
# Energy Monthly News

December, 2021

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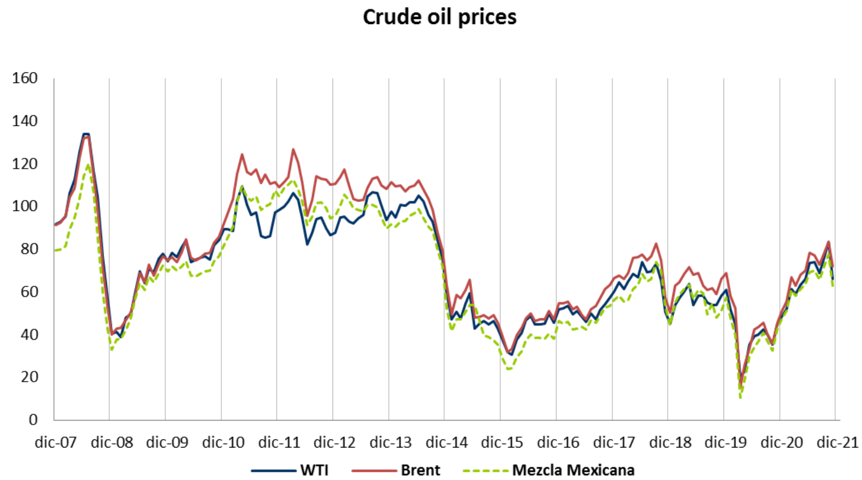
## This month in review

** 20/12/2021 **21/12/2021*

| | |
|---|---|
| Crude oil price MME US/BD | 63.4 |
| NG price HH* US/MMBTU | 3.7 |
| Mx crude production MMbd – *October* | 1.74 |
| Mx NG production MMpcd – *October* | 4,635 |
| US crude production MMbd - *September* | 10.86 |
| | |
| FX Rate* | 20.73 |




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

## Oil & Gas - Mexico

### Mexico says U.S. approves Deer Park refinery deal, sees completion early 2022 – *Reuters*

The U.S. government has authorized the purchase by Pemex of Royal Dutch Shell's (RDSa.L) controlling interest in a Texas oil refinery in a transaction that should conclude early next year, Mexico's government said. Mexican President Andres Manuel Lopez Obrador told a regular news conference that the U.S. government had on Tuesday approved the purchase of the Deer Park refinery stake by state-run Pemex, calling it "very good news."

At the same conference, Mexican Foreign Minister Marcelo Ebrard displayed a letter showing that the Committee on Foreign Investment in the United States (CFIUS) had concluded there were no unresolved national security concerns regarding the deal. Lopez Obrador, who backed the purchase as part of a plan to make Mexico self-sufficient in gasoline, thanked U.S. President Joe Biden for his support during the authorization process.

Shell in May disclosed an agreement to sell its 50% interest in the 302,800 barrels-per-day (bpd) Deer Park refinery outside Houston to its partner Pemex for some $596 million. CEO Romero told the news conference that the terms of the deal had not changed since May, and that Mexico would pay off the existing debt of both Shell and Pemex in the refinery, which he said amounted to around $1.2 billion in total.

Shell confirmed the CFIUS approval in a message to Deer Park refinery employees. "In the coming days, we will work on finalizing the closing date for the deal," the oil refinery's general manager, Guy Hackwell, told workers. Once CFIUS completes its investigation, the White House has up to 15 days to approve or reject the recommendation.

## Pemex refinery deal may cost USD $1b more than announced – *Rigzone*

Pemex could end up spending about USD $1.6 bn to take over Royal Dutch Shell Plc's Deer Park refinery, more than twice the price announced in May, even as its finances are so dismal the government is injecting billions of dollars into the state oil producer.

Pemex, as the company is known, has requested about USD $1.6 billion to acquire the Houston-area refinery, including a capitalization from Mexico's National Infrastructure Fund and a bridge loan from commercial banks, according to Pemex documents seen by Bloomberg. The funds will be used to pay off more than $1 billion of the refinery's debt, a part of the deal that wasn't clear when it was first announced. Pemex and Shell didn't immediately return requests for comment.

Pemex had announced in May that the purchase price of the refinery was USD $596 million. However, that amount only included Shell's share of the debt of the joint-venture with Pemex's trading arm PMI, in which both partners had a 50% stake, and not the full debt of the refinery. Pemex CEO Octavio Romero said in May the refinery's debt was about USD $980 million, but it wasn't clear whether Pemex was planning to pay it off.

In addition to paying off debt to complete the transaction, Pemex will also need to pay Shell for assets such as inventories, the documents show. In a Pemex statement at the time of the announcement, the company noted that the cost of inventories, including refinery inputs and merchandise for sale, was an "additional amount" that "will be paid to the seller at closing and will be based on actual volumes and prevailing market prices."

Deer Park has racked up almost USD $380 million in net losses so far this year, according to one of the documents. The additional costs will put even more pressure on Pemex's finances and Mexico's coffers, with the purchase relying largely on federal funds.

## Mexico's Nov oil output adds to expectation of major 2022 uptick – *Bnamericas*

Mexico's oil output stayed flat in November, consolidating the recovery seen during September and October and setting the stage for an expected uptick next year. According to preliminary data released by hydrocarbons commission CNH, the country produced 1.65Mb/d of crude oil last month and only 1,000b more than it did in October.

While the output is far from this year's peak of 1.75Mb/d in March, Mexico has been able to stabilize its production after a platform fire forced national oil company Pemex to temporarily shut down some 500,000b/d of output in August.

Pemex has tried for years to significantly raise output and has failed to do so due to insufficient investment coupled with a series of unfavorable circumstances, including the oil price crash that was triggered by the COVID-19 pandemic - and later a series of OPEC+ deals under which Mexico pledged to constrain its output to prop up prices. But it now seems poised to achieve a major output surge next year for the first time in over a decade, and the current goal to produce an average of 1.82Mb/d seems more realistic than in previous years.

The reasons for this are varied. First, several privately operated assets are starting to ramp up production after years of exploration and appraisal activities. Secondly, Pemex's financials are being propped up by government support in the form of a larger investment budget and significant debt relief.

In addition to lowering Pemex's DUC (right of shared profit tax) to 40% from 54%, congress allocated $636bn pesos (USD $29.7bn) to the company in the 2022 spending bill that was passed last month, representing an increase of 16.8%. The finance ministry also said recently it would pump US$3.5bn into the firm to reduce its debt burden, potentially freeing up funds for production-related investments.

In terms of privately held assets, while Mexico's two most promising fields, Zama and Trion, have faced setbacks (with Zama taken away from operator Talos Energy and put under the care of Pemex and Trion's final decision on development pushed back well into 2022 by BHP) there are several other significant projects that are on the verge of a significant production ramp-up.

While there is raising uncertainty in the sector due to legal and constitutional changes and a regulatory environment that is increasingly unpredictable, there are bright spots that bode well for crude output in 2022.

- Fieldwood

Significant projects include the Ichalkil and Pokoch fields being developed by Fieldwood Energy, which are expected to add some 20,000b/d next year and ramp up to 100,000b/d by mid-decade.

The plan includes the spudding of 18 production and injection wells and the construction of six pipelines and five production platforms. Production started in November and currently sits at around 7,000b/d.

- Hokchi

Argentine player Hokchi Energy is well on its way towards full production at its shallow-water Hokchi field off the coast of Tabasco state. According to the firm, 2022 will see it ramp up production to reach an output of 14,000b/d as it inaugurates its sixth production well.

Earlier this year, the Pan American Energy subsidiary started operations at a new processing facility that will take in 35,000b/d of oil and 13Mf3 (million cubic feet) of natural gas. Two marine platforms are operational and the company plans to spud 14 production wells over the coming years.

- Eni

Another company that expects to significantly increase output next year is Eni in its Area 1 contract in the Sureste basin. Eni said in August that 2022 would see it producing some 65,000b/d from the area, up from 20,000b/d this year, and on its way to an output of 90,000b/d by mid-decade. The area had a stinted development start-up in 2020 since Eni ramped up activities at the Miztón discovery at the same time as the oil price crash.

## Fieldwood set to invest USD $6.8bn in Mexico offshore production – *CNH*

CNH cleared a USD $6.8bn offshore development plan presented by Fieldwood Energy for its area 4 contract off the coasts of Tabasco and Campeche states. The plan outlines Houston-based Fieldwood and partner PetroBal's intention to move into full production mode at their Ichalkil and Pokoch discoveries, and will see the former spud 18 wells and build six pipelines and five production platforms in a bid to extract 455Mb of oil and 567Bf3 of natural gas over the next 20 years.

According to the company, this would translate into output of 100,000b/d of oil by mid-decade. Production started in November and currently hovers at around 7,000b/d. The company also presented an updated 2021 work program to increase investment from USD $182 million to USD $217 million on account of postponed spudding offset by some of the platform construction being conducted earlier than previously thought.

## CNH approved an updated exploration plan to PC Carigali – *CNH*

CNH approved an updated exploration plan presented by PC Carigali Mexico looking to add new activities and invest USD $77 million at its deepwater AP-CS-G07 concession off the coast of Veracruz. After conducting some exploratory studies, the firm has decided to spud a single exploration well at the site next year and conduct 13 new studies to verify the area's potential. The company is yet to decide which of seven potential prospects it plans to spud.

## CNH approved an updated exploration plan to Pemex's E&P – *CNH*

CNH gave the green light to updated exploration plan presented by Pemex's E&P arm PEP for its 0146-M-Comalcalco concession straddling Tabasco and Chiapas states. Pemex plans to invest up to USD $32.3 million in the area in several studies and the potential spudding of a single well. The CNH also cleared a second plan modification by PEP, this time concerning its 4M-Amatitlán onshore area in Veracruz. PEP was allowed to extend some activities into the area's second, extended exploratory period.

## Mexico gives USD $3.5 Bn lifeline to Pemex to help finances – *Bloomberg*

Pemex will get USD $3.5 billion cash injection from the government as President AMLO orders a new business plan for the struggling company.  The state-owned producer will use the funds to pay down obligations and also embark on a serious of bond buybacks and new issuance to reduce the cost to service its debt. As part of the initiative, Pemex will also overhaul its five-year business plan, according to a statement released by the company.

AMLO's latest effort to show support for Pemex, which has a 90-year legacy in the country and for many years provided a huge chunk of the federal budget, comes after more than a decade of declines in output and limited investment in new fields. While the announcement appeared to provide some short-term support for the embattled company, analysts are skeptical that it will be enough to revive operations. Still investors seemed to be encouraged, with Pemex's benchmark bonds due in 2031 rising 1.2 cent to 96.5 cents on the dollar, reducing its yield to 6.4%.

The liability management transaction won't include bonds coming due in 2022 and 2023 since the government has already vowed to cover them, according to the statement. Pemex chief executive officer Octavio Romero had revealed that pledge in October. The government also previously announced plans to reduce the company's profit sharing duty to 40% next year.

Holders of Pemex bonds coming due in 2024 to 2030 will receive cash and new notes in an exchange offer while investors with securities maturing after 2044 will be paid cash for their holdings, according to the statement. In addition to the transaction, Pemex will reformulate its five-year business plan "to include detailed actions necessary to strengthen its financial position in the medium and long term, as well as to prepare Pemex for the challenges the energy sector will face in the following years," the statement said.

Also, it will implement financial mechanisms that will allow for public sector co-investment in exploration and production projects, improvements in its debt structure, and changes to Pemex's management team.

## Pemex plans to invest USD $830 million at Ek-Balam in 2022 – *CNH*

CNH has approved a plan by national oil firm Pemex to invest USD $828 million at its shallow water Ek-Balam contract off the coast of Campeche in 2022. Pemex expects to spud and complete six wells, and build a platform and several pipelines to extract 31.98Mb of oil and 7.53Bf3 of natural gas.

Ek-Balam was the flagship project Pemex migrated from its usual concession format to a contract model created by the energy reforms of 2013-14. By doing so, the company expected to access more favorable tax conditions.

The CNH greenlit plans by Pemex's exploration and production arm PEP to spud the Taxtunu appraisal well in Veracruz State. The firm also seeks to invest USD $9.8 million at its 4M-Amatitlán concession in order to better assess a reservoir estimated to contain 23Mboe of contingent resources.

## Pemex approved to Pantera E&P to spud the Pípila appraisal well – *CNH*

CNH cleared plans by Pantera E&P to spud the Pípila appraisal well in its A4.BG concession, straddling Nuevo León and Tamaulipas states. The company expects to invest USD $6.7 million at the site to find contingent resources totaling 500,000boe.

## Pemex plans to export less crude in 2022 – *Bloomberg*

Pemex plans to trim its crude oil exports next year as it cranks up domestic fuel making to supply an economy bouncing back from the pandemic. Pemex refineries in Mexico, which have been operating at less than 50% of capacity for seven straight months, plan to process an additional 200,000 to 300,000 barrels of crude a day starting in January, people with knowledge of the situation said.

That's oil that would have otherwise been exported, with Asian refineries expected to bear the brunt of the export cuts. Pemex could potentially also run more Mexican crude at the Houston-area Deer Park refinery once its deal to acquire Royal Dutch Shell Plc's stake is finalized. Pemex didn't return a call and email seeking comment.

The decision by Mexico's state oil company to process more at home instead of sending it abroad will help the country reduce costly imports of refined products, like gasoline and diesel, as demand climbs. Nearly seven in every ten gallons of gasoline sold in Mexico today is imported, mostly from the U.S.

## Power/Renewable Energy – Mexico

### Mexico's CFE struggles with combined cycle tenders as investors ask for more time – *Bnamericas*

CFE's battery of tenders to build six combined-cycle units are facing last-minute delays after the first round turned void due to a lack of bids. Potential investors have expressed concerns over the timetables during which the projects are expected to come online, saying they are not realistic. CFE's procurement platform shows key documents for several of the tenders have not been published after their preset dates. Meanwhile, the company has uploaded several time extensions and last-minute modifications to the project terms and conditions.

For example, for its 327MW Baja California Sur unit, the company published a postponement on the date to receive offers two days before the deadline and said it had received "communications sent by participants asking for an extension". It therefore moved the date to December 13. A week later, CFE published a notice which, while acknowledging the abovementioned change of date, said the company had also introduced "new clarifications" in the project's terms of reference derived from "a request of information made by possible participants during the extraordinary visits made to the site."

A similar process has taken place for the 1,086MW Tuxpan phase I project in Veracruz, where the final date to present offers was postponed from November 17 to December 21 and the terms of reference were adjusted for the same reasons as previously cited.

Meanwhile, for its 205MW González Ortega unit in Baja California, CFE has not published any offer reception or awarding documents even though the project was set to be awarded on November 30, and contracts were supposed to be signed on December 7. It is currently unknown whether the company managed to find a suitable offeror.

The deadline to receive offers for the 680MW San Luis Río Colorado unit in Sonora were pushed forward from January 12 to November 29, with awarding expected for December 15. CFE has not published minutes chronicling the opening of the technical or economic offers, as it has done with other projects. The last two units in the package, Mérida and Valladolid, received no bids last month. CFE is yet to close the contest or publish an awarding document, and the tender is still registered as "active" on the platform. As a package, Mérida and Valladolid form the largest combined-cycle project in CFE's near-term pipeline, with combined installed capacity of 1,546MW split into a 1,037MW plant (Valladolid) and one with 509MW (Mérida). Total investment was estimated last year at USD $1bn.

Besides the problems with the combined cycle units, CFE has had a series of procurement successes. In late November, the company awarded Finland's Wärtsilä contracts to build two natural gas and fuel-powered units totaling 600MW. The mechanism the firm used to award the projects was not disclosed.

# Oil & Gas - LATAM

## Petrobras dominated bidding for a pair of Santos basin pre-salt oil deposits – *Argus*

Atapu, went to a Petrobras with partners Shell and Total Energies that presented a sole offer featuring a R $4bn signing bonus and 31.68% profit oil, compared with a minimum of 5.89%. Petrobras kept a 52.5% operating stake in the field. Shell took a 25% interest and Total Energies the remaining 22.5%. Atapu currently produces around 130,000 b/d through the 150,000 b/d P-70 platform.

Shell is currently Brazil's largest private oil producer, with a net take of around 330,000 b/d coming mainly from major pre-salt fields. The company and Total Energies are already partnered with operator Petrobras in the Mero pre-salt field. Chinese state-owned CNOOC and CNODC, regular participants in Brazil's pre-salt auctions since a landmark 2013 round, sat out of today's auction.

## Ecopetrol to invest up to USD $5.8bn in 2022 – *Bnamericas*

Ecopetrol has unveiled plans to raise capital expenditure by up to 66% in 2022 amid expectations of an ongoing rally in global oil prices. The company expects to outlay USD $4.8bn to USD $5.8bn for the year, up from a 2021 forecast of USD $3.5bn. Around 70% of the investments will be pumped into Colombian operations while the remainder will be allocated to the US (14%), Brazil (8%), Peru (5%) and Chile (3%).

Around 70% of the total investment figure will go toward exploration and production while 20% is set aside for projects belonging to its newly acquired power transmission unit ISA. The remainder has been earmarked for transport, refining, commercialization and corporate initiatives. Upstream investments will be focused on achieving average production of 700,000-705,000boe/d – 81% oil and 19% gas – and refining volumes of 340,000-360,000b/d.

In addition, the company aims to prioritize investments in technologies that improve oil recovery and compensate for the natural decline of mature fields. It expects to drill 24 exploration wells in 2022 in the Llanos Orientales, Middle Magdalena, Lower Magdalena, Sinú-San Jacinto, Putumayo, Piedemonte and Caribbean offshore basins. Likewise, between 2022 and 2024, around 1,800 development wells will be drilled.

In the unconventional segment, Ecopetrol foresees capital expenditure of USD $700 million in production activities in the US Permian basin and investments of US$20mn in its local Kalé and Platero fracking pilots. The company will pour 6% of the 2022 capital budget into transport projects under development by Cenit, Ocensa, ODC and ODL. The refining segment will receive 8% of the total, with a focus on reliability and sustainability initiatives at its Barrancabermeja and Cartagena refineries, as well as fuel quality programs and wastewater management. Another USD $50 million will go toward decarbonization and US$60mn to digital transformation projects.

## YPF nears loan deal to ease $400 million debt pile next year – *Reuters*

Argentine state energy firm YPF is close to signing a loan deal with a multilateral lender which could cover part of its $400 million debt obligations next year, its chief financial officer said, which will free up funds for investment. Alejandro Lew said the loan would inject funds to balance out repayments YPF, which leads development of the country's massive Vaca Muerta shale formation, faces in 2022. It has also $500 million in maturities due in 2023. "If all goes well, in a few days we will be signing and largely matching the payments that we have to make in 2022 with the funds that will come from this loan," he said during an event with credit ratings agency Moody's.

Argentina, locked in talks with the International Monetary Fund to roll over some $45 billion in debts it cannot pay, is something of a pariah in global financial markets. It defaulted and restructured over $100 billion in sovereign bonds last year. "This is a sign the international financial market is not necessarily open for Argentina, but not fully closed either," Lew said. YPF President Pablo González said that the firm was looking to boost investment next year to around $3.5 billion, which could rise further.

## Brazil's Petrobras expects to sell TBG pipeline unit in 2022 – *Reuters*

Petrobras expects to sign a deal to sell its TBG natural gas pipeline unit next year. Petrobras put its stakes in the 2,593-km (1,611-mile) TBG pipeline - carrying natural gas from Bolivia - and the far southern TSB pipeline up for sale in December.

Reuters reported in May that Washington-based EIG submitted a non-binding offer for the assets in a consortium with Fluxys Belgium NV and Calgary-based Enbridge. However, EIG made its binding offer alone. The firm remains in discussions with Enbridge and Fluxys about a potential partnership investing in and operating the asset, should EIG's bid prove successful. It was not immediately clear if there were competing offers. EIG, Enbridge and Fluxys declined to comment.

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