



August 15-31, 2023

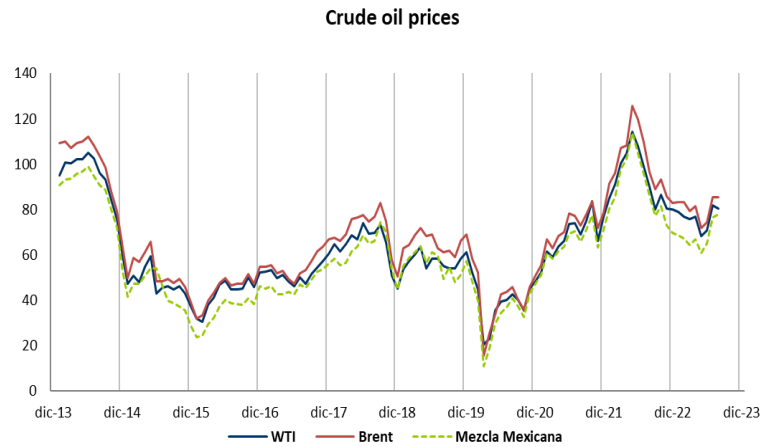
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Fortnightly review

* 30/08/2023

MME US/BD*	78.53
MME US/BD*	68.70
PEF SHCP	
Dif. MME AVG. 2023 vs. MME PEF SHCP	-10.47
NG price HH* US/MMBTU	2.75
Mx crude production MMbd – July	1.63
Mx NG production MMpcd – July	4,298
US crude production MMbd - June	12.84
FX Rate*	16.74



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

Oil & Gas - Mexico

Woodside Energy gets nod to develop Mexico's Trion project – *Business Mexico News*

Over a decade after its discovery, the Trion ultra-deepwater field in the Gulf of Mexico will be developed following the CNH's approval of Woodside and Pemex's plan proposal. This marks the first development plan for the extraction of an oil field in ultra-deep waters in Mexico.

The Trion field was discovered by PEP in 2012. However, development was put on hold due to the substantial investment required, along with technological capacity limitations. Now, in partnership with Australian Woodside, both entities anticipate the oil production by 2028. Trion's prospects include substantial hydrocarbon production, with estimates projecting a peak output of 110Mb/d of oil and 101MMcf/d of gas. This follows the successful approval of their USD \$10.43 billion joint development plan.

In terms of potential, the Trion deepwater field holds remarkable significance. Woodside reported recording gross proved undeveloped reserves totaling 324.7MMboe. Of these, the Australian IOC holds 194.8MMboe. When factoring in probable undeveloped reserves, the site's total reaches 478.7MMboe, with Woodside's share accounting for 287.2MMboe. To realize the field's full potential, the project will employ a floating production unit with an oil production capacity of 100M/d. This FPU will be connected to a floating storage and offloading vessel capable of storing up to 950Mb.

According to CNH projections, the estimated volume of hydrocarbons to be recovered from 2023 to 2052 is approximately 434MMb of oil and 790Bcf of gas. Of this gas volume, 570Bcf will be reinjected into the reservoir, leaving 219Bcf planned for sale and self-consumption.

Pemex crude processing slides in July, production lowest this year – Reuters

Pemex's domestic refineries fell in July to 768,732 bpd, well below the goal of 1 million bpd set by the government in its effort to make the country self-sufficient in energy next year. Pemex has averaged 821,233 bpd of crude processing per month this year at its six domestic refineries, above last year's average of 815,790 bpd.

While Pemex has boosted processing from lows near 600,000 per month at the start of President AMLO's government in 2018, it remains far from producing enough diesel and gas to meet Mexico's needs and continues to import large volumes. The oil company's results last month projected total capacity at 1.109 million bpd, in addition to its refinery operations in Deer Park, Texas.

The government hopes to boost this figure with contributions from its new Olmeca refinery at the Gulf Coast port of Dos Bocas, which has yet to fully come online despite its inauguration last year. Reducing a longstanding dependence on fuel imports has been a key goal of Lopez Obrador's presidency. Pemex imported 317,879 bpd of gasoline and 142,167 bpd of diesel in July, compared to domestic production of 265,771 bpd of gasoline and 153,553 bpd of diesel. It also imported 498,561 million cubic feet per day of dry natural gas.

Pemex's total crude production was 1.573 million bpd in July, the lowest level this year. Production of 282,000 bpd of condensates, which has been climbing since December, helped bring total hydrocarbon production to about 1.8 million bpd.

Pemex will invest more than 6 bn pesos to increase production in Zaap – CNH

CNH approved the modification to the development plan for the extraction presented by PEP for Assignment A-0375-3M-Campo Zaap. The Zaap field is located in territorial waters, off the coast of Campeche, with an area of 52.17 square kilometers and is part of the complex Ku-Maloob-Zaap.

The modification to the development plan is due to the updating of the production forecasts, due to the favorable behavior of the deposits. The modification contemplates carrying out 25 major repairs, 107 minor repairs and the construction of facilities. In this way, it is estimated that between 2023 and 2034, a volume of 126.96 million barrels of crude oil and 92.86 billion cubic feet of gas can be recovered to achieve final recovery factors of 33.0% and 48.4% respectively. The estimated total cost for the period is USD \$6,010.11 million, of which USD \$3,510.40 million will be allocated to Investment and USD \$2,499.7 million to operating expenses.

Mexico's private companies do not set production goals for 2024 – AMEXHI

Private oil companies in Mexico do not have a new production goal for 2024. Companies have failed to meet their annual forecasts, despite expecting to have a new production goal during the second half of last year. Merlin Cochran, President, AMEXHI, stated during a media meeting that the association does not have a new estimation figure for the end of the administration, only the data published by the regulatory authority, CNH, which was set at 280Mb/d, to achieve by the end of López Obrador's term.

Cochran mentioned during a meeting organized by the Business Coordinating Council that the "vast majority" of the auctioned contracts are exploratory and those with geological success take between seven and 15 years to yield results, with the first contract being signed in 2015. Andrés Brügmann, Vice President, AMEXHI, warned that in the following 21 months, the country would see a reduction in exploratory activity, because 20 exploration plans come to an end and at least 7 areas will be returned to the government in advance. These fields were previously awarded to companies in licensing rounds.

CNH greenlights TotalEnergies' exploration project in Mexico – CNH

CNH authorized TotalEnergies' 2023 work program and budget regarding the exploration plan for contract CNH-R03-L01-AS-CS-06/2018 in partnership with Qatar Petroleum and Pemex. This initiative, is slated to unfold over the remainder of 2023. The approved project would operate under the framework of a Production Sharing Contract. The designated exploration area, situated in the shallow waters off Tabasco's coastline, is strategically positioned just 35km northeast of the Paraiso municipality.

The work program for 2023 encompasses activities spanning general exploration, geophysics, geology, well drilling, as well as safety, health and environmental considerations. The earmarked budget of USD \$87.23 million will be allocated across these activities, with a predominant share of 84% earmarked for well drilling, followed by 6.7% for geophysics, 5.0% for geology, 3.0% for general exploration and 1.3% dedicated to safety, health and environmental initiatives.

Support for Pemex puts Mexico's credit rating at risk – Fitch Ratings

Fitch Ratings warned that the Mexican government could see a negative impact on its credit rating should it increase its support toward Pemex, to the point of causing higher deficits and an increase in public debt.

Since 2019 and through 1H23, the government has allocated MX\$721 billion (USD \$42.1 billion) to PEMEX, mainly for debt repayment. While other governments have implemented successful measures to ensure that their oil and gas industries remain viable, Pemex maintains a weak capital structure. "The Mexican government will continue to financially support Pemex but will not fully guarantee the company's debt or provide an equity injection that would materially improve its financial position," stated Fitch. The firm emphasized that the additional support to Pemex may not lead to negative results. However, it will depend on how the government manages this. The rating agency said that the credit outcome will be negative if the new support changes the government's fiscal priorities.

Fitch recalled that Pemex's rating downgrade from "BB-" to "B+" demonstrates weak operating results, the need for further financing and growing uncertainty about the company's future. The downgrade has limited Pemex's access to additional credit and concessions, putting further pressure on its liquidity. PEMEX currently has an international debt of USD \$4.6 billion, set to increase to USD \$10.9 billion in 2024. Fitch also recently downgraded Pemex's ESG Relevance rating to 5, which further restricts its access to financing.

This rating aligns with the environmental and social impact resulting from several accidents reported by the NOC in 2023. These accidents can be largely attributed to the lack of investment in maintenance. According to Fitch, the weakening of economic growth, the increase in public debt and governance deterioration are threats that could lower Mexico's rating even further.

SEMARNAT greenlights Sempra's new wind farm – *Forbes*

SEMARNAT's has granted approval for a fresh wind farm initiative. This new project, known as the Cimarrón wind farm, boasts a capacity of 330MW and will be situated in the Tecate municipality, near the US border. The primary focus of this endeavor will be to export power to the US via the state's link to the California Independent System Operator.

Energía Sierra Juárez, a subsidiary of Sempra Infrastructure and the proprietor of the Rumorosa solar park and Sierra Juárez wind farm, in the same northwestern region, is spearheading the development of the Cimarrón wind farm. To facilitate the energy transmission process, Cimarrón will be interconnected with the existing transmission line utilized by the adjacent Sierra Juárez wind farm. The power generated will travel from Tecate to the ECO substation in San Diego before becoming part of the California grid.

In 2022, Sempra Infrastructure penned a 20-year agreement with Silicon Valley Power, a municipal utility that caters to the northern California area, to receive energy from the Cimarrón wind farm. Sempra had projected the wind farm to commence operations sometime in 2024 at the time the agreement was signed.

Fitch Ratings maintains CFE's credit rating amid stable outlook – *Fitch Ratings*

Fitch Ratings maintains CFE's credit rating at 'BBB-' with a stable outlook. The agency also reaffirmed the long-term national rating at 'AAA(mex)' and the short-term national rating at 'F1+(mex)'.

According to Fitch, CFE's ratings remain aligned with Mexico's sovereign rating due to their close relationship with the government. CFE's credit profile is reliant on receiving timely financial support from the federal government. Fitch expects total government transfers to CFE in 2023 will be approximately MXN \$100 billion and EBITDA margin will reach 24.3%. FCF is estimated to be negative over the next three years due to high capex needs given its expansion plans. Fitch case is assuming negative FCF will be funded with incremental debt, elevating its leverage metrics.

Fitch forecast CFE's total adjusted financial leverage should be near 3.7x at YE 2023, an improvement from YE 2022 leverage level of 8.4x. The leverage metrics improvement is mainly due to a stronger EBITDA benefited by higher government transfers, the Mexican peso appreciation against the USD and lower fuel prices. Fitch expects that for 2024 and 2025 CFE's leverage levels should remain around 5.1x and subsidy to be lower at around MXN \$80 billion (level consistent with previous years). Annual capex is expected to remain below MXN \$100 billion during 2023-2025.

CFE's scale of operations, position as sole electricity marketer to unqualified users and unique position on transmission and distribution activities make the company strategically important for the country. As of June 2023, the company had a total installed capacity of 69,149MW, including the capacity from independent power producers that generate electricity for CFE and is the only responsible for the transmission and distribution of electricity, as those activities are reserved to the Mexican state. Through the Energy Regulatory Commission, the government directly sets electricity tariffs to high consumption users (more than 1MW) while the Ministry of Finance and Public Credit determines user subsidies for low consumption users (less than 1MW).

The considerable exposure to gas prices is notable, given that Mexico imports 70% of its gas from the US. This leaves CFE susceptible to shortages and fluctuations in prices and exchange rates. Over 60% of CFE's installed capacity relies on natural gas for electricity generation, while domestic production falls short of demand and storage capacity remains limited.

Oil & Gas - LATAM

Argentina seeking EPC firm for gasoducto Norte flow-reversal project – *Bnamericas*

Argentina is advancing a major natural gas project that is part of a wider strategy to substitute dollar-devouring imports and build the country's exporting muscles. State energy company and project owner Energía Argentina launched a tender for the initiative, the Gasoducto Norte flow-reversal project, which is designed to support dispatch of domestic gas to northern regions.

The winning bidder would provide engineering, procurement and construction services. Bids are due by September 29. A guarantee of the equivalent of 1% of the offer would be required. Officials have previously said USD \$712 million would be needed and have been working to secure the requisite funds. The country was granted a loan of up to USD \$540 million from regional development bank CAF and the federal energy department has instructed wholesale power market administrator Cammesa to put aside, for a project loan, income obtained from electricity exports.

Flow-reversal work supports the transport of Neuquén basin gas to the country's north, today supplied by dwindling imports from Bolivia. Gas transporter TGN has completed USD \$11.6mn in associated work. The Gasoducto Norte pipeline runs for around 1,450km between General Pacheco in Buenos Aires province and Campo Durán in the north of Salta province, near the Bolivian border. With 12 compression plants, capacity is 28.5Mm³/d, according to the 2021 annual report published by gas regulator Enargas. The project would help substitute around USD \$2bn/y of energy imports, according to an Energía Argentina presentation. The bulk of power generated in the north is thermoelectric and the gas duct would reduce costs.

The money from CAF and Energía-Cammesa would be spent on the following project components, according to a resolution published earlier this year.

- A 123km, 36-inch pipeline between the La Carlota compression plant on the Centro Oeste duct and the Tío Pujio compression plant on the Gasoducto Norte.
- 62km of 30-inch loops on the Gasoducto Norte between Tío Pujio and Ferreyra.
- Injection reversal work on Gasoducto Norte compression plants Ferreyra, Dean Funes, Lavalle and Lumbrera.
- Pipes would be supplied by industrial group Techint's Tenaris unit, local media outlet EconoJournal reported.

China's CNOOC, Brazil's Petrobras announce strategic cooperation agreement – *Zacks Research*

CNOOC has announced a new agreement with Brazil's Petrobras to expand CNOOC's presence in Brazil's deepwater pre-salt basins. The Chinese company, which almost exclusively focuses on overseas projects, already has a modest presence in Brazil, with a minority stake in the Buzios field—one of the promising new developments in Brazil's presalt offshore zone.

The deal, according to CNOOC, is a milestone in the development of the cooperation and has major implications for the Belt and Road Initiative and international energy cooperation. Most of the Chinese oil and gas companies, have recently expanded domestic production while purchasing stakes in other oilfields as the country has been strengthening its energy security by diversifying its procurement.

CNOOC's oil and gas production is anticipated to increase more than 6% annually between 2022 and 2024. Pre-salt oil production in Brazil has increased dramatically over the previous 10 years, increasing from 70,000 b/d in January 2011 to 2.3 million b/d by the third quarter of 2022. Brazil's pre-salt oil projects are extremely cost-competitive and such projects only need to attain a break-even status on a project level at a price of \$35 per barrel.

CNOOC has been actively participating in the Brazilian oil and gas markets in recent years. It currently has a 7.34% stake in the integrated development of Buzios field in Brazil, the world's largest deepwater pre-salt-producing oilfield with an average water depth of about 2,200 meters and a 9.65% stake in the Mero oilfield development. In Brazil, CNOOC is the first foreign company to achieve autonomous natural gas sales. It currently owns five deepwater oil and gas block assets in the South American nation.

Petrobras signs agreements with Chinese banks – *Petrobras Press Release*

Petrobras informs that it has signed a MOU with the China Development Bank and the Bank of China, aimed at (i) evaluating investment opportunities and cooperation in low carbon and green finance initiatives, (ii) financing Petrobras' supply chain, and (iii) increasing and facilitating commercial and financial exchanges between Petrobras and Chinese companies.

The MOUs are of a non-binding nature and only after the necessary technical analyses have been completed will potential projects arising from the signed agreements have official cost, time, and return estimates, in order for them to be considered by internal approval bodies in the future, in accordance with the company's governance. The agreements have a five-year term and are aligned with the strategic elements of the 2024-28 Strategic Plan, which aim to prepare Petrobras for a more sustainable future, contributing to the success of the energy transition.

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