February, 2021

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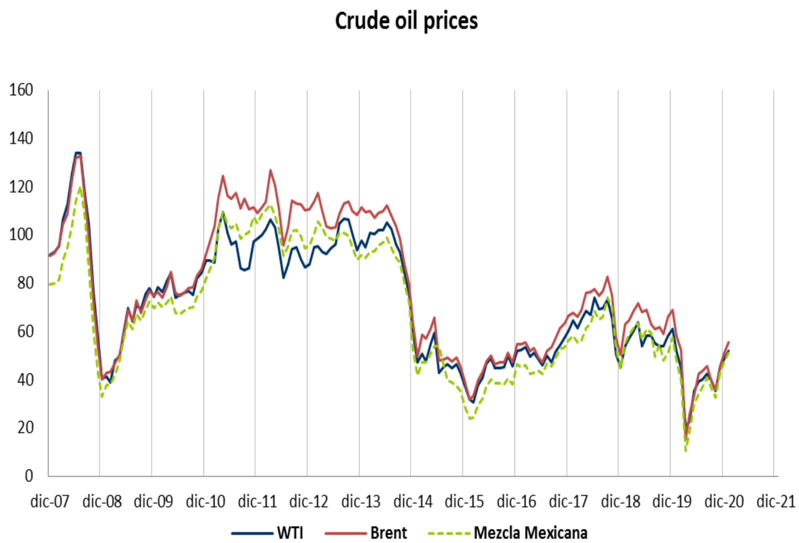
This month in review

* 25/02/2021 **26/02/2021

Crude oil price MME US/BD	62.23
NG price HH* US/MMBTU	2.9
Mx crude production MMbd - *December*	1.64
Mx NG production MMpcd - *December*	4,836
US crude production MMbd - *December*	11.06

FX Rate**	20.93



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

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Oil & Gas - Mexico

Pemex 4th quarter 2020 results – *Pemex*

During 4Q2O, total sales decreased by 21.9% reaching $248.8 billion pesos (USD $11.0 billion), as compared to 4Q19, as a result of 32.6% decrease in domestic sales and a 6.6% decrease in export sales, mainly due to COVID-19 and the falling prices of hydrocarbons all around the world. Crude oil production and condensates in fields (excluding partners' production) averaged 1,676 thousand barrels per day, a decrease of 1% as compared to the same period of 2019. Total natural gas production (excluding partners) decreased by 143 MMcfd, this equivalent to a 3.7% decrease as compared to the same period of 2019.

Pemex reported a 4Q2O net profit of $124.28 billion pesos (USD $5.5 billion), compared with a loss of 171.5 billion pesos in the same period of the previous year, helped by currency appreciation, lower imports and tax benefits.

During 2020, total revenues from sales and services decreased by 32.0%, as compared to 2019 reaching $953.7 billion pesos (USD $42.4 billion) mainly as a result of 37% decrease in domestic sales and a 24% decrease in export sales.

Hydrocarbon production in 2020 (excluding production from partners) averaged 1,686 thousand barrels per day, an increase of 2 Mbd, equivalent to 0.2% as compared to 2019. Total natural gas production (excluding partners) was 3,730 MMcfd, a 1% decrease as compared to 2019.

Pemex reported a 2020 net loss of $481 billion pesos (USD $21.4billion), compared with a loss of $347.9 billion pesos in 2019. Pemex 2020 total financial debt was $2,258 billion pesos (USD $100.5 billion), an increase of 13.9%, as compared to 2019. Liabilities to suppliers increased 43.2% reaching $297.9 billion pesos (USD $13.2billion).

Mexico's hydrocarbons regulator clears spudding plans – *Bnamericas*

CNH has cleared plans presented by public and private players. The commission greenlit a project presented by Pemex exploration and production arm PEP to invest USD $15.5 million to spud the Maxtu exploration well in Veracruz State. The well, located in the AE-0122-Tampico Misantla area, looks to add 21Mboe of prospective resources.

The CNH also authorized Operadora Bloque 13 to spud the Sochiapán exploratory well in Veracruz, involving an investment of USD $4.7mn to add 26Mboe of prospective resources.

Additionally, the CNH approved a plan presented by Jaguar E&P to move forward with a USD $27.4 million investment plan for the L03-CS field in Tabasco. If met with encouraging results, the company is allowed to increase investment to USD $38.6 million to conduct further activities. The plan involves spudding four wells and conducting 15 exploratory studies in the base scenario, while the incremental scenario could add two wells and nine studies.

CNH approves updated exploration plan by Shell E&P – *CNH*

CNH has greenlit an updated exploration plan by Shell E&P de México. Under the new plan, Shell has committed to invest almost USD $102 million under the base scenario and up to USD $283million under the incremental scenario for exploration at its CS-G09 area off the coast of Tabasco. The new plan involves revising its existing spudding plans as well as conduct new seismic activity.

CNH approves Pantera E&P updated exploration plan – *CNH*

CNH approved Pantera Exploración y Producción to invest USD $6 million to spud the Granaditas-106 exploration well in Burgos basin, Tamaulipas. In Granaditas-106DEL, the operator expects to find prospective resources for 23 thousand barrels of oil with a geological success of 65%. The total cost of drilling will be USD $6 million, of which USD $4 million will be used to drill the well and USD $2 million for abandonment activities. Drilling will take 75 days, beginning on March 6 and concluding on May 21, 2021.

CNH approves Vista Oil & Gas updated exploration plan – *CNH*

CNH allowed Vista Oil & Gas to spud two wells, Vernet-1002 and 1004, onshore Tabasco, for total investments of USD $3.2 million. In the Vernet-1004DEL well, the operator expects to find prospective resources for 332 million barrels of oil with a geological success of 60%. The total cost of drilling is USD $1.6 million. Drilling will take 33 days, beginning May 21 and concluding June 25, 2021.

In the Vernet-1002DEL well, the operator expects to find prospective resources for 332 million barrels of oil with a geological success of 60%. The total cost of drilling will be USD $1.6 million. Drilling of Vernet-1002DEL will take 28 days, beginning April 30 and concluding June 1, 2021.

Mexico's government readying roughly $5 billion Pemex lifeline – *Reuters*

Mexico's government will inject between USD $1.3 billion and USD $1.6 billion into state oil company Pemex this year and offer a tax break of $75 billion pesos (USD $3.68 billion).

The tax reduction will be applied on a monthly basis and be separate from the already reduced profit sharing rate (DUC) from 58% to 54% for this year. Last year, the government reduced the DUC, the largest payment Pemex makes to state, from 65% to 58%.

The first of several capital injections, scheduled within the next two weeks, will be used to pay down debt, and that it is unlikely Pemex will issue bonds on the international market this year. Pemex has carried out liability management of different types, including bond refinancing and bank line extensions, totaling more than USD $30 billion between 2019 and 2020.

Luis Gonzali, co-director of investments at Franklin Templeton Investments in Mexico, said the $5 billion will "enter and leave, without any major impact" on the company's long-term prospects. "Lowering taxes and capitalizing in small amounts does not solve the underlying problem: lack of infrastructure, capital supporting unprofitable projects, lack of exploration," he said. "But it will help it survive more comfortably throughout the year."

Mexican judge suspends fuel import rules – *Bnamericas*

A Mexican judge has extended the suspension of a controversial regulation limiting hydrocarbons imports in favor of a local firm. While previous defendants had secured temporary suspensions with limited scope, the latest ruling, published in Mexico's official and drafted by energy ministry SENER, had to be suspended indefinitely and by all parties involved. According to the ruling, the changes, "by establishing rules and provisions that could limit the possibility of obtaining import and export permits … is not only interrupting competition in those markets, but could also contribute to Pemex … increasing its dominant power in those sectors" to the detriment of its competitors.

It also said that the SENER agreement could be breaching broader rights to free competition by rising costs for end-users, suggesting other measures aimed at bolstering the position of state-owned firms and reducing competition and could face legal challenges in the future. As reported previously, SENER published controversial changes to the rules for fuel import permits despite criticism from other government agencies and the fuel sales industry. The rules make it more difficult for companies to import fuels from foreign refineries to compete with Pemex and could impact firms looking to export locally produced hydrocarbons.

Pemex gets go-ahead for Mulach and Uchukil drilling – *Bnamericas*

Pemex's E&P divisio has gained approval to expand its development plan for the Mulach offshore field involving spending of USD $1.49bn, comprising investment of USD $893 million and projected operational costs of USD $593 million.

CNH approved the modification of PEP's plan for the AE-0006-7M-Amoca-Yaxche-04 assignment, in shallow waters 19km northeast of the Dos Bocas maritime terminal.

The Mulach field was discovered in 2018 and is in its first stage of development with four wells drilled and one in the process of drilling. Pemex requested the modification due to the need to expand the approved investment and a change in the number of wells to be drilled, as well as an increase in the expected volume of hydrocarbons to be produced in one year. Under the expanded plan, PEP will drill 14 wells, make 74 minor repairs, and build three pipelines and three maritime structures. With the plan, the state company expects to recover 158Mb and 65Bcf of natural gas.

CNH also signed off on PEP's request to start drilling the Tekuani-1EXP exploratory well, in which it will invest USD $29 million. The well will be drilled within the AE-0151-Uchukil assignment, in shallow waters of the Gulf of Mexico off the coast of Tabasco and is part of the baseline scenario of the exploration program approved by the regulator last year.

IEnova inaugurates its refined products storage terminal – *IEnova Press Release*

IEnova has formally inaugurated its terminal for the receipt, storage and delivery of refined products in the New Port of Veracruz, Mexico. The project, which has the capacity to store more than 2 million bbl of gasoline, diesel and jet fuel, "will help to ensure national energy security and provide reliable, safe and efficient access to fuels in the Gulf-Centre region," said IEnova.

The construction of the project began in November 2018, and on December 7, 2020 it received its first ship from Valero Mexico. Its development required an investment of over $6,000 million pesos and will create 5,500 direct and indirect jobs.

Traders, including Trafigura, supply Mexico with emergency LNG – *Reuters*

Oil trading firms, including Trafigura, are supplying Mexico with emergency cargoes of liquefied natural gas "LNG" to overcome a power crisis caused by interrupted U.S. natural gas supplies. Mexico's state-run power company Comision Federal de Electricidad resorted to LNG imports as natural gas supplies from the southern United States, especially neighboring Texas, were hit by frozen pipelines and rocketing prices caused by a cold snap.

The trading companies were able to divert LNG cargoes going to Asia while offering Mexico unsold cargoes that were anchored off the U.S. Gulf Coast, even though Texas Governor Greg Abbott temporarily restricted out-of-state gas supplies, primarily affecting Mexico. The first two LNG cargoes bought by CFE discharged last week at Mexico's Manzanillo and Altamira ports on tankers Flex Courageous and Seri Balhaf, respectively.

Power/Renewable Energy – Mexico

AMLO proposes amendments to Electricity Industry Law – *Mayer Brown*

The President of Mexico sent to the Chamber of Deputies of the Congress proposed amendments to the Electricity Industry Law, namely, an "Initiative with a Draft Decree by which various provisions of the Electricity Industry Law are amended and added."

(1) New Framework

The initiative amends nine articles of the law with the ultimate purpose of strengthening the Federal Electricity Commission "CFE" as a whole by:

- No free competition. Deleting the provision that states that "the generation and commercialization of electricity are services that shall be provided in a regime of free competition."
- Dispatch preference for CFE. Modifying the dispatch criteria to be applied by the National Energy Control Center "CENACE" so that the dispatch is carried out in this order: (1) hydroelectric plants, (2) plants owned by CFE, (3) solar and wind plants owned by private parties and (4) combined cycle plants owned by private parties.
- No obligation for public auctions. Deleting the provision that requires that basic service suppliers enter into electricity coverage contracts exclusively through public auctions.
- Transmission and distribution preference for CFE. Requiring that CENACE give priority to the legacy power plants (operated by the CFE) for use of the national transmission network and the general distribution networks.
- Network access restriction. Establishing open and not unduly discriminatory access to the national transmission network and the general distribution networks only if "technically feasible."
- Energy market to discriminate clean energy. Requiring the wholesale electricity market to give preference, in first instance, to "Electricity Coverage Contracts with a Physical Delivery Commitment" (which may only be entered into by basic service suppliers) and, in second instance, contracts with clean energy generators. In addition, these contracts, unlike the current electricity coverage contracts, would include the commitment to physically deliver the electric energy, power or other associated products.
- Restriction of permits. Subjecting permits to be granted under the law to compliance with the "planning criteria" established by the Ministry of Energy.
- Provision of Clean Energy Certificates. Granting Clean Energy Certificates to any generator that produces energy from clean energy (regardless of the date of commencement of commercial operation of the corresponding plant, which would include, among others, CFE's hydroelectric and nuclear plants).

(2) Retroactive Provisions

In its transitory articles, the initiative provides the following:

- Cancellation of self-supply permits. The self-supply permits that are governed by the previous Electric Power Public Service Law may be revoked by the Energy Regulatory Commission in accordance with the administrative procedure established by the law. The criteria for said revocation would be that they were obtained fraudulently, e.g., by means of artificial corporate and contractual arrangements.
- Termination of electric power contracts. Contracts for the purchase of capacity and electric power entered into with independent power producers in terms of the

abrogated Electric Power Public Service Law may be reviewed by CFE and, where appropriate, renegotiated or terminated early. The purpose of the review would be to verify compliance with the "profitability requirement" mandated by law. In the event that said requirement is not met, the referred contracts could be renegotiated or terminated early.

(3) Legislative Process

The initiative shall be discussed and approved by a simple majority in both chambers of the Congress. Since the initiative was presented as "preferential," the entire discussion and voting process shall be completed in approximately two months.

(4) Follow-up Regulations

The initiative provides that, if the amendments are approved, the Ministry of Energy, the Energy Regulatory Commission and CENACE shall have a period of six months to modify the related regulations so that they are consistent with the content of the initiative.

(5) Effects on Costs, Prices and Investment

- Generation. The initiative could increase energy generation costs as CFE plants will have priority in dispatching energy (even though its plants are among the most expensive).
- Supply. The initiative could also deter private investment as CFE Basic Supply will be allowed to purchase electricity through private contracts (most likely from CFE's own generation plants) instead of competitive public bids (with the participation of private generators).
- Final users. The above points could impact the tariffs to the final user.
- Clean Energy Certificates. By allowing CFE's existing clean energy plants to obtain Clean Energy Certificates (originally meant to increase capacity), the value of such instruments could decrease. Retroactivity. The initiative allows the federal government to cancel permits and review/renegotiate/terminate contracts granted before the 2013-2014 Energy Reform, leaving investors with great uncertainty.

Carlos Slim to invest $100 million in a cogeneration power plant – *Forbes*

Radiomovil Dipsa, a company founded by Mexican billionaire Carlos Slim, will invest $100 million pesos in the construction of a power plant in Ixtlahuaca, State of Mexico, despite the changes made to the laws of the electricity sector.

The project consists of the construction, installation, maintenance and operation of a cogeneration power plant for the supply of electrical and thermal energy to the Data Center Telcel Ixtlahuaca. The power generation plant will be located within the facilities of Radiomovil Dipsa Company. The cogeneration power plant consists of two stages: In the first stage, 5 motor generators will be installed and in the second stage 2 motor generators, of which 6 will have the capacity to generate 6 MW and the remaining motor will generate 1 MW as an emergency in the event that one of them fails. The installation of a cogeneration plant represents a reduction in primary energy consumption, fuel imports, greenhouse gas emissions (CO_2), losses in the electrical system and investments in transport and distribution.

IEnova announces purchase agreement for the acquisition of Energía Sierra Juárez – *Global Energy*

IEnova informed that a sale and purchase agreement came into force to carry out the acquisition, through its subsidiary Controladora Sierra Juárez, the share that Saavi Energía, maintains in Energía Sierra Juárez.

The purchase price of these shares is approximately USD $83 million. The closing of the transaction is expected to take place during the first half of 2021. The acquisition is subject to compliance, including the authorization from the Commission Federal Economic Competition and the Federal Regulatory Commission of Energy of the USA.

Energía Sierra Juárez is a wind generation complex that is located in the municipality of Tecate, Baja California. The first phase is an operating wind project with an installed capacity of 155 MW. The second phase is under construction and will have an installed capacity of 108 MW.

Global Renewables bodies call on Mexico's government to restore the country's transition to clean energy – *Energía Limpia XXI*

The leading global renewable energy bodies, the Global Wind Energy Council and the Global Solar Council, jointly called upon the government of Mexico to urgently restore the country's transition away from expensive and polluting fossil fuels, and reset the course to a sustainable future based on competitive, clean renewable energy.

A joint statement was published today in response to the reversals to key parts of the Electricity Act (Ley de la Industria Eléctrica or LIE) approved by the lower parliamentary chamber. The statement asks lawmakers to reject the bill to modify the LIE in order to avoid adverse consequences, which will span beyond the power sector to impact local industries, households and the overall investment environment. The joint statement highlights:

The damage already done to the investment environment for renewable energy over the last two years, where national policy reforms like this bill are posing an unequivocal threat to local and foreign private sector investment into Mexico's formerly robust renewable energy market and undermining the principle of fair market competition. This critical legal change further relegates renewable energy supply to the back of the queue in Mexico, unwinding the progress made in its energy transition over the last decade and reversing the landmark liberalization of the energy market in 2015.

Further hurdles for clean energy development and generation will put at least 17,000 jobs at risk in the wind and solar industries, and initiate a harmful ripple effect in the wider value chain of industrial and commercial sectors which are committed to cost-competitive sustainable energy in Mexico.

The urgent need to restore the country's status as a global leader of the energy transition and enable Mexico's climate commitments by re-establishing legal certainty for the renewables sector and capitalizing on the significant investment, socioeconomic benefits and energy security brought by the clean energy transition.

The International Renewable Energy Agency Coalition for Action, an international network of 115 leading renewable energy companies, industry associations, civil society, research institutes and intergovernmental organizations, also acted as signatory to this statement.

Oil & Gas - LATAM

Talos, Enauta consortium places bid for Petrobras Albacora fields – *Reuters*

A consortium of Talos Energy Inc, private equity firm EIG Global Energy Partners, Enauta Participacoes SA and 3R Petroleum Oleo e Gas SA has submitted a non-binding offer for Brazilian oilfields Albacora and Albacora Leste. The exact value of the bid submitted to Brazil's state-led oil company Petrobras was unclear.

The two fields produce 77,000 boed according to tender documents released by Petrobras. The state-run oil firm is seeking to rapidly de-leverage by selling non-core assets.

Petroleo Brasileiro SA, has sold dozens of small and medium-sized fields over the last two years. The Albacora divestment would be the largest since 2017, when the company agreed to sell a stake in its Roncador field to Norway's Equinor ASA for $2.9 billion. If the bid is successful, it would mark a significant geographic shift for Talos, which is active only in the Gulf of Mexico.

A source familiar with the firm's strategy described the Albacora offer as consistent with Talos' push for adding offshore scale and diversity to its portfolio. There are likely other bidders for the oilfields. Among the companies that have publicly expressed interest in Albacora and Albacora Leste is Rio de Janeiro-based independent Petro Rio SA.

Brazil's Bolsonaro to oust Petrobras CEO after fuel pricing spat– *Reuters*

Jair Bolsonaro moved to replace the head of state-run oil company Petrobras naming a retired army general former Defense Minister Joaquim Silva e Luna, with no oil and gas experience as CEO after weeks of clashes with the current chief executive over fuel price hikes.

Current CEO Roberto Castello Branco, backed by investors for his efforts to sell underperforming assets and cut debt, would be the second Petrobras leader in three years to fall over the political fallout from fuel pricing. In 2018, then-CEO Pedro Parente resigned when the government forced fuel prices lower in a concession to striking truckers.

Parente vowed to set domestic prices in line with global markets, breaking with a policy that made Petrobras sell fuel below international parity, triggering some $40 billion in losses from 2011 to 2014. Similarly, Bolsonaro tangled with Castello Branco over his insistence on raising prices for diesel and other fuel as Brazil's currency weakened and global crude prices surged.

Petrobras launches tender for 5 offshore rigs – *Ring Lynx*

The state-owned company published a public notice to contract up to five offshore drilling rigs. The opening of the envelopes with the bidders' proposals is scheduled for March 15th. The vessels that will be hired in the process should start operating for the oil company as of September next year.

The bidding process is divided into two lots, which aim to charter drillships or semi-submersible rigs. In the first one, Petrobras wants to one or two drilling rigs that use the technology with controlled pressure, which will start operating in September 2022. The vessel's work period will be up to 3 years, and may be canceled 1 and half years into the contract. Petrobras asks for a rig that is capable of operating in water depths between 1,600 meters and 2,200 meters. The unit must also be able to drill wells of 7,000 meters (desirable 10,000 meters).

In the second lot, Petrobras wants to hire from one to three drilling rigs (which in this case do not need MPD technology). The start for these units is scheduled for December 2022. As in the previous batch, the maximum contract period will be 3 years. The difference is that the agreement may be terminated as of the second year. The requirements for water depth and drilling capacity for this lot are the same as the previous one.

Petroperu issues $1 bln bond at all-time low 4.65% – *Reuters*

Peru's state-owned oil firm Petroperu issued USD $1 billion in bonds at a "historic low" interest rate of 4.65% in the international market to pay for completing the modernization of the company's largest refinery. The bond attracted approximate demand of USD $2.5 billion. The transaction was carried out through the reopening of the bond maturing in 2047 at an interest rate of 4.65%, which represents the minimum historical interest rate for Petroperu. The company expects to complete the modernization of Talara, located on the Pacific coast of northern Peru, in 2021 with a total estimated investment of USD $4.7 billion.

Argentina's YPF bonds rally after partial debt swap – *Reuters*

YPF bonds rallied after the Argentine state energy giant said it had received support from holders of almost 60% of its bond maturing next month to restructure the debt, helping defuse near-term default fears.

The company, which leads development of the huge Vaca Muerta shale formation in the South American nation, said the result meant it had received support from the central bank to get access to the dollars it needed to pay off its obligations. YPF said in a statement it had support from 59.79% of holders of the 2021 bond, which was in focus ahead of a $413 million payment due next month it was struggling to pay because the central bank has tightened access to foreign exchange.

YPF shares rose 1.8% in New York and fell 1.8% in Buenos Aires, while most of its bonds involved in the restructuring plan rallied. The March 2021 bond rose 4 cents, while the 2025 and 2027 rose about 3.8 cents each. Support for the other six bonds in the planned larger USD $6.2 billion restructuring was substantially lower, at between around 19%-43% for the notes expiring between 2024-2047, after leading creditor groups withheld support of revamping those notes.

Argentina, in a recession since 2018, has imposed strict capital controls as it battles against falling reserves and looks to protect the local peso currency. The Ad Hoc creditor group, which includes investors like BlackRock, celebrated the agreement on the 2021 bonds. "The Group will be available to engage with YPF again should it become necessary in a good faith process".

Argentina's 'Dead Cow' comes back to life as shale oil drives rebound – *Reuters*

Argentina's 'Dead Cow' is roaring back to life. Oil output from the Vaca Muerta region in Patagonia, which holds the fourth-largest shale oil reserves in the world, stalled during the coronavirus pandemic but hit a record high in December as producers revved up wells with an eye on rebounding prices and a new export market.

The revival of the formation that has been compared with the U.S. Permian Basin signals how it is growing more competitive globally, helped by government policies protecting oil producers, an export tax holiday and reviving global prices. That could bring a timely injection of much needed dollars for the country's Peronist government, which has grappled with a sharp decline in foreign reserves due to the coronavirus pandemic and a currency crisis hammering the peso.

Oil production in Vaca Muerta hit a record 124,000 barrels per day (bpd) in December, according to data from consultancy Rystad Energy. Vaca Muerta, given its unusual name literally meaning the "dead cow" by a U.S. geologist in 1931, has taken nearly a century since then to really get going, with its first export cargoes of liquefied natural gas (LNG in 2019) and oil just last year.

Previous, and ambitious, government plans here have though targeted over 1 million barrels of unconventional oil per day from the Neuquen region by 2030. Producers are focusing on exports with the oil taken up to 900 km to the port of Puerto Rosales by pipeline which can flow 157,000 bpd, with plans to expand this to 220,000 bpd this year and eventually to 415,000 bpd. The region's oil production slumped to around 90,000 bpd after the pandemic struck in 2020, before rebounding, Rystad data show. Gas production has continued to decline.

Producers, including state energy giant YPF and oil majors Chevron Corp and Royal Dutch Shell Plc, Mexico-based Vista Oil & Gas and Malaysia' state-owned Petronas, were in a decent place to step up as global prices started to rebound. The creation of a local "criollo barrel" oil price had shielded producers earlier in 2020 and the temporary removal of export tariffs opened up overseas sales. "In the midst of the crisis, (exports) was a huge opportunity we had," said an executive from an international oil firm in the country, adding Argentina had exported some 7.1 million barrels last year. Buyers included Brazil, the United States, Chile and the Bahamas. The government is also eyeing a billion-dollar gas pipeline from Vaca Muerta to Brazil.