Energy Monthly News

June, 2021

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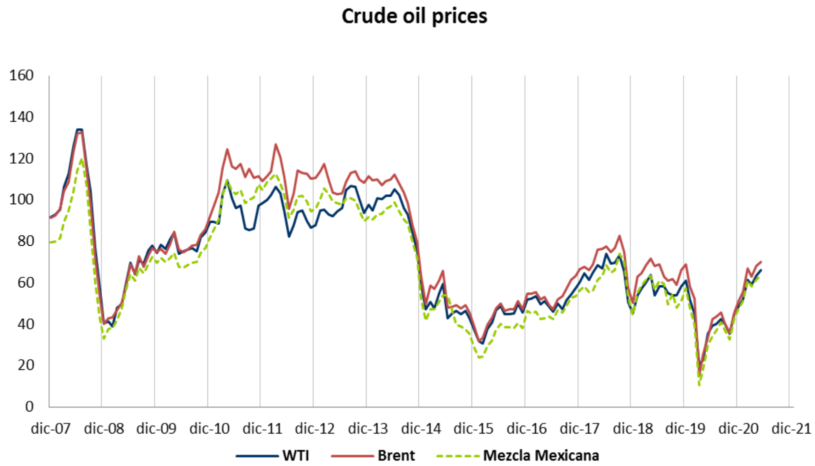
This month in review

* 28/06/2021 **28/06/2021

Crude oil price MME US/BD	69.0
NG price HH* US/MMBTU	3.2
Mx crude production MMbd - *May*	1.68
Mx NG production MMpcd - *May*	4,726
US crude production MMbd - *March*	11.18

FX Rate**	19.80



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

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Oil & Gas - Mexico

Judge suspends amendment of hydrocarbons law that repealed Pemex's asymmetric regulation– *Bnamericas*

Mexican energy commission CRE has suspended the application of changes to the hydrocarbons law that would end special regulation aimed at limiting Pemex's fuel market position. In a notice published in the official gazette, CRE said it was complying with previous suspensions ordered by federal courts that were issued during so-called amparo (appeal) cases filed by private parties. Hence, any effects derived from the legal changes would be suspended until further notice.

The suspended reform was published in the official gazette and states that, as new players have entered the fuels market, the special regulatory powers originally given to CRE to oversee Pemex would be removed. Among others, under the original rules, known as asymmetric regulation, Pemex could not strike exclusivity deals for its products with fuel retailers and must hand over specific information to the CRE, including the discount it provides to different outlets and its sales contracts. These rules are meant to prevent Pemex from benefitting outlets that carry its brand.

Talos Energy accepts majority of Zama to belong to Pemex – *English Time*

Talos Energy agreed in a document sent to the SEC that the majority of Zama's field is in Pemex's Uchukil allocation. On May 21, 2021, the North American oil company provided an interim update on the unification process of the Zama Company's discovery off the coast of Mexico.

"Talos, the partners of Block 7 and Pemex, with the participation of the Secretariat of Energy of Mexico (SENER), are working together to finalize the terms of a Unification and Operation of Units Agreement (UUOA) in accordance with international best practices ". The unification agreement will address the divisions of interest of the deposit, the mechanism for redefining those divisions in the future and who will operate the deposit, among other key issues. In June 2021, the partners of Block 7 submitted a draft development plan for the Zama field to the CNH.

Pemex misses may deadline to pay bonuses to its oil traders – *Bloomberg*

Pemex has missed a deadline to pay profit-sharing bonuses to its traders, less than a year after asking them to return an earlier round of payouts, according to people with knowledge of the situation. Payments due in May weren't made to workers at the state-owned Mexican oil company's PMI and Mex Gas oil and liquefied petroleum gas trading units. Employees at Pemex's oil-trading arm, PMI, were entitled to about $50,000 altogether, based on the profits the unit made in 2020. The missed deadline follows an attempt by Pemex last year to claw back bonuses from PMI traders, who were asked to return payments based on 2019 profits to help the company cover a budget shortfall.

In Mexico, profit-sharing is a constitutional right and companies that fail to comply can face fines from the Ministry of Labor of as much as 448,100 pesos ($22,270), according to Jacqueline Alvarez Velazquez, a labor lawyer at Ernst & Young in Mexico City.

CNH approves new exploration plan for Fieldwood's – *CNH*

Fieldwood Energy has updated the development plan for its area 4 contracts off the coast of Tabasco and Campeche states in southeastern Mexico to reorganize certain activities, involving total investments of USD $7bn.

Fieldwood, together with partner Petrobal, has made two discoveries in the shallow-water contract – Ichalkil and Pokoch. According to the plan, Fieldwood expects to ramp up production during the second half of 2021 from zero to about 40,000b/d and forecasts that it will reach a peak of over 60,000b/d in 2023. A second round of activity would help the company produce over 90,000b/d in 2027-2029.

The first phase would involve using two spudded wells, Pokoch-1DEL and Ichalkil-2DEL, and a production platform leased to Pemex, Tumut-A. The second phase, which would start in 2026, would involve the activation of two Fieldwood platforms, Ichalkil-B and Ichalkil-A, and a processing center. The new plan postpones the firm's production milestones by one year to account for COVID-19-related construction delays, the firm said.

It also raises the amount of investment Fieldwood plans to make between 2021 and 2041 from USD $2.82bn to USD $3.34bn to spud 18 wells, finish 22 wells and conduct a series of major and minor repair works. Other necessary production-related activities would take total investment to USD $7bn over the lifetime of the project. The entire development plan seeks to extract 455Mb of oil and 567Bf3 of gas.

CNH approves modification for Tlacame development plan – CNH

CNH approved Pemex to modify the development plan for the AE-0006-7M- Amoca Yaxché-04 - Tlacame field. The modification to the plan is justified by the variation greater than 15% in the investment to be executed compared to the approved investment. The modification to the development plan aims to recover a volume of 49.79 MMboe and 18.27 billion cubic feet of gas by drilling one well, two completions, two major repairs, and 41 minor repairs. Pemex contemplates an investment of USD $600.9 million, of which USD $488.28 million will be used for investment and operating expenses, and USD $112.61 million for other expenses.

CNH approves modification to the development plan to Diavaz – *CNH*

CNH approved to Diavaz Offshore the modification to the Extraction Development Plan, corresponding to the license agreement A1/2015.

The area has 55 drilled wells and three reservoirs, and the type of hydrocarbon found is light black oil. The modification to the Plan is due to the fact that the operator discarded nine wells out of the total that it planned to drill. Likewise, there was a reduction in investment costs, a lower volume of hydrocarbons to be recovered in one year, and a change in the projection to reach the gas exploitation goal, which is expected to be reached as of 2024.

The modification includes the drilling and completion of seven wells, four major repairs, 100 minor repairs and the construction of 12 pipelines. By 2041, the volume of hydrocarbons to be recovered will be 6.01 MMboe and 7.80 bcf of gas. The contemplated investment is USD $55.23 million.

CNH approves Yoti Oeste-1EXP exploratory well drilling to Lukoil – *CNH*

CNH approved Lukoil to drill the Yoti Oeste-1EXP shallow water exploratory well. The well is considered in the baseline scenario one of the modification of the exploration plan, approved by the CNH on November 26, 2019, corresponding to Contract CNH-R02-L01-A12.CS / 2017.
The prospect has a total scheduled depth of 3,680 meters. Estimated prospective resources amount to 113.3 MMboe, with a geological success probability of 22%. The drilling and abandonment programs of the well contemplate a total of 58 days: 47 for drilling (from July 7 to August 22, 2021), and 11 for completion (from August 22 to September 1, 2021). Programmed costs total USD $72.88 million: of which USD $64.8 million will be used for drilling and USD $8.1 million for abandonment.

CNH approves Sayulita-1EXP exploratory well drilling to Eni – *CNH*

CNH approved Eni to drill the Sayulita-1EXP exploratory well. The well is considered in the baseline scenario of the modification of the exploration plan, approved by the CNH on December 10, 2020, corresponding to Contract CNH-R02-L01-A10.CS/2017.
The prospect estimated prospective resources amount to 650 MMboe, with a geological success probability of 28%. The drilling and abandonment programs of the well contemplate a total of 43 days: 22 for drilling (from June 19 to August 10, 2021), and 21 for completion (from August 10 to August 31, 2021). Programmed costs total USD $28.88 million: of which USD $23.54 million will be used for drilling and USD $5.3 million for abandonment.

CNH approves Tlalkivak-1EXP exploratory well drilling to Pemex – *CNH*

CNH approved Pemex to drill the Tlalkivak-1EXP shallow water exploratory well associated with the assignment AE-05154-M-Chalabil, with an area of 844.89 Km², located offshore Tabasco in the Gulf of Mexico. Drilling and completition will take 184 days, starting July 9 through January 2022 where it estimates to find resources for 60 MMboe with a 32% probability of success. The total cost is USD $79.9 million; USD $57.2 million for drilling and USD $22.7 million for completition.

Equinor to drop Mexican deep-water assets as focus shifts – *Upstream*

Equinor has decided to exit two Mexican deep-water blocks as part of the Norwegian oil major's strategy to focus remaining upstream investments on assets offering rapid and robust returns.

While Equinor will continue to invest heavily in selected offshore projects in locations such as Brazil and Canada, a growing focus on pursuing decarbonisation targets has led the company to begin excluding some oil and gas investment from its portfolio. In the case of Mexico, the two blocks located in the Salina Sureste basin were acquired in Mexico's Round 1.4 bid round in an equal equity split with BP and Total. Block 3, where Equinor holds a 33% operating interest, has water depths ranging from 900 to 2500 meters. Block 1, where BP is the operator, has water depths ranging from 200 to 3100 meters. Exploration commitments include a single well on each block, not yet drilled.

Equinor will also look to offload its exploration assets in Nicaragua and Australia, in addition to the Louisiana Austin Chalk play in the US and Terra Nova in Canada.

Borr Drilling and Pemex making changes to rig JVs – *Offshore Energy*

Borr drilling has made changes to the structure of its joint ventures in Mexico by exiting the integrated services JVs and becoming a majority owner in the drilling services JVs, which will continue to earn day rates, providing the company with sufficient liquidity.

Borr Drilling has five rigs working for JVs which are jointly owned with its Mexican partner, providing integrated well services for Pemex. The services started in May 2019 and have provided Pemex with an incremental production of approximately 125,000 barrels of oil per day from 21 wells drilled so far. Borr entered a new business in Mexico in 2019 by participating in four JVs with a 49% ownership.

Two of the JVs provide Integrated Well Services (IWS) and the other two Joint Ventures provide contract drilling services to the IWS business on fixed day rates. IWS in turn provides integrated well services to Pemex. In an update Borr said that the integrated well services JVs have received a request for extension of this program, which in turn is expected to employ the five Borr Drilling rigs until the end of 2022. In connection with this extension, Borr and its Mexican partner have entered into a Memorandum of Understanding to make certain changes in the structures of the JVs, where its Mexican partner will buy Borr Drilling's 49% stake of the integrated services JVs Opex and Akal (the IWS JVs).

The transaction is expected to free up a gross amount of $28 million for Borr Drilling, representing historic profits in the IWS JVs and some settlements of other payables, which is incremental to the day rate earnings resulting from the provision of drilling services. Simultaneously, Borr Drilling will acquire an incremental 2% stake of the joint ventures performing drilling services (the Drilling JVs) from the Mexican partner, and by that hold a 51% majority ownership position. The Drilling JVs will continue to earn day rates from its main customers Opex and Akal through regular drilling contracts.

As explained by Borr, this will streamline the company's Mexican operation, reduce risk, and over time lead to a more stable cash-flow. The company expects to close the transaction within the third quarter of 2021.

NFE granted permits for Pichilingue LNG terminal – *Offshore Energy*

New York-based gas-to-power developer New Fortress Energy "NFE" has been granted several approvals for its LNG import terminal in the port of Pichilingue, Mexico. The project in the port of Pichilingue, Baja California Sur, Mexico, consists of a nearly 100-megawatt power plant and an LNG terminal.

CRE, Mexico's energy regulatory commission, granted NFE Pacífico Lap, a unit of New Fortress, permission to store LNG in a floating unit in the port of Pichilingue. The second permit sees NFE Pacífico Lap approved to distribute LNG via ISO containers with approximate capacity of 40.5 cubic meters. The company also received a regasification permit that involves two sites in La Paz municipality. New Fortress expects the operations at Pichilingue to begin in the 2Q-2021.

AMLO's proposed buyout of Shell Oil Company at the Deer Park Refinery – *Mexico Energy Intelligence*

There is widespread skepticism about the operational and financial outlook of the refinery in Deer Park, Texas, if the refinery were to come under the sole ownership of Pemex, Mexico's state-owned oil agency.

An informal survey of industry sources conducted by Mexico Energy Intelligence™ (MEI), identified concerns about the proposed buyout by Pemex of the 50% ownership that has been held by Shell Oil Company since a joint venture was formed in 1993. "Pemex is seen as lacking the managerial and technical talent to efficiently, safely, and profitably operate the refinery on a stand-alone basis," says the founding publisher George Baker, summarizing conversations and email communications with industry sources. "Pemex would lose access to a deep bench of managerial and technical talent and the pool of innovation that is provided by Shell's operational experience worldwide," he adds.

The proposed purchase became public during the press conference of President AMLO on May 26. The president praised it as an important step toward national self-sufficiency in petroleum products. Pemex had offered US$596 million plus the value of inventory, together estimated at about $1 billion.

Wall Street, however, views the purchase darkly. The next day, Moody's Investors Service downgraded the credit rating of the partnership, noting that by the purchase Pemex loses the rating- and credit-leverage supplied by Shell. The deeper problem with the proposed buyout is its lack of a business justification; there is only a political narrative about the imagined benefits of national self-sufficiency in petroleum products.

There are also legal and labor issues to resolve: The counterparty to Shell is not Pemex, but a U.S. subsidiary of a Mexican subsidiary, PMI Norteamérica, S.A. de C.V., owned by Pemex via its trading subsidiary, PMI Comercio Internacional, S.A. de C.V. Pemex employees are federal civil servants, who, in that capacity, would be ineligible for work permits in commercial establishments in the United States. There are also new challenges of negotiating with the trade union United Steel Workers and U.S. environmental compliance.

In completing the purchase, Pemex would be losing the credit-leverage, technological advantage, intellectual property, and operational and marketing expertise that are being supplied by one of the premier oil companies on the planet. In addition to the sales price, Pemex sold be assuming uncounted environmental, health and pension liabilities.

Discounting the narrative that "everything would be run as before," the greater likelihood is that industrial and environmental safety in the Houston area would be compromised with Pemex as the operator; further, the profitability of the refinery would be jeopardized by higher costs of capital, insurance and compliance.

The purchase awaits regulatory approval by the U.S. authorities, principally the Committee on Foreign Investment in the United States (CFIUS), an agency of the Treasury Department.
By: George Baker

Power/Renewable Energy – Mexico

IEnova and IFC join forces to develop the Volta de Mexicali battery storage facility – *IEnova Press Release*

IEnova and IFC, a member of the World Bank Group, agreed to join forces in the development efforts of the Volta de Mexicali "VDM" Battery Energy Storage System "BESS" facility in Mexicali, as well as in the development of IEnova's Sustainability-Linked Finance Framework.

Once operational, the VDM BESS would be connected to the California Independent System Operator "CAISO" electric grid via an IEnova-owned cross-border transmission line. Energy stored in batteries is expected to be delivered to the CAISO grid, as a firm, dispatchable resource, providing essential electricity reliability services to the local area. This is a particularly important service in systems with high levels of intermittent renewable energy generation such as the CAISO system.

VDM is expected to be developed in phases, starting with 100 megawatts, with a potential of up to 500 megawatts of capacity. The first phase could reach Final Investment Decision as early as the first half of 2022 and commercial operation in mid-2023.

Mexico's CFE to invest USD $4.85bn in nuclear, hydro, renewables – *Bnamericas*

CFE plans to develop 8,080MW in new clean energy projects before the end of the current administration in 2024. "We are still evaluating new projects," said Mario Morales Vielma, CFE's director of legacy contract negotiations. "So that, in the rest of the administration, we can identify new initiatives that would add to those that are already known, another 8,080MW of new technologies for total investments of USD $4.85bn." Morales added that the new capacity would be made up by energy sources including hydroelectric, nuclear and geothermal, as well as solar and wind.

The administration is also pushing for solar development in Sonora State through a new public company owned by the state government. Regarding the six combined cycle units that the firm is in the process of tendering and that will add a total capacity of 4,322MW, CFE would require combined investments of USD $2.9bn. According to CFE, Mexico will see power demand rise by 8.8% to require 52,420MW of installed capacity to be properly serviced in 2024, while the country's actual installed capacity is expected to reach 104,380MW that same year.

"There are a series of permits that were authorized and are in construction, or that have an interconnection contract with CFE, which will allow private generators to grow the system to have 761 generators with an installed capacity of 104,380MW" by 2024, said Morales.

Morales also said that "intermittent" power plants, such as wind and solar parks, would have to be "properly regulated" by capping their participation in the power matrix to ensure they do not destabilize the national system. These comments are in line with attempts by the AMLO administration to limit, suspend or revoke generation permits, as well as to bolster CFE generators by altering dispatch priority rules. The company said it will tender transmission and distribution works totaling $48.6bn pesos (USD $2.35bn) between 2021 and 2025. The works will be focused on bolstering the availability of existing CFE power plants.

Oil & Gas - LATAM

Subsea 7 and Schlumberger alliance awarded Brazilian EPCI contract by Equinor – *Schlumberger Press Release*

Subsea 7 and Schlumberger's OneSubsea, secured a major contract from Equinor for the Bacalhau field. The Bacalhau oilfield, operated by Equinor, is located approximately 115 miles off Sao Paulo. The project work scope covers the engineering, procurement, construction and installation (EPCI) of the subsea pipelines and production systems. The development will include 140 km of rigid risers and flowlines, 40 km of umbilicals and 19 trees, as well as associated subsea equipment, in water depths of approximately 2,050 m.

Project management and detailed engineering will take place in Rio de Janeiro with support from Subsea 7's Global Project Centre in the UK and France and various OneSubsea offices. Bacalhau is Brazil's first integrated subsea pipelines and production systems project. Equinor is the operator of Bacalhau with a 40% interest. ExxonMobil also holds 40%, while Petrogal Brasil has a 20% stake. First oil is expected in 2024.

Brazil's BR Distribuidora launches share offering to sell Petrobras stake – *Reuters*

Brazilian fuel retailer BR Distribuidora launched a share offering in which Petrobras will sell an 11.5 billion reais (USD$2.3 billion) stake in the company, according to a securities filing. The offering will be priced on June 30, and managed by Bank of America Corp, Citigroup Global Markets, Goldman Sachs Group Inc, Itaú BBA and JP Morgan Chase, along with Morgan Stanley and XP Investimentos. Petrobras is selling the assets to raise money and reduce its debt burden.

The oil company said it had informed BR Distribuidora of its plan to sell its remaining 37.5% stake in the firm in a follow-on public offering. “This operation is in line with the optimization of the portfolio and the improvement of the company’s capital allocation, aiming at generating value for its shareholders,” Petrobras said then in a filing.

BR Distribuidora is Brazil’s leading fuel distribution company and was privatized almost two years ago through a share offering.

NOV and Baker Hughes confirmed winners in Petrobras flexibles tender – *Baker Hughes Press Release*

Petrobras has signed contracts with NOV and Baker Hughes for the supply of flexible lines that will be used in the project to revitalise the production of the Marlim and Voador fields, located in the Campos Basin.

The Brazilian oil major said, without disclosing the value of the two contracts, the companies will deliver a total of 448 km of flexible lines, of which 280 km are contracted with NOV and 168 km with Baker Hughes. Between March and April this year, Petrobras also inked contracts for the supply of up to 92 km of flexible lines for gas lift with NOV, and for the supply of up to 13 subsea production and injection manifolds, 8 with TechnipFMC and 5 with Baker Hughes, in addition to contracts for anchoring materials, subsea equipment and umbilicals.

The initiatives are part of the Marlim and Voador revitalisation project, operated 100% by Petrobras. The project foresees the installation of two new FPSO-type platforms in the northern area and in the southern area of the Marlim field. The two platforms, which will be interconnected with 77 wells, should come into operation in 2023 and will allow the extension of the production of the field’s deposits until 2048.

Brazil's Petrobras signs deal with Saipem, DSME for eighth Buzios FPSO – *S&P Global Platts*

Petrobras had agreed a $2.3 billion deal with a joint venture formed by Saipem and South Korea's Daewoo Shipbuilding and Marine Engineering, or DSME, to build the FPSO P-79, which will have installed capacity to pump 180,000 b/d of oil and process 7.2 million cu m/d of gas.
Delivery of the vessel is expected in 2025. The FPSO P-79 will be connected to eight production wells and six injection wells once installed.

The high productivity at Buzios, where a single well pumped a record 69,600 b/d of oil equivalent in September 2020, will allow Petrobras to install larger production units at the field going forward.

Each of the four vessels currently installed has capacity to pump 150,000 b/d of oil and process 6 million cu m/d of gas. But high flow rates and onboard efficiency improvements allowed output at Buzios to top 600,000 b/d for several months in 2020. Buzios pumped 580,414 b/d of oil and 22.9 million cu m/d of gas in April, according to the latest data available from the ANP.

Petrobras is currently studying a plan that would install up to 12 FPSOs at Buzios, executives said May 14, potentially taking output to 2 million b/d. The fifth and sixth Buzios FPSOs are already under construction. The FPSO Almirante Barroso, which has installed capacity to pump 150,000 b/d, is expected to pump first oil in 2022.

The FPSO Almirante Tamandare, which is expected to pump first oil in 2024, will have installed capacity to produce 225,000 b/d. The projects were only slightly affected by the coronavirus pandemic and remain on schedule for first oil, according to Petrobras. Three additional FPSOs at Buzios, which would bring the total number of production facilities at Buzios to 12, could be constructed under an option included in the FPSO P-80 tender. The clause would allow the company to expand the order to include two additional FPSOs and speed up development.

Shell Argentina outlines Vaca Muerta focus – *Bnamericas*

Shell Argentina plans to drill more than 100 oil wells this year and next in Vaca Muerta to help supply the local market and boost crude exports, said CEO Sean Rooney.

Among other Shell projects in the pipeline is construction of the 105km Sierras Blancas-Allen oil duct and development of the Bajada de Añelo block, which will involve construction of an early production system and the drilling of 12 additional wells. Elsewhere in Vaca Muerta, Shell is putting into service a 30,000b/d central processing facility at the Sierras Blancas acreage. Shell has interests in seven unconventional areas in Vaca Muerta and is operator in four of them. Associated production in 1Q21 was about 15,000b/d, up around 200% year-on-year.