Energy Monthly News

March, 2021

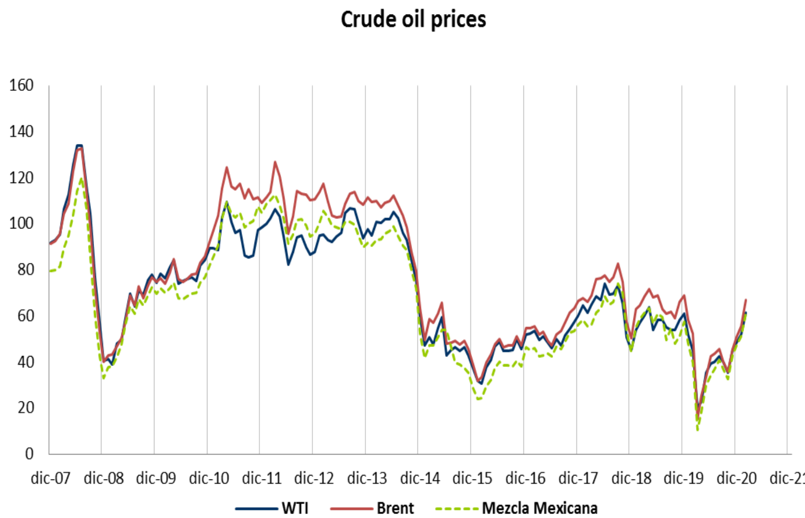
Table of Contents

This month in review

** 25/03/2021* ***25/03/2021*

Crude oil price MME US/BD	59.1
NG price HH* US/MMBTU	2.6
Mx crude production MMbd - *January*	1.64
Mx NG production MMpcd - *January*	4,839
US crude production MMbd - *December*	11.06

FX Rate**	20.76



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

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Marcos y Asociados is pleased to announce that Pemex reached an agreement with AMESPAC to support suppliers and endorse commitment towards transparency and accountability

Pemex and the Asociación Mexicana de Empresas del Sector Petrolero AC "AMESPAC", signed an agreement to support suppliers and contractors. Pemex and AMESPAC have been working together since September 2020 to optimize payment and financing schemes for their suppliers, seeking to ensure continuity of operations of the national oil industry within a collaborative environment, with the ultimate purpose of achieving the production goals, cost reduction, profitability and transparency of processes.

In accordance with the commitments made, both institutions have agreed to endorse collaboration, highlighting the following agreements:

- Starting this March, Pemex will publish its payment and debt information with its suppliers and contractors through the publication of monthly reports that will be available on its website "PEMEX+ TRANSPARENTE" for public consultation without restrictions of any nature.
- Pemex will develop a financial strategy to schedule the payment of the debt registered with suppliers and contractors that expired as of December 31, 2020. The state-owned productive company undertakes to make the necessary effort to guarantee the flow of financial resources and thus pay such debts between the months of February and April 2021.
- In addition to the aforementioned payments, Pemex will be liquidating the debt that corresponds to activities also executed during 2020 but whose invoices will be due throughout the year 2021.
- The commitment was ratified so that all micro and small companies that provide their services and offer goods to Pemex have access, without restrictions, to the "Productive Chains" payment scheme through Nacional Financiera Platform "NAFINSA".
- AMESPAC, for its part, assumes the commitment to promote among the companies affiliated to the association Codes of Ethics and Business Integrity, to contribute to the fight against corruption that the Government of Mexico proposes in all commercial relations with suppliers and contractors.

Oil & Gas - Mexico

CNH approves Pemex requests for field activities – *CNH*

CNH has given green light to a series of approvals requested by Pemex including an amendment to a development plan and a series of updated work programs.

Concerning the 3M – Campo Agua Fría area in Puebla and Veracruz states, the firm was allowed to increase investment and the number of wells it plans to spud in the legacy field. It now plans to invest USD $4.3bn in the area over the next 10 years to spud 600 wells and recover 88.7Mb and 153bcf of natural gas. In addition PEP presented an evaluation program that seeks to establish the limits of the Camatl discovery off the coast of Veracruz and Tabasco states and assess its commercial viability. This will involve spudding a study well and conducting a series of tests for a total investment of USD $58.8 million.

The firm was also allowed to update its work program for two areas off the coast of Tabasco state, AS-CS-13 and G-CS-02. Both involve conducting geological activities with a total investment of USD $10.6 million in the two fields.

PEP also received the go-ahead to invest USD $1.4 million to spud a delimitation well at the VC-01 block in Veracruz State. Activities will last 27 days and the firm expects to find 4.67boe of new resources.

Mexico to absorb Pemex debt payments in latest round of help – *Reuters*

Mexico's government will absorb regular debt payments this year for Pemex, as President AMLO intensifies his efforts to prop up the heavily-indebted state-run oil company. Those so-called debt amortization payments will total over USD $6 billion in 2021, CEO Octavio Romero said.

Pemex financial debt stood at USD $113.2 billion at the end of 2020, despite several capital injections from the government to boost its weak finances. Mexico's fiscal deficit will widen to 4.1% of gross domestic product this year, with ongoing support for Pemex driving up debt, ratings agency Moody's forecast in late February. Moody's estimated that Pemex will need USD $14.7 billion in government support this year alone.

Romero said Pemex had made a new 500-600 million barrel discovery and that the company hopes to close 2021 with production close to 2 million bpd. Pemex has seen oil output slide for 16 straight years as its biggest, largely offshore deposits have been extensively tapped. AMLO said Pemex's tax bill will be further reduced, without providing details. He also announced a sharp reduction in the company's oil output goal going forward to no higher than 2 million bpd, couching it as an environmental imperative.

Mexican president says Vitol offered Pemex USD $30 million in damages after scandal – *Reuters*

Vitol, the world's largest independent oil trader, offered to Pemex about USD $30 million in compensation after Vitol admitted to paying bribes, Mexican President AMLO said.

Vitol agreed to pay USD $164 million last year to resolve a U.S. investigation that alleged the company paid millions of dollars in bribes, including to Pemex employees in exchange for lucrative contracts. Pemex's commercial arm temporarily suspended business with Vitol during the investigation. Vitol offered Pemex compensation of about USD $30 million due to the bribery scandal. It is the government's objective to determine who accepted the bribes at Pemex, but that a prosecutor would be in charge of the process.

"If we do not know who, we cannot accept the supposed reparations of the damage because we would be covering up, accomplices," AMLO said. As part of the total compensation, Vitol offered around USD $17 million in cash to Pemex and an unknown amount to cover contracts that Pemex no longer wished to carry out with Vitol, Pemex CEO Octavio Romero said. Under Lopez Obrador's direction, Vitol's payments will go to a finance ministry institution that manages confiscated funds due to corruption or organized crime, Romero said.

Zama partners progressing field development planning – *Offshore Energy*

Premier Oil has issued an update on studies for the Zama oil field development offshore Mexico. The company is a partner to Talos Energy, containing a large part of the field, which extends into an adjacent block operated by Pemex. Subsurface analysis of samples and data obtained through the 2018 and 2019 appraisal drilling campaign has confirmed the good quality and properties of the Zama reservoir rocks and the crude oil. This, combined with the very high resource density and shallow-water setting, could support a recovery factor of more than 50%, (Zama is thought to hold more than 800 MMboe recoverable).

The field will likely be developed with two drilling and processing platforms tied back to an FSO: key elements of the development scheme have been agreed with Pemex. McDermott Engineering has completed the FEED for the platform jackets and the topsides processing facilities and later this year, an invitation to tender will be issued for detailed engineering, leading to procurement, and construction of the jackets and topsides. In addition, Premier has a 30% stake in Mexico offshore block 30, where the Wahoo prospect could be drilled during the second half of 2022.

New private firm likely to keep stake in Mexico oilfield – *Bloomberg*

A new company soon to be created by Chrysaor Holdings Ltd and Premier Oil Plc will likely retain its stake in the giant Zama oil development in Mexico, reversing an earlier decision by the indebted North Sea driller to exit the project. Premier began trying to sell its 25% stake in the Zama field, the biggest new oil find in Mexico made by a private company in decades, in 2019. Since then, both a dispute over who should operate the development and a proposed reverse takeover deal with Chrysaor, which hasn't yet disclosed its plans for Premier's projects, has stalled progress.

With the takeover expected to complete by the end of March, Premier will start trading under its new name, Harbour Energy Plc, on April 1. The new company will be able to continue developing the Zama field, Premier Chief Financial Officer Richard Rose said. In December, Mexico extended a deadline for a group led by Talos to reach an agreement with Pemex over ownership of the Zama discovery. The companies have until March 25 to agree, or Mexico's Energy Ministry will make a decision on their behalf. Rose said the so-called unitization process at Zama "is coming to a conclusion," and a new operating agreement could be finalized in the next few weeks.

Talos, which has a 35% stake in a block where Zama is located and is in a consortium with Premier and Wintershall Dea GmbH, said that talks have been making progress as the deadline looms. It expects to reach a final investment decision for the shallow water, oil-rich block by end of this year.

Mexico says Braskem to pay more costs in new Pemex accord – *Reuters*

Brazil's Braskem Idesa must pay more of the costs in a new gas supply agreement with state oil firm Pemex that will save Mexico some $13.75 billion pesos (USD $661 million), Pemex CEO Octavio Romero said. Pemex said under a deal struck, it will only be required to supply ethane gas to Braskem Idesa until 2024 and would avoid past penalties for failing to meet the terms of the original contract, which Mexico's government had pilloried.

Under the contract signed in 2010, Pemex agreed to supply Braskem Idesa with 66,000 barrels of ethane a day for 20 years. Under the new terms, Pemex must deliver 30,000 barrels of ethane a day until March 2024. Moreover, the terms also stipulate that Braskem would cover the costs of transporting the ethane, and that the sum it would pay the Mexican firm for the gas would reflect "100%" the international reference price. In addition, Pemex said it would work with Braskem Idesa so that the Brazilian firm could set up an ethane gas import terminal in order to "resolve its supply needs directly." After complaining about the original contract, AMLO in December said that Mexico would cease to supply natural gas to power the Braskem Idesa Etileno XXI plant on the Gulf Coast. AMLO, said the move was legal and in the public interest. He credits it with bringing Braskem to the negotiating table.

Pemex announces new discovery – *Expansión*

Pemex announced a new oil discovery in the state of Tabasco. The announcement was made by Pemex CEO. The discovery was reported through the onshore well Dzimpona-1 and it is expected to contribute between 500MMboe and 600MMboe to Pemex's reserves and production levels.

Pemex ends ratings contract with Fitch – *Reuters*

Pemex has ended a contract with credit ratings agency Fitch Ratings. Fitch was the first of the big three agencies to downgrade Pemex bonds to speculative grade, or junk. In March last year, it also identified Pemex as the most vulnerable among national oil companies in Latin America. Debt issuers such as nations and companies usually pay ratings agencies including Fitch, Moody's Investors Service and S&P Global Ratings to help investors judge risk.

Pemex has outstanding bonds worth tens of billions of dollars. In response to Pemex's announcement, Fitch declared in an official statement that it would continue issuing ratings of the NOC as a service to its investors, considering it pertinent to continue informing international entities of the risk represented by Pemex debt. The ratings "will be based on the availability and receivership of sufficient information, assuming the company continues to answer Fitch's requests".

Power/Renewable Energy – Mexico

Mexico's CFE seeking bidders to build six combined-cycle plants – *NGI*

Mexico's state-owned power utility CFE is launching an international tender to build for six combined-cycle natural gas-fired power plants with a combined installed capacity of 4,322 MW.

CFE is seeking bidders to design and build the Mérida, Valladolid, Tuxpan, Baja California Sur, San Luis Río Colorado and González Ortega combined-cycle plants.

Mérida and Valladolid are in Yucatan State, where gas supply has been constrained in recent years. Supply conditions improved last September when Engie completed the Cuxtal I interconnection linking its Mayakan pipeline system on the Yucatan Peninsula with Mexico's SISTRANGAS national pipeline grid. Engie is planning to expand the 250 MMcf/d Mayakan system through the Cuxtal II project, which could see capacity expanded to more than 500 MMcf/d.

The port of Tuxpan in Veracruz State is connected to both SISTRANGAS and to the 2.6 Bcf/d Sur de Texas-Tuxpan subsea pipeline owned by TC Energy and Infraestructura Energética Nova. The

González Ortega plant is envisioned for Baja California State, which receives gas via pipeline from the United States and in the form of LNG via the Energía Costa Azul terminal.

Baja California Sur, meanwhile, is isolated from both the U.S. and Mexico pipeline networks. New Fortress Energy is developing a small-scale LNG import terminal in Baja California Sur's port of Pichilingue, which the company has said it aims to complete by the end of this year.

The San Luis Río Colorado plant is planned for the northwestern state of Sonora. The projects are to be awarded in three packages of two projects each, according to CFE. The plants would be funded by the Fideicomiso Maestro de Inversión, approved by CFE's board last July.

IEnova announces the closure of the acquisition of the remaining 50% in Energía Sierra Juárez – *IEnova Press Release*

IEnova's shareholding in Energía Sierra Juárez "ESJ" will increase from 50% to 100%. The purchase price of Energía Ltd. "Saavi", capital stock is approximately USD $80 million, net of the corresponding amount of the Company's debt.

Energía Sierra Juárez is a wind generation complex located in the Municipality of Tecate, Baja California, Mexico. The first phase is an operating wind project with an installed capacity of 155 megawatts. The second phase is under construction and will have an installed capacity of 108 megawatts. ESJ has a private cross-border transmission line.

AMLO threatens constitutional change if power bill struck down – *Reuters*

AMLO said he would send an initiative to Congress to reform the constitution if a new law to increase state influence over the electricity market is deemed unconstitutional. A judge temporarily suspended the government's electricity bill, which was passed by lawmakers this month to strengthen state power utility the CFE at the expense of private operators. The law has angered business groups and generators of wind and solar power, whose projects have been held up by the government as it attempts to reorganize the market.

AMLO said he was sure the legislation was not unconstitutional. "But if judges, magistrates, justices determine that it is unconstitutional and that it can't continue, I would send an initiative to reform the constitution," he said. AMLO argues the previous administration skewed the electricity market in favor of private operators with its own constitutional overhaul. Earlier this month, the leftist leader said he would renegotiate existing contracts in the industry. Trade experts say that a repeal of the last government's energy reform could breach Mexico's commitments to investors under a regional trade deal it initially sealed in 2018, the United States-Mexico-Canada Agreement "USMCA".

Blackstone and investors get zapped with bet on Mexico's electricity market – *Reuters*

Blackstone in 2016 unplugged a Texas power plant that it owned from the state's grid in a bet that it could make a fortune as the only American-based generator selling electricity exclusively to Mexico. Nearly five years later, Blackstone's gas-fired plant, Frontera Holdings, is struggling to exit bankruptcy after burning investors holding nearly $1 billion of its debt - the victim of a succession of problems ranging from a power market collapse in Mexico in 2020 to last month's severe cold snap.

Frontera filed for bankruptcy protection last month in Houston, extinguishing loans and notes held by U.S. hedge funds, mutual funds, pensions and private equity firms, according to U.S. regulatory filings.

While the company has since secured USD $145 million in financing for a fresh start, its future is uncertain: Mexico has announced market reforms that could undo Frontera's business model, and the facility is at risk of big fines for failing to deliver power during the regional deep freeze.

Mexican President AMLO said he would crack down on his country's wholesale electricity market, saying power producers are among those that have made excessive profits. He is also now armed with a new law that would open the door to renegotiating and potentially terminating contracts with independent producers such as Frontera. The deep freeze hit Texas and northern Mexico, knocking Frontera and other power generators offline. Lawyers for Frontera say the plant may face penalties for not being able to supply power for several days.

Blackstone declined to comment on the impact of the developments on Frontera's plans to exit bankruptcy. Frontera owns 100% of its transmission line to Mexico and has exclusive use of it. New U.S.-based entrants likely would not have that advantage because of rule changes at the U.S. Department of Energy. But last year peak pricing for electricity in the Mexican market tumbled 70%, in part because of the coronavirus pandemic's impact on the economy.

Why millions of residents in North-Central Mexico were freezing – *Houston Chronicle*

Upwards of 4.5 million residents in the north-central states of Mexico were without power beginning on February 15. The government's power utility, the Federal Electricity Commission (CFE), blames the unavailability of natural gas from Texas. The back-story, however, is CFE did not have in place a hedging program to protect it against price spikes

Restated, the problem was not the unavailability of gas from Texas but its unaffordability.
The alternative would have been to withdraw gas from storage; but aside from gas in pipelines, Mexico has no gas storage. In the fourth quarter of 2020, the state-owned oil company Pemex daily flared 676 million cubic feet of gas, which, at that rate, could have created 10 billion cubic feet of gas storage in just 15 days had the infrastructure been available. The government, meanwhile, has banned fracking, further limiting domestic gas production.

For a quarter-century, the government and its two energy companies have failed to devise a natural gas market of buyers and sellers of natural gas across the value chain from the wellhead to the burner tip. The government's bet — which it lost on February 15 — was that it could get by with a robust logistic system starting downstream from the wellhead to the injection point in a gas pipeline whose capacity was controlled by CFE or Pemex.

True, in 2015, the government auctioned oil properties some of which were in the northern, gas-prone Burgos Basin, which would mean that there would be gas production by companies other than Pemex; but this policy change was never focused on creating the critical mass of producers who would independently market their gas to customers in Mexico. Had the policy been thus focused, an independent price hub in Monterrey would have been created, creating a true market in which sellers and buyers would have collaborated to build private pipelines, implement hedging strategies, and invest in gas processing and storage.

The government's response to the power outages in north-central Mexico has been to push ahead with the controversial proposal by the silver hair-and-tongued President Andrés Manuel López Obrador to reprioritize the dispatching of electric power sources, starting with generation by CFE, then followed by CFE-contractors, then private gas generators followed, in the end, by intermittent producers (wind and solar). On February 23, the Lower House approved the bill, 304-179.

Rejecting the call for an open forum for expert opinion from environmental, legal and industry specialists, the government party rushed a vote in the Senate on March 2, winning by 68 to 58. The law was promulgated March 9.

Investors in renewable energy came to Mexico under a regulatory regime of lowest-price dispatching of power; under the new law, their low prices will be dispatched last. Challenges to the law are expected to reach the Supreme Court (which, however, are likely to be rejected).

There is talk in industry circles that some of the affected investors may seek relief from alleged regulatory expropriation by invoking the mechanisms available under the North American free-trade pact known as USMCA. They may be constrained, however, by the premonition that such steps could result in being blackballed by the authorities.

A deep dive into Mexican thinking about energy would reveal a populist national narrative: Energy security is best obtained by the public funding and operation of energy infrastructure. The Oil Left in Mexico, which rejected the alternative hypothesis of that narrative, namely, that the private market best provides national energy security, regards itself as once again vindicated by the power failures in Texas that began on February 15.

Absent a domestic gas price hub, absent a commitment to a hedging strategy and lowest-cost dispatching, absent gas storage and fracking, and a sharp reduction of gas flaring, residents in northern Mexico can foresee that their electricity bills will rise and that it would be prudent to have on reserve several dozen containers of drinking water in preparation for the next outage.

By George Baker

Oil & Gas - LATAM

Canacol details USD $140 million Colombia gas plans – *Bnamericas*

Canacol Energy will allocate 60% of its planned USD $140mn capital budget for 2021 to exploration as it seeks to consolidate its position as Colombia's largest independent gas producer.

The company has set aside USD $85 million for exploration wells and seismic data acquisition, USD $21 million for maintenance and development drilling, USD $19 million for administration, ESG (environmental, social, and governance) actions and other activities, and USD $15 million for facilities and infrastructure. The overall forecast capital outlay represents a 65% increase on last year's total of USD $85million.

Canacol's 2021 upstream program envisages the drilling of 12 wells: nine for exploration and three for development. The company also aims to acquire 665km² of 3D seismic data. Meanwhile, the firm is still waiting to secure an off-take deal with a major utility – believed to be EPM – before moving forward with its USD $400 million Medellín pipeline.

Canacol is assessing three proposals for an EPC contract and has agreed upon a debt-equity financing model for the project. The 300km pipeline is expected to begin operating in 2024, transporting 100 million cubic feet per day from the Jobo gas processing facility near the Caribbean coast to Colombia's second-largest city.

Equinor and Partners choose concept for offshore Brazil field – *Rigzone*

Equinor reported that a development concept has been approved for the BM-C-33 gas/condensate field in the pre-salt Campos Basin offshore Brazil.

Discovered in 2010 by Repsol Sinopec Brasil, the license sits approximately 124 miles offshore in up to 6,562 feet (2,900 meters) of water, stated Equinor, the operator with a 35% interest. Other BM-C-33 license partners include Repsol Sinopec Brasil (35%) and Petrobras (30%).

According to Equinor, the development concept calls for sending BM-C-33 well streams to a floating production, storage, and offloading “FPSO” unit at the field. The FPSO will process gas and oil/condensate to sales specifications for export, and crude will be offloaded by shuttle tankers and shipped to the international market after ship-to-ship transfer, the operated noted.

Equinor stated the gas export plan relies on an integrated offshore gas pipeline from the FPSO to a new dedicated onshore gas receiving facility inside Petrobras’ TECAB terminal at Cabiúnas in Brazil’s Rio de Janeiro state. Gas will subsequently enter the domestic gas transmission network.

The planned gas export capacity for the BM-C-33 development is 16 million cubic meters per day, with exports expected to average 14 million cubic meters per day – a significant volume based on current Brazilian gas demand, Equinor noted. The company added the project will boast 20,000 cubic meters of daily oil processing capacity. Equinor pointed out that details on the project timeline toward next decisions and production start-up are pending

Argentina's oil production keeps falling – *Bnamericas*

Oil production in Argentina remains at the depressed levels seen since last year due to the oil price collapse and the quarantine to tackle the pandemic. Extraction fell 5.31% to 496,202b/d in January compared to 524,039b/d a year ago, just before the pandemic, according to data from the energy department.

In 2020, local oil extraction had fallen by 5.08% to 490,319b/d, compared to 516,556b/d in 2019 as the country was in strict lockdown for seven months. Throughout January, negative returns were registered for the five local oil basins. Noroeste production dropped 23.8% (producing 4,037b/d), Austral’s 13.8% (16,926b/d), Cuyana’s 11.2% (19,681b/d), San Jorge’s 7.55%

(208,045b/d), and Neuquina’s 1.74% (247,512b/d). The latter three basins performed better because of rising natural gas production, driven by the entry into force of Plan Gas 4, as higher gas production buoyed associated oil production.

Of the 15 main companies that produced 91% of oil, 10 registered falls in January, while five reported increases. Petroquímica Comodoro Rivadavia registered a year-over-year decrease of 25.5% (producing 7,602b/d), Chile’s Enap Sipetrol 23% (4,561b/d), China’s Sinopec nearly 21% (14,556b/d), and Argentina’s Pluspetrol 18.3% (23,298b/d) and Tecpetrol 17.1% (13,440b/d).

ExxonMobil registered an 8.68% drop to 4,030b/d, Colombia’s Petróleos Sudamericanos 9.89% (3,075b/d), and Argentina’s Compañías Asociadas Petroleras 8.87% (11,408b/d), Pan American Energy 5.86% (100,443b/d) and YPF 4.34% (233,054b/d).

YPF’s production increased 4.04% month-on-month, PAE registered a fall of 1.51%. Anglo-Dutch Royal Dutch Shell performed best, with an increase of 57.4% (producing 13,087b/d), followed by Vista Oil & Gas with 50.7% (25,317b/d), the US major Chevron with 26.1% (6,685b/d), the local unit of France’s Total, Total Austral with 5.45% (9,447b/d), and Argentina’s Capex with 2.83% (7,233b/d).

ExxonMobil submits proposal for Colombia fracking pilot project – *Reuters*

ExxonMobil has submitted a proposal to carry out a pilot project for hydraulic fracturing - or fracking. ExxonMobil applied to carry out fracking investigations in Colombia's Valle Medio del Magdalena basin, the ANH said and had submitted a proposal to the ANH, but did not elaborate.

If the Platero investigative project is approved, ExxonMobil will join Colombia's majority state-owned oil company, Ecopetrol, as the second company to begin a fracking pilot project in the country. "Colombia continues progressing in making the possibilities of extracting gas and oil from non-conventional fields viable with this proposal from ExxonMobil, which has extensive experience in this type of project," ANH President Armando Zamora said.

This is a newsletter industry update courtesy of Marcos y Asociados Consultoría Energética, SAPI de CV

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