Energy Monthly News

September, 2021

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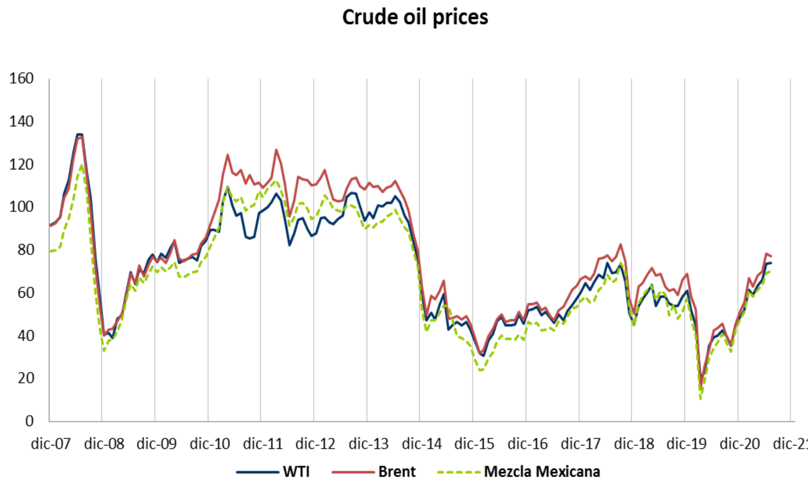
This month in review

* 24/09/2021 **27/09/2021

Crude oil price MME US/BD	70.59
NG price HH* US/MMBTU	5.00
Mx crude production MMbd - *August*	1.61
Mx NG production MMpcd - *August*	4,649
US crude production MMbd - *June*	11.30

FX Rate**	20.10



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

Oil & Gas - Mexico

Mexico's CNH approves ambitious plan for Pemex's Coyula amid concerns – *S&P Global Platts*

The CNH approved a new development plan for Pemex's Coyula, an onshore block in the state of Veracruz, where Pemex is promising to drill 1,420 wells to recover 54 million barrels of crude. Pemex had to present the new plan as it failed to complete the prior one where it had committed to drilling 1,229 wells. In six years, Pemex has only drilled six wells at Coyula. Pemex will invest USD $6.08bn in the development of the field.

CNH joint commissioner Hector Moreira agreed it was worrisome that Pemex did not conduct any activity at Coyula during six years, and mentioned the low profitability of the project due to the high taxes the company pays might explain the company's reluctance to invest in it.

According to CNH data, the net present value of the project after taxes is only USD $36 million for a total investment of over USD $6bn. "The total tax rate Pemex pays in this project is well above 90%," Moreira said adding that a new taxing system is needed that incentivizes production.

Mexico cuts Pemex's tax burden, forecasts 4.1% growth for 2022 – *Reuters*

Mexico's government proposed sharply reducing the tax burden for Pemex and forecast economic growth of 4.1% for 2022, as Latin America's second largest economy continues to recover from a COVID-19-induced slump. The finance ministry's 2022 draft budget, which it presented to Congress, laid out a profit sharing rate "DUC", effectively a tax paid to the government - of 40%.

The DUC, the largest payment the firm makes to state coffers, has been gradually reduced from 65% in 2019, to 58% in 2020 and 54% in 2021.

Pemex gets green light to spud USD $100mn Xanab exploratory well – *CNH*

Pemex has been cleared to spud a new exploratory well in the Xanab field for total investment of USD $98.8 million. The field is located in the offshore portion of the Mexican federal oil firm's AE-151-M-Uchukil assignment. Drilling of the well is set to start September 25 and run to February 3, 2022, while completion is scheduled from February 4 to April 4 next year.

PEP is set to spend USD $71.5 million on spudding and USD $27.3 million on completion with a 61% chance of success with prospective resources of 17.3Mboe. Crude produced at the Xanab field reached 90,919b/d on average in July, the second month of declines since hitting a 2021 peak in May of 93,237b/d. Meanwhile, average daily natural gas production came to 82,726boe/d, lower than the 84,221boe/d in June. However, PEP has managed to increase gas output in recent months compared to the 59,014boe/d average in February.

Mexico cancels Trafigura's fuel import permits – *Argus*

Mexico's energy ministry "SENER" cancelled all five of commodity trader Trafigura's import permits that would have allowed it to continue to import refined products through 2038. The permits were worth up to 381.5bn l (100.8bn USG) of regular and premium gasoline, diesel, and jet fuel from 2018-2038 — almost 5bn USG/yr, according to Argus calculations.

One of the five permits to import up to 63.3bn l of diesel through October 2038 has been suspended and is in the process of being terminated. Trafigura's four other permits were labeled as suspended, and in the process of being revoked. They are worth 127.2bn l of diesel, 63.6bn l of regular gasoline, 63.6bn l of premium gasoline, and 31.8bn l of jet fuel. The cancellation comes after energy minister Rocio Nahle recently said Pemex would not be involved with any company that has been accused of corruption without naming any firms directly. Trafigura has been involved in a years-long corruption investigation in Brazil.

Mexico's president earmarks USD $32 Bn to help Pemex boost oil production – *Bloomberg*

Mexico President AMLO is raising Pemex's spending plan for next year to about USD $32 billion in a bid to boost flagging oil production. The funds allocated for the state producer in a 2022 budget proposal, including operational spending, represent a 17% increase from this year. Of the total, about USD $18 billion will be earmarked for exploration and production investment, a 26% jump.

The generous budget reflects the president's goal to revitalize Pemex after more than a decade of consecutive output declines and make the country self-sufficient in energy. The spending increase contrasts with widespread belt-tightening in the global oil industry as the pandemic continues to cloud the demand outlook and major economies increasingly focus on boosting renewable energy to fight climate change.

Pemex has been investing in onshore and shallow water fields, which has enabled it to boost production of ultra-light oil known as condensate. Yet, output of its main grades, such as Mexico's flagship heavy crude Maya, continues to shrink as productivity at big offshore fields dwindles. The Finance Ministry expects Pemex's oil production, including condensate, to reach 1.826 mbod in 2022, up 4.2% from this year.

Mexican private sector cries foul over closure of oil storage terminals payment – *Bnamericas*

On September 13, CRE temporarily closed the Monterra Energy terminal, located in Tuxpan owned by US investment firm KKR. International companies including Total, Repsol and Marathon use that facility as part of their supply chain for the service stations they operate in the country.

Of the approximately 12,000 service stations, 30% currently operate with brands other than Pemex. This share had been growing rapidly until 2019, when the administration of President AMLO began to clamp down on private fuel sales.

Tuxpan is the entry point for 80% of the gasoline consumed in Mexico. Mexico's largest private sector association CCE is urging the government to reconsider its latest moves to infringe on private participation in the energy sector in an open letter protesting the recent closure of three private hydrocarbons storage facilities. The letter comes after energy regulator CRE shut down several privately-owned hydrocarbons storage terminals in the last month and a half, closing one in Tuxpan, Veracruz state, another in the state of Puebla and a third in Hermosillo, Sonora. Investments in the storage terminals, which were in operation, are estimated at USD $1.5bn.

CCE's letter recognized the need for the government to take steps in shutting down the rampant and dangerous illegal hydrocarbons trade, though there is no reason to believe any of the targeted facilities are involved in that activity. CCE added that by limiting the import of gasoline, the authorities are reducing the supply of fuels that are used for basic activities such as public transport, the distribution of food products and goods, among others, which will drive up fuel costs. Faced with this scenario, the association called on the government to combat hydrocarbon theft without harming consumers and the business community, while avoiding putting into doubt Mexico's commitment to free trade agreements, such as the USMCA that it has with the US and Canada.

Talos Energy files notices of dispute regarding Zama – *Talos Press Release*

Talos Energy announced that they have submitted Notices of Dispute to the Government of Mexico over decisions taken by Mexico's Ministry of Energy "SENER". These decisions, which include the recent designation of Pemex as the operator of a yet-to-be unitized asset, cause loss or damage to the Company as an investor and as the operator of CNH-R01-L01-A7/2015 "Block 7" in offshore Mexico. The actions by SENER also constitute violations of the Agreement between the United States of America, the United Mexican States and Canada ("USMCA") and the Bilateral Investment Treaty between the United Mexican States and the Belgo-Luxembourg Economic Union "BLEU-BIT".

Key Highlights:

The dispute is over decisions taken by SENER, including the designation of PEMEX as the operator of a yet-to-be unitized asset. The aim is to resolve the dispute amicably through consultations and negotiations and avoid the need for further legal action, including arbitration. Talos will continue to engage in good faith with the representatives of the Government of Mexico seeking to achieve a fair and mutually beneficial agreement. These Notices of Dispute provide the opportunity for an initial phase of negotiation and consultation between the parties in an attempt to resolve the controversy. If successful, this would avoid the need for further legal action, including international arbitration. Talos will diligently seek a fair and mutually beneficial agreement and will continue to engage in good faith with the institutionally appointed representatives of the Government of Mexico.

The filing of the Notices of Dispute is consistent with the Company's attempts over almost three years, since the signing of the Pre-Unitization Agreement, to work constructively with PEMEX and SENER to finalize a Unitization and Unit Operating Agreement ("UUOA") for the Zama field that follows international best practices. Talos has repeatedly sought a positive outcome for all parties and will continue to do so under this process.

Talos's President and Chief Executive Officer Timothy S. Duncan commented: "We respectfully call upon the Government of Mexico to engage with Talos in meaningful negotiations and consultations considering the full body of evidence regarding the ideal operatorship structure for Zama and the safeguarding of our rights as a foreign investor."

Mexico clears two onshore spudding requests – *Bnamericas*

CNH has approved a request by Servicios Múltiples de Burgos to spud the Huasteca onshore exploration well in Tamaulipas state.

The project in Burgos basin seeks to confirm prospective resources of 3.5Mboe (million barrels of oil equivalent), for a total investment of USD $3.48 million. In addition, the commission also approved a modification by national oil giant Pemex to its Valeriana onshore appraisal well in Tabasco state. According to CNH, Pemex had to reevaluate the well in light of new seismic information. The well is already being spudded by the firm. Pemex plans to invest USD $40.6 million to carry out its updated spudding plan.

Dragados Offshore closes construction yards due to Pemex non-payment – *Bnamericas*

Spanish platform manufacturer Dragados Offshore is shutting down operations at its construction yards in Tampico and Altamira because Pemex has not complied with payment obligations. About 1,500 workers will be laid off. The construction division of Mexico's largest labor union, CTM, confirmed the decision. The union said workers at the yards were being laid off "due to non-payment by Pemex," adding "the union delegations will give preference for seniority to colleagues who can be rehired in other projects."

Non-payment of debts remains an issue despite efforts over the last year to reach agreements with creditors. As result of these efforts, the amount owed dropped 5.2% from $60.3bn pesos at end-March, according to Pemex.

Dragados' platform engineering, procurement and construction business is among the largest worldwide, although the company has also expanded into wind-generation related construction. Opened in 2003, fabrication areas of the 350,000m² Tampico yard cover over 70,000m², including workshops for boiler works, welding, piping, and hydromechanics. Additionally, the yard has 90,000m² of storage areas, two quay areas with skid-ways, and soil-bearing capacity of more than 20t/m². The 400,000m² Altamira yard (pictured), operational since 2015, included an option to expand to 600,000m², according to the company.

Dragados Offshore was sold to French energy group Vinci in April in a 5bn-euro (USD $5.85bn) deal to acquire the energy portfolio for Dragados' former parent, ACS Group. Vinci is among the world's leading wind power construction companies, and the hydrocarbons focus linked to Pemex contracts could be a lower priority for the firm – potentially adding to the decision to close the yards. Dragados suggested some workers could be rehired. But the measure still impacts Dragados' local suppliers and associated contractors.

Power/Renewable Energy – Mexico

CFE seeks private company to build natural gas pipeline – *NGI*

CFE is seeking formal expressions of interest from private sector firms to build and operate a natural gas pipeline and floating liquefied natural gas terminal. The 500 MMcf/d pipeline would span from Chinameca, Veracruz, to Salina Cruz, Oaxaca, supplying gas to a 430 MMcf/d or 3 million metric tons/year FLNG terminal envisaged for the Salina Cruz port.

CFE would sell gas procured via its extensive pipeline network to the FLNG operator under a 25-year take-or-pay contract. The operator would have exclusive rights to market liquefaction capacity and LNG volumes produced from the project. The operator would assume full ownership of the projects and all associated risk, in exchange for "security and certainty" in the supply of gas from CFEnergía. The pipeline must be designed to handle future interconnections with industrial parks along its route with capacities of 50-70 MMcf/d. Previous planning documents have referred to the pipeline as Jáltipan-Salina Cruz.

The gas infrastructure expansion is part of the government's larger Corredor Interoceánico del Istmo de Tehuantepec "CIIT", or Tehuantepec Isthmus Interoceanic Corridor. Whichever firm develops the gas projects must partner with CIIT to develop a terminal to provide maritime services to the LNG plant, with CIIT holding a stake of at least 51%.

Cox Energy America: raising capital for a strategic plan – *Mexico Business News*

Cox Energy America seeks to raise USD $32 million in capital in a second PO offering to implement its strategic plan for the period 2020 – 2024 period, which details expansion plans in solar photovoltaic projects with a total energy production capability of 1,400 MW throughout the region. For Mexico, specifically, it is to have 600 MW in operation plants and in partnership with Nexus Energia to commercialize energy focused on large clients. According to José A. Hurtado de Mendoza, CEO of COXA, the approach in Mexico is based on its recognition of "the great problem of saturation of transmission networks."

China Three Gorges weighs buying X-Elio's Mexico assets – *Bloomberg*

China Three Gorges Corp. is considering acquiring X-Elio Energy SL's Mexican renewable energy business as the state-owned firm seeks to expand its international footprint. X-Elio's portfolio in Mexico, where it has about 535 megawatts of projects in operation, could be valued at about USD $400 million in a potential transaction.

Considerations are ongoing and no final decision has been made. Other bidders for the assets could still emerge. China Three Gorges didn't immediately respond to requests for comment. A representative for Madrid-based X-Elio, which is owned by Brookfield Renewable Partners LP and KKR & Co., declined to comment. China Three Gorges is selling a 25% stake in its overseas asset portfolio to private investors including CNIC Corp. and GIC Pte for USD $2 billion. It plans to use part of the funds to pursue acquisitions and expand its international business, people familiar with the matter said at the time.

Mexico has recently drawn interest from other Chinese power companies. Last year, China's State Power Investment Corp. bought Zuma Energia via its Hong Kong-based unit China Power International Holding for an undisclosed sum.

Oil & Gas - LATAM

Petrobras aligns emissions goals with OGCI – *Natural Gas World*

Petrobras made commitments to cut greenhouse gas emissions in line with the global Oil and Gas Climate Initiative. The company said it aimed to reach net-zero emissions of direct and indirect emissions in coordination with the global gas group. In its 2021-2025 Strategic Plan, the company estimates investments of USD $1 billion in sustainability commitments. The company also expressed its intention to influence its partners to achieve the same ambition in oil and gas extraction fields in which the company is a partner but not in charge of the operation.

The Oil and Gas Climate Initiative, a leadership group, representing around 30% of the world's oil and gas production "OGCI" said "all" of its member companies aim to reach net-zero emissions by 2050, a time frame set in the Paris climate accord.

In a separate statement, OGCI said members committed to bringing upstream methane emissions to below 0.20% by 2025 and bring routine flaring of natural gas to an end by 2030.

Petrobras' Santos basin field duo up for sale – *Rigzone*

Petrobras has started the opportunity disclosure stage for the sale of the totality of its interest in the Uruguá and Tambaú fields, which belong to the BS-500 concession off the state of Rio de Janeiro. According to the company, the main subsequent stages of the project will be reported to the market in due course.

The fields are located in the northern portion of the Santos Basin, between 87 and 100 miles off the coast of the state of Rio de Janeiro, in water depths ranging from 3,300 to 5,000 feet. The fields' production, in 2020, was approximately 5 thousand bpd of oil and 32.4 mcfd of gas. Petrobras holds a 100% stake in both fields. The potential acquisitions of the fields include the Uruguá-Mexilhão Gas Pipeline, which is about 174km long and connects the Uruguá field and Mexilhão platform.

Another part of the field is the FPSO Cidade de Santos MV20 which is deployed at the Uruguá field but also gathers production from the Tambau field. The natural gas processed in the FPSO is delivered through Uruguá-Mexilhão Gas Pipeline. The vessel is capable of processing 350 mcfd of gas, 35,000 bod, and has a storage capacity of approximately 700,000 barrels.

Venezuela heavy oil project reserves will be left stranded – *Rigzone*

Venezuela's heavy oil project reserves will be left stranded as international players divest their interest. GlobalData said in a statement, that TotalEnergies and Equinor had recently divested their respective interests in Petrocedeno to the state-owned Petróleos de Venezuela S.A (PDVSA) company. According to GlobalData, this means that due to high risks and the unstable deteriorating economy in the country, international players no longer see an upside in Venezuelan projects. GlobalData noted that with less investments supplied from the private sector, Venezuela will not be able to sustain its oil and gas industry for long, as its own cash resources are "extremely limited".

TotalEnergies announced that, through its affiliate Total Venezuela, it had decided to transfer its non-operated minority participation of 30.32 percent in Petrocedeno to Corporation Venezonala de Petróleos (CVP), an affiliate of PDVSA. On the same day, Equinor announced that it and PDVSA had completed a transaction that saw it transfer its 9.67 percent non-operated interest in the Petrocedeno project onshore Venezuela to CVP.

Private equity group expects Venezuela bet to pay off with energy reforms – *Reuters*

A private equity group expects a contrarian bet it made this year on Venezuela's oil and gas sector to pay off soon, with the socialist government making reforms to attract capital to the OPEC nation after years of U.S. sanctions and sparse investment.

Executives at Caracas-based Sucre Energy Group said in an interview that Venezuelan authorities had expressed openness to bringing natural gas prices in line with market rates after years of price freezes and heavy subsidies. Weak cash flow at state oil company PDVSA, which buys gas from private producers, has led to significant payment delays.

Such changes would be crucial to success of Sucre's investment in Gas Guarico, a natural gas joint venture with PDVSA. Sucre purchased a 70% stake from Japan's Inpex Corp here this year, the latest example of small, local firms filling the shoes of major multinationals abandoning Venezuelan assets. The company also aims to purchase more Venezuelan oil and gas assets and has held discussions with other private partners in joint ventures with PDVSA. Faillace and Santiago Fontiveros, Sucre’s other director, declined to identify the companies.

Sucre aims to boost output at Gas Guarico in coming months from 50 MMcfd currently to 70 MMcfd, its current capacity, without new drilling. Venezuela’s total gas output averaged 4,700 MMCFD, or 4.7 billion cubic feet per day, in 2020, according to Alvarado. Another option for the firm to enter oil and gas projects is through exchanges of public debt for stakes, Fontiveros said. Venezuela recently completed one such debt-for-equity swap for PDVSA's 49% stake in a refinery in the Dominican Republic, which officials see as a model here for future deals to reduce the South American country's high debt load and boost investment.