Energy Fortnightly News

July 1-15, 2023

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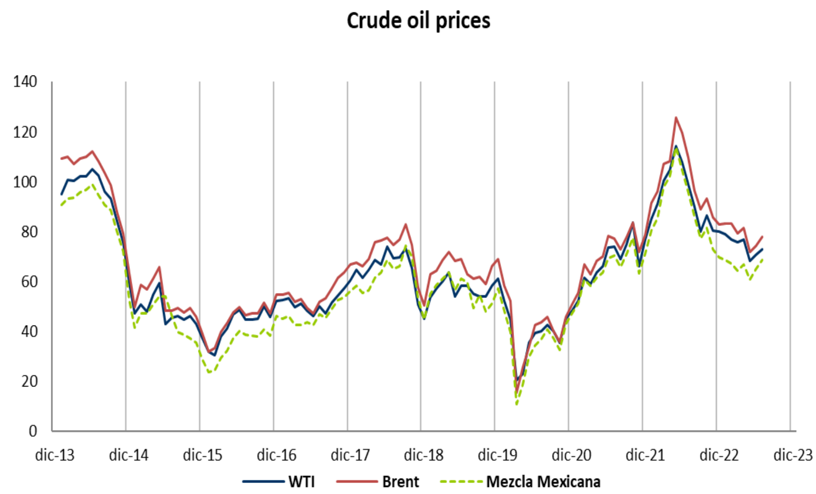
This month in review

** 13/07/2023*

MME US/BD*	72.12
MME US/BD* PEF SHCP	68.70
Dif. MME AVG. 2023 vs. MME PEF SHCP	3.42
NG price HH* US/MMBTU	2.55
Mx crude production MMbd – *May*	1.67
Mx NG production MMpcd – *May*	4,335
US crude production MMbd - *April*	12.61
FX Rate*	16.89



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

Oil & Gas - Mexico

Fitch downgrades Pemex's IDRs to 'B+' on rating watch negative – *Fitch Ratings*

Fitch Ratings has downgraded Petroleos Mexicanos' (Pemex) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'B+' from 'BB-'. Fitch has also placed the ratings on Rating Watch Negative (RWN). Fitch has also downgraded approximately USD80 billion of Pemex's international notes outstanding to 'B+'/'RR4' from 'BB-'.

The downgrades reflect Pemex's continued weak operating performance, which has resulted in Fitch lowering several of the company's ESG Relevance Scores to '5' and is expected to further limit it sources of financing from banks, investors, and suppliers. The lowering of these Relevance Scores reflects the environmental and social impact associated with multiple accidents at Pemex's operating facilities since February 2023, which resulted in casualties and injuries to its employees and damages to critical infrastructure and assets.

The RWN reflects concern about the Mexican government's ability and willingness to materially improve the company's liquidity position and capital structure in the next two years without concessions from creditors. Pemex faces international debt bond maturities of USD4.6 billion in 2023 and USD10.9 billion in 2024. The refinancing of this debt will expose the company to higher interest expense that would further stress its cash flow. An inability to refinance the capital markets debt with similar or other long-term financial instruments would exacerbate its liquidity risk by the end of 2024. Resolution of these issues driving the RWN could extend beyond six months.

Major fire breaks out on Pemex offshore platform – *Bnamericas, Reuters*

Pemex will see its crude output reduced by some 100,000 bpd until the beginning of August after a massive fire. Fire broke out on the platform Nohoch-A, later spreading to a compression facility at the iconic Cantarell field, which used to be Pemex's largest producing field. According to Pemex, two people have been confirmed as dead, one person is still missing and 321 were safely evacuated from the site.

Pemex, which produces in total about 1.6 million bpd of oil, had an output loss of 700,000 barrels on the day of the accident at the Gulf of Mexico gas processing hub explaining "it shut down practically all the wells in the area. A day after, the company said it had already recovered some 600,000 barrels per day. However, fully recovering production will only be possible at the beginning of August.

Pemex has had several severe accidents in recent years at its facilities, including refineries and production hubs. In August 2021, a gas leak from an offshore platform triggered a fire that killed seven workers and caused the loss of 1.6 million barrels of oil output. Moreover, Pemex's safety performance indicators have deteriorated according to its own figures. In its ESG reports, Pemex has shown both its accident rate and their seriousness have risen considerably over the past few years. The accident rate for events that produce incapacitating injuries per million work hours increased from 0.21 in the 1Q of 2020 to 0.58 in the same period this year. Pemex's gravity index, which counts losses in terms of production days by million work hours, rose from eight to 32 in the same period.

Cantarell, which produced more than 2 million bpd of oil two decades ago, currently produces about 170,000 bpd. Along with Ku-Maloob-Zaap, which contributes some 620,000 bpd from Pemex's northeastern marine region, they provide around 41% of the company's total production of 1.9 million bpd of crude and condensate.

Pemex launches tender for construction of offshore platform for Pit field – *Oil and Gas Magazine*

Pemex presents the tender for the second marine platform of six that it intends to build before the end of the six-year term. PEP once again presented the call for the contracting via bidding for the engineering, procurement and construction of a marine platform to be installed in the Campeche Sound, Gulf of Mexico.

The bidding rules and technical annexes for the engineering, procurement and construction of the Pit-A platform, have been published. The Pit field has an area of 60.82 km², located in the territorial waters of the Gulf of Mexico. The field is a producer of black oil of 10.8° API. The scope of the plan, which covers the period 2023-2063, whose production will start in 2025, aims to produce a 2P Reserve volume of 459.23 million barrels of oil and 56.62 billion cubic feet of gas.

Mexico's oil regulator, constrained by government, dropped plans to fine Pemex – *Reuters*

Mexico's oil regulator shelved plans to impose at least three fines against the national energy company Pemex for violations at the country's most promising new fields, two dozen previously unreported documents showed and three sources confirmed. It is the latest sign of a weakened regulator, which lets Pemex operate with fewer restrictions in order to help reach the president's ambitious production goals. The legal and administrative documents, all dated between June and August last year, contained observations and photographic evidence from unannounced field visits by officials that uncovered several violations.

The documents Reuters reviewed do not contain reasons for why the fines did not advance further; but the fines were halted in the run-up to and after the leadership changes at the regulator last year. The two dozen documents from the regulator and Pemex showed that officials started last summer building a case for three fines at the country's most promising new fields: Ixachi in Veracruz, and Quesqui and Tupilco in Tabasco. At all three fields, the regulator had planned to fine Pemex for drilling wells without the correct permits; in Ixachi and Quesqui, it also found other violations - including some that led to excessive amounts of natural gas being burnt off.

Pemex reduces debt with suppliers but owes $73 billion pesos – *Oil and Gas Magazine*

As of June 30, Pemex maintains a total debt with suppliers and contractors of $73,846 million pesos, a decrease of 5.66%, vs figures reported on may. This is the third consecutive month that the company has achieved a contraction in debt; however, the liability remains above the figure reported at the end of last year. According to data from the oil company, at the end of 2022, the balance of debt with suppliers and contractors stood at $51,482 million pesos. Pemex is looking for ways to reduce the high debt it maintains with its suppliers and contractors so as not to affect its deteriorated finances.

The payments made to the sixth month of the year for debts contracted in 2023, totaled $214,630 million pesos. The works pending receipt of invoices in the payment system of the national oil company, add up $4,101 million pesos.

Pemex launches bid for construction of Ayatsil marine platform – *Business Mexico News*

Pemex is tendering a contract for the engineering and construction of a water injection platform off the coast of Campeche Bay. The platform, named PI-Ayatsil-F, will facilitate the treatment and injection of seawater into PEP's Ayatsil field. In addition, the chosen firm will be responsible for all aspects of the project, including basic and detailed engineering, procurement, construction, testing, loading and mooring in the Gulf of Mexico.

The primary objective of this platform is to implement a secondary recovery strategy for Ayatsil, as the field's conventional production has fallen short of Pemex’s expectations. PEP will provide technical assistance to the chosen contractor and oversee the progress of the project.

To ensure transparency and efficiency in the bidding process, PEP will conduct the tender through Pemex’s Electronic Contract System (SISCeP). Only individuals or legal entities of Mexican nationality or countries with which Mexico has a free trade agreement in place regarding public sector procurement are eligible to participate. The submission and opening of proposals will take place on July 26, with the announcement of the tender outcome scheduled for Aug. 4. These initiatives seek to reflect Pemex's commitment to revitalize and optimize production in the Ayatsil field. The revised plan involves additional investment of USD $5.5 billion, doubling the initial investment, to implement a recovery strategy that aims to achieve the projected production levels. Once fully operational between 2028 and 2030, Ayatsil is expected to extract 150Mb/d.

Greening Group signs on-site DG PPA contract in Mexico – *Greening Group Press Release*

Greening Group, signed a 15-year on-site distributed generation PPA contract with a leading Mexican publicly traded company in the food sector. This agreement is the largest DG contract signed in Mexico to date and involves the implementation of 139 on-site photovoltaic self-consumption installations totaling 41.9MW. The project will require an investment of USD $38 million and will be executed over the next nine months.

This partnership with one of Mexico's leading companies in the food industry will provide renewable and competitive energy to the company in the long term. Greening Concesiones México, will be responsible for the investment, construction, operation, maintenance and energy supply of the 139 photovoltaic installations. With this operation, the company continues to advance its international expansion in the Mexican market, where it began operating in 2019, and will supply 62.81GWh per year. Once operational, the agreement will generate additional annual recurring revenues of USD $6 million over the next 15 years within the generation sector, bringing the company closer to its objective of having 50% of EBITDA from long-term recurring revenue from energy generation projects by the end of 2025.

DG plays a crucial role in the country's journey toward a greener future. However, in Mexico, DG is limited to a maximum of 0.5 MW due to regulations, which poses a significant challenge for companies with high energy consumption. In such cases, companies are forced to purchase renewable energy from the market, resulting in less satisfactory offsets instead of a direct reduction.

CFE secures loan to finance the construction of the 120 MW Puerto Peñasco solar park – *Expansión*

CFE, secured a loan worth USD $98.7 million over a 20-year period from French development agency AFD to finance the construction of the 120 MW Puerto Peñasco solar park in Sonora state. The solar park is expected to be operational by the end of 2023.

The loan features favorable financial conditions, including semi-annual linear amortization, and will be used to partially fund the initial phase of the investment project for the Puerto Peñasco. As part of the project's scope, an energy storage system based on batteries will be implemented to mitigate the intermittency of solar resources. The storage system will provide ramp control to address changes in power output, particularly due to cloud cover, and will be developed in accordance with the project's phases.

Oil & Gas - LATAM

Vista announces successful results in Vaca Muerta – *Vista Press Release*

Vista Energy, announced successful results in wells AM-1011h and AM-1012h in pad AM-1, located in Águila Mora block. The peak production of well AM-1011h was 2,107 boe/d, while the peak production of well AM-1012h was 1,699 boe/d. Both wells are currently restricted by gas evacuation capacity, limiting well productivity. The cumulative production of well AM-1011h for the first 60 days was 79.7 Mboe, whereas the cumulative production of well AM-1012h was 70.2 Mboe for the first 60 days, in both cases on a normalized basis. Based on the successful results of these wells, the Company has estimated an inventory in Águila Mora of up to 100 ready-to-drill wells.

The Águila Mora unconventional concession is in the light oil window of Vaca Muerta, covering a surface area of 23,475 gross acres. Lab analysis conducted on the oil recovered from the wells revealed an API gravity of 40 degrees. The block is operated by Vista, which owns a 90% working interest. Gas y Petróleo del Neuquén. (GyP), the state-owned oil and gas company, owns the remaining 10%.

- *Bajada del Palo Este update and extension of well inventory into Coirón Amargo Norte*

In mid-April 2023, the Company tied-in well BPE-2202h, in the southern part of the Bajada del Palo Este block. IP-30 production of the well BPE-2202h was 3,101 boe/d, whereas daily peak production was 3,427 boe/d. Additionally, the cumulative production of the well for the first 80 days was 179.9 Mboe, on a normalized basis. Successful results in BPE-2202h have enabled Vista to reconfirm the addition of up to 150 ready-to-drill wells to the inventory of the block.

They have also enabled the Company to validate its geological model for Coirón Amargo Norte, which is the neighboring block to the. Coirón Amargo Norte is a conventional concession where the Company holds an 85% working interest, with the remaining 15% held by GyP. Vista's model indicates the Company has an inventory of up to 50 ready-to-drill wells in this block. The successful activity in Bajada del Palo Este and Aguila Mora pilots led to the addition of 300 wells to the Company's inventory, for a total of up to 1,150 wells.

ExxonMobil plans 35-well drilling campaign offshore Guyana – *Offshore Energy*

ExxonMobil has been granted environmental authorization by the Environmental Protection Agency (EPA) of Guyana for a 35-well exploration and appraisal drilling campaign on Guyana's offshore Stabroek block. The agency approved the multi-well project following review of the Environmental Impact Statement and Environmental Impact Assessment of the Cumulative Effects related to the project.

Esso Exploration and Production Guyana (EEPGL), an ExxonMobil affiliate and operator of the block, plans to further explore and appraise the block's hydrocarbon reserves. The project scope includes 35 exploration and appraisal wells. Exact locations have not been finalized. Work is currently scheduled from third-quarter 2023 through 2028. If discoveries are found, subsequent wells could be drilled to further assess potential commerciality. Thus, priorities and schedules could change, and EEPGL will continue to submit necessary well information to obtain operations permit approval from the EPA prior to the respective spud dates. EEPGL is operator of the block with 45% interest. Hess Guyana Exploration holds 30% interest and CNOOC Petroleum Guyana holds 25% interest.

Petrobras signs contract to supply gas to Comgas – *Bnamericas*

Petrobras signed a contract to supply Companhia de Gás de São Paulo, or Comgas, with natural gas from 2024 through 2034. Petrobras, estimated the value of the contract at 56 billion reais, the equivalent of USD $11.5 billion. Comgas supplies gas to consumers in the cities of São Paulo and Campinas as well as other regions in the São Paulo state.

SLB awarded five-year contract for Petrobras digital transformation – *SLB Press Release*

SLB has been awarded a five-year contract by Petrobras for an enterprise-wide deployment of its Delfi digital platform. The contract scope covers Petrobras digital transformation from exploration, development, and production operations, including moving subsurface workflows to the cloud to significantly accelerate decision making. The award represents one of Petrobras largest investments in cloud-based technologies and sets the foundation for it to achieve its decarbonization and net zero targets.

For geological and geophysical interpretation, the Delfi platform realized a significant reduction in processing time. Some workflows experienced a reduction from hours to minutes. As an example, AI and machine learning applications reduced fault interpretation time in petrophysical modeling workflows by 60%.

Argentine gas producer CGC in USD $200 million bond sale – *Bnamericas*

Argentine hydrocarbons firm CGC sold US$200mn in convertible bonds to local units of US chemical company Dow. The instruments were purchased by PBBPolisur and Dow Investment Argentina, which acquired USD $176 million and USD $24 million, respectively.

CGC can repurchase the bonds following the second anniversary of the issuance. In Q1 CGC inked a deal with PBBPolisur for a dollar loan of USD $30 million and issued around USD $192 million in bonds on the local market to finance exploration and production work in the Austral and Golfo San Jorge basins. Argentina's seventh biggest gas producer in May, the company registered 6.2Mm3/d that month, up 44.4% year-on-year, the fastest pace among the group, according to data from think tank the General Mosconi energy institute. Overall gas production was 135Mm3/d, led by state-controlled hydrocarbons company YPF, accounting for 33.5Mm3/d, down 8.2% year-on-year.

CGC has full or controlling interests in over 20 hydrocarbons areas across the Austral, Neuquén, Golfo San Jorge, Cuyana and Noroeste basins. The government last year awarded CGC supply contracts under rounds 5.1 and 5.2 of production promotion scheme Plan Gas, which involves commitments to 2028. The company also has a major stake in gas pipeline operator TGN and the GasAndes export pipeline, which transports Neuquén basin gas to Chile's Santiago metropolitan region.

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