October, 2021

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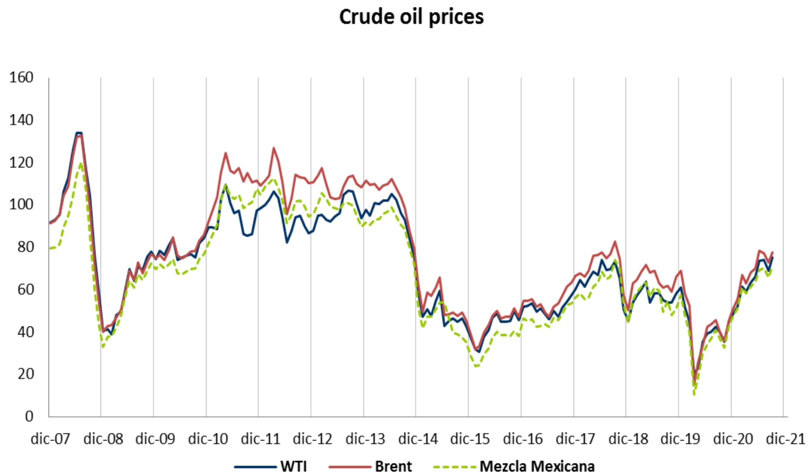
This month in review

* 27/10/2021 **28/10/2021

Crude oil price MME US/BD	77.47
NG price HH* US/MMBTU	5.7
Mx crude production MMbd – *3Q*	1.74
Mx NG production MMpcd – *3Q*	4,635
US crude production MMbd - *July*	11.30

FX Rate**	20.32



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

Oil & Gas - Mexico

Pemex 3Q-2021 results – *Pemex*

During 3Q21, total sales amounted MXN $384.7 bn, an increase of 60.9%, as compared to 3Q20, mainly due to a 57.8% increase in domestic sales and a 64.5% increase in export sales. The most significant factors explaining the increase in sales are the recovery of hydrocarbons' prices. The accumulated average price from first to third quarter of 2021 was USD $62.75 p/bl, 84.5% higher than that observed during the same period of 2020.

Pemex reported a small increase in third-quarter production after adding more wells, which more than offset the impact of two accidents at its offshore operations. Pemex's oil and condensate output rose to 1.752 Mbd from 1.736 million in the second quarter. The gain comes despite the impact of a deadly fire on the company' E-Ku-A2 platform in August that saw oil production temporarily cut by a quarter. Natural gas production (excluding partners' production) decreased 4% from 4,826 MMcfd in 3Q20 to 4,635 MMcfd.

Pemex recorded a net loss of MXN $77.2 bn, mainly due to financial costs, higher tax payments and foreign exchange losses. During 3Q21, total taxes and duties increased 80.4% to MNX $75.4 bn as compared to 3Q20, mainly due to the recovery of hydrocarbons' prices. Profit Sharing Duty "DUC" increased by 94.5% as compared to 3Q20. Total financial debt increased 1.6% as compared to December 31, 2020, reaching MXN $2,295.4 bn mainly due to temporarily used short term financing while debt to suppliers amounted MXN $227.4 bn.

Pemex CEO revises goals, to congress – *Bnamericas, Bloomberg*

Octavio Romero, Pemex CEO, said the company hopes to reach 2.06 Mbd in crude production by the end of the current administration in 2024. He also stated that average production for January to September 2021 was 1.75 Mbd, with plans to raise this to 1.95 Mbd in 2022, 1.97 Mbd in 2023 and 2.06 Mbd in 2024.

Oropeza also said that Pemex will make payment in early December on the deal to acquire Shell's stake in the Deer Park refinery, adding that the transaction is only awaiting the approval of US regulators. "The transaction will be carried out with resources from the federal government, not from Pemex,". "We are operating under the logic of seeking energy self-sufficiency."

In addition, told lawmakers that AMLO, has instructed the company that it isn't allowed to issue any more bonds and therefore the government would take over its amortization payments. While Romero's remarks left some doubts on the details and the Finance Ministry, seemingly caught off guard, wasn't immediately able to provide confirmation. "The president has given us instruction that we can no longer issue bonds," Romero said. "Due to that, Pemex won't be the one in charge of debt amortizations, but it will be the federal government. This is a huge support that will be given to this great company, because it will prevent it from going further into debt."

The government had previously announced it would pay Pemex's amortizations in 2021, but it hasn't been clear if the assistance will extend into the following years. In March, Romero said Mexico's government will absorb Pemex's debt amortization payments "starting this year" in the amount of $6.4 bn. The government has also cut the company's profit sharing obligation to 40% of earnings next year, from 54% this year, as part of efforts to shore up the producer.

Mexico sees spudding recovery in Q3 – *Bnamericas*

Mexico saw spudding activity recover in the third quarter due to the reduced impact of the COVID-19 pandemic on the upstream industry. Spudding began at 48 development wells in Q3, said CNH in a report. Pemex concentrated 88% of the quarter's spudding, while the rest was split among several private players. The most active was Operadora de Campos DWF with two spuddings, followed by Eni, Hokchi, Pantera and Tecpetrol with one each. 28 of the wells were spudded on land, 12 of them in Tabasco State, while 20 were spudded offshore - all of them in shallow water fields. CNH said 50 wells were completed in the third quarter (21 offshore and 29 onshore) with Pemex making up 58% of the completions, followed by private players Diavaz (10), SMB (6), Fieldwood (2), Hokchi (2) and Eni (1).

Companies are expected to invest a total of USD $918 million to complete the wells, with 92% of the investment coming from Pemex exploration and production and the remainder from private producers. So far this year CNH has received 126 spudding notices, 4.5% less than in 2020 and 41% below 2019's figure.

Mexico launches reform to put state in charge of power market – *Reuters*

Mexico's leftist government pitched a constitutional reform to boost state control of the electricity market, in a move to reverse energy legislation enacted by the previous administration. The reform announced by President AMLO foresees giving the Comisión Federal de Electricidad “CFE” over half of the power market and putting it in charge of setting terms for private generators. The bill also reserve future lithium extraction for the state and do away with energy regulators, grouping their functions under the Energy Ministry and the CFE.

Though AMLO had hinted at much of the bill's content, its elimination of nominally independent regulators even drew criticism from some of his erstwhile loyalists. AMLO said giving the CFE 54% of the power market would keep prices low for consumers and end preferential treatment for private firms, which he argues has been excessive. The law currently gives preference to dispatching the lowest-cost power onto the grid, which is often produced by private companies. AMLO has spent much of his term trying to overhaul the energy sector in favor of the CFE and state oil and gas company Pemex.

Doing so has helped Pemex unload fuel oil it produces onto the CFE, which it can use for burning in power stations. But tighter sulfur content rules have restricted the market for fuel oil, posing a problem for the heavily-indebted Pemex. Aside from eliminating the CNH, the law also foresees getting rid of the Energy Regulatory Commission “CRE”. The two were created years ago to be impartial market regulators.

Although Mexico does not yet produce lithium, AMLO said eight existing concessions for extracting the metal would remain in private hands if companies can develop the industry. Bacanora Lithium, which holds concessions in northern Mexico, says it is getting close. "They must prove they have done exploration work and have the capacity to invest and extract lithium," AMLO said. The company has said it aims to begin production in 2023 and ramp up to 35,000 tons of lithium carbonate annually.

The president has talked about getting votes in Congress from the opposition Institutional Revolutionary Party “PRI”. Gabriela Siller, a Banco Base analyst, said the bill's provision giving CFE the power to cancel contracts with electricity providers could amount to a "self-inflicted wound" as power demand rises in tandem with economic recovery. The bill could also raise costs for users, put pressure on public finances and squeeze investment, she said.

Approval of the reform would "mark a point of no return," generating irreversible damage to the rule of law, the environment and to the competitiveness of the country. "The imposition of this reform would imply that the most modern, clean and efficient plants of the private sector stop operating, violating the international treaties of which Mexico is part," the Business Coordinating Council said in statement.

CNH approved Pantera E&P request to drill the Kuyu-1EXP – *CNH*

CNH approved Pantera E&P 2.2's request to drill the Kuyu-1EXP onshore exploratory well. It is located in the Burgos oil basin in the state of Tamaulipas in Soto de la Marina with a total area of 463.989 m2.

The drilling will be carried out with a vertical trajectory, reaching a depth of 4,400 mvbmr. It has two targets, where it is estimated that there are prospective resources of 13.5 MMboe. Drilling and completion of the well will take 60 days. The drilling and completion costs for the well will be USD $7.24 MM and USD $0.99 MM respectively. The total cost will be USD $8.23 MM.

Mexico greenlights new Pemex exploration well – *CNH*

Mexico approved Pemex to spud the Chucox exploration well in Tabasco State. According to CNH, Pemex's will invest USD $13mn on site to complete the spudding, which will take 51 days, seeking to recover 9.3Mboe (million barrels of oil equivalent) of prospective resources. The CNH also greenlit a request by Pantera E&P to extend the period during which it is allowed to explore the A7.BG contract in Tamaulipas state. The commission said the firm would be allowed two additional years to explore the asset and would add an exploration well to its exploration program or an equivalent amount of work units.

Mexico's Salina Cruz port modernization plan involves 20 projects – *Bnamericas*

The modernization of Mexico's Salina Cruz port in Oaxaca State involves 20 projects divided into two stages, with three projects financed by the private sector. An environmental impact statement (EIS) was submitted by firm Inerco earlier this year but published only recently. Linked to the EIS is a dredging tender.

Part of the first modernization stage are dredging the navigation canal and area to 16m, the dock areas to 14m and removing the breakwater to expand the entrance to the commercial port. Port authority API Salina Cruz said firms that have shown interest are Cimentaciones GBC, COMSA Infraestructuras, Boskalis Marine Contracting and Offshore Services, RN Dragado, Mexicana de Dragados, GN Maquinaria y Equipo, Ique Sidi Construcciones and Nivaria Infraestructura. A date for the winner announcement is likely to be unveiled shortly.

Stage one involves rehabilitating and modernizing infrastructure, besides basic systems works and dredging. Stage two includes two new major terminals and a railway access to the port, developed through public-private partnerships. The modernization is key for the MNX $20 bn (USD $1bn) Tehuantepec isthmus rail corridor between Salina Cruz and the Coatzacoalcos port in Veracruz State. Apart from facilitating development in the area, the corridor is also planned to compete with the Panama Canal. Stage two, Project 18 concerns a 4.5km railway link to connect the commercial area of the port with the oil section. This section will help grow the port area's network, along with the interoceanic rail link. And two works involve the construction of a specialized container terminal in the oil area and a liquid bulk terminal set to be built in three stages.

Key Deer Park team to stay post-Pemex sale: Shell – *Argus*

Existing leadership and emergency service arrangements at Shell's refinery in Deer Park, Texas, will remain after Pemex takes control at the end of the year, which may allay community concerns over the Mexican state-owned firm's safety record.

Refinery manager Guy Hackwell and his core leadership team will transfer to the Pemex payroll when the deal is concluded "toward the back end" of the fourth quarter, Hackwell said this week at a city council meeting in Deer Park. Shell said on 5 October that Hackwell would remain manager after the sale, but at the time declined to say how the rest of refinery management would be structured.

Shell announced the Deer Park refinery sale in May, with Pemex set to buy Shell's 50.005pc stake for $596mn after holding a minority stake in the facility for the better part of 30 years. But US congressman Brian Babin (R-Texas) alleged that the agreement poses a national security risk because Pemex lacks the "technical talent" to run a refinery of Deer Park's complexity — adding a political angle to a deal which otherwise would be headlined by Shell's move away from fossil fuel refining.

The agreement will allow Shell to keep the on-site chemicals complex, which produces a range of base chemicals sold to other companies, including ethylene, propylene, butadiene, benzene and xylene. This means that the longtime operator of the plant will maintain a substantial presence at the refinery, and will even continue to provide emergency services to the site, said Hackwell.

Braskem reaches ethane supply deal with Pemex, including new terminal – *Reuters*

Braskem Idesa has reached a new gas supply agreement with Pemex to settle differences between the companies and build a USD $400 million ethane terminal. According to a securities filing, the new terminal for ethane imports would fulfill Idesa's needs for the raw material. Pemex and other unnamed government entities will support the terminal construction. The asset is expected to be located at Laguna de Pajaritos, in Coatzacoalcos, Veracruz.

The Brazilian company has also reached a new deal for the supply of at least 30,000 barrels of ethane per day until the new import terminal becomes operational in the second half of 2024 or by February 2025 at the latest.

The deal settles a long-running conflict between the companies, as Mexico's government weighed canceling the Pemex ethane supply contract with Braskem Idesa last year due to its high costs. Pemex had announced in March an agreement with Braskem for the delivery of 30,000 barrels of ethane per day until 2024, while the previous contract - signed in 2010 - determined the supply of 66,000 barrels per day for 20 years. The new contract also gives Braskem Idesa a pre-emptive right to acquire all of the ethane available for Pemex that the Mexican company would not use until 2045 at prices in line with international markets.

Mexico's second largest oil refinery halted, stocks piling up – *Reuters*

Mexico's second-largest refinery remains halted since late September due to protests by teachers that are blocking roads used by Pemex to transport the facility's output for domestic consumption and exports, two sources close to operations. The Tula refinery, with a 315,00-barrel-per-day (bpd) capacity, processed some 146,000 bpd of mostly light crude oil to produce fuel in August, for an average of 153,400 bpd so far this year, official Pemex data showed. Based in central-eastern Hidalgo state, the refinery supplies fuel to Mexico City.

As the strikes stopped the facility from delivering products, its inventories built up in recent weeks, reaching full capacity and forcing Pemex to cut back production, one of the sources said. Pemex did not immediately respond to a request for comment.

Talos Energy: from a commercial discovery to a commercial dispute – *Houston Chronicle*

Four years after making the largest commercial oil discovery in Mexico in a generation in 2017, the commercial expectations of the consortium led by Houston-based Talos Energy continue in suspense. A positive outcome in which Talos is the operator continues to be an elusive challenge for the company.

Zama has upward of 600 million barrels of recoverable oil and gas. The reservoir in its Block 7 is believed to extend beyond the area that was awarded to Talos in 2015, thus requiring an agreement with the neighboring leaseholder.
As Talos's neighbor is Pemex, a plan would be needed to finance Pemex's share of the costs as well as an export agreement for Talos's share of crude oil production.

Negotiations proceeded for almost 30 months with an agreement finally in sight in March of 2021 but still beyond reach. Many of the issues would have been resolved with data obtained by Pemex from an adjacent, offset well, named Asab-1, on its side of the lease line. But Pemex, after repeatedly promising that it would drill Asab-1, never did. An unnamed reservoir expert found that Pemex had 50.43 percent of the Zama reservoir on its side of the lease line. On July 2, Mexico's energy minister, designated Pemex as the operator. Minister Nahle gave Pemex 30 days to come up with a preliminary development plan "in coordination with Talos." Sixty days then passed in radio silence. In its press release on the 61st day, on September 3, Talos advised regulators and investors that it intends to do something about the adverse decisions by Mexico's Energy Ministry that cause "loss or damage to the Company."Talos accuses the Ministry of unspecified violations of trade agreements, including the United States-Mexico-Canada Agreement, or USMCA, the successor to North American Free Trade Agreement.

What can Talos expect at this point? What can Mexico expect?
A question is whether Talos alone has the firepower to win legal or trade disputes with Pemex and the Mexican government. The company would need help from inside Mexico, but the oil trade association, AMEXHI by its acronym, repeatedly intones the "commitment to Mexico" of its members but dares not criticize the lack of reciprocity from the Mexican government. The American Petroleum Institute so far has not commented on irregularities in the Mexican upstream. The worst case for Talos is that the development of Zama stalls indefinitely.

The opportunity cost to the State from foregone royalty payments has been in hundreds of millions of dollars—and counting. A Talos spokesman, asked for comment, referred me to the September 3 press release. "We seek the ideal operatorship structure for Zama and the safeguarding of our rights as a foreign investor," he said. Houston oil professionals hope that Talos prevails, not only for its sake but for the sake of all present and future investors in the Mexican upstream.

by: George Baker

Power/Renewable Energy – Mexico

Mexico ranked 33 in renewable investment attractiveness – *El Financiero*

In the past three years, Mexico has lost its appeal in attracting clean energy investors. According to the Renewable Energy Country Attractiveness Index (RECAI), which was compiled by the EY company, Mexico ranked 33rd place out of 40 countries analyzed. He came to the occupation in the middle of the previous government seventh place worldwide.

Alfredo Álvarez, lead partner in the energy segment of the company EY, pointed out in an interview that the methodology of the study assesses two main factors: a country's natural resources and Government policy. On the environmental side, Mexico is very attractive for the economic sector that wants to invest in renewable energies. "Mexico has the best capacities for radiation and wind power generation in the world. Thanks to these factors, the country has not fallen any further in the RECAI ranking," he said.

The factor that caused the loss of interest on investments in Mexico is the legal and regulatory environment and the uncertainty surrounding respect for the rule of law. "Mexico has lost positions there by leaps and bounds," said the energy specialist.

He stressed that in the middle of the previous administration, Mexico had become one of the top 10 most attractive countries for investment, "but now we have to see who is the brave who dares to build a new renewable power plant in Mexico," said he.

An example that has heavily influenced the confidence to invest in the country has been the battle against long-term power auctions over the past six years, during which Mexico managed to break world records by offering low prices on solar and wind power. "Mexico was the country that started cutting renewable energy prices, that was surprising. When you see the first auction, they said that Enel Energía went crazy for auctioning the megawatts / hour at $ 35, then the average price was $ 30 / megawatt / hour, and there were projects in the third auction an average of 20 dollars per megawatt / hour, which was the cheapest in the world at the time, both wind and solar, "he emphasized.

The United States ranks first in the 2021 rankings, mainly because President Joe Biden promised the start a new era in energy policy in which the nation will seek to move away from fossil fuels and rejoin the Paris Agreement. The top 10 are ready China, India, UK, France, Australia, Germany, Japan, Netherlands and Spain.

Oil & Gas - LATAM

Petrobras selling another field offshore Brazil – *Rigzone*

Petrobras has started the sale process for its whole interest in the Catuá field located in the Campos Basin offshore Brazil.

The field is around 80 miles away from the coast in water depths that vary between 5,580 and 6,500 feet. The company added that the transaction was in line with the company's strategy of portfolio optimization, debt reduction, and capital allocation improvement, as it increasingly concentrates its resources in world-class assets in deep and ultradeep waters.

The concession contract refers to the exploratory concession of the BC-60 Block acquired in Round Zero of the National Agency of Petroleum, Natural Gas and Biofuels (ANP). This contract has Petrobras as the operator and encompasses other fields besides the Catuá field, which will not be part of the present assignment of rights process. Catuá is a deepwater field, discovered by Petrobras in 2003, without production. In the teaser, the company said that the declaration of commerciality was made in 2006. There are four wells drilled in the field where light oils were found in carbonatic reservoirs.

TechnipFMC clinches substantial contract from Petrobras – *TechnipFMC Press Release*

TechnipFMC has been awarded a long-term charter and services contract by Petrobras for the pipelay support vessel Coral do Atlântico. The Brazilian-registered vessel has been secured on a three-year contract, with an option to extend. Operations offshore Brazil are expected to begin in the second quarter of 2022. The contract is between USD $250 million and USD $500 million.

Petrobras charters Subsea 7 pipelay trio – *Offshore Energy*

Subsea 7 has secured long-term day-rate contracts with Petrobras for the pipelay support vessels Seven Waves, Seven Rio and Seven Sun. Seven Waves will commence the new contract in the first quarter of 2022, Seven Rio in the second quarter of 2022 and Seven Sun in the third quarter of 2022. Each contract comprises a firm three-year period and a subsequent one-year option.

Bolsonaro wants to privatize Brazil’s state-owned Petrobras – *Bloomberg*

Jair Bolsonaro wants to privatize Petrobras, the state-controlled oil company that is under political pressure to lower fuel prices.

Rising energy prices have eroded Bolsonaro’s popularity ahead of reelection next year and put Petrobras under political scrutiny in a country with a history of subsidizing fuel. Chief Executive Officer Joaquim Silva e Luna has been grilled in Congress over the surge in fuel prices, but has said the company will continue to adjust to international levels. If Petrobras is privatized, it likely won’t happen anytime soon. Economy Minister Paulo Guedes said last month that Brazil plans to take the company private within a decade. Despite naming a former general to run Petrobras, Bolsonaro’s government has let the company be managed independently.