was to maximize the economic value of the extraction of hydrocarbons at the offshore field, which sits about 37 miles offshore Tabasco, Mexico.

Awarded to Talos in a 2015 bid round, the Zama discovery is considered to be one of the largest oil finds by a private sector operator in Mexico. Talos' CEO Tim Duncan reportedly welcomed the decision, in particular as it pertains to providing structure and transparency to a process that has dragged on for months. Talos said in its first quarter earnings call that it expected a final investment decision on Zama toward the end of the year. First oil would come two and a half years later.

In 2018, under Mexico's previous government, Talos and Pemex had signed a pre-unitization agreement to lay the framework for how the firms would jointly develop the area in the event of a confirmed, shared reservoir. In January, Talos announced that Netherland, Sewell & Associates Inc. "NSAI" concluded a contingent resource estimate for Zama. NSAI's best estimate of Zama's contingent gross recoverable resource, is about 670 million boe, in line with a previously guided range by Talos of 400-800 million boe.

Talos holds a 35% operating interest in the consortium that operates offshore Block 7, which was awarded through the Round 1.1 bidding process conducted by CNH in 2015. The remaining stakes are held by Sierra Oil & Gas, Wintershall DEA Co. (40%), and Premier Oil plc (25%), which is seeking to sell its stake. If the field is developed jointly between Pemex and Talos, it would be the first joint venture development between a state firm and a private sector operator in the history of Mexico's oil and gas sector.

CNH approves Alosa offshore exploratory plan to Pemex – *CNH*

CNH approved Alosa exploratory plan. Alosa block (assignment AE-0171-Alosa) is a 466 km² area largely in shallow waters.

In its base scenario, PEP will conduct six studies in the Alosa block, then drill one exploratory well called Cuica-1. The operator expects to find wet gas. Total recoverable reserves are about 23Mboe, with a 39% geological probability of success.

In an incremental scenario, PEP would conduct one additional study and drill another exploratory well, Cualli-1. The expectation is for wet gas, though with a smaller base of 8Mboe and a 32% geological probability of success. Exploratory activities under both scenarios involve studies leading to drilling in 2022 or 2023. Under the base scenario, PEP will spend about USD $20.5 million through 2023, while costs with the incremental approach would increase to USD $37.6 million. Drilling accounts for 90% of the total costs in each scenario.

Mexico's Pemex plans $22.4 billion debt swap – *Reuters*

Pemex will offer a swap for USD $22.4 billion worth of bonds maturing between 2027 and 2060 as the state oil firm seeks to manage its massive debt load. The company, which had financial debts of nearly USD $105 billion at the end of March, announced the swap in a filing with the U.S. Securities and Exchange Commission “SEC”. The document did not specify when the offer would go into effect. Pemex did not immediately respond to a request for comment.

Companies often conduct debt swaps to manage financial risk. Last autumn, Pemex carried out a slew of refinancing operations worth USD $20.1 billion, comprising bond issuance worth USD $7.5 billion plus a repurchase and debt swap valued at some USD $8.7 billion, and another debt swap worth USD $3.9 billion.

CENAGAS opens call for natural gas supply bids to maintain system balance – *NGI*

Mexico’s national pipeline operator Centro Nacional de Control del Gas Natural “CENAGAS” has opened a second bidding for natural gas supply to ensure the Sistrangas pipeline system maintains system balance.

CENAGAS is calling on shippers to present proposals for supply, with the understanding that it would be used solely when the operational conditions on the Sistrangas require it. The bidding process is opening on July, and interested parties would receive a response 10 days after bids have been submitted. Natural gas supply could begin the day after contract terms are finalized and continue through the end of the year with the possibility of extensions. Interested companies are asked to provide proof of all relevant permits, including upstream capacity; the injection points at which supply will be received; available minimum and maximum amounts of supply; the price index to be used for valuation of proposal; and the dates during which the supply offer applies.

In the first bidding process launched last December, CENAGAS received 11 bids for gas supply, eight of which complied with the objectives set out in the tender process. Mexico had previously achieved system balancing on its national network through purchasing costly liquefied natural gas.

Other goals of CENAGAS include issuing a five-year plan; gradually integrating unused capacity of independent pipelines to Sistrangas; developing a hub at Las Adelitas in conjunction with Enbridge Inc. and IEnova; developing a pipeline that would cross the Isthmus of Tehuantepec; ramping operations at the reconfigured Cempoala compression station; and with ArcelorMittal, installing a compression station in Pátzcuaro, in the province of Michoacán. CENAGAS officials also said they would help support the creation of an electronic secondary market and are in favor of new open seasons.

Mexico’s private operators aim for 75,000 bpd by end-2020 – *Bnamercias*

Mexico’s private sector oil producers are eyeing a roughly 50% increase in daily output by year-end, a goal that if met would be in stark contrast to national oil company Pemex’s flat production. “We have talked about a 50% increase above the 50,000 bpd per day, which is to say, 75,000 bpd,” Merlin Cochran, head of hydrocarbons association Amexhi said. “For the moment, no one has changed their programs. They are maintaining their perspective.”

Mexico's private sector E&P operators accounted for 56,200 bpd of oil in January-May, according to regulator CNH, or about 3% of the country's total. The other 97% came from Pemex.

Cochran though acknowledged that the full impact of COVID-19, in terms of delays, was unknown. On July 16, CNH disclosed that from January to June it had received 25 force majeure requests, as operators were unable to complete work in line with their approved schedules due to the pandemic. The regulator also received 13 requests from operators for an extension of their exploratory or development schedules. It is unknown which operators made the requests.

Looking ahead, Cochran said Mexico's private producers were capable of large percentage growth due to new discoveries. In 2017, Talos led a consortium that discovered the Zama offshore field, which is thought to contain over 670 Mb of oil. Since then, Murphy Oil has found oil at its Cholula offshore block and in early 2020 Eni announced a discovery at its Saasken well. In May, a Repsol consortium announced two finds in its nearby Polok and Chinwol exploratory wells.

Pemex seeking USD $3 billion private investment in Tula refinery – *El Universal*

Pemex is looking for a private company to invest some USD$3.05bn in its Tula refinery in Hidalgo state. Under a scheme to participate with the private sector, as detailed in the document, Pemex Transformación Industrial plans to complete the delayed coker plant at the refinery, after a project to rehabilitate the unit was suspended in 2016 due to a budget shortage, the daily reported.

In addition to the construction of the delayed coking plant, the plan also entails work on a new coking naphtha hydrotreating plant, a new diesel hydrotreating plant, hydrogen generation, sulfur recovery, sour water treatment, amine regeneration, auxiliary services and their integration into the refinery, as well as the rehabilitation and modernization of eight existing plants, necessary for the integration and processing of flows to be produced by the coking plant.

The plan would build on the USD $1.1 billion already invested to date and, with new infrastructure at the facility, "with the same volume of crude oil processing (240,000 bpd), the refinery would increase production of gasoline and diesel by 32% and 92%. 100% of the diesel produced will have ultra-low sulfur content." Pemex wants a private company to complete and operate the Tula refinery's coking plant under a partnership scheme. The possibility of private sector participation at Tula comes as Pemex continues its push to upgrade and rehabilitate its six refineries, of which the Hidalgo state facility is the largest. The Tula refinery is the most advanced, with progress at 89%, while advances at the remaining facilities is as follows: Cadereyta, 75%; Madero, 33%; Minatitlán, 71%; Salamanca, 67%; and Salina Cruz, 85%.

U.S. refiners ramp up crude imports from Mexico to 8-year high – *Reuters*

U.S. crude oil imports from Mexico surged to the highest level in more than eight years as swelling inventories and a fire at the Latin American country's largest refinery in late June led it to offload more barrels. U.S. buyers boosted their purchases by 834,000 bpd to about 1.3 million bpd in the week to July 3, the highest since February 2012, according to the Energy Information Administration. The surge helped send U.S. net imports last week to the highest since August 2019.

U.S. Gulf Coast refiners including Lyondell Basell Industries' Houston refinery, Valero Energy, Shell and Marathon Petroleum were among the buyers in recent weeks, according to market sources and Refinitiv Eikon data. The crude was delivered to 10 different terminals, according to vessel-tracking firm ClipperData, with more than half the volumes going to Shell's Deer Park and Valero's Port Arthur refineries.

Power/Renewable Energy

Mexico cancels tender process for power plants – *S&P Global Platts*

The CFE, cancelled tenders for the construction of four power plants with a combined capacity of 1.5 GW: Salamanca, San Luis Potosi, Los Humeros III Phase B, and Baja California Sur VI. More than 70 companies had expressed interest in the tenders, including Abengoa, Acciona, China Energy, GE Global, Mota-Engil, Siemens Gas & Power and Sinohydro, according to CFE.

The move would be in line with what the government has done to other power producers, particularly those who use clean energy technologies, the consultant. The tenders were launched in late 2019 when President AMLO administration was in a hurry to increase generation capacity. Now, citing the coronavirus pandemic, the government says it is rethinking the strategy, prioritizing generation from CFE plants over private producers. "CFE wants to build the plants, even if they don't have the money," an executive from a company that competes with CFE in generation and which has been affected by the recent regulation said. CFE reported a net loss of USD $5.4 billion in the first quarter.

Despite the cancellation, CFE has no obligation to compensate the firms that participated in the tender process, it said in a letter sent to tender participants. "CFE will not be responsible for the expenses associated with the preparation of the tender offers of the participants, thus there being no obligation to grant compensation of any kind". The four cancelled power plants were part of a CFE's long-term development plan for the construction of 25 plants, according to CEO Manuel Bartlett. Bartlett said CFE had recently decided to prioritize the construction of eight of the plants, with a total capacity of 4.5 GW. These would be built with CFE funds, not using the previous scheme of "financed public work," Bartlett said.

While the Salamanca plant is included among the eight to be built with CFE funds, San Luis Potosi, Los Humeros III and Baja California Sur VI are among the remaining 17 plants, with a total capacity of 7.6 GW that would be built after 2025. Funding plans for the 17 plants has not been disclosed. Total Mexican power demand is 40.9 GW, according to CENACE, the state grid operator

CFE planning to purchase 2 million tons of coal from Coahuila coal belt – *Bnamericas*

CFE said it would purchase 2 million tons of coal over the next 18 months from producers in the Sabinas basin of Coahuila state. The new initiative places a priority on buying from micro and small producers in the coal-rich region, following a recent census and re-certification process carried out in cooperation with Mexico's mining authority, an entity within the economy ministry.

CFE announced a base price of $1,034.31 pesos (USD $46) per ton, adding that this rate would be updated on a monthly basis and will vary "depending on the quality and the market price movement," adding that the sales would be conducted through 18-month contracts with the producers. Given that price, CFE would be spending a total of $2.07 billion pesos (USD $92 million) over the next 18 months, starting this month and ending in December 2021. To determine eligibility, the mining authority invited 120 coal outfits to reapply for certification under new labor, tax, transparency and environmental guidelines.

The Sabinas coal basin is indicated in orange on the following map of Coahuila state. Of these 120 operations, 116 responded, and authorities deemed that 52 were fully compliant, 23 as moving into compliance and 41 as non-compliant and ineligible, but able to reapply for certification at a later date. Under the scheme, as detailed by CFE, the state company would purchase only 10.9% of the total 2Mt of coal it plans to buy from 17 approved large producers – with sales distributed equally among all 17. Likewise, 19 mid-sized companies (those with maximum monthly output of 153,000t) will sell CFE 16% of the 2Mt total, also in equal shares. The remaining 39 certified companies would sell 73.1%, of the total, representing $1.51bn pesos. CFE noted that 28.6% would go to micro-producers (max 36,000t/month) and 44.4% to small producers (max 63,000t/month), where shares would vary by producer.

Sempra Energy to invest USD $2 billion in Mexico – *El Economista*

Sempra Energy announced it will invest between USD $1.9 billion and USD $2.4 billion in Mexico. Sempra Energy's investment will be focused on the LNG plant in Ensenada, Baja California owned by its Mexican subsidiary Energía Costa Azul "ECA", as well as on "the storage, transport and distribution of liquid natural gas" for the Mexico-US border region.

The investment will enhance Sempra Energy's ability to transport natural gas to the ECA plant, liquify it and export it back to US gas markets ahead of export to other regions, particularly Asia. When natural gas has been liquified (cooled to -260°F) its volume is some 600 times smaller than in its gaseous state. In March 2019, ECA received "US non-FTA approval for liquification-export infrastructure in Mexico." The company's website announced that "its subsidiary ECA LNG received two authorizations from the US Department of Energy to export US produced natural gas to Mexico and to re-export LNG to countries that do not have a free-trade agreement with the US, from its Phase 1 and Phase 2 liquefaction-export facilities in development in Baja California, Mexico."

ECA's facilities currently include one marine berth and breakwater, two LNG tanks of 160,000m³ each, LNG vaporizers, nitrogen injection systems and pipeline inter-connections.

Mexican renewables costs starting to compete with fossil fuels – *Bnamercias*

The cost of wind and solar plants has dropped below that of traditional power plants globally, and that reality is taking hold only now in Mexico thanks to its legacy of easy access to US natural gas. "Where solar and wind have asserted their dominance throughout the majority of the US, they are close to [natural] gas but still lag behind it in Mexico, on a median basis," Melina Bartels, Americas analyst at Bloomberg NEF.

The onset of the COVID-19 pandemic pulled US natural gas prices down to historic lows, with benchmark Henry Hub prices slumping first below USD $2/MMbtu, then briefly below US$1.8/MMbtu. This has ensured short-term use of the fuel. The availability of that cheap gas has been further eased by the completion in recent months of key gas pipelines in Mexico, including most of the Wahalajara network in Mexico's northern energy market and mechanical completion of the Cempoala compressor station, which should ease gas flows to the Yucatán Peninsula.

Despite the temporary shift in the power market due to falling gas prices, renewables look to make further inroads in Mexico post-COVID-19. LCOE, a metric for the long-term costs of building power plants, points to renewables becoming increasingly competitive. Renewables projects enjoy declining equipment and module costs, already down by more than 80% since 2010, as well as improved energy efficiency of solar panels and wind turbines. "Looking at today's pipeline, between 2021 and 2023, 44% of power plants to come online [in Mexico] are solar, 22% are wind, and 33% gas," Bartels said.

That cost advantage has been delayed in Mexico, where renewables became cheaper than coal only in 2020. And natural gas remains even cheaper, for now. But BloombergNEF projects that solar power in Mexico will overtake natural gas as the traditional low-cost power source in the late 2020s. The cost of wind power in Mexico is forecast to drop below gas in the mid-2030s.