Energy Monthly News

September, 2020

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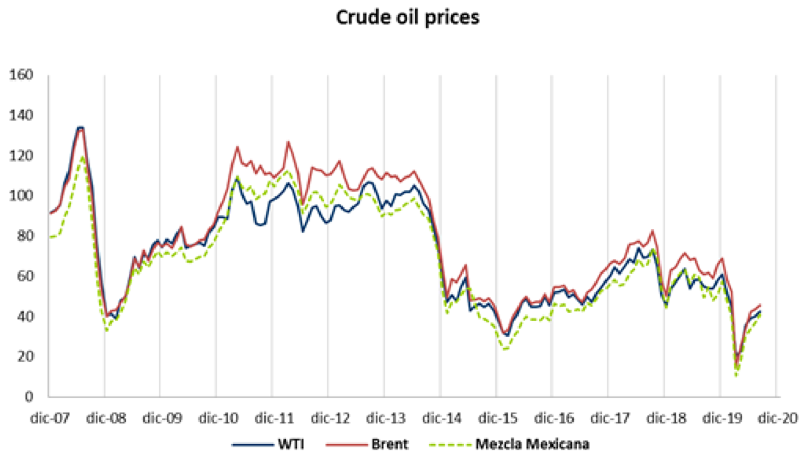
This month in review

* 25/09/2020 **25/09/2020

Crude oil price MME US/BD	37.9
NG price HH* US/MMBTU	1.5
Mx crude production MMbd - *August*	1.63
Mx NG production MMpcd - *August*	4,906
US crude production MMbd - *June*	10.43
FX Rate**	22.44



Source: EIA. El Reforma, Pemex, Banxico, and CNH

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Oil & Gas - Mexico

Pemex reshuffles priorities for 2021 as part of budget changes – *Bnamericas*

Pemex has made adjustments to several priority projects looking into 2021 and has slashed the budget for 21 projects by $108bn pesos (USD $5bn) compared with the budgets for 2020. Conversely, the company will focus more resources on its most productive block, Ku-Maloob-Zaap, which was assigned $10.5bn pesos more than last year, as well as other projects it is backing to help it lift production quickly. These include Quesqui, where it plans to spud 19 rigs and build 12 pipelines and where the company will increase its spend by $8bn pesos and Ixachi, where Pemex increased its budget by $10.5bn pesos, according to the budget assigned to production and exploration arm PEP.

The blocks where Pemex plans to reduce investment include Cantarell, EEk-Balam, Aceite Terciario del Golfo, Chalabil Fase II, Xikin, Mulach, Antonio J. Bermúdez, Chuc, Yasché, Ogarrio-Sánchez Magallanes, Crudo Ligero Marino, Proyecto Integral Veracruz and Tsimin-Xux.

Meanwhile, investment in studies for new exploration areas will jump from $2.6bn pesos in 2020 to $20bn pesos in 2021, according to local press reports, consistent with a shift in the company's priorities towards increasing proven reserves and finding new promising blocks.

In total, the government's latest budget proposal for 2021 stipulates that Pemex will invest $305bn pesos next year, which is 56% of the company's total budget for the year and is 1.2% higher than in 2020. The total budget assigned to PEP, meanwhile, increased by 3.8% year-on-year discounting inflation, with 67.9% going on direct investments.

PEP's investment budget was hiked by 24% between 2019 and 2020, but Pemex was unable to raise its production. Instead, output fell by 0.3% on average during the first seven months of 2020, affected by the international oil price rout and disappointing results from the company's activities. The government has not given up on increasing oil production, however, and it posted a target of producing 1.86Mb/d. In July, Pemex's production reached 1.63Mb/d.

KBR contractor abandons Dos Bocas refinery due to cost overruns – *Forbes*

Contractor Kellogg Brown Root "KBR" abandoned the next phase of construction of the Dos Bocas refinery in Tabasco due to cost overruns. The US-based company was in charge of building packages 4 and 6 of the six-year mega-project, but withdrew from the second phase of the project because the costs projected by SENER doubled.

The first phase consisted of engineering development, while the second considered the purchase of equipment and construction. KBR, when it bid for phase one, it knew that once this phase was concluded it had to go through a conciliation process, but this process was extremely above the contracted amount. It was by mutual agreement to leave the project until phase one.

Package 4 includes the construction of bitter water plants, gas treatment and sulfur recovery. Package 6 brings together services and integration. On July 26, 2019, SENER delivered to KBR a contract consisting of USD $351.4 million for the construction of package 4, while package six is equivalent to USD 1,844 million. The Italian-Argentine firm Techint together with the Mexican ICA-Flúor will assume the works that KBR could not continue.

CNH approve updated offshore development plan to CNOOC - *CNH*

CNH approved China Offshore Oil Corporation to spud an exploratory deepwater well. CNH had approved the project in March already, but the COVID-19 pandemic derailed the company's plans and it could not comply with the original timetable. CNOOC plans to spud the Ameyali-1EXP well, which will have a depth of 6,146m, within 75 days starting on September 25. In total, the project will require a USD $91.6 million investment.

CNH approve offshore development plan to Pemex - *CNH*

CNH approved modifications to Pemex to two offshore development plans:
The first is a technical modification of the Quesqui-4DEL exploratory well, which aims to confirm the extension of the Quesqui field to the east of the Agua Dulce block. The well will involve investments of USD $49.1 million and works must be carried out over 187 days. The second is a modification of the development plan for the A-0032-M-Campo Ayatsil offshore field. Under the new plan, Pemex will spud 40 wells for total investments of USD $26.2bn, a 68.1% increase over the previous plan.

CNH clears updated offshore development plan to Petronas - *CNH*

CNH approved to PC Carigali (Petronas) the drilling of the Moyote-1EXP exploratory well in shallow waters, in which USD $62.4 million will be invested, (USD $55.9 million for the drilling and USD $6.50 million for the completion of the well). The well is located in shallow waters of the Gulf of Mexico off the coast of the state of Tabasco. The drilling of the well will take 80 days beginning on October 31 and is expected to conclude on January 20, 2021.

Pemex and Hokchi begin talks over possible shared reservoir – *Reuters*

Pemex and Hokchi Energy have begun the first stage of unitization negotiations over a possible offshore shared reservoir in the southern Gulf of Mexico. Pemex, told it in May that an exploratory well it drilled in a block where it holds development rights "infers" the possibility of a shared oil reservoir with an adjacent shallow water area belonging to Hokchi Energy.

The companies have begun talks over a confidentiality agreement that will allow both sides to share technical data. Hokchi is a unit of Argentina's Pan American Energy, which is partially owned by British oil major BP. The ministry's announced that the two sides may have a shared reservoir, which would ultimately need to be confirmed in a technical analysis by Mexico's National Hydrocarbons Commission, the sector regulator.

CNH clears new Pemex exploration plans - *CNH*

CNH has approved offshore exploration plans to Pemex as well as two modifications of existing exploration and production projects. Pemex plans to conduct exploratory studies at the AE-170-Holok block. The plan involves investing USD $9.6 million by 2023 in a base scenario and USD $16 million in an incremental scenario. CNH also reviewed modifications to Pemex's production contract for Tupilco field. According to the plans, Pemex will drill two additional wells and increase hydrocarbons extraction by 30%. The updated plans involve investments of USD $222 million and operative expenses of USD $112 million.

CNH also approved modifications to DS Servicios Petroleros for the Ébano onshore area. Diavaz, the operator contemplates a total investment of USD $9.15 million. The works will accelerate the petroleum geological knowledge of the subsoil by drilling the Tavin-1 prospect. The prospect could incorporate resources in the order of 42 million barrels of crude oil equivalent. CNH has approved 60 of 64 deep and shallow water exploration plans for areas awarded during the three tender rounds between 2014 and 2018.

Mexico advances plan to overhaul refining capacity – *Bnamericas*

Mexico is reporting rapid advances in the overhaul of the Salina Cruz refinery in Oaxaca State. According to SENER, works aimed at boosting the refinery's capacity have reached 86%, with 30 out of 35 major reparations completed. The ministry expects the refinery to process 200,000b/d once the works are completed, up from 118,000b/d in July and 148,000b/d in August. It also forecasts investments of $2.1bn pesos (USD $93.8 million) this year in the renovation.

The overhaul is part of a sweeping federal plan to overhaul Mexico's refining capacity through the renovation of its six large refineries, all of which are owned by Pemex, a plan expected to cost a total "$25bn pesos (USD $1.1bn). In July, the energy ministry reported that the overhaul of the Tula refinery in Hidalgo state had seen the furthest advance and was 89% complete, followed by Cadereyta in Nuevo León (75%), Minatitlán in Veracruz (71%), Salamanca in Guanajuato (67%) and Madero in Tamaulipas (33%).

AMLO held a meeting with the country's top energy officials where he reportedly asked those present to explore every avenue available within the existing regulatory framework to ensure Pemex and CFE would dominate the energy market. According to local outlets citing sources present in the talks, the president also asked the energy regulatory commission CRE not to grant permits to service stations not associated with the Pemex brand.

Pemex sees plunge in oil exports while supplying AMLO's refinery – *Bloomberg*

Pemex expects a drastic drop in oil exports over the next three years as the company faces the twin challenges of declining output and supplying crude to a controversial new USD $8 billion refinery championed by the country's President AMLO.

AMLO swept into power in December 2018 promising to rescue Pemex by dialing back his predecessor's 2013-2014 energy reforms, which had ended the company's nearly eight decades-long monopoly. He has also pledged to ramp up domestic fuel production to reduce dependence on gasoline imports, which account for about 65% of what Pemex sells in Mexico. At the heart of this policy is a new refinery that will process Maya. The timeline for finishing the Dos Bocas refinery by 2023 is viewed by some critics as overly ambitious. "The key issue here is whether Dos Bocas is going to be operating in three years," said Ixchel Castro, oil and refining markets manager for Latin America at Wood Mackenzie Ltd. "The construction process is probably going to take longer than originally estimated, so exports will be maintained for a longer period than expected." Pemex restarted exports of Isthmus crude in December after not doing so for a year and a half. But exports of heavier grades have fallen as Pemex struggles to reverse 15 consecutive years of output declines. In July, the company exported 888,000 barrels a day of heavy crudes including Maya, Altamira and Talam, a 23% drop from a year earlier. Maya represented almost 80% of Pemex's crude shipments in August.

Making Pemex great again creates risks for energy exporters and investors – *Houston Chronicle*

Exporters, investors, and energy policy analysts in Houston and elsewhere are increasingly concerned about what they regard as magical thinking in Mexico about the oil and electric power industries.
President Andrés Manuel López Obrador is moving to repeal energy market reforms and return control to the state-owned oil companies Petróleos Mexicanos, or Pemex, and Federal Electricity Commission, or CFE.
If López Obrador succeeds, it would damage opportunities for trade and investment on both sides of the border, especially for Texas energy suppliers, shippers and service companies. Mexican consumers and businesses would lose out on new brands and sources of supply, which, before the reforms, were limited to those of Pemex. Today, some filling stations in Mexico's northern states proudly advertise "100 percent American gasoline."

Pemex could lose out, too. For the first time, Pemex was allowed have partners. It made deals with the Australian mining company BHP, the U.S. oil major Chevron and European major Royal Dutch Shell to develop deepwater blocks, tapping into the know-how of some of world's biggest and successful companies. On the power side, the energy reform created a wholesale market overnight with new generation from wind and solar plants.

The reforms promised to increase supplies and consumption of both petroleum and power while lowering prices. It also promised to expand the distribution network for both refined petroleum products and electricity to rural areas. But López Obrador is disparaging the reforms, invoking an inward-looking, national narrative that critics regard as anachronistic.
In August, two documents leaked to the press in Mexico portend darker days ahead for energy market reform — and consumers. The documents call for self-sufficiency in refined products, but Mexico imports 65 percent of its gasoline, making that goal unrealistic.

Uneven playing field: How systemic bias hurts private oil companies in Mexico
Likewise, the proposal to limit private electricity generation to 46 per cent of the total and market rules favoring power generated by CFE—regardless of marginal cost— jeopardizes the future of investors in renewable energy and combined-cycle natural gas plants. Mexico is the major market for Texas natural gas. Meanwhile, proponents of free markets and competition have mounted only a limited defense of the reforms. In June, the American Petroleum Institute expressed concern about the discriminatory treatment received by members making pipeline and refining investments in Mexico. API chooses not, however, to initiate a policy statement regarding discriminatory treatment in exploration and production, explaining that its members have made no such request to push back.

In Mexico City, there is an association of international oil companies, AMEXHI (by its acronym), but its leaders are compromised. They are unable to speak publicly, first, for having Pemex as a member and, second, for having Pemex in a partnership with their companies.
By George Baker, Correspondent

Braskem-Idesa in talks with Mexico's Pemex about ethane supply deal - *Reuters*

A consortium made up of Brazil's Braskem and Mexico's Grupo Idesa is in talks with Pemex about the future of a 20-year ethane supply contract. Mexico's government had been evaluating whether the contract between Pemex and Braskem-Idesa could be canceled.

The agreement, signed a decade ago, obliged Braskem-Idesa to build the Ethylene XXI petrochemical complex, located in southeast Mexico, and Pemex to deliver 66,000 bpd of ethane. The contract stipulates that Pemex has to pay fines if it does not provide the Ethylene XXI complex with ethane. With Pemex now not producing enough ethane, it has been forced to import the hydrocarbon. Mexican officials are also frustrated that the agreement compelled Pemex to sell ethane below market prices to the Braskem-Idesa plant near the Gulf coast port of Coatzacoalcos.

Braskem-Idesa is in permanent talks with Pemex to resolve the issue of insufficient availability of ethane in the country, which is the root of the difficulties regarding our supply contract. The consortium proposed Pemex build a cryogenic terminal in the port city of Coatzacoalcos to store imported ethane "that will help resolve the issue of shortages for the entire petrochemical industry, not just for Braskem-Idesa. However, there had been no response from Pemex. Braskem-Idesa consortium has defended the legality of the agreement and had been against undoing the contract, but this may be subject to "adjustments or amendments" but only by mutual agreement between all the parties.

Oil & Gas - LATAM

Brazil's Petrobras opens rebidding for refinery, but sources say keeping it not ruled out – *Reuters*

Petrobras will open another round of bidding for its Repar refinery in the state of Parana after receiving binding offers that were too similar in value. The new round starts as Brazil's Supreme Court considers blocking Petrobras' sale of Repar and other refineries. Petroleo Brasileiro, as the state-controlled company is formally known, must follow specific legislation aimed at keeping asset sales competitive, including that bids be different.

The company considered the offers low and is asking bidders to raise their prices for the Parana state refinery. Even if the Supreme Court approves the sales, Petrobras doesn't rule out keeping the asset if prices don't meet the minimum range set by its internal technical team. Petrobras said that three separate groups led by Ultrapar, Raizen and China's Sinopec are part of this phase of the competition. The prices are highly secret in this phase of the competition. Repar is Brazil's fifth largest refinery, able to process 208,000 barrels per day, or 9% of the country's capacity.

Petrobras has been trying to sell refineries since at least 2012 with no success, and still produces more than 98% of fuels in Brazil. Lack of buyers for fear of fuel price interference, restrictions by an audit court and anti-privatization movements have prevented sales in the past. More recently, Congress and the Supreme Court have also raised impediments. The winner of this phase of the Repar competition would be able to exclusively negotiate the contract terms with Petrobras, a process which can take months. According to Petrobras' internal rules, if the contract terms substantially change after the negotiation, which often happens, the oil company would need to call back competitors for a third round of bids, based on price only.

PDVSA, Eni weigh options to transfer oil from idled facility amid risks – *Reuters*

Venezuelan state oil company PDVSA and Italy's Eni are looking at options to safely offload crude from a floating storage facility on Venezuela's eastern coast that has remained idle for over a year due to U.S. sanctions. The companies suspended output at their joint venture Petrosucre shortly after Washington imposed sanctions on PDVSA in January 2019, depriving the partnership of its main crude buyer, PDVSA's U.S.-based refining subsidiary Citgo Petroleum.

About 1.3 million barrels of Corocoro crude stored at the FSO have remained stuck in the vessel, which has been left without operating crew. As time passed, the obstacles to transferring the oil have increased, the sources said. In July, Petrosucre allowed a technician to board the FSO and correct an 8% lean that was creating the risk of a spill. But other problems followed, including a sea water leak affecting its engine room that could not be fixed as the facility's bilge pumps were out of service, the sources added. The issues are creating pressure for both companies to find a solution, even if the stored crude is not exported. A local contractor, Consemar Group, was recently hired to do an inspection.

Colombia sees first offshore oil by 2025- *Bnamericas*

Colombia could produce its first barrels of offshore oil and gas within five years as the government seeks a new impetus for its flagship export industry, according to energy minister Diego Mesa. "We are making progress in regulating the development and production phase for these types of projects, which will be added to the already existing regulations for offshore exploration". "This will allow the industry to receive clear signs of legal stability. In relation to the exploration campaign schedule, we expect positive progress between 2021 and 2022. Depending on the results and in an optimistic scenario, the first oil or gas could be commercialized by 2024-2025."

Officials have said that a slew of deepwater wells are scheduled to be drilled next year as operators meet early commitments for exploration and production contracts totaling USD $1.9bn in expected investments. Among the companies with exploration campaigns pending are Petrobras, Shell, Repsol, ExxonMobil, Chevron and state-run firm Ecopetrol. Besides attracting major international operators, Colombia is forging closer bilateral ties with nations that have established offshore production in an effort to steepen the learning curve. According to the latest energy ministry figures, the lifespan of current reserves stands at six years for crude oil and eight years for gas. Economists say the figure is alarming because Colombia depends on hydrocarbons for more than 50% of its export earnings.

In addition to the fledgling offshore segment, the government is in the final stages of drafting a regulatory framework for fracking pilots, for which a bidding schedule has already been published. ExxonMobil, ConocoPhillips, Parex and Ecopetrol are among companies to have submitted plans for the unconventional exploration projects. The initiatives could eventually produce 450,000boe/d and attract USD $5bn in annual investments, helping to replace the country's shrinking hydrocarbon resources.

Mesa revealed the government is preparing new fiscal incentives for oil and gas companies, with planned changes to its CERT tax refund certificate program.

Argentina natural gas production down 12% in July - *NGI*

Natural gas production in Argentina fell by 12.2% year/year in July to 126.8 MMm3/d, or 4.47 Bcf/d, according to the latest report by the IAE Argentine Energy Institute. Analysts attributed the drop to restrictions in place because of the coronavirus pandemic. Argentina has had one of the strictest lockdowns in place globally since the pandemic began to spread in March.

Gas production was down in all basins in Argentina in July including in Neuquén, home to most of the prolific Vaca Muerta formation. Neuquén, the largest gas producing province in Argentina, saw production fall to 2.79 Bcf/d in July from 3.22 Bcf/d in the same month last year. Production from Vaca Muerta in July fell year/year to 1.14 Bcf/d from 1.23 Bcf/d. Vaca Muerta has been billed as the most promising unconventional play outside of the United States, and most major energy firms hold acreage in the formation. The largest producers in July in Vaca Muerta were Argentina’s Tecpetrol (484 MMcf/d), followed by state oil firm YPF (261 MMcf/d), and the local subsidiary of France’s Total (165 MMcf/d).

In late August, Darío Martínez took over from Sergio Lanziani as the Energy secretary, the top position in the energy sector. Martínez was head of the energy committee in the lower house. He previously worked for YPF, and hails from Neuquén Province. His first order of business is finalizing a gas tender program aimed at kick starting production. The proposed tender system would consist of a four-year block auction mechanism starting in October, which would differentiate offers for the peak winter season and the rest of the year, according to IAE. Prices for offers from gas companies would be set at around $3.40/MMBtu.

Venezuela's PDVSA prepares to boost oil blending, imports Iranian diluents – *Reuters*

Venezuela's state-owned PDVSA and its foreign partners in the joint-venture Petrolera Sinovensa, Petromonagas and Petropiar projects have restarted production of extra-heavy crude in the country's Orinoco Belt. U.S. sanctions imposed since 2019 have deprived PDVSA of the diluents it imports to produce exportable crude grades. The sanctions have cut off its customer base and the number of tanker owners willing to work with the firm, causing oil exports to fall to their lowest levels since the 1940s and cutting heavily into PDVSA’s production.

PDVSA and its joint ventures produced 336,000 bpd of crude at the end of August, internal figures from the company showed. Just a year earlier the nation’s output was 933,000 bpd. Venezuela’s oil exports are the nation’s largest source of foreign revenue. Two weeks ago, PDVSA restarted blending operations at the joint venture Petrosinovensa, which it shares with China National Petroleum Corp, after months of paralysis. It is now processing 64,500 barrels per day of diluted crude oil to produce about 77,000 bpd of exportable Merey crude, according to the document.

PDVSA finished discharging a 500,000-barrel parcel of Iranian condensate for another joint venture, Petropiar, operated with U.S.-based Chevron Corp, aiming to boost blending operations. The condensate, to be used for diluting Venezuela's extra heavy crude, arrived last weekend in the nation's main oil port of Jose in an unnamed very large crude carrier. Tracking service TankerTrackers.com identified the vessel as Iran-flagged Horse by using satellite images. The full content of the shipment from Iran is unknown.

Argentina's YPF to redeploy rigs in Vaca Muerta on export potential– *S&P Global Platts*

Argentina's state-backed energy company YPF plans to redeploy 46 rigs in the Vaca Muerta region over the next six months, helping to revive oil and natural gas output from the country's biggest shale play after a plunge in activity during the coronavirus pandemic. Neuquen Governor Omar Gutierrez said "The idea is that the 46 rigs will be operating by next February." If the plan is carried out, YPF, the country's biggest oil and gas producer, would be moving forward with the development of Vaca Muerta as other companies in the play, like Chevron and Shell, also dust off plans after a plunge in activity during a lockdown of the economy forced most to shut-in production in April and May.

The lockdown, which started March 20, cut local oil demand by more than half to as low as 200,000 b/d and prevented some field work on health concerns. But a gradual easing of the lockdown has rekindled demand, encouraging producers to start drilling and completing wells again. The refinery utilization rate recovered to 67.3% in June from a low of 46.2% in April, but is still shy of the pre-pandemic levels of 80%.

- Fracking activity revives

The number of frac stages drilled in Vaca Muerta rose to 98 in August from 44 stages in July, led by Shell and Mexico-based Vista Oil & Gas. While that is down from more than 650 stages in August 2019, it is up from zero in April and 28 in May. The decline in activity during the pandemic has pushed back the Neuquen government's forecast of reaching 230,000 b/d of production by December, up from a pre-pandemic 170,000 b/d, Gutierrez said. Instead, production fell to 130,000 b/d in April and was only at 155,400 b/d in July, according to the provincial government's latest data. Gutierrez did not provide a forecast for production growth, but said that it could be increased relatively rapidly because 105 wells have been drilled but not fracked in Vaca Muerta. Analysts have said that these wells can be put on line fast and at a low cost, meaning that the recovery in production can be quick followed by growth. Of the wells, YPF has 85 wells that are ready to connect, Gutierrez said.

Gutierrez said he wants to encourage companies to step up investment in Vaca Muerta, with a target of surpassing $5 billion per year, like in 2015, up from $4.4 billion in 2019. "Vaca Muerta requires investments of at least $5 billion a year and the target to reach is $10 billion per year," he said. A driver of investment for oil companies should be the export potential of Vaca Muerta. The province has pipelines to ports on Argentina's Atlantic coast and Chile's Pacific with a total of 360,000 b/d in capacity to be filled. There is also potential to export more gas to Brazil, Chile and Uruguay while investing in longer-term export growth by selling on the global market.

Power/Renewable Energy – Mexico

Progreso Aeolian Park is inaugurated – *Yucatan Times*

With an investment of approximately USD $155 million, Energía Renovable de la Península inaugurated the Progreso Wind Farm, an important project with 90 MW of installed capacity for electricity generation, which will produce more than 303 GW/H per year, with a useful life of approximately 30 years.

Bayer inks PPA with Iberdrola's 105MW wind farm in Mexico – *Renewables Now*

Bayer de Mexico signed a 15-year power purchase agreement (PPA) to get a supply of electricity from a wind farm owned by Iberdrola. The Santiago wind farm is currently under construction in the state of Guanajuato. Once in operation, it will supply electricity to Bayer's four plants in Mexico and 23 operation centers, located mainly in Sinaloa, Guanajuato, Jalisco and Chiapas. According to Iberdrola Mexico, the 105-MW wind farm will feature 50 turbines spread across the San Felipe municipality. It will be the seventh wind project that the Spanish utility's branch built in Mexico. The Santiago wind farm, located in Guanajuato and which is in the testing phase before entering commercial operation, will produce 241 gigawatt hours (GWh) per year, equivalent to the energy consumption of 38,000 homes.

Bayer Mexico's PPA is part of a wider commitment to sustainability and the 2030 carbon neutrality target adopted by its German parent. The company plans to contribute to limiting global warming to 1.5 degrees Celsius by cutting its own emissions by 42% by 2029. As part of its climate ambitions, Bayer said it intends to buy electricity sourced only from renewables, adding that long-term arrangements laid out in PPAs are the most important tool to achieve this transition.

Enel completes turbine installation for wind farm in Mexico – *Renewables Now*

Enel renewables arm has completed the installation of all turbines for its 274-MW Dolores wind farm in Mexico's state of Nuevo Leon. Currently undergoing pre-operational tests, the wind farm required a total investment of about USD $290 million. The plant consists of 83 wind turbines and is capable of generating over 938 GWh per year. The wind farm was secured by Enel Green Power Mexico in the country's third long-term tender held in November 2017.

In addition to Dolores, the firm was also awarded three other wind schemes -- the 103-MW Amistad II, the 108-MW Amistad III and the 162-MW Amistad IV -- for a total of 647 MW. Dolores has a contract with the CENACE to sell specified volumes of energy for 15 years and clean energy certificates for 20 years.