Energy Fortnightly News

July 15-31, 2023

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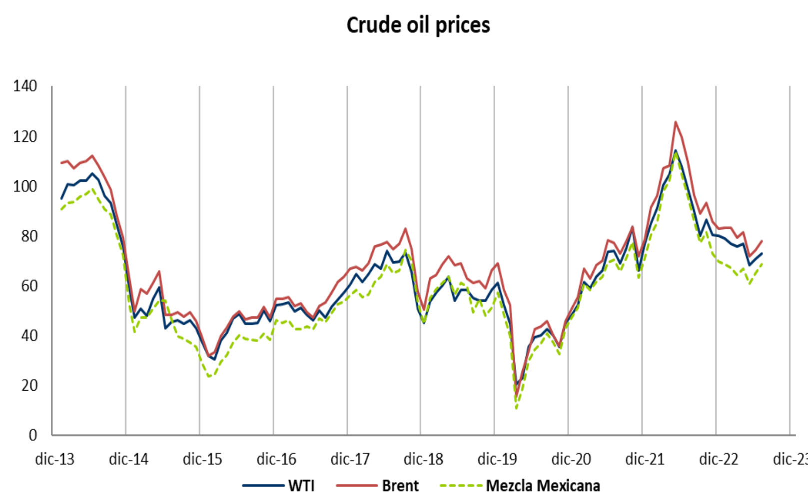
This month in review

** 28/07/2023*

MME US/BD*	75.01
MME US/BD* PEF SHCP	68.70
Dif. MME AVG. 2023 vs. MME PEF SHCP	-2.54
NG price HH* US/MMBTU	2.60
Mx crude production MMbd – *June*	1.67
Mx NG production MMpcd – *June*	4,348
US crude production MMbd - *April*	12.61
FX Rate*	16.68



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

Oil & Gas - Mexico

Pemex reports 2Q23 net profit of USD $1.49 bln – *Pemex*

Net profits were down almost 80% to $25.439 billion pesos in the 2Q23 from the year-ago period as sales fell, and revenues were down 42.5% to $414.157 billion pesos due to a 45.1% decrease in domestic sales and a 39.4% decrease in export sales as a result of lower hydrocarbon and petroleum products prices.

Crude production, including condensates was 1,882 Mbd, 126 Mbd higher than in the same period of 2022, when production reached 1,756 Mbd, a variation of 7.1%. Production in new fields amounted to 582 Mbd in 2Q23. Total natural gas production (excluding partners' production) increased 199 MMcfd (5.2%) to 4,051 MMcfd. In 2Q23, total crude oil processing averaged 826 Mbd, as a result of a better operating performance in the Salina Cruz, Tula, and Minatitlán refineries, an increase of 3.7%

Total financial debt decreased by 9.8% compared to 2022. Pemex, whose financial debt ballooned to USD $110.5 billion by the second quarter, received $64.9 billion pesos (USD $3.8 billion) from the government to meet its obligations. CFO Carlos Cortez said that despite "significant" government support, Pemex was evaluating whether it would tap bond markets this year or next. Pemex is also renewing revolving credit lines with banks.

Transocean lands USD $518 million contract for ultra-deepwater drillship – *Drilling Contractor*

Transocean gas announced a contract for one of its ultra-deepwater drillships off Mexico. The contract covers 1,080 days and will contribute approximately USD $518 million in backlog, excluding revenue for mobilization and demobilization, equating to a day rate of more than USD $479,000. The contractual day rate will be subject to a semi-annual cost adjustment mechanism with a baseline established as of July 1, 2023.

The contract is expected to commence between the fourth quarter of 2025 and second quarter of 2026. Transocean will utilize one of three high-specification, seventh generation drillships, which it will chose no later than one year prior to the earliest date in the commencement window. It identified the three drillships as the Deepwater Invictus, Deepwater Thalassa, and Deepwater Proteu. The company operates a fleet of 37 mobile offshore drilling units, consisting of 28 ultra-deepwater floaters and 9 harsh environment floaters. Transocean broke ground by bringing in their Deepwater Invictus vessel to develop deepwater assets in Mexico back in 2021. The vessel drilled a number of important wells in the Trion asset, among them the first ultra-deepwater well in the country's history.

Currently, Deepwater Thalassa is actively operating for Shell in the US Gulf of Mexico at a day rate of USD $480,000. This ongoing contract is set to conclude in February 2026. Similarly, Deepwater Proteus, also under contract with Shell in the Gulf of Mexico, is expected to complete its USD $481,000 day rate assignment in May 2026. Meanwhile, Deepwater Invictus was initially scheduled to complete its assignment with Woodside in April 2023. The vessel is then slated to move to an undisclosed company's project in the Gulf of Mexico, with the contract expected to end in July 2023. The day rate for this work is set at USD $425,000.

Moody's affirms Pemex's B1 ratings; outlook changed to negative – *Moody's*

Moody's affirmed at B1 Pemex corporate family rating and the senior unsecured ratings on the company's existing notes, as well as the ratings based on Pemex's guarantee. Moody's also affirmed Pemex's Baseline Credit Assessment (BCA), which reflects its standalone credit strength, at caa3. At the same time, Moody's changed the outlook to negative from stable.

The affirmation of the caa3 BCA reflects Moody's expectations that Pemex will continue registering negative free cash flow and the need for large amounts of external funding given persistent loses at the company's refining business, the necessity to maintain capex at least at current levels to sustain production and reserves stable, high interest expenses and high debt maturities in 2023-25. The action also takes into account that Pemex's access to the capital markets is currently limited given its high intrinsic credit risk and the lack of measures to mitigate its exposure to ESG risks.

Despite current oil prices that are below the budgeted price, Moody's expects Pemex's E&P business to continue supporting the company's cash generation. Pemex has been able to maintain oil and gas production and reserves at relatively stable levels and achieve production growth through condensates. Given Pemex's inability to invest larger sums of capital in E&P, Moody's estimates that in 2023 and 2024, the company will only be able to sustain production and reserves at current levels. However, Moody's also recognizes that current oil prices will result in high royalties and operating costs at the refining business.

The caa3 BCA also incorporates Pemex's weak liquidity and its high dependence on government support. As of March 31, 2023 the company had $3.3 billion in cash and no availability under its committed revolving credit facilities to address debt maturities. Pemex's B1 ratings take into consideration Moody's joint default analysis, which includes the rating agency's assumptions of very high government support in case of need. Since 2016, and most importantly and increasingly from 2019 to 2023, the government has supported Pemex in various ways, including capital injections, tax reductions, and early redemption of notes receivable from the government. Moody's assumes that the government, will continue to fund Pemex's cash needs in 2023 and 2024 and help the company to comply with its debt amortizations of $4.6 billion in 2023, $10.9 billion in 2024, and $4.9 billion in 2025, as of March 2023.

The negative outlook on Pemex's ratings reflects Moody's view that absent fundamental changes in Pemex's business strategy the company is likely to face increased credit risks, given the inability of the company to increase capital investments and improve its financial and operating performance as a result of liquidity constrains. Moody's contemplates that the next administration - which is set to take office in late 2024 - will find it increasingly burdensome to replicate what has been observed in recent years, as prospects of reduced fiscal space in the coming years would restrict the sovereign's ability to provide support at levels comparable to those registered throughout the outgoing administration.

Large oil spill reported near site of Pemex platform blast in Gulf of Mexico – *Bloomberg*

A large oil spill has been spotted in the Gulf of Mexico near the site of a deadly explosion at a Pemex natural gas platform. A scientist working with environmental groups including Greenpeace detected the leak on July 4, days before the blast off the coast of Mexico's Campeche. The spill was about 400 km².

The spill might not be connected to the blast earlier this month, but it's much larger than a typical platform leak, said Itziar Irakulis-Loitxate, a lead researcher on a study from the Polytechnic University of Valencia that last year uncovered two large methane leaks from a Pemex offshore platform. Since the spill started before the gas platform fire in early July, "I would tend to think that these are two unfortunate incidents that have coincided on similar dates but do not have to be related," she said in an interview. "But it is true that this particular leak is, by far, much bigger and it is lasting much longer than normal, which is undoubtedly very worrying."

Pemex confirmed the existence of the spill but downplayed its size, stating that most of the oil had been immediately recovered, and the leak is now under control. However, independent experts and nongovernmental organizations assert that the spill is much larger than Pemex claims. In light of these concerns, a transparent investigation, comprehensive preventive measures, and enhanced safety standards are urgently needed within Pemex.

Pemex launches 6th platform tender for Campeche Bay – *Bnamericas*

Pemex has launched the sixth and final tender to design, procure and build six offshore platforms off the coast of Campeche Bay. The platforms will help the national oil company boost its output.

The latest tender involves the Kayab-A platform for the heavy-crude Kayab field, one of the large fields that Pemex has decided to make a priority over the next half-decade. According to tender PEP-CAT-O-GCSEYP-085-92984-23-1, bids will be received on August 23 and the winner will be announced on September 8.

The Kayab field is undergoing a USD $18.7bn development plan to recover 494Mb of crude and 53.2Bf3 of natural gas through the spudding and completion of 35 wells over the next two decades. The other offshore platform tenders were for the Utsil, Ayatsil and Pit fields. Once completed, all will be operated by Pemex's production and exploration unit PEP.

Pemex natural gas flaring said unlikely to decrease in short term – *NGI*

The amount natural gas flared by Mexico's state oil producer Pemex has increased by more than 152% in the past four years, from an average of 178 MMcf/d in 2018 to 449 MMcf/d in 2022, according to company figures. As a result, Mexico in 2022 flared the seventh-largest volume of gas in the world, according to the World Bank. Mexico also was the planet's 10th-largest methane emitter in 2021, according to the International Energy Agency.

Despite government pledges and commitments to international bodies to decrease natural gas flaring and methane emissions, Pemex is unlikely to achieve significant reductions in the short term, wrote Columbia University research scholar Adrián Duhalt in a report earlier this month. Duhalt is with the Center on Global Energy Policy at the School of International and Public Affairs.

Given Pemex's heavy debt burden, tight finances and budget commitments to increase oil output, reductions in natural gas flaring "do not appear close at hand,". Duhalt explained that one factor driving the record increases in natural gas flaring is the energy policy of President AMLO. Since taking office in 2018, López Obrador has implemented a strategy at Pemex to boost oil production and refining in an effort for the country to achieve so-called "energy self-sufficiency."

Last year Pemex allocated 61.3% of its investment budget to E&P activities and 32.3% to the refining division, Pemex Transformación Industrial. Value-adding activities beyond oil output, such as the production of petrochemicals and fertilizers, have received comparatively little investment. The administration has not articulated a concrete decarbonization agenda, and pledges to curb natural gas flaring remain unfulfilled. As a consequence of these policy decisions, natural gas flaring has proliferated under the current administration. During the previous government of President Enrique Peña Nieto from 2013-2018, Pemex flared around 5.8% of its natural gas production. Under López Obrador, the flaring rate has more than doubled, averaging 12.4% and peaking at 16.5% in 2021 when it hit 620 MMcf/d.

Power/Renewable Energy – Mexico

CFE reaches 20-year gas supply agreement with Saguaro Energía LNG – *Oil&Gas Journal*

CFE has agreed to supply Mexico Pacific with natural gas for 20 years as feed for its 14.1-million tonne/year Saguaro Energía LNG plant under development in Puerto Libertad, Sonora. CFE International, the company's trading division, will supply Mexico Pacific with roughly 40% of its required supply via gas delivered from the Permian basin through CFE's pipelines in Mexico.

Saguaro Energía will use three 4.7-million tpy trains. Mexico Pacific says the combination of low-cost US gas and a 60% shorter shipping distance to Asia (vs. cargoes leaving the US Gulf Coast) will allow it to deliver the lowest landed price of LNG into Asia from North America. Oneok Inc. is targeting an early second-half 2023 final investment decision (FID) on its 2.8-bcfd Saguaro Connector pipeline. The 155-mile, 48-in. OD pipeline would run from the Waha hub to a border crossing in Hudspeth County, Tex., connecting there with a new pipeline under development in Mexico for gas delivery to Saguaro Energia.

Mexico Pacific expects to start receiving gas in 2026 and is targeting first LNG exports in 2027. It has signed two 20-year sales agreements with ExxonMobil LNG Asia Pacific for a combined 2 million tpy. The company also has deals in place with Shell PLC for 3.7 million tpy and Guangzhou Development Group Inc. for 2 million tpy.

Natural gas combined-cycle power no longer eligible for CELs – *Mexico Business News*

A legal resolution has suspended CRE's agreement that made natural gas eligible for Clean Energy Certificates (CELs). As previously reported by MBN, on May 26, 2023, CRE issued an agreement that categorizes natural gas generation in combined-cycle power plants as fuel-free energy, thereby approving it for CELs. This agreement sparked controversy and raised concerns about the integrity of Mexico's clean energy program.

Three judges suspended the A/018/2023 agreement published by CRE, which classified natural gas as clean energy. The judges ruled that this agreement violates the Energy Transition Law of 2015, which stipulates that power generation from natural gas involves the burning of fossil fuels. As a result of the suspension, the agreement is on hold while the legal process continues.

Second District Judge Specialized in Administrative Matters for Economic Competition, Broadcasting and Telecommunications, Juan Pablo Gómez Fierro, considered that CRE's controversial agreement could have an important impact on the CELs market, immediately increasing the offer of clean energy. "By redefining the concept of clean energies to include combined cycle power plants (which operate with natural gas), CRE would allow these power plants to obtain CELs, which could lead to an oversupply of certificates and result in a reduction of prices.

Avant Energías Renovables sought legal protection against CRE's agreement and its request was granted. Similarly, several different actors voiced their discontent following CRE's agreement. The Mexican Solar Energy Association (ASOLMEX) and the Mexican Wind Energy Association (AMDEE) objected, asserting that considering natural gas a fuel-free energy could undermine the integrity of the program, arguing that its implementation threatens the right to a healthy environment.

Valia Energía officially acquires EVM – *El Economista*

Valia Energía, a subsidiary of London-based company Actis, has successfully finalized the acquisition of EVM Energía, further bolstering its portfolio in the power generation sector. The acquisition adds 950MW to Valia's existing 2.2GW power generation capacity, consolidating the company's position among the Top 10 most important independent generators in Latin America in terms of total installed capacity.

The consolidation of EVM Energía's assets will result in a total installed capacity of 3.15GW, encompassing seven natural gas-fired generation plants located in Tamaulipas, Coahuila and the State of Mexico. Two key plants, EVM II and EVM I, will be integrated into Valia's operations. EVM II, a combined cycle plant equipped with GE's H-Class advanced turbines, boasts an installed capacity of 850MW. Meanwhile, EVM I is a 100MW simple cycle plant featuring GE's aeroderivative unit. Both plants are situated in the State of Mexico.

The acquisition also considers Valia's purchase of GE Energy Financial Services' 40% stake in EVM II. Valia asserts that GE's technology is among the most economically efficient in the country, with significantly lower environmental impact. Compared to thermoelectric plants powered by fossil fuels, GE's plants produce 90% fewer emissions, aligning well with Mexico's commitment to sustainability and environmental responsibility.

Oil & Gas - LATAM

Petrobras records 3.1% increase in oil production in the first half of 2023 – *Rio Times*

In the first half of 2023, Brazil's Petrobras revealed a 3.1% growth in its oil and natural gas production, averaging at 3.71 million barrels per day (mbpd), compared to the same period in 2022.

The company's Q2 average daily production rose to 3.69 mbpd, a 3.9% increase from 2022, albeit a 1.4% decrease from Q1 2023. The figures cover Petrobras' hydrocarbon production domestically and internationally, including areas where it is the operator in partnership with other firms.

Argentina faces 'biggest sanction imposed by a US court' In YPF expropriation case – *Bloomberg*

The third and final hearing of the trial to define how much Argentina will pay Burford Capital in the YPF expropriation case took place in New York. The discussion focused on establishing how much the country should have paid minority shareholders when the oil and gas company was expropriated back in 2012. Depending on Judge Loretta Preska's final decision, that amount could range between USD $4.9 and USD $16 billion depending on the applicable interest rate that will be between 0% and 8%. The amount of compensation to be paid would be decided in a new judicial proceeding arguing that it had not been possible to determine the date on which the country activated the takeover bid for the company.

In 2012, the Argentine government expropriated 51% of the shares of YPF that belonged to Repsol. As part of the expropriation Argentina paid USD $5 billion compensation to Repsol.

Brazil's Petrobras to trim dividends under new policy – *Reuters*

Petrobras' board of directors approved a new shareholder remuneration policy that will trim its hefty dividend and allow share buybacks, according to a securities filing. Under the new policy, Petrobras' quarterly dividend will have to be at least 45% of its free cash flow, down from the current 60%, when the firm's gross debt is below $65 billion. It will also allow the company to repurchase shares.

The change in policy marks a swift away from a period in which the company was a major cash cow to its investors, at times paying far more than any of the biggest international oil producers. In 2022, Petrobras paid a total of 215.8 billion reais to its shareholders, including the Brazilian government, which holds a controlling stake in the firm.

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