April, 2021

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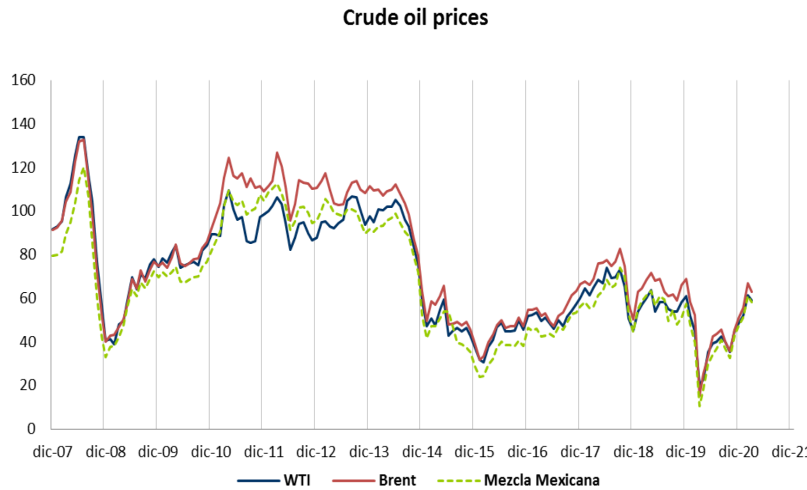
This month in review

* 29/04/2021 **29/04/2021

Crude oil price MME US/BD	62.6
NG price HH* US/MMBTU	2.7
Mx crude production MMbd - *March*	1.69
Mx NG production MMpcd - *March*	4,831
US crude production MMbd - *January*	11.08

FX Rate**	20.09



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

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Oil & Gas - Mexico

Pemex 1st quarter 2021 results – *Pemex*

During 1Q21, total sales increased by 11.8% reaching $317,553 billion pesos ($15.7 billion), as compared to 1Q20, mainly as a result of a 6.2% increase in domestic sales and a 19.0% increase in export sales. Crude oil production and condensates in fields (excluding partners' production) averaged 1,715 thousand barrels per day, a decrease of 1.4% as compared to the same period of 2020. Total natural gas production (excluding partners) decreased by 101 MMcfd, this equivalent to a 2.1% decrease as compared to the same period of 2020.

Pemex reported a first quarter net loss of $37,358 billion pesos ($1.8 billion). Its financial debt reached $113.9 billion at the end of the quarter.
($1=$20.42 MXN at end-March).

Pemex to invest USD $640 million in Xanab field – *CNH*

CNH has given the green light to a request by Pemex's exploration and production arm PEP to modify the program for the 2M- Xanab field off the coast of Tabasco. PEP plans to invest USD $640 million in the field to spud two development wells, finish an existing well and recover 80.6Mb of oil and 52.8Bcf of natural gas. The firm will also conduct 19 reparations at the site. Operational expenses would reach USD $256 million.

The program would allow Pemex to take advantage of a previously underexploited area of the assignment, as initial wells in the project's center-south area have performed above expectations. Xanab suffered water-related problems in 2018 that abruptly cut production from 160,000b/d to 60,000b/d; nine wells are currently operational at the field.

Mexico's private sector oil production expected to double over the next decade – *Bnamericas*

Projects under Mexico's E&P contract model, brought in by the 2014 energy reforms, are expected to add 704,000b/d to the country's oil output when they hit a peak in 2030.

The figures, which were presented by Héctor Moreira, commissioner at hydrocarbons regulator CNH, would be an average annual increase of 18% compared with the expected production for 2021, which is 264,000b/d.

In 2030, 10.6% of that production would come from contracts operated exclusively by Pemex, 35.2% from partnerships between Pemex and private players (farmout deals) and 54.2% from contracts operated exclusively by private players, Moreira said during a conference organized by E&P trade group AMEXHI. After 2030, production would start to decline and new contracts would have to be awarded to provide new resources. The data is based on production forecasts provided by the companies responsible for developing each field.

In terms of natural gas, CNH estimates that peak output from contracts will come in 2028, when they will be producing 728Mcf/d, double what they are expected to produce in 2021. Some 4.6% of that volume would come from exclusive Pemex contracts, 38.6% from farmouts and 56.8% from exclusively private contracts. The contracts were a new model of hydrocarbons development introduced under the 2014 energy reforms. They allow public and private players to compete in bidding rounds and sign contracts to operate specific fields. Farmout contracts, meanwhile, are decided by Pemex, which tenders private partnerships for one or several of its assigned blocks.

Pemex is the only company allowed to operate blocks outside the contract model, which are directly assigned to the firm by energy ministry SENER with the approval of the CNH. The administration of President AMLO canceled all upcoming auctions after it took over in 2018, with AMLO vowing that no new bidding rounds or farmout deals would be conducted during his tenure.

CNH approved a modification to Pantera E&P exploration plan – *CNH*

CNH approved a request by Pantera E&P to modify its exploration plan for the L02-A10.CS area in Tabasco State. The updated plan would see the firm invest between USD $23.2 million and USD $39 million to conduct 25 exploratory studies and spud up to seven exploration wells.

In addition, the CNH approved 2021 budget plans presented by PEP for two neighboring areas, G-TMV-04 and A2.TM off the coast of Veracruz. The new plans would involve investing USD $9.1 million in the areas to conduct early exploration.

China Offshore announces a partial "devolution" of deepwater area Perdido 1 – *Energía a Debate*

CNOOC abandoned a portion of the contractual area located in deep waters known as Perdido 1, off the coast of the State of Tamaulipas. The CNH approved the early termination procedure due to resignation of part of the area corresponding to the contract CNH-R01-L04-A1.CPP / 2016. The resignation does not affect the obligations related to compliance with the Minimum Work Program (PMT) or the payment of conventional penalties if it were the case.

CNH explained that CNOOC resigned to an estimated area of 1,027.50 km^2 to remain at 650.50 km^2, considered to continue to be the subject of the contract. It should be recalled that the Chinese company, CNOOC, had already transferred 30% of its stake in favor of Shell Exploración y Extracción de México of the contract CHN-R01-L04-A4.CPP / 2016, also in deep waters.

CNH approved to Vista Oil & Gas development plan for Vernet and Cafeto fields – *CNH*

The CNH approved the development plan for Cafeto and Vernet fields to Vista Oil & Gas. The plan is part of the contract CNH-R02-L03-CS-01/2017, located in Macuspana, Tabasco. The area includes the Cafeto and Vernet fields, producing gas, condensate and oil. The activities to be carried out are the drilling of 21 wells, 28 major repairs, 154 minor repairs and 45 plugging. Vista Oil & Gas expects to recover 9.68 million barrels of oil and 14.07 bcf of natural gas. The investment program considered is USD $110.72 million; of which 52.7% correspond to development, 45.96% to production and 1.34% to abandonment activities.

Mexico set to pass bill likely to increase Pemex's refined products market share – *S&P Global Platts*

The Mexican Senate approved on April 22 a bill presented by President AMLO that toughens the rules for private companies to request and keep permits to import, export, transport and distribute liquid fuels in the country. The bill, had already been passed by the lower house and is expected to be signed into law by AMLO in the coming days. The government claims that the bill targets fuel theft and contraband, which are problems that need an immediate response. However, observers have highlighted the bill is aimed at reducing competition.

Mexico is dependent on refined products imports as Pemex's refineries are operating well below capacity. Imports have climbed in recent months. According to data from Mexico's anti-trust agency "COFECE", Pemex has lost roughly 50% of the retail diesel market and 30% of the retail gasoline market to the competition.

The bill also opens the possibility of a company losing its permit if its operations are deemed an "imminent threat" to national security or energy security, concepts which some market watchers say can be ambiguous in their interpretation. Observers have also warned the law could allow Pemex to take control of the assets of those companies that lose their permits.

Pemex to invest up to USD $214 million in Yuban field – *CNH*

CNH approved to PEP its exploration plan for the assignment AE-0177-Yuban, located within the states of Veracruz, Hidalgo and Puebla. Pemex plans to carry out in the base scenario, seismic reprocessing in 109 km, exploratory studies and the drilling of the Yuban-1EXP, Sakgsi-1EXP and Suja-1EXP wells.

In the incremental scenario, the acquisition of 2D and 3D seismic, exploratory studies and the drilling of wells Chikan-1EXP, Kuyim-1EXP, Kinchik-1EXP, Tentsu-1EXP, Likatsin-1EXP, Niku-1EXP, Xulalh-1EXP and Tuhuan-1EXP. If successful, the prospects could incorporate 14 million boe in the base scenario and 31 million barrels in the incremental one. In the base scenario, Pemex programs will invest USD 33 million and USD $214 million in the incremental scenario.

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.

Mexico's Minatitlan plant could be down 90 days after fire – *Oil and Gas Magazine*

Repairs at Mexico's Minatitlan 285,000 b/d plant after a fire broke on April 7 could keep the plant offline for 90 days according to Pemex. The refinery will remain off line until Pemex engineers determine it is safe to restart.

Mexico's environmental and workplace safety agency “ASEA” had said that the fire broke out in a pump used to move gasoline. The refinery is one of the three with coking capacity, which can turn fuel oil into higher-value distillates.

Mexico’s Pemex aiming for 15% increase in natural gas production in 2021 – *NGI*

Pemex is forecasting a base-case scenario increase of natural gas production to 4.19 Bcf/d in 2021 from 3.64 Bcf/d realized in 2020, according to its newly released 2021-2025 business plan. For 2022, Pemex sees production reaching 4.39 Bcf/d before dropping to 4.1 Bcf/d in 2023 and 3.94 Bcf/d in 2024. The production ramp-up “reflects the incorporation of new fields, such as Ixachi and Quesqui,” Pemex said.

Although Pemex has managed to slow the decline in production under the current government, it has not recorded a year/year increase in output since 2009, when full-year average production peaked at 6.53 Bcf/d.

Reflecting the numerous potential headwinds to production, Pemex’s latest business plan also includes a minimum case scenario for production over the coming years, based on “a conservative perspective of variables such as the evolution of the pandemic and the recovery of the economy,” Pemex said. In this scenario, Pemex production dips to 3.28 Bcf/d in 2021 and peaks at 3.64 Bcf/d in 2022, before dropping to 3.56 Bcf/d in 2023. As Pemex production has declined, Mexico has increasingly relied on pipeline imports from the United States to meet growing demand for the molecule.

AMLO also has halted E&P bid rounds, adding to the pressure on Pemex to drive production growth in Mexico. Pemex, meanwhile, has historically prioritized oil-directed drilling over less profitable gassy plays.

Pemex also is aiming to increase dry gas production from its processing centers to 3.5 Bcf/d in 2021 and 4.16 Bcf/d in 2022. It aims to achieve this goal through increased upstream production by its E&P unit, imports of wet sweet gas to the Burgos processing plant in Tamaulipas State, and processing of gas produced by third-party E&P companies in southeastern Mexico.

As for liquid hydrocarbons, Pemex is aiming to produce 1.94 million b/d in 2021, up from 1.69 million b/d realized in 2020, with production peaking at 2.16 million b/d in 2024.

Pemex's 2019-2033 business plan had set a goal of surpassing 2.6 million b/d of crude oil by 2024.

Stena drillship arrives in Mexico ahead of new gig – *Offshore Energy*

Stena Drilling-owned drillship, Stena IceMAX, has arrived in Mexico ahead of its contract with the Spanish oil company Repsol to finalize preparations for its upcoming contract with Repsol. Repsol awarded the contract to the Stena drillship for operations offshore Mexico back in September 2020.

Repsol and its partners in Block 29 – Petronas, Wintershall Dea, and PTTEP – will use the Stena IceMAX drillship for the 2021 drilling campaign in Block 29 located in the Salina Basin. The drilling campaign is expected to start in May or June this year. Stena IceMAX is a dynamically positioned, dual mast ice-class drillship capable of drilling in water depths up to 10, 000ft. It is worth reminding that Repsol last year made two significant offshore oil discoveries with its Polok-1 and Chinwol-1 exploration wells drilled in Block 29. The wells were drilled using a Maersk Drilling-owned drillship.

The discoveries in Mexico's Block 29 are just 12 km apart from each other, and 88 km from the Mexican coastline of Tabasco, in water depths of approximately 600 meters. Repsol operates a total of six blocks offshore Mexico, three in deep water and three in shallow water areas.

Premier Oil announces completion of merger with Chrysaor – *Reuters*

Premier announced that the all share merger between Premier and Chrysaor Holdings Limited and the reorganization of Premier's existing debt and cross-currency swaps were completed. Premier also announces that it has changed its name from Premier Oil plc to Harbour Energy plc, with effect from today.

At Completion, the shares in Harbour Energy plc were owned approximately as follows: EIG Global Energy Partners 36%; Former EIG shareholders 33%; Former Premier creditors 18%; Chrysaor legacy investors 8%; and Former Premier shareholders 5%.

Power/Renewable Energy – Mexico

Enel Green Power's wind farm starts commercial operations – *Bnamericas*

Enel Green Power's 269MW Dolores wind farm in northern Mexico has started commercial operations.

Construction of the project, which required USD $290 million, began in 2018 and it was awarded a five-year PPA in Mexico's third open tender process. It originally had a budget USD $10 million lower than the final tally and was expected to come online in June 2020. The company installed the 83 wind turbines for the project last July, and started the testing phase. Construction included a series of environmentally friendly aspects, including the reutilization of wood to produce furniture and containers for use by local communities. It also involved repairs and improvements to 27km of road connecting the towns of El Hueso and Pobladores.

Enel Green Power was also awarded three renewable projects for total installed capacity of 373MW in the 2017 tender. Those projects are the Amistad II, III and IV wind farms, which are expected to form Mexico's biggest wind generation complex. According to the Bnamericas database, there are 29 renewable projects under construction in Mexico for total investments of USD $4.7bn. Total energy projects under construction (renewable and non-renewable) total 113 for USD $42.8bn.

Mexican energy changes hurt jobs, investment - business lobby – *Reuters*

Recent changes to Mexican energy legislation enacted under President AMLO have undermined investment in the industry and helped squander thousands of jobs, the Business Coordinating Council "CCE" said.

After lawmakers changed a hydrocarbon law and electricity market rules to increase state power over private investors, the CCE said the steps were unconstitutional and risked breaching Mexico's international accords. In a statement, the business lobby said negative signals being sent out to companies had helped to cause a 75% drop in energy sector investment between 2018 and 2020 and meant that the country had missed out on creating over 200,000 jobs. The CCE urged the leftist government to pursue dialogue with the private sector rather than adopting "ideological positions" that were damaging the country's economic welfare.

More and more companies are interested in bidding for two plants and gas terminal in Manzanillo – *Bnamericas*

The international public bidding process for the construction in Manzanillo of two natural gas generation plants up to a total of up to 800 net megawatts and a natural gas terminal that will benefit the entire Northwest Line is progressing at a good pace.

The Bidding Commission, chaired by the Minister of Energy and Mines, engineer Antonio Almonte, met this Thursday for the fourth time with the technicians and observers of the process, who realized that some 60 national and foreign companies have expressed their interest in participating of the construction.

Almonte reported that the project, which would be in charge of the private sector, would be carried out on land owned by the State in the area near the Manzanillo dock. He said that the fact that about 60 local and internationally prestigious firms have taken an interest in the project is evidence of the trust and transparency with which the process is carried out.

It was also reported the publication of the resolution of the Superintendency of Electricity “SIE” of a 30-day extension of the expiration period for samples of interest that expired on April 20 and will now be May 20. This first phase began on March 12, with the dissemination in the main printed newspapers of the country, as well as in several international publications, of the call to participate in the process.

Mexican renewable growth dampened as uncertainty looms – *Bnamericas*

Changes in Mexico’s electric power sector have coincided with weaker growth of renewable energy sources in 2020 and 2021.

Energy ministry data shows that while non-conventional renewable capacity additions have slowed compared to previous years and industry forecasts, growth has not stopped. A significant slowdown was already visible in 2020, when Mexico added 10% less solar capacity and 50% less wind capacity than it did in 2019. But according to energy ministry Sener, in 2021 the country is expected to add a significant 1.9GW of new solar capacity, while wind growth is expected to slow. Falling costs and improving technologies normally lead growth rates for renewable capacity additions to accelerate every year. Chile, for example, another regional leader, saw 1Q21 capacity outpace additions during the whole of 2020, which had grown much faster than in 2019.

Mexico’s story, meanwhile, is more complicated. The fact 2020 was a slower year than 2019 suggests the country is not seeing the explosion in growth that would lead renewable capacity to reach the optimistic forecasts of the past. Crucially, the country has not been replacing its portfolio with new projects as fast as regional peers. According to the Bnamericas database, Mexico has the third largest renewable pipeline in the region, with 29 projects under construction for total investment of USD $4.7bn and an average of USD $162 million.

In Chile, by contrast, a much smaller country, projects under construction total 43 for combined investment of USD $8.6bn. Brazil leads the region with 121 projects and an average investment of USD $48.8 million.

Among the proposed changes, the most significant for renewable project developers is the altering of dispatch priority to put public utility CFE's generation at the top, thus bumping down renewable generators, which usually dispatch first due to their low cost. The law would also allow CFE’s nuclear and hydroelectric generators to obtain clean energy certificates, which would increase their availability and could lower their value. Starting in 2019, the administration of President AMLO began implementing legal and regulatory measures that have eroded investor trust and sometimes made it difficult for renewable projects to access necessary permits and connect to the national grid.

The government cancelled auctions for renewable projects, meaning once already contracted projects come online this year and next the country’s pipeline is likely to grow at a slower rate than it has in the past.

Petrobras to take over BP's stakes in 6 blocks off Brazil – *Offshore Energy*

Brazilian oil and gas giant Petrobras has signed agreements with BP to take over BP's entire stakes in six blocks, located in the ultra-deepwater in northern Brazil.

The blocks are located approximately 120 km from the state of Amapá, in a high-potential exploratory frontier on the Brazilian equatorial margin. The six blocks in the agreements are FZA-M-57, FZA-M-59, FZA-M-86, FZA-M-88, FZA-M-125, and FZA-M-127. They were acquired by the consortia in the 11th Bidding Round of Blocks of the National Agency of Petroleum, Natural Gas and Biofuels (ANP), which occurred in 2013.

Blocks FZA-M-57, FZA-M-86, FZA-M-88, FZA-M-125 and FZA-M-127 are owned by Petrobras (30%), Total (40%), and BP (30%). Petrobras had already signed an agreement to assume the operation and the totality of Total's stakes in these contracts, still subject to ANP approval. The FZA-M-59 block belongs to the consortium involving Petrobras, with a 30%t stake and operator, and BP (70%).

The agreement with BP will allow Petrobras to hold 100% interest in these six blocks. The completion of the transfer is still subject to regulatory approvals.

PDVSA's refining boost leaves crude exports short of blendstocks – *Reuters*

PDVSA is increasingly using its limited output of medium and light crude for refining, resulting in shortages for blending operations to produce exportable grades. Petroleos de Venezuela typically utilizes most of the country's lightest crude production for blending operations for crude from the Orinoco Oil Belt, one of the world's largest oilfields by reserves. But in the wake of debilitating, months-long shortages of motor fuels last year, PDVSA has increased refining output, and its refineries use light crudes as their principal feedstock.

That has prompted an output cut of its flagship crude grade for exports, Merey 16, which is produced by mixing tar-like extra heavy crude from the Orinoco belt with naphtha for transportation, and then diluted with lighter oil to be exported. A drop in crude shipments, Venezuela's main export, would be a blow to government revenue. But gasoline sales have generated substantial revenue for PDVSA since it started pricing the fuel in dollars last year, winding back years of generous subsidies. PDVSA's reliance on Mesa 30 and Santa Barbara crudes from eastern Monagas state as diluents has grown since U.S. sanctions imposed in early 2019, aimed at ousting President Nicolas Maduro, cut off the company's supply of imported naphtha.

PDVSA used that imported naphtha to produce another exportable grade, diluted crude oil "DCO", but in the wake of sanctions, it has depended more on light crudes to produce Merey 16. Venezuela had boosted crude output to some 525,000 bpd in March, according to figures it provided to OPEC, allowing it to export 690,323 bpd. While both figures were well below pre-sanctions levels, they represented a continued recovery on both fronts from mid-2020 lows.

Petrobras CEO nods to price parity, deepwater investment in market-pleasing speech – *Reuters*

Joaquim Silva e Luna, the new chief executive of Brazil's Petrobras, will look to respect the company's current pricing policy and keep investing in deepwater assets, he said at his swearing-in ceremony. The comments by the former army general signaled that Petrobras' incoming administration will attempt to maintain some form of continuity with the policies of the previous administration, which generally won market plaudits.

International parity is a market-friendly policy that has been inconsistently applied at the state-run oil producer in recent years, in which fuels are sold domestically in line with international prices. Former chief executive Roberto Castello Branco was forced out after a series of fuel price hikes angered President Jair Bolsonaro. Luna has since said that fuel prices should be subsidized at certain times but that Petrobras should not pick up the tab. Petroleo Brasileiro, as the company is known, is currently in the middle of a massive divestment drive in a bid to reduce debt and sharpen the company's focus on deepwater oil plays.