May, 2021

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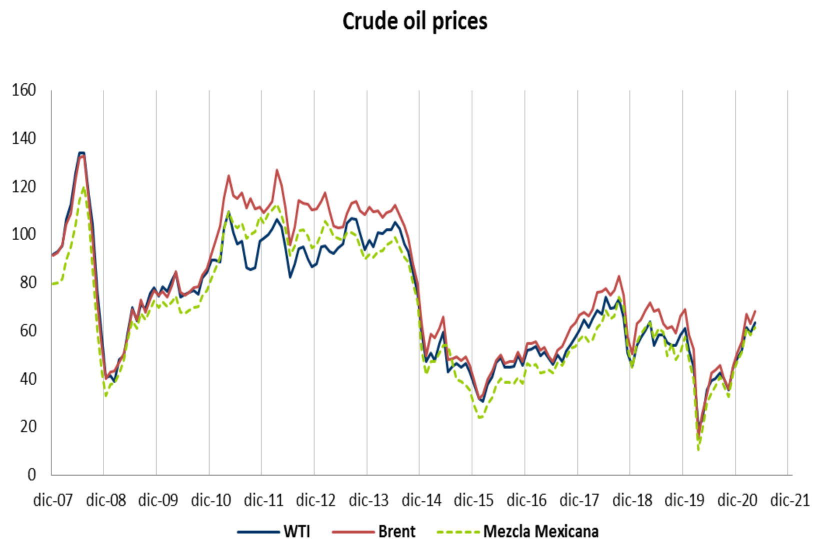
This month in review

* 25/05/2021 **27/05/2021

Crude oil price MME US/BD	63.1
NG price HH* US/MMBTU	2.9
Mx crude production MMbd - *April*	1.69
Mx NG production MMpcd - *April*	4,665
US crude production MMbd - *February*	9.86

FX Rate**	19.94



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

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Oil & Gas - Mexico

Moody's downgrades Deer Park to Baa3 and reviews for downgrade – *Moody's Report*

Moody's has downgraded senior unsecured ratings of Deer Park Refining Limited Partnership "Deer Park" to Baa3 from Baa2 and placed the ratings on review for downgrade.

The downgrade of Deer Park's senior unsecured ratings reflects Moody's expectation that full recovery in the company's earnings and leverage profile will extend beyond 2021. Pending the completion of the announced sale transaction, Moody's expects Deer Park to proactively manage its liquidity and refinancing requirements in 2021, including the refinancing of USD $130 million short term revolving credit facility due in July 2021 with proceeds from partners' loans.

The review for downgrade reflects Moody's expectation that following the sale, Deer Park ratings will be driven predominantly by its standalone credit dynamics and the much weaker credit profile of Pemex. The Baa3 rating still benefits from a multi-notch rating uplift, which is primarily linked to Shell and also factors in several credit enhancing arrangements, including shareholder loans and liquidity support arrangements, committed by both Shell and Pemex. The stand-alone credit assessment is constrained by its single refinery configuration, which Moody's does not regard as commensurate to the investment grade rating, notwithstanding the

high complexity, significant scale and high level of flexibility in feedstocks, further enhanced through investments made in 2019. The review will assess amendments, if any, to the terms of engagement with Shell, including procurement and sale of feedstock and refining products by Deer Park, which at present is managed via Shell. The review will also assess the new capital structure and liquidity provisions, following the closing of the sale, financial policy.

Wintershall DEA to drill 9 wells in Tabasco – *Energy and Commerce*

CNH gave approval to Wintershall DEA México to modify the extraction development plan in an onshore field in Tabasco. The extraction plan is part of the CNH-A4.Ogarrio/2018 contract, located in Huimanguillo, Tabasco.

Wintershall DEA México proposes to drill nine wells, 338 major repairs, 870 minor repairs and 251 plugs. The operator also estimates to recover 34.15 million barrels of oil and 84.42 billion cubic feet of gas. The activities contemplate a budget of USD $771.8 million; of which, USD $143.8 million will be for investment and USD $628.0 million will correspond to operating and abandonment expenses.

Pemex seeks full Deer Park refinery – *El Economista, Argus*

Pemex, announced it has acquired the Deer Park Refinery, located in Houston, Texas, from Royal Dutch Shell. The acquisition was for the remaining 50% interest in the facility, as Pemex had already a 50% stake in the complex. This transaction aims at reaching fuels self-sufficiency by 2023. Mexico’s current administration has a target of becoming self-sufficient in terms of fuels as almost 70% of its consumption comes from importations.

The transaction had a value of USD $596 million, in a combination of debt and cash; plus, the value of hydrocarbon inventory for Shell's majority interest in the joint venture 340,000 b/d refinery. Both companies expect the deal to close by the end of the year, pending regulatory approval. Shell continues a downstream divestment program shedding global refining capacity to concentrate on hubs integrating chemicals, refining and trading.

Pemex oil output flat in April and NG production edges down – *CNH*

Mexico’s oil production remained flat year-on-year and month-on-month at almost 1.7Mb/d in April. According to CNH, private sector participation rose slightly from 3% of the total to 4%. The remaining 96% was produced by state-owned oil and gas giant Pemex. Natural gas production fell 3% to 3.74bcf/d, with private players making up 6% of the total. Pemex has maintained an ambitious production strategy that would see the company producing 1.94Mb/d of oil in 2021.

Talos disputes Pemex’s Zama claim – *Talos Press Release*

Talos Energy provided an interim update regarding the unitization process for the Company’s Zama discovery in offshore Mexico.

Talos, and Pemex, with involvement from the SENER, are working to finalize terms of a Unitization and Unit Operating Agreement “UUOA” based on international best practices and considering inputs from the parties. The UUOA will address initial tract participating interest splits, the mechanism to re-determine those splits in the future and operatorship, among other key topics.

A third-party reservoir engineering firm engaged by the Block 7 partners and Pemex to evaluate Initial Tract Participation "ITP" within the Zama reservoir recently concluded that the consortium led by Talos holds 49.6% of the gross interest in Zama and Pemex holds 50.4%. The UUOA will separately provide for specific milestones upon which participating interest splits among the Zama parties will be re-determined and adjusted based on evolving data collected over the asset lifecycle. Under the redetermination provisions in the Zama UUOA, Block 7 partners and Pemex will reevaluate the ITP and subsequently determined splits in line with international best practices.

Talos CEO Timothy Duncan commented: "We continue to push in earnest to reach full agreement on the commercial terms of the unitization. We believe the recent third-party analysis underestimates relevant data obtained during the appraisal campaign. Talos engaged Netherland, Sewell & Associates to prepare an independent evaluation last year which concluded that the Block 7 consortium holds 59.6% and Pemex holds 40.4% of the gross interest in Zama, respectively. Regardless of the ITP established in the final UUOA, we expect that the true percentages will ultimately be realized through the re-determination process."

Mexican judge orders definitive freeze of new hydrocarbons law – *Reuters*

A Mexican judge has ordered a definitive suspension of certain provisions in the new hydrocarbons law championed by President AMLO, which seeks to strengthen state oil company Pemex. The judge's ruling paused provisions in the legislation that would allow authorities to cancel permits or occupy installations of permit holders. It also prevents authorities from revoking permits that fail to comply with minimum storage requirements set by the government when the law was enacted; a provision which analysts said only Pemex was well placed to satisfy.

PetroBal acquires USD $250 million loan in Mexico – *Forbes*

PetroBal, closed a USD $250 million loan to continue financing part of the investments required to develop the oil and gas extraction project in the Ichalkil and Pokoch fields in the Gulf of Mexico. The syndicated loan operation includes ING bank as arranger, and Banco Nacional de Comercio Exterior, Societé Générale and Citibanamex as original creditors. The financing is a Reserve Based Loan and is the first of its kind in an oil project in our country, according to the company.

PetroBal won the Ichalkil and Pokoch fields along with its operating partner Fieldwood Energy in 2015. The project corresponds to block 4 of round 1.2, under the production sharing modality. This block is located between the coasts of Tabasco and Campeche. PetroBal and Fieldwood Energy expect to extract 50,000 barrels per day by the end of this year and production is expected to begin in June. The complete work program for these fields contemplates an investment of more than USD $3 billion.

Pemex to invest $2.6 billion at Tula refinery: CEO – *S&P Global Platts*

Pemex will invest $2.64 billion to complete a coking plant at its Tula refinery as the country seeks to reduce its dependence on imported fuels, the state company's CEO said. The project, which Pemex expects to finish by 2023, will allow Pemex to process 90% of the fuel oil produced at Tula and at neighboring Salamanca.

Mexico currently has six refineries with a combined nominal capacity to process 1.6 million b/d, three of which have a coking plant. However, during the last decade they have been running at a fraction of their capacity, processing less than 600,000 b/d in 2020 on average, as two of the refineries were built over a century ago.

Pemex has recently increased its gasoline output to close to 300,000 b/d, a figure not seen in the last four years. AMLO has promised the country will stop importing fuels when his term finishes in 2024. In April, Mexico imported little under 500,000 b/d of gasoline and almost 300,000 b/d of diesel, slightly below the average of the last five years. "When the coking plant is ready, it will process 140,000 b/d of fuel oil to generate 42,000 b/d of gasoline; 78,000 b/d of diesel and 20,000 b/d of fuel oil," Romero Oropeza said.

Pemex delays payments to private partners – *Bloomberg*

Pemex is racking up millions of dollars in late payments to oil companies as it struggles to generate cash amid skyrocketing debt and weaker crude sales. While Pemex has long sought to stretch its cash further by delaying payments to contractors, people with knowledge of the situation say it’s now also deferring reimbursement to some partner companies in an effort to postpone spending money that’s in increasingly short supply. Some private oil companies in Mexico sell their barrels to Pemex to mix with its own hydrocarbons for export because they lack the infrastructure and scale to sell the crude on their own, the people said, declining to be identified because they weren’t authorized to speak to the media.

Pemex owed about USD $60 million as of April 30 for crude and natural gas to Egypt’s Cheiron Petroleum Corp. and about USD $4 million as of April 16 to Hokchi Energy, a Mexican subsidiary of Argentina’s Pan American Energy LLC, as well as undisclosed amounts to Wintershall Dea GmbH, according to people with knowledge of the situation, and company documents seen by Bloomberg.

The government-owned company has never defaulted on its debt. While deferred payments aren’t uncommon among state-owned producers in Latin America, delays in reimbursing partners could erode trust, making it even harder for the producer to stage a recovery, Francisco Monaldi, a lecturer in energy economics at Rice University’s, said.

Representatives from Pemex didn’t respond to multiple requests for comment. Pemex owed Hokchi more than $4 million as of April 16 for oil and gas exports sold in December and January from its field by the same name, with the debt owed since mid-March of this year, according to the documents, and people familiar with the situation. During the term of its contract with Hokchi Energy, “Pemex has made payments corresponding to the volumes of hydrocarbons delivered. Regardless of any specific delay, the relationship developed with Pemex is within the usual commercial terms,” Hokchi said in a statement. Hokchi didn’t specify whether payments for December and January exports had been made.

A Wintershall spokesman said the company has a “trustful partnership” with Pemex, referring to a joint venture at the onshore Ogarrio field, and work is ongoing to resolve the payment issue. Wintershall is the operator of the field, with a 50% stake.

The amount owed to Cheiron and Hokchi is small in the context of Pemex’s overall business, with the company reporting $15.6 billion in adjusted revenue in the first quarter. Still, some Cheiron debts have been owed since last year, meaning Pemex is in breach of its crude

marketing agreements to pay invoices within 60 days of sale, according to the people, and documents from Cheiron and Pan American Energy seen by Bloomberg. “It is not surprising that Pemex is late on its payments to partners because their cash flow is very tight,” Maizel said. “But if you ask me whether I think that this is the beginning of something worse the answer is no, because they are going to continue pumping and continue to pay investors. The government is not going to let Pemex default.”

Pemex owed about USD $60 million to Cheiron as of April 30 for the Cardenas-Mora onshore oil project, one of its first ever farm-out agreements, in which both partners have a 50% stake and Cheiron is the operator. The debts include money owed for crude that Pemex has sold from the joint venture, as well as operational expenditure and accrued interest, with some payments owed for more than a year, according to company documents. Cheiron says it’s being shut out of tenders and business opportunities with Pemex, according to company documents. It has had to pay fines and penalties to Mexico’s oil regulator because of Pemex’s failure to pay royalties on their joint projects, and it claims that Cardenas-Mora is in financial jeopardy as a result of negligence on the part of Pemex, according to internal documents from Cheiron.

CNH clears Pemex for new shallow water exploration spudding – *CNH*

CNH authorized Pemex, PEP, to spud the Copali exploration well, part of its AE-0148-Uchukil concession off the coast of Tabasco and Veracruz states. The company plans to invest USD $40.8 million in the work, of which USD $30.5 million will be used to drill the well and USD $10.2 million in abandonment activities. Drilling will take 140 days beginning on January 4, 2021 and concluding on July 7, 2021. Pemex expects to find prospective resources of 12.96 million boe with a 58% chance of geological success.

CNH approves undated work plan to Capricorn – *CNH*

The CNH approved the updated work plan presented by Capricorn Energy for the G-TMV-01 contract and the A9.CS contract off the coast of Veracruz and Tabasco. Capricorn presented a budget totaling USD $6.8 million to conduct geological exploration.

CNH approved Pemex exploration plan for Huizotate field – *CNH*

CNH authorized Pemex, PEP, the exploration plan for Huizotate field, part of A-0156-3M concession in Veracruz state. Pemex plans to drill 27 wells, carry out 27 major repairs, 130 minor ones, 32 plugs, and the construction of three pipelines. With this, Pemex expects to recover 5.46 million boe and 7.65 billion cubic feet of gas. The company plans to invest USD $93 million.

Mexico publishes termination of 139 fuel commercialization permits – *Bnamericas*

Mexico’s energy regulator CRE has published two agreements that definitively declare 139 fuel commercialization permits as expired. The regulator approved the move last month because it considered the permits had remained unused for over a year. In the new publication, CRE gave details about the permits and their holders it had not previously divulged. They include natural gas commercialization permits belonging to some of the biggest players in Mexico’s energy sector, including renewable developer Iberdrola and oil and gas giant Shell, as well as Russian NOC Gazprom.

Of the total, 125 permits are for fuel commercialization and the rest for the commercialization of oil, methane, oil condensate and natural gas, as previously reported.

Under Mexico's hydrocarbons law, permits will expire if holders do not exercise the rights conferred within the timeline established or 365 days. The developments come amid a legal battle over the legitimacy of an overhaul to the country's hydrocarbons law that would broaden CRE's and energy ministry SENER's powers to review and cancel midstream and downstream permits and which have drawn criticism from industry representatives and analysts.

U.S. oil service group seeks USD $100 million from Mexico in arbitration claim – *Reuters*

A U.S. oil service group introduced a USD $100 million claim before a World Bank arbitration court alleging Mexico violated investor protections under the NAFTA trade pact by failing to honor agreements, lawyers for the firms and court documents showed.

The World Bank's International Centre for Settlement of Investment Disputes registered a case by a group led by Finley Resources Inc., a Texas oil and gas company that won two oil tenders and negotiated a third drilling service contract with Mexico's state-run firm Pemex. Finley sought arbitration in an international court after efforts to enforce its contracts stalled in Mexican courts, said Andrew Melsheimer, an attorney for the Fort Worth-based company. Finley's international claim is the first by a U.S. oil services company against Mexico since the North American Free Trade Agreement was renegotiated as the United States-Mexico-Canada Agreement "USMCA" in 2020.

Pemex and Mexico's foreign ministry did not reply to requests for comment. According to Melsheimer, Pemex failed to pay for services provided by the companies, while some contracts awarded to them were not honored by Mexico. The group includes Finley, MWS Management Inc. and Prize Permanent Holdings. The American Petroleum Institute, the top U.S. oil and gas lobby group, has sent at least two letters to Mexican and U.S. leaders expressing worry that actions by the Mexican government hurt U.S. investors and violate regional free trade agreements.

McDermott nets Gulf of Mexico BHP FEED deal – *Rigzone*

McDermott announced that it has been selected by BHP Petróleo Operaciones de México, in partnership with Pemex, to provide the front-end engineering design "FEED" of a semi-submersible floating production unit "FPU" for the Trion Project in the Gulf of Mexico.

The scope of the FEED contract includes engineering tasks related to the configuration, sizing, and analysis of the FPU, including topsides, hull, risers, and mooring, McDermott outlined. The FPU, which will be located in the Trion field approximately 19 miles south of the U.S./Mexico border and approximately 112 miles off the Mexican coastline, will be designed for a water depth of approximately 8,200 feet.

The company said it will lead a single, integrated team to perform project management and execution planning. McDermott was previously awarded and completed services under an initial pre-FEED contract. The value of the latest deal was not disclosed by the company. BHP holds a 60% interest in, and the operatorship of, Trion. Pemex holds the remaining 40% stake.

IEnova reports growth in Mexico natural gas business as fundamentals remain strong – *NGI*

IEnova reported growth in volumes and revenue from its natural gas business in Mexico during the first quarter and expects the trend to continue. CEO Tania Ortiz Mena told analysts that the Energía Costa Azul, LNG export project in Baja California State remains "our main area of focus," and that, "we continue to see opportunity for expansion to feed new off takers along our natural gas pipelines…" Sanctioned in late 2020, ECA is on track to be the first LNG export terminal on the west coast of North America, with first production expected in late 2024.

IEnova, the Mexico unit of San Diego, California-based Sempra Energy, has more than 2,900 Km of natural gas pipelines in operation and about 200 km under construction in Mexico. The pipelines are part of a massive buildout anchored by state power utility CFE to secure natural gas supply from the United States amid declining production by state-owned Pemex. U.S. natural gas exports to Mexico hit a record single-day high of 7.1 Bcf/d on April 14. Ortiz indicated it is still too early to say whether a recent controversial reform to Mexico's hydrocarbons law will impact IEnova's activities in Mexico. The law gives the state greater control over granting and revoking permits in the oil, gas and petrochemicals business.

Risks outweigh rewards in AMLO's Deer Park purchase – *Houston Chronicle*

There is much to be said in favor of the pending purchase by Pemex of the 50% interest in the refinery at Deer Park, Texas, which since 1993 has been held by Shell Oil Company; but on balance it is a mistake the full cost of which will far exceed its $600 million price--not only for Mexico but also for Houston.

The technical metrics may be favorably compared to those of the Dos Bocas refinery which is under construction. Where the cost/barrel for the additional capacity at Deer Park is $3,500 while the projected cost of the same barrel at Dos Bocas may exceed $30,000.
The Houston-area refinery, which dates from 1929, is technologically superior to any Pemex refinery, with a Nelson Complexity Index (NCI) rating of 12 (fully integrated) in contrast to Pemex's average index rating of 9. The efficiency of the Shell-operated refinery is about 80%, about twice that of the average index values of Pemex's six refineries.

Debt is another issue. With US$104 billion of recognized debt, and with Pemex struggling to pay current contractors, is it wise to take on another billion dollars of debt plus environmental and pension liabilities?

Rumors circulate that Pemex will offer jobs to Shell's employees at Deer Park, but those employees will likely be the hard hats who turn valves, many of whom are contractors, not the high-value Shell careerists who will be reassigned. Shell has every incentive to make sure that the refinery is operated properly, as its retained chemical unit within the 800-acre site will need refinery inputs. Incentives, however, will not be matched by levers of managerial control if Pemex is the new owner.
A PMI-operated refinery would bring an increased risk to Houston's industrial, environmental, and energy security: PMI and Pemex lack the professionals needed to operate an integrated refinery in the United States. It's doubtful that PMI and Pemex have more than a tourist's knowledge of EPA compliance or how to negotiate with American labor unions. Were the refinery shut down by the Environmental Protection Agency (EPA) for non-compliance, the supply system of the Gulf Coast would register the disruption.

The marketing of refined products is also an issue. The professional cadre of Mexico City-based PMI Comercio Internacional was abruptly replaced 1 ½ years ago. Ulises Hernández, a geologist who was VP of exploration, was inexplicably reassigned to be president of PMI a few months later and lacks the decade of experience of his predecessor.

These considerations point to two conclusions: For Pemex, the nationalization-by-purchase of Shell's half-interest in the refinery would be more of a loss than a gain, as it would cut off the flow of innovation and managerial expertise provided by Shell's worldwide refinery operations. The Committee on Foreign Investment in the United States, an interagency unit in the Treasury Department, with the support of the Greater Houston Partnership and the American Petroleum Institute, should deny the purchase. Absent their support (Shell is an active member of each organization), the Environmental Protection Agency and green NGOs should step forward to help protect the greater Houston environment and Pemex's existing investment in Deer Park.
By: George Baker

Power/Renewable Energy – Mexico

Mexican state utility earmarks over USD $4.6bn for transmission projects – *Bnamericas*

Noé Peña Silva, head of CFE Transmisión, the power supply subsidiary of Mexico's state-owned electricity utility CFE, has confirmed company plans to carry out 199 modernization and expansion projects on the national electricity grid between 2020 and 2024, which will involve total investments of $92.6bn pesos (USD $4.64bn). In an update of company plans, Péña said 177 of the 199 projects would move forward under the aegis of Mexico's system modernization program (Prodesen) for 2020-2024, while the remaining 22 are initiatives to be carried out under its own initiative.

Peña said that $67.1bn pesos to support the projects would be sourced from the company's budget, while $25.6bn pesos would come from national natural gas development scheme Pidiregas. Mexico has been contending with repeated power outages in certain regions, often far-reaching and long-lasting, and including the growing tourist hubs of Baja California Sur and the Yucatán Peninsula. Also, CFE's corporate director of strategic planning, Guillermo Arizmendi Gamboa, announced the incorporation of 38 of the announced CFE transmission projects into the state utility's formal project portfolio for 2021-2026.

Mexico suspends changes to legacy contracts – *Bnamericas*

Mexico's energy ministry has issued a decree to suspend the methodology, criteria and terms for legacy contracts in basic supply schemes as well as changes to the mechanisms for their evaluation. The decree was published in the federal gazette as ordered by a judge.

The private electricity sector widely viewed the regulations as illegal attempts to re-order legacy contracts to benefit state-owned power utility CFE, triggering lawsuits which led to the court order. "The second district judge … when analyzing the suspension requested by the complainants, resolved to grant the precautionary measure of the act claimed for the effect that things remain in the state as they are," the ministry said in the decree.

Juan Pablo Gómez Fierro, the judge issuing the order, has often sided with plaintiffs against government measures to boost state-owned energy companies at the expense of private firms. The legacy contracts in question relate to CFE basic supply contracts, which were locked in through the constitutional energy reforms during the previous administration. But the current government claimed these contracts are costing CFE billions of dollars in preferential rates, largely tied to transmitting private generators' supply to consumers.

Mexico eyes solar parks in Yucatan amid financing doubts, environmental concerns – *S&P Global Platts*

Mexico is putting together a scheme to develop at least 500 MW of solar generation capacity, first in the Yucatan Peninsula as part of a larger development project. The program, which will be run by Mexican tourism agency Fonatur, will also involve the state utility CFE as operator and the national development banks.

The program, labeled Fonatur Solar, will be developed in phases. The first 300 MW would be in the Yucatan Peninsula, in Mexico's Southeast, enough to power the main route of the so-called "Mayan train," the sources said. For the first phase, Fonatur is considering a handful of solar parks, one of them at the airport serving the tourist destination of Cancun in Quintana Roo, operated by Mexico-listed Grupo Aeroportuario del Sureste "ASUR".

The second phase of the solar farm program could add a few more solar parks, increasing the capacity to around 500 MW, with parks in tourist destinations, like the Baja Peninsula, beyond the four states, said a second source close to the deal. The intention is to anchor projects that would reach 1 GW, including solar parks in all airports in the country, the source said.

Neither a Fonatur representative nor a CFE spokesperson responded to requests for comment. Observers and market participants doubt the government will be able to achieve as much as it expects. Fonatur faces many challenges, as it lacks funding and expertise, two people familiar with the project told Platts. Fonatur Solar has not yet been assigned any federal budget, and the conditions they are offering are not the best, said the person, noting that the government is unwilling to commit to 20-year contracts.

Mexico 'wasting' potential of northeastern region with current energy policy: industry – *S&P Global Platts*

Mexico is not fully utilizing the potential of its northeastern region in both natural gas production and power generation with its current energy policy, which limits the involvement of private players. The northeast region, comprising of the states of Coahuila, Nuevo Leon and Tamaulipas, has the potential to generate 30% of the country's power needs with solar and wind energy, said Rogelio Montemayor, president of the energy cluster of the state of Coahuila.

The Mexican government under President AMLO has introduced a series of regulations that have curbed the participation of private companies across the energy sector, from fuel importers to power generators.

The northeast region also has the potential to generate the natural gas the country needs to produce most of its electricity and reduce the dependency on imported gas from the US, said Cesar Cardenas, president of the energy cluster of the state of Nuevo Leon. "The supply of

natural gas is paramount for the country's security. That was highlighted with the shortage of gas generated by the cold weather recently registered in Texas," Cardenas said, highlighting that changes in policy are needed in Mexico, as most of those resources are in non-conventional deposits currently not being pursued. "The only way of obtaining those resources is by using fracking and that's why public-private cooperation is necessary," Cardenas said.

Oil & Gas - LATAM

Brazil approves acquisition of Petrobras' onshore fields – *Bnamericas*

Brazilian oil and gas regulator ANP has approved the acquisition of NOC Petrobras' onshore assets by two private companies. The oil and gas watchdog authorized Centro Oeste Óleo e Gás to become the operator of the Dó-Ré-Mi field, in the Sergipe basin.

Bought from Petrobras in August 2020 for USD $37.6 million, the asset is currently out of operation. ANP also approved the transfer of the Remanso hub, in the Recôncavo basin, to PetroRecôncavo. Comprising 12 fields in Bahia state (Brejinho, Canabrava, Cassarongongo, Fazenda Belém, Gomo, Mata de São João, Norte Fazenda Caruaçu, Remanso, Rio dos Ovos, Rio Subaúma, São Pedro e Sesmaria), the asset was purchased in December last year for USD $30 million.

According to the latest data from Petrobras, the 12 fields produced 3.9b/d of oil and 75,000m3/d of natural gas in November 2020. Scheduled to be held in December, the auction will offer the Atapu and Sépia fields, with signing bonuses of 4bn reais (USD $760 million and 7.14bn reais, respectively. Petrobras, which will exercise its preference right for the areas, expects to bid in partnership with other oil companies.

Brazil's Petrobras to keep flexible fuel price policy – *Reuters*

Petrobras will leave its fuel pricing policy unchanged, which in practice gives the company significant flexibility to avoid international market volatility when it sets prices.

In 2020, Petrobras, extended from three months to one year the period for which it calculates the international price parity of the fuels it sells. The decision, made during the term of former Chief Executive Roberto Castello Branco, means that the median domestic fuel price must match up with the median fuel price internationally, plus import costs, over the course of 12 months.

Trading and logistics chief Claudio Mastella said the policy was meant to protect domestic consumers from price volatility, while at the same time shielding the company from losses. Mastella said prices would be monitored daily, but there would be no pre-established period for adjustments. Adjustments do not necessarily need to match import prices. The position marks a middle ground between the daily adjustments favored by the market and the low-frequency ones preferred by consumers.

Brazil hopes to bring in USD $43bn from energy tenders – *Bnamericas*

Brazil's electric power and oil and gas tenders scheduled for 2021 are expected to generate around 225bn reais (USD $43bn) in investments, according to mines and energy minister Bento Albuquerque.

Of the total capex foreseen, 355mn reais would be related to the projects contracted in the second isolated system tender held by electric power watchdog Aneel on April 30. Some 21bn reais will result from the new and existing energy auctions scheduled to be carried out by the sector regulator this year. Another 3.2bn reais involves the estimated investment in the undertakings to be offered in the two power transmission tenders due to be held this year. Also scheduled for this year is an exclusive transmission auction for Amapá state in order to improve energy security, which suffered a major blackout in 2020.

Albuquerque said the three oil and gas bidding rounds scheduled for 2021 (Atapu/Sépia surplus volumes, the 17th concession and 3rd open acreage rounds) are expected to attract investments of 200bn reais, in addition to 11.3bn reais in signing bonuses.

Argentina greenlights Shell partnership with YPF, Equinor – *Argenports*

Argentina has given the green light to Shell to join YPF and Equinor to explore the CAN-100 offshore block at a difficult time for the country's energy sector. Under the deal, Shell will acquire a 30% stake in the area, located off the coast of Buenos Aires province, while YPF and Equinor will end up with 35% each, according to local press reports.

The CAN 100 block comprises an area of 15,000 km2 and is the largest block in the North Argentinian Basin. In August 2019, YPF partnered with Equinor for the exploration of the area that was originally concessioned to the state-majority oil company, in an alliance that became effective in April of last year when YPF formally assigned the rights to half the area. YPF's alliance with Equinor covers other exploration blocks in the national sea, such as the CAN 102 and CAN 114 areas, while on land YPF was already a partner of Equinor and Shell in the development of the Vaca Muerta Bandurria Sur block, after the Out of that area of service giant Schlumberger.

Venezuela needs USD $58 bln to restore crude output – *Reuters*

PDVSA would need USD $58 billion in investment to revive its crude production to the levels of 1998 before ex-President Hugo Chavez came to power, equivalent to 3.4 million barrels per day.

PDVSA's planning and engineering division said it was seeking capital investment from Venezuelan and foreign partners, mostly to recover and upgrade oil production infrastructure "under new business models". The main new partnership model PDVSA detailed in the document was the use of production services agreements. Under these deals, contractors would finance 100% of operations in the oilfields and in return would receive a portion of the project's free cash flow as payment. The Venezuelan state would remain the full owner of the fields and the associated infrastructure.

The proposal comes as President Nicolas Maduro is seeking to mend ties with the private sector to attract investment, in a reversal of tightening state control under Chavez's socialist model. In total, PDVSA identified a total of 152 "opportunities" requiring USD $77.6 billion in investment including crude and gas production, midstream operations such as transport and storage, and refining and commercialization operations. The lion's share of the required investment, or over $69 billion, would go to crude and gas production infrastructure. Of that, USD $58 billion is needed to return crude output from joint ventures and PDVSA's own oilfields to their 1998 levels, while another USD $11.3 billion would go to onshore and offshore gas fields.

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

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