



July, 2021

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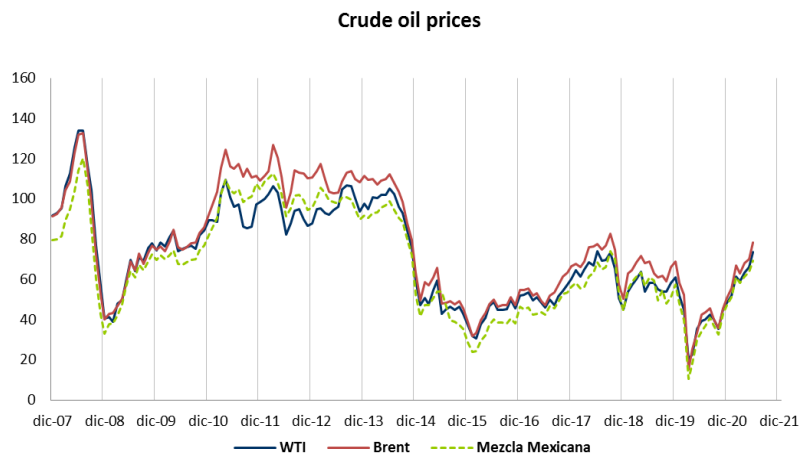
This month in review

* 27/07/2021

**28/07/2021

Crude oil price MME US/BD	68.3
NG price HH* US/MMBTU	3.2
Mx crude production MMbd - June	1.68
Mx NG production MMpcd - June	4,721
US crude production MMbd - April	11.16

FX Rate**	19.95
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Source: EIA, El Reforma, Pemex, Banxico, and CNH

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Oil & Gas - Mexico

Moody's downgrades Pemex's ratings to A3.mx/Ba3 in national and global scale – *Moody's Press Release*

Moody's downgraded Pemex senior unsecured ratings on the company's existing notes, as well as the ratings based on Pemex's guarantee, to A3.mx/Ba3 from A2.mx/Ba2. These rating actions were based on Pemex's high liquidity risk and increasing business risk as the company faces high debt maturities while it expands its refining capacity and production. Moody's believes that such strategy will generate higher refining operating losses in the short and medium term. The outlook on Pemex's ratings remains negative primarily given the negative outlook on the Mexico government's Baa1 rating.

Pemex 2Q-2021 results – *Pemex, Bloomberg*

Pemex reported net income for the second quarter of 14.4 billion pesos (USD \$721 million), compared with a net loss the previous quarter of 37.4 billion pesos. The company saw oil and condensate production rise by a slight 1.2% to 1.736 million barrels a day in the second quarter compared with the previous quarter. Output in the second quarter rose 3.8% compared with the same period a year ago, but the production gains came in large part due to an increase in extraction of condensate used to dilute some heavy crude rather than the company's flagship crude for export. Its amount of crude processing rose 5.4%.

The company's financial debt rose to USD \$115.1 billion at the end of June, from USD \$113.9 billion at the end of March. Pemex said it didn't receive any proceeds for the first half of its 2019-2021 hedging program because observed prices were above the strike price. Its current hedging strategy corresponds to about 50% of the full year 2021 exposure. Pemex is expected to receive additional financial aid from the government this year.

Mexican energy ministry directs regulator to cap LPG prices – *Bnamericas*

SENER has asked regulator CRE to set maximum prices for LPG sales. Through an emergency directive published in the official gazette, SENER instructed CRE to issue new regulation that would cap market prices and set conditions for Mexican families to access the fuel at fair costs.

The regulation would have to set "a cost that considers the industry's development and guarantees the preservation of a democracy founded on economic, social and political development of the country and its inhabitants," SENER said. According to the directive, CRE would have to issue the new regulation within three days.

President AMLO recently announced an initiative to launch a state-owned low-cost LPG distribution company named Gas Bienestar, which would be exclusively supplied and run by state-owned oil and gas giant Pemex. About 8.5Mt of LPG is sold annually in Mexico to between 78-79% of households, being the simplest fuel to package and distribute for the cost available to local consumers.

Protexa has concluded drilling of the Yaxche 600 well – *El Financiero*

Protexa announced that it has completed the works at Yaxché 600, thanks to the drilling speed that reached up to 188 meters per day. The Mexican oil services company Protexa, reported that the drilling of the Yaxché 600 well, located in the Gulf of Mexico, completed in 24 days, imposing a new internal mark in its delivery times to Pemex.

According to a statement, Protexa reached a depth of more than 4,500 meters 10 days earlier, which made it possible to deliver the well in advance. The optimization of stage and logistics processes also contributed to this achievement. In addition, thanks to strict adherence to safety protocols, the project was concluded without personnel, industrial and environmental accidents. This is the fifth well, out of nine assigned. The other projects that it will work on this year are: Yaxché 800, Yaxché 22 and Yaxché 27, corresponding to Cluster 4.

Pemex building refinery in green area – *Bloomberg*

Public documents reveal that Dos Bocas is being built in a zone the state oil firm had promised to protect. The documents show that in 2006 and 2007, Pemex, committed to preserving the area that included a rare mangrove forest in exchange for the right to drill nearby.

The Environment Ministry gave Pemex permission to develop oil and gas reservoirs for 20 years on the condition that it not build anything new in nearby areas that contain rare flora and fauna, the files show. In giving conditional approval to working the reservoirs, the Environment Ministry declared in 2007 that Pemex "will not be allowed to develop projects and activities in areas" containing mangroves and various other types of vegetation. Pemex "must abide by each and every prevention and mitigation measure it proposed in the environmental impact assessment," and other documents included in the proposal, the ministry wrote.

Satellite mapping coordinates of the area listed in the documents and verified for Bloomberg by Planet Labs Inc., a San Francisco-based provider of satellite imaging services, along with maps, leave no room for ambiguity: the refinery sits inside the protected area. The pledge to refrain from developing the land appears to still be in force, according to four environmental lawyers consulted. Neither Pemex nor the Environment Ministry responded to several requests for comment. The office of the president declined to comment.

CNH, approved DS Servicios Petroleros the modification to the 2021 work program – CNH

CNH, approved DS Servicios Petroleros the modification to the 2021 work program and its budget, associated with the development plan for the extraction of the CNH-M4-Ébano/2018 contract. The contractual area has 1,569.123 km²; and is located 20 km from Tampico, Tamaulipas. The justifications of the 2021 work program were the hauling of a delayed activity that is now programmed to end in September 2021, the modification of the budget, the replacement of a well, and the increase in environmental permits.

During the modification, the operator expects to recover 2,224 MMb of oil and 0.863 MMbc of gas. In addition, it carried out twelve drilling activities, thirteen completions, a technological test and 16 discharge lines. The modified budget is USD \$56.3 MM.

Borr Drilling wins more Mexico work – Rigzone

Borr Drilling reported that it has secured a letter of award from an international oil company for a jack-up rig for additional work in Mexico. According to a written statement, the approximately 150-day program will likely commence in the second quarter of 2022 and generate revenues of USD \$15.7 million. The company's most recent fleet status report on May 31, 2021, shows that five of the company's jack-ups – Galar, Njord, Gersemi, Grid, and Odin – were contracted to Pemex through December 2022. The services commenced in May 2019 and have provided Pemex with an incremental production of around 125,000 bopd from 21 wells drilled until 1H 2021.

Private companies in Mexico hit production record as Pemex struggles to meet goals – S&P Global Platts

Crude production by private operators in Mexico reached a new record in June as state oil company Pemex struggles to stop the decline of its own output. Independent exploration and production companies increased their crude oil output to little under 70,000 b/d in June. According to data from CNH, production by independent producers is expected to increase to 280,000 b/d by 2024, when this administration ends, and to over 400,000 at its peak in 2028.

The increase in the private companies' output comes as Pemex struggles to stop the decline of its production. Upon taking office in late 2018, AMLO claimed under his administration Pemex would be able to bring production back to 2.4 million b/d to fuel the development of the country, a figure not seen since 2014. The president lowered it in March to 2 million b/d, arguing it was better not to over exploit the reservoirs for the benefit of future generations. Mexico told OPEC members it would not be able to reach 2 million b/d and would try to average 1.753 b/d until the end of 2022.

Petronas gearing up to spud exploration well offshore Mexico – *Offshore drilling Mexico*

Malaysian oil and gas firm Petronas is preparing to start drilling an offshore well in Mexico (Bacalar-1EXP exploration well).

Petronas has a 60% interest, with PT Medco Energi Internasional Tbk and PTTEP (Exploration and Production) 20% each. Medco is a partner through its subsidiary Ophir Mexico Operations Block 12. The well will cost USD \$4.42 million in total. The spud date is set around mid-August 2021. The spud date is set around mid-August 2021. Worth noting, Petronas in January signed a contract with Pacific Drilling's Pacific Khamsin drillship for an offshore drilling project in Mexico. Upon the completion of the work with Petronas, the drillship will move the U.S. part of the Gulf of Mexico, to drill one well for EnVen.

Petronas will have an option to extend the drillship deal for four more wells after EnVen's work has been completed. Pacific Drilling, which was subsequently acquired by Noble Corp., then said that Petronas would take the drillship on a one-well contract, starting in the third quarter of 2021. Noble Corp's fleet status report from June shows that the 2013-built Pacific Khamsin drillship is set to start drilling for Petronas in Mexico in August at a dayrate of \$192,000.

BHP molds Mexico's first deepwater development with Trion – *Business Mexico News*

The Trion project, discovered by Pemex in the deepwaters of the Gulf of Mexico in 2012, is considered one of the most exciting prospects in the Mexican oil and gas sector. Stephan Drouaud, Director of the Trion project at BHP, outlined the project's history and progress.

The company is the operator and has a 60% operating interest, the other partner is Pemex with it a 40% share. Trion is located 180 km off the Mexican coastline, 30 km from the south of the US and Mexico's maritime border. Ninety-four percent of the field is oil, the project's most valuable resource. With no nearby infrastructure, BHP faces an interesting challenge in their field development plan concept. Drouaud predicts that the field could produce 100,000 b/pd, increasing up to 120,000 or even 130,000 eventually. Most of the gas produced will be re-injected.

Trion is showing good progress in its study phase, with CNH approval already expected in 2022 and a likely successful second investment decision coming soon. Various milestones such as finalizing the field development plan will be completed in 2021. The company hopes to reach first production in late 2025 or early 2026. Developing the field is estimated to cost between USD \$7 and USD \$10 billion, but the partners are trying to narrow this range. Drouaud has asked for more time to do everything the right way in his mission to ensure Trion will be a landmark success. Another key part of the development is the Floating Production Unit contract, for which BHP decided to work with McDermott.

Pemex's trading arm bans new business with Trafigura – *Reuters*

Pemex has temporarily banned new business with Trafigura, as investigations into the energy trader's conduct in several countries deepen. The world's largest independent commodity traders are facing scrutiny globally for alleged corruption after years of investigations into

bribes of public officials in several countries in Latin America. Pemex and other state oil companies have become wary of doing business with merchants, which include Trafigura.

Earlier this month, PMI Comercio International suspended new deals with Trafigura and its subsidiaries until further notice. The document did not state a reason for the ban. Mexico is the world's fourth-largest importer of refined oil products and a prominent buyer of natural gas and LNG. Many foreign trading houses and oil companies buy Mexican crude from Pemex and also supply refined products or LNG for Mexican state companies.

Employees at PMI, which is in charge of Pemex's fuel imports, were told to honor existing agreements with Trafigura but not take on new deals as of early July. The primary reason for the increased scrutiny is that Pemex and its subsidiaries are worried about exposure to companies under investigation for corruption elsewhere. All sources spoke on the condition of anonymity because of the sensitivity of the matter.

Mexico's biggest private oil find will be operated by state-owned Pemex – *Bloomberg, S&P Global Platts*

Mexico's energy ministry has designated Pemex as the operator of the country's largest oil discovery by private companies, in the latest sign of the government's nationalist approach to the energy industry.

The Zama field, discovered in 2017 by a private consortium led by Talos Energy Inc., will be operated by the state-owned producer, according to a statement by Talos on Monday. The resolution ends a long-standing conflict between Pemex, as the state company is known, and the Houston-based producer over the field in Mexico's Campeche Bay, which contains as many as one billion barrels of oil equivalent. Talos said it was "very disappointed" with the decision and will explore "legal and strategic options" regarding Zama. The company added that the energy ministry had informed Talos of its "sudden" decision only three days after the driller received a letter directly from Pemex arguing for operatorship.

The ruling was being watched closely by the oil and gas industry as most of the shallow water blocks operated by private companies are bordered by Pemex blocks and many believe the decision will set the tone for private investments in the near future.

Talos has already committed over \$100 million to the project, which is expected to cost over \$700 million, according to data from CNH. Talos, unlike Pemex, has experience operating in areas with depths similar to Zama's about 2.7 miles. So far, Talos has undertaken the full investment while Pemex has yet to drill a single well after it canceled plans to drill an appraisal well in June and its safety record is under question following a fire near Pemex's Ku-Maloob-Zaap offshore platform complex, sparked by a gas leak.

Industry observers had expressed their concern that Pemex would be appointed as the operator for political reasons, as President AMLO has aimed to give Pemex more market power. Observers were also concerned about Pemex's financial capabilities, already weakened by its large portfolio. According to the letter sent by SENER, both companies will now have 30 days to come up with a development plan for Zama, a process likely to take longer considering companies have not been able to make agreements so far.

New Fortress begins commercial operations at LNG receiving terminal in Mexico – *S&P Global Platts*

New Fortress Energy, player in supplying LNG to power plants and industrial customers in the Caribbean and Latin America, has begun commercial operations at a receiving terminal on Mexico's Pacific Coast. The new receiving and regasification terminal is at the port of Pichilingue, on the southern end of Baja California along the Gulf of California. An agreement signed in March calls for New Fortress to supply via its receiving terminal 20,000-40,000 MMBtu/d of LNG to two power plants operated by Mexican state-owned electric utility CFE – CTG La Paz and CTG Baja California Sur.

BP to deliver first carbon-offset LNG cargo to Sempra receiving terminal in Mexico – *S&P Global Platts*

BP was nearing delivery of what was described as its first carbon-offset LNG cargo to Sempra's Energia Costa Azul receiving terminal on Mexico's Pacific Coast. Sempra is building an LNG export facility at the site of the existing regasification terminal.

The delivery is part of a flurry of initiatives energy companies have launched over the last year to quantify or reduce their carbon emissions amid the global transition to greater use of cleaner-burning fuels. The estimated carbon dioxide and methane emissions associated with the LNG cargo, from wellhead to discharge terminal, will be offset by retiring a corresponding amount of carbon credits.

It was to be the first delivery under BP's new offering and Sempra's first carbon offset LNG cargo import to Mexico. BP has said its goal is to be a net-zero company by 2050 or sooner. Sempra has set a target to operate its existing LNG infrastructure at GHG emissions intensity 20% less than its 2020 baseline.

Analysis: How Houston's Talos Energy is getting squeezed out of its oil discovery – *Houston Chronicle*

On July 2, Talos Energy received a communication from Mexico's Energy Ministry, Rocío Nahle, informing the Houston oil explorer that she had designated Pemex, the Mexican national oil company, as the operator of an oil field on the Mexican side of the Gulf of Mexico estimated to hold up to 2 billion barrels of oil in place.

Talos should feel jilted. After making the biggest oil and gas discovery in Mexico in a generation and investing upwards of \$300 million in wells, seismic studies and development plans, the control of the reservoir, which it had named Zama, was given to Pemex. When U.S. markets reopened, after the Fourth of July holiday, Talos' stock lost 8%.

The decision by the ministry, if allowed to stand, would adversely affect the outlook for offshore workers and contractors in greater Houston and the entire Gulf Coast. Hundreds of jobs and most of a billion dollars of concrete, steel and expertise are likely to be lost. For Talos, Zama could become a stranded asset.

Talos says that it will “explore all legal and strategic options” to maximize shareholder value from its Zama asset.

Contacted in Mexico City, energy lawyer Juan Carlos Collado, who holds a law degree from the University of Houston, and who once served as chief legal counsel of Pemex's procurement office in Houston, said Talos should file a "petition for reconsideration" before the Energy Ministry and National Hydrocarbon Commission. If the desired outcome is not obtained, Talos should petition the courts for an injunction asking for a suspension of all legal effects of the Minister's ruling. "Naming Pemex as the Zama operator was an act of a public authority that can be challenged in court," he said.

By: George Baker

Power/Renewable Energy – Mexico

Mexico's CFE faced with arbitration action from US supplier – *Bnamericas*

Whitewater Midstream said it filed an arbitration case against Mexican utility CFE due to unpaid services related to the supply of natural gas. Specifically, the US firm has taken the action against CFE subsidiary CFE International "CFEi".

The case is related to February purchases of natural gas that allegedly have not been paid after the price skyrocketed due to the unprecedented freeze in Texas, which paralyzed supply networks in both Texas and Mexico. The freeze saw gas prices contracted at USD \$5/MBTU jump to over USD \$200/MBTU, a price CFE refused to pay.

PepsiCo Mexico reaches 100% clean energy target – *Energy Capital*

PepsiCo Mexico announced it reached its 100% clean energy target six months before planned. The Company will power its operations across the country with 100% renewable energy; thus reducing its carbon footprint by about 110 thousand tons. Indeed, this is the equivalent of all the CO₂ that 4 million trees absorb in a year.

This achievement is in line with its greenhouse gas emission (GHG) reduction targets across its value chain in more than 40% by 2030. In fact, PepsiCo Mexico focuses its action plan both on GHG mitigation and resiliency. Through wind parks, PepsiCo Mexico will power its manufacturing plants, storage and distribution centers, and agriculture research and development centers with wind energy. Particularly, this electricity comes from three wind parks located in Puebla, Oaxaca, and Guanajuato, the Company noted.

Similarly, the Company generates its own electricity via photovoltaic panels. For instance, PepsiCo Mexico currently powers four production plants with these panels in Baja California, Sonora, and Jalisco. Additionally, other two plants will be operating in Nuevo León and Mexico City later this year. Lastly, through iRECs acquisition, the Company will purchase the remaining renewable electricity it needs to power its activities.

State-backed solar power plant announced in Sonora – *Business Mexico News*

The government of Sonora announced that it will build a solar energy plant in the municipality of Puerto Peñasco, Sonora, with an investment of at least USD \$2 billion. "The unit would be completed in March 2024, and the objective is to reduce electricity costs for the inhabitants of northwestern Mexico," said Alfonso Durazo Montañón, the state's new governor. He added that

the plant will be 54% owned by the CFE and 46% by the state government. In addition, to make it profitable, one of its purposes is to sell clean energy to Baja California, which currently buys electricity from the United States.

Oil & Gas - LATAM

Petrobras production roughly flat in Q2 – Reuters

Petrobras produced 2.796 million barrels of oil equivalent per day in the second quarter. That represented a decrease of 0.2% on annual terms and a 1.1% increase from the first quarter. Production numbers were hit, however, by stoppages at several fields in the offshore Campos Basin, as well as at some shallow-water and onshore assets. The divestment of the company's Frade field also hit the firm's figures in annual terms. In the filing, the company noted strong growth in domestic gasoline and diesel demand during the quarter.

Petrobras to sell Papa-Terra offshore field to 3R Petroleum – NS Energy

Petrobras has reached an agreement with 3R Petroleum Offshore for the sale of its stake in the Papa-Terra production field in the Compos Basin. The transaction is valued at USD \$105.6 million, of which USD \$6 is expected to be paid immediately, USD \$9.6 million at the closing of the transaction and USD \$90 million in contingent payments.

Petrobras said that the stake sale in the Papa-Terra field is in line with its portfolio optimization strategy to improve its capital allocation. A part of the BC-20 concession, the Papa-Terra field is located at 1,200m depth, and started operating since in 2013. The field recorded an average production of 179,000 boe/day until June 2021.

Petrobras operates the Papa-Terra field with a 62.5% stake, together with Chevron, which holds the remaining 37.5%.

U.S. extends protection for Citgo from PDVSA creditors – Reuters

U.S. extended a measure protecting Venezuelan-owned U.S. refiner Citgo Petroleum Corp from bondholders seeking a stake in the company to collect on unpaid debts from state-owned oil company PDVSA, Citgo's owner. Holders of PDVSA's 2020 bond, which is backed by a majority stake in Citgo's parent company, will not be able to exercise rights to that collateral until Oct. 2021. The Trump administration issued the measure protecting Citgo after recognizing opposition leader Juan Guaido as Venezuela's rightful president in its bid to oust President Nicolas Maduro, who stands accused of human rights abuses and rigging his 2018 re-election.

President Joe Biden has continued to recognize Guaido as Venezuela's interim president, though officials have said the administration is reviewing various sanctions programs. Guaido allies are also challenging the validity of the 2020 bonds in U.S. court. While an initial ruling found that the bonds were valid, the opposition is appealing and in December obtained a court order barring creditors from seizing shares in Citgo until the appeal is heard.

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

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