June, 2022

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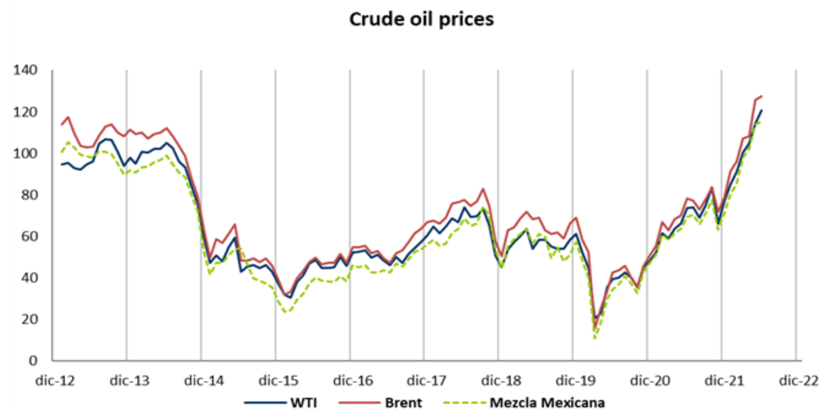
This month in review

** 28/06/2022 **28/06/2022*

Crude oil price MME US/BD	106.25
NG price HH* US/MMBTU	6.51
Mx crude production MMbd – *May*	1.61
Mx NG production MMpcd – *May*	4,738
US crude production MMbd - *March*	11.16
FX Rate*	19.98



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

Oil & Gas - Mexico

Mexico's new oil refinery's cost doubles to as much as $18 Bn – *Bloomberg*

A week before the grand opening of Mexican oil refinery project, costs have spiraled out of control to reach as much as $18 billion, more than double its original price. The value of contracts for construction work through to 2024 signed by Mexico's energy ministry rose to more than $14 billion in May, and the final amount is likely to be between $16 billion and $18 billion. Representatives for Pemex, Mexico's Energy Ministry, and President AMLO didn't respond to requests for comment.

Cost overruns are likely to continue due to soaring inflation, undermining the austerity pledges of President AMLO. The situation also casts doubt on whether Pemex can fulfill its goal of producing all of its own gasoline, given how crucial the refinery is to the oil company's efforts to end dependence on fuel imports. The refinery will have the capacity to process 340,000 barrels a day of crude, which would add about 20% to its current refining capacity. Industry members and energy analysts were already questioning Pemex's ability to raise fuel output given declining oil production for its refineries, lack of plant maintenance and a heavy debt burden, which is the highest of any oil company.

Temura wins USD $945 million Mexican pipeline contract – *El Heraldo*

Mexico's state-owned power utility CFE has hired domestic EPC contractor Temura Services & Consulting to build the 247km Jáltipan-Salina Cruz oil pipeline, according to local reports. Temura won the tender estimating costs at 19bn pesos (USD $945 million), higher than an earlier estimate of USD $425 million.

The pipeline will be a key element of Mexico's Tehuantepec interoceanic corridor, a flagship project for the current administration. The corridor crosses Oaxaca and Veracruz states over the narrowest strip of land in mainland Mexico, connecting the Pacific Ocean to the Gulf of Mexico. The pipeline is expected to transfer natural gas to and from the ports of Coatzacoalcos, Veracruz, and Salina Cruz, Oaxaca, running parallel to a new freight rail line and highway.

It is also set to supply 50-70Mf3/d of gas to power 10 planned industrial park projects in the works to be located adjacent to the pipeline. According to the original tender, the pipeline will have an estimated maximum transport capacity of 500Mf3/d.

CNOOC to invest over USD $50 million in Mexican deepwater area – *CNH*

CNH has greenlit a USD $52.5 million minimum investment by the China National Offshore Oil Corporation to spud a new exploratory well at its A1.CPP deepwater contract off the coast of Tamaulipas state. According to the commission, the exploration could result in the incorporation of contingent resources totaling 600Mboe. The Ameyali Sur well will be the second CNOOC spuds in the area, where it spudded the Ameyali well between 2020 and 2021. The well resulted in non-commercial production.

CNH approved the work plan presented by ENI – *CNH*

CNH approved the 2022 work plan presented by Eni México for two shallow water areas off the coast of Veracruz state. In the new plan, Eni would reduce investments in its A7.CS contract from its previously approved plans from a minimum of USD $48 million to USD $39.5 million.

Scientists find massive methane leak at Pemex Gulf of Mexico oil field – *Reuters*

Pemex released thousands of tons of methane gas into the atmosphere from an oil and gas platform in the Gulf of Mexico last December, research published by the European Space Agency (ESA) showed.

Invisible and odorless, but much more harmful to the environment than carbon dioxide, methane is considered a major driver of global warming. Two satellites recorded images of methane plumes during one "ultraemission" event between Dec. 8 and Dec. 27. Researchers led by Itziar Irakulis from the Polytechnic University of Valencia calculated about 4,000 tons of methane were released during that time.

Over those 17 days, Pemex emitted a quantity of methane equivalent to 3.37 million tons of carbon dioxide or 3% of the country's annual CO2 emissions. The Gulf of Mexico leak is likely a result of "abnormal process conditions at the site" like malfunctions or equipment issues, researchers concluded. Neither Pemex, nor the energy ministry responded to requests for comment. These are the first detections made from satellites. Without the monitoring approach described in the paper, similar events would remain invisible and unaccounted. The emissions happened near the Mexican state of Campeche, in the Gulf of Mexico at the Zaap oil field that forms part of the Ku-Maloob-Zaap cluster, which produces some 20% of the country's total oil output.

Pemex and CFE: most at risk regarding ESG criteria – *Mexico Business News*

Pemex, followed by CFE, were rated as 2022's global companies most at risk for non-compliance with environmental, social and governance (ESG) benchmarks, according to the research institute México Evalúa. The ranking, supported by the firm Sustainalytics, measures the adoption and compliance of ethical practices that contribute to the environment and social issues.

ESG ratings provide analytical tools that help the financial sector to make more informed investment decisions. They provide a transparency that is highly required in markets that have traditionally been shaped by profitability, but can no longer develop further without considering these criteria.

Pemex had a risk rating of 64.1 points in May 2022, which represented a setback, since it held 57.5 points in 2021. The Competition and Regulation Program of México Evalúa, assured that this score puts Pemex in a less competitive, attractive and reliable position in the eyes of investors and stakeholders. Experts warn that if Pemex does not get up to date regarding ESG issues, it may be pushed out of debt markets, which would be detrimental for the state-oil company's need for refinancing debts.

In the case of CFE, the state electric utility's performance was of 57.5 points, ranking as the penultimate most-at-risk company in the electricity sector, only surpassed by the Ugandan-South African Eskom Holdings. CFE's lack of information, transparency and sustainability reports cemented the score. The electricity company is not releasing any sustainability reports, making it difficult for investors to trust their practices, especially regarding greenhouse gas emissions. While ESG metrics are not mandatory, they are now essential for measuring risk regarding how sustainable a company is. Aligning business models to sustainability should be a top priority for every company to survive in a market with an ever-increasing awareness of sustainability's importance. Pemex and CFE must now upgrade their policies to reduce their negative impact on the environment and on neighboring communities.

CNH rejects Quesqui development plan – *CNH*

CNH has rejected a development plan presented by Pemex's exploration and production arm for its flagship Quesqui field in Tabasco state. The area is one of Pemex's priority fields, on which the federal oil company bets to boost production.

CNH's analysis showed several deficiencies in the plan, among them imprecise characterization of the field, given the results of Pemex's appraisal wells and that certain key values were seemingly not calculated by the firm. These oversights, unnecessarily increased the risk of the spudding plan. Pemex proposed to spend USD $3.2bn to develop the area after evaluation of the site, with USD $1.8bn for operational expenses, USD $889 million for direct investment, and the rest for other expenses.

The plan involves the spudding of eight development wells, eight injection wells, nine collection wells, and carrying out 16 completions. Pemex has spudded 12 wells so far, four in the exploration and eight in the appraisal stage. Quesqui is a gas and condensate field, producing 500 million cubic feet per day of gas and 131,780b/d of condensate in the first quarter of this year. CNH also said Pemex's proposal lacked technical information, that investment, production and reserve data was inconsistent across documents and that there was "a lack of quality control" of the documentation.

According to the commission, Pemex had only carried out 55% of its investment commitments at the field at the start of this year, having spent USD $437 million instead of the USD $979 million outlined in its appraisal plan. Additionally, CNH reported the Quesqui 10 development well had disappointing results, while two appraisal wells, Quesqui 2 and 3, produced way above the company's forecasts.

Investment in Mexican O&G contracts jumps 7% in May – *Bnamericas*

Investments in hydrocarbons exploration and production contracts in Mexico by private sector players and national oil company Pemex jumped 7.15% or USD $710 million from April to May.

The month-on-month rise brings investment to date to USD $10.6bn since the reforms to the oil and gas sector in 2013-14 and subsequent oil rounds, according to CNH data. The uptick follows a general slowdown in investments in E&P in the 10 months running to April. The report, available in CNH's hydrocarbons information system, shows that in 2020 USD $3.37bn was invested in E&P by the private sector and Pemex. The figure compares with USD $3.04bn in 2019 and USD $2.05bn in 2021.

Top Investments
The Amoca, Miztón and Tecoalli fields operated by Eni's Mexico unit have seen the largest share of investment through May 2022 of any assets with a total of USD $1.99bn. In second place is the Ek-Balam field of Pemex's E&P unit PEP with an accumulated investment of USD $1.94bn. The Hokchi block is next, operated by a consortium of BP Exploration México, Total E&P México and Hokchi Energy, a subsidiary of the Argentine firm Pan American Energy, with USD$1.36bn. Next are the Ichalkil and Pokoch fields with USD $980 million, operated by Fieldwood Energy E&P Mexico and Lukoil Upstream México. In fifth place is BHP's Trión deepwater project with USD $607 million.

CNH greenlights two offshore spudding requests – *CNH*
CNH allowed PEP, to spud the Tlaltivak 1 appraisal well off Tabasco state. According to the CNH, Pemex expects to find 26.5Mboe of contingent resources with a 77% probability of success. The spudding is expected to take 165 days, while completion will require an additional 54 days. During the same session the commission also allowed Murphy Oil to spud the Tulum exploration well off Tabasco state. According to the CNH, Murphy expects to confirm prospective resources totaling 62.24Mboe with a 41% chance of success. The well will take 53 days to spud and eight days to complete.

Mexico's refinery upgrades showing positive results – *Bnamericas*
President AMLO has touted advances with a refurbishment program at the Minatitlan oil refinery, claiming 37bn pesos (USD $1.81bn) has already been spent on modernizing the facility. The focus on refining, redoubled under AMLO's administration, has met with widespread criticism among Mexican oil and gas experts, with many seeing the president's statist ambitions as misguided if he wants to restore financial health to heavily-indebted national oil company Pemex.

Barrios (former commissioner at energy sector regulator CRE) said Pemex has missed out on the changing mindset in the global O&G industry, which is steadily shifting away from a focus on upstream and fuel production, adding, "what the state should do is promote private investment, allow Pemex to dedicate itself to exploration, clean up its finances in exchange for specific objectives and dedicate taxes to fundamental sectors such as health, education and security." As for the 37bn-peso figure the president gave, Barrios pointed to Pemex's 2021 20-F filing to the US Securities and Exchange Commission, showing full-year capex for refining at 10.9bn pesos for 2020, 20.6bn pesos for 2021 and 4.38bn pesos for 2022. The three-year total of 35.9bn pesos is less than AMLO said was invested solely at Minatitlan.

"That amount corresponds more or less to everything that's invested in six refineries," said Barrios. "I have no idea where he got the 37bn-peso figure from," adding that the government had originally said it would likely need to spend USD $8bn on the refurbishment projects at the six refineries. AMLO also credited the work underway at the refineries as being the reason why gasoline and diesel continue to be cheaper in Mexico than in most countries. However, the president did not mention that the government reduced the IEPS excise tax on fuels to 0% beginning in March, while the finance ministry has given consumers a boost with a nationwide subsidy of fuel costs.

Regardless, it does appear the ongoing work at the six refineries is paying off in higher output, with refining capacity utilization at 54% in April, compared with 39% in April 2021, nearing the 56% seen five years ago. Looking at January-April 2022, the average volume of crude oil processed at domestic units was 839,463b/d, which implied a utilization rate of 51% of the country's installed capacity at the refineries. In the first four months of the year, the average crude processing rate was 729,790b/d per day, using only 44% of the total installed capacity since the last reconfiguration in the country.

Pemex debt sale said to raise less-than-forecast $1.5 billion – *Bloomberg*

Pemex raised less money than expected to refinance some of its outstanding debt to suppliers. The company sold $1.5 billion in bonds due 2029, compared with the $2 billion they had planned to raise. The debt was sold to yield 9.25%, above the 8.75% coupon.

Pemex, whose debt is the highest of any major oil company, at $108.1 billion, has struggled to pay its suppliers and service providers in recent years amid a huge tax burden, weak oil production and resources being drained to cover its unprofitable refining arm. Pemex owed its suppliers 72.6 billion pesos ($3.7 billion) at the end of the first quarter. The bond sale raised questions among investors about why Pemex is not generating enough cash to pay short term debt with current high oil prices, said Aaron Gifford, an emerging-market sovereign-debt analyst at T. Rowe Price Group in Baltimore. The company received $5.4 billion more in revenue than it had budgeted for in the first five months of the year from its oil sales abroad amid the global price rally. The government has said that it will no longer cover Pemex's amortization payments, which it had absorbed last year.

Power/Renewable Energy – Mexico

Electricity commission cancels contracts held by French electricity firm – *El Universal*

An indigenous community in Oaxaca has won a five-year battle against the construction of a wind farm in the Isthmus of Tehuantepec region. CFE canceled contracts that would have allowed the French firm Électricité de France (EDF) to supply it with electricity generated at the Gunaa Sicarú wind park in the municipality of Unión Hidalgo.

The cancelation makes the project unviable because private and foreign companies need a partnership with the CFE to get their power onto the national grid. It is the first time in 15 years that the federal government has canceled a wind project in the Isthmus of Tehuntepec following a legal challenge from a local indigenous community. ProDESC, a non-profit human rights defense association that provided legal assistance and representation to the community, acknowledged the decision in a statement.

The organization said the successful challenge to the project was "a milestone in the defense of land, territory and natural resources for agrarian and indigenous communities" and a "clear example" of how business accountability can be achieved not just in Mexico but across Latin America. Gunaa Sicarú was a wind park project that would have been illegally built on communal lands, and it would have had 115 wind turbines with a total energy capacity of 300 MW. This would have made 'Gunaa Sicarú' one of the biggest wind parks in Latin America," ProDESC said.

Mexican regulator fines Spain's Iberdrola unit USD $466 million – *Reuters*

Mexico's energy regulator fined a unit of Spain's Iberdrola 9.15 billion pesos (USD $466.4 million), arguing they violated a so-called self-supply power generation permit by selling electricity to their partners, according to a regulatory filing.

Iberdrola Energia Monterrey delivered energy to partners in exchange for economic compensation, which constitutes a sale that is not allowed under the self-supply figure for which the permit was granted, the CRE said in the resolution posted. CRE said Iberdrola "was obliged to generate electricity exclusively to satisfy the self-sufficiency needs of its partners and not to sell, resell or by any legal act dispose of capacity or electricity," according to the document. Mexico's "self-supply" contracts require private electricity generators to only provide energy to the specific partners listed at the time of the contract's signing.

Private generators' surpluses may be sold to the state-owned CFE, which holds a monopoly on the transmission and distribution of electricity to end consumers. The CRE document argues that the violations occurred at Ibedrola's branch in the northern industrial city of Monterrey, between Jan. 1, 2019, and Aug. 31, 2020.

The fine comes at a tumultuous time for Mexico's power industry, as President AMLO tries to bring it back into the public sector. Iberdrola did not immediately respond to a request for comment about the fine, which CRE said can still be challenged.

Oil & Gas - LATAM

Petrobras has USD $6bn in divestment deals waiting for regulatory green light – *Bnamericas*

Petrobras has USD $6.2bn in divestment contracts signed and waiting approval from regulatory authorities. The figure was calculated by BNamericas based on information obtained via the country's freedom of information act and on data on the federal oil company's investor relations website. The most expensive asset on the list is the Albacora Leste field, in the Campos basin, sold at the end of April to PRIO (formerly PetroRio) for USD $2.2bn.

Since 2015, the state-run company has concluded divestment operations totaling over USD $41bn. Natural gas transport company Transportadora Associada de Gás (TAG) was sold for the highest price: USD $8.6bn to a consortium formed by Engie and CDPQ. Petrobras is still selling a series of up, mid and downstream assets, including offshore and onshore fields, gas pipelines and refineries, besides its biofuel company PBio.

Saipem bags USD $25 million contract to engineer Brazil-bound FPSO – *Oil Now*

Italian oil services company, Saipem, announced a USD $25 million contract from floater operator, BW Offshore Limited, to provide early-stage engineering services on an oil production vessel for Shell's Gato do Mato oil and gas field in Brazil. BW issued a limited notice to proceed (LNTP) valued up to USD $50 million. Saipem's share is USD $25 million. Saipem explained that the LNTP is an important step for the project, with its team already fully mobilized to commence works.

When the LNTP is completed, Shell and its partners will look to award a lease and operate contract that will include the award of the engineering, procurement, construction, and installation (EPCI) of the FPSO vessel to a Saipem-BW consortium. The vessel is expected to be delivered by 2026.

Argentina launches tender for Vaca Muerta to BsAs NG pipeline – *NGI*

Argentina has officially launched the tender for construction of the 563-kilometer (350-mile) Néstor Kirchner natural gas pipeline. The project would expand the capacity of the country's natural gas transport network by 25% and enable continued development of the Vaca Muerta Shale formation in the Neuquén Basin, said state-owned Energía Argentina, which is in charge of the project.

The pipeline's $1.5 billion first phase would have a capacity of 24 million cubic meters/day (MMm3/d), equal to about 847 MMcf/d. It would stretch from the town of Tratayén in Neuquén province to Salliqueló in Buenos Aires province, passing through Río Negro and La Pampa provinces along the way. Bids for the pipeline's construction are due on July 8, and scheduled to be opened on the same day. The tender process is expected to conclude during August, in line with the originally established timelines.

W Energy to acquire deepwater field from Petrobras – *Offshore Technology*

Norway's oil and gas exploration and production BW Energy has confirmed that it is in talks with Brazil's Petrobras to acquire a stake in the Golfinho field offshore Brazil. The sale is part of the firm's efforts to reduce debt and shift its focus to a prolific, deepwater formation.

Located in the Espírito Santo basin 60km off the shore of Brazil, the Golfinho light oil field comprises two reservoirs of the Campanian and Maastrichtian ages. The field started production in 2006 and reported a daily output of approximately 14,900 barrels of oil and 750,000 cubic meters of gas as of 2020, citing bidding documents released by Petrobras. BW Energy holds a diversified portfolio of production and development assets offshore Brazil and West Africa. The firm currently owns majority stakes in three hydrocarbon licences in Maromba, Brazil; Dussafu, Gabon; and Kudu, Namibia.

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