Energy Fortnightly News

September 1-15, 2023

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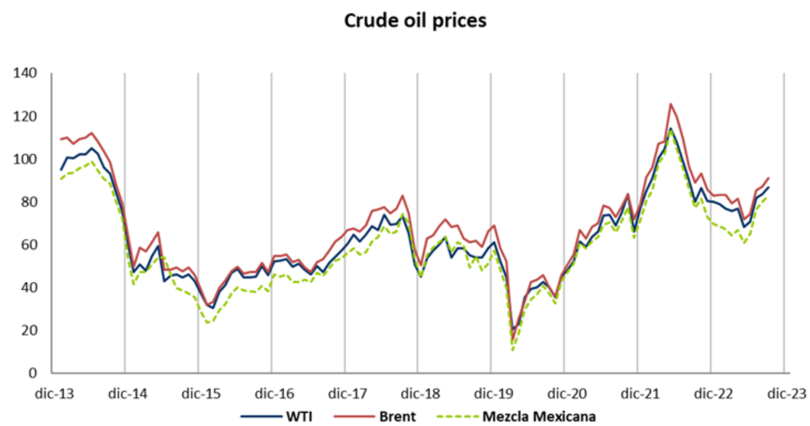
Fortnightly review

* 14/09/2023

MME US/BD*	86.86
MME US/BD* PEF SHCP	68.70
Dif. MME AVG. 2023 vs. MME PEF SHCP	-10.48
NG price HH* US/MMBTU	2.70
Mx crude production MMbd – *July*	1.64
Mx NG production MMpcd – *July*	4,299
US crude production MMbd - *June*	12.84
FX Rate*	17.10



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

Oil & Gas - Mexico

CNH approves US$5bn upgrade for Maloob field – *CNH*

PEP will invest US $5.3bn more from 2023-34 at its Maloob star legacy field in the Gulf of Mexico, one of its biggest producing areas. CNH approved modifying the field's plan so Pemex can extract 555 million barrels of oil and 260 billion cubic feet of gas in a decade, an estimated increase of 35% and 48.5%, respectively, when compared to the previous plan.

Overall, the new plan involves US $14.1 billion, of which US $9.8 billion will go to investments and the rest to operations. The new plan involves drilling 16 wells, 13 more than the previous plan; 39 major and 458 minor repairs, 38 and 407 more, respectively; and one installation.

Mexico sees similar economic growth next year, more help for Pemex – *Reuters*

Mexico's government expects the economy to grow by between 2.5% and 3.5% next year, in line with this year's growth, according to a budget blueprint released. The finance ministry's 2024 draft budget forecasts headline inflation slowing to 3.8% by the end of next year, compared with a 4.5% rate of rising consumer prices this year.

The 2024 budget will now be debated by lawmakers in Congress, where the ruling coalition of President AMLO commands majorities in both chambers. The draft budget estimates the exchange rate for the Mexican peso at 17.6 pesos per dollar by the end of 2024, around its current levels.

The budget assumes an average oil export price of $56.7 per barrel next year, well below the average of around $68 in the first eight months of 2023. St Pemex's overall budget will be cut 36%, according to the draft budget from 2023 funding levels. The budget plan includes a fresh Pemex capital injection of 145 billion pesos ($8.25 billion), to be applied to its 2024 debt payments.

The government push to help service Pemex's $110.5 billion in financial debt, including $11.2 in debt payments due in 2024, in part aims to ease the firm's rising financing costs. The spending blueprint also includes a significant tax cut for heavily indebted Pemex, lowering its DUC profit sharing tax rate to 35% next year, from 40%.

Pemex launches new 'Zapoteco' light crude for global markets – *Mexico Business News*

Pemex has announced its expansion into the light crude oil market with the launch of "Zapoteco," a new type of light crude produced in the southern region. With an American Petroleum Institute (API) grade between 29 and 29.9 and a low sulfur content of 2.513%, this crude is exported from the port of Salina Cruz, Oaxaca, to five regions around the world, including the US, Europe and the Middle East, as detailed by the oil company.

In terms of light crude exports, Pemex reached 482Mb/d in July, which accounted for 46% of the 1.052MMb sold abroad that month. Octavio Romero, CEO, Pemex explained that the lack of investment from previous administrations, combined with the decline in production from mature fields, resulted in a deficit of light crude, forcing the country to import this type of oil in 2018 to meet the refineries' needs.

Crude oil is classified based on API grades, with values below 30 being heavy and above 30 defined as light. In Mexico, production is divided into three types of oil based on its density: Olmeca, Istmo and Maya. Olmeca is considered "extra light", making it a good producer of lubricants and petrochemicals, with an API grade of 39 and 0.8% sulfur. Istmo crude, is considered "light" and yields more gasoline and intermediate distillates due to its API grade of 32 and 1.3% sulfur. Finally, Maya crude, being "heavy," has a lower yield in gasoline and diesel production due to its density and API grade of 22, and 3.3% sulfur by weight. However, these qualities make it the primary source of energy for domestic use.

Chevron, Repsol quit oil and gas exploration blocks in Mexican Gulf – *Reuters*

Chevron and Repsol decided to quit offshore oil and gas exploration areas in Mexico, joining more than a dozen other companies after disappointing results. Both had won the blocks in the Gulf of Mexico in a tender process. Officials at Mexico's hydrocarbon commission said Chevron sought and was granted approval to return a deep water block off the coast of Tabasco state because the U.S. company considered there to be "no favorable prospects for the block". Repsol received final approval to return a block in shallow waters in the same basin. It was not immediately clear why though officials highlighted that the Spanish company had never carried out significant physical activities.

Both Chevron and Repsol had won the blocks as part of consortiums and have previously returned other blocks; companies pay a fee to the Mexican state for the time they carry out exploration and production activities.

Chevron confirmed the decision in a statement but said it would maintain an office in Mexico and continue to monitor industry developments in the country. Repsol said it would keep a deepwater block, its last, for now. In an attempt to chip away the long-held monopoly of Pemex, the country had auctioned off more than 100 contracts to both foreign and local companies. Despite much initial optimism, there have only been a handful of companies that have made significant finds in the blocks so far. Among those are Italy's Eni and Mexico's Hokchi Energy as well as US company Talos Energy.

Dos Bocas at 100%, until 2025 and with a higher cost: IEA – *News ES Euro*

The International Energy Agency (IEA) noted that the Olmec refinery located in Dos Bocas, Tabasco, will operate at 100% of its capacity until 2025, while the federal government proposes that at the end of this year it will be close to that goal.

"Dos Bocas will begin in 2025, very late and over budget," states the document "Oil 2023, analysis and perspectives towards 2028" prepared by the international organization.

Pemex has made public that the promise that the work was going to cost US $8 billion, its final value will be at least US $17 billion. Furthermore, the IEA considers that Mexico is going against the global direction of the energy sector, which is committed to renewable energies and not fossil fuels.

The document dated last June repeatedly stated that the new Mexican refinery will operate at full capacity until 2025. However, the federal government assures that it will be at least 85% of its capacity in December 2023. Luis Miguel Labardini, partner of Marcos y Asociados, Consultora Energética, commented that for Mexico to achieve the refining objectives, at least US $2 billion should be invested in rehabilitation for each of the six refineries that already operate in the country, when this government has invested just over US $3 billion in all of them.

This situation complicates the current administration's objectives of achieving energy self-sufficiency next year, by producing the gasoline and diesel that is consumed and without importing petroleum products. For this to happen, experts agree that refineries should operate at 60% or 70% of their capacity, and not at 50%, as they do now, with everything and investments.

Mexico's support for Pemex to drive widening fiscal deficit, Moody's – *Reuters*

Mexico's fiscal deficit will widen to 4.1% of gross domestic product this year, with ongoing support for ailing state oil company Pemex driving up debt, ratings agency Moody's Investors Service. Pemex will need US $14.7 billion in government support this year alone, Moody's said.

This support will ratchet up the fiscal deficit, Moody's said in a report that highlighted persistent sovereign credit risks despite an expected economic rebound in 2021. For the next fiscal year, the federal government plans a total net expenditure of MX$9.06 trillion (US $526 billion), which is 4.3% higher in real terms compared to what was approved for this year.

Pension spending will amount to MX$1.5 trillion (US $87 billion), in addition to MX$465 billion (US $26.9 billion) for the Universal Pension Program for the Elderly. As for the priority investment projects for the six-year term, they are expected to total MX$222.66 billion (US $12.9 billion), with MX$120 billion (US $6.9 billion) allocated to the Mayan Train.

Moody's noted that Mexico's 2024 economic package indicates the government's intention to accept a high fiscal deficit, exceeding 5% of the GDP, due to increased spending on priority projects. "According to official estimates, the borrowing would be in line with what is allowed by the fiscal rule. The budget for next year implies a clear shift in fiscal policy management, as fiscal deficits averaged only 3% of GDP during the pandemic years”.

Rising interest burden, both as a percentage of GDP and government revenues, is increasingly straining the sovereign's fiscal strength compared to its rating peers. Moreover, Pemex will refinance revolving credit lines with banks to complete the capital injection that the government allocated to the oil company in the Budget of Expenditures project so it can cover its debt maturities in 2024. Refinancing plans include US $3 billion in revolving credit lines to address debt maturities in the last year of President AMLO's six-year term.

The refinancing operation will add to the MX$145 billion (US $8.2 billion) contribution from the federal government included in the 2024 budget, which still needs to be approved by the Chamber of Deputies. The federal government's goal is for Pemex to reduce its debt by the same amount as the budgetary contribution after paying off the amortizations.

Russian oil trader expands to Mexico to market fuels – *Bloomberg*

A trading unit of Lukoil PJSC is launching a Mexico operation as the oil giant seeks new markets for Russian products under widespread sanction. The Lukoil subsidiary hired oil products trader Yuri Carreno in Mexico City. Carreno, who previously spent 25 years as a senior gasoline trader at Pemex’s trading arm PMI, started in July.

Lukoil and Carreno didn’t return multiple requests for comment. The expansion into Mexico, which is Latin America’s largest fuel importer, would open up a new market for Russian fuels that are under sanction by G-7 nations following Russia’s war in Ukraine. While Mexico has imported from Russia only once since the war began, Russian shipments have been making other inroads into Latin America. Brazil has been importing record volumes of diesel from the nation. Argentina, too, has been buying naphtha and diesel.

If successful, the effort could see Russia displace the US as Mexico’s top fuel supplier. The US currently supplies 90% of Mexico’s gasoline and diesel imports.

Power/Renewable Energy – Mexico

Energy Transition Budget Increases 3.4% – *Mexico Business News*

Even though Mexico reinforced its commitments to reducing polluting emissions, the proposed expenditure for 2024 related to the energy transition showed a minimal increase. According to the 2024 Federal Budget Proposal (PPEF), the budget allocated for the Transition Strategy to Promote the Use of Cleaner Technologies and Fuels is MX$10.6 billion (US $615 million), representing a 3.4% increase compared to the 2023 PPEF, MX10.2 billion (US $594 million).

Most of the 2024 budget will go to CFE, receiving MX$10.25 billion (US $592 million), which is 96.2% of the total. Out of these resources, MX$5.86 billion are allocated through Public Investment Projects with Deferred Registration in Public Spending (Pidiregas) carried out by the private sector as investment incentives.

"CFE plans to initiate and/or continue the construction and/or rehabilitation of a hydroelectric plant, six combined cycle power plants and a transmission line, which will enable the incorporation of 3,824.68MW into the National Electric System in the states of Chiapas, Mexico, Hidalgo, Morelos, Sinaloa and Sonora, primarily," states the 2024 PPEF.

The remaining MX$404.5 million (US $23.3 million) will be used by other federal government agencies and entities to promote actions or programs aimed at energy savings and the energy transition.

The Fund for Energy Transition and Sustainable Energy Use, as a public policy instrument of the Ministry of Energy, will allocate MX$286.2 million (US $16.5 million) to promote the utilization, development and investment in renewable energies and energy efficiency.

According to Ramón Fiestas, Director for Latin America, Global Wind Energy Council, the country requires annual investment ranging between US $2 and US $3 billion to effectively transition toward cleaner energy sources.

Mexican wind power industry has 10GW in projects awaiting permits – *Bnamericas*

Mexico's wind power industry has some 10GW in projects that could help the government meet its clean energy generation target next year. But slow permitting is keeping these "very advanced" projects stagnant, Leopoldo Rodríguez Olivé, outgoing president of wind energy association AMDEE, told on the sidelines of the Mexico Wind Power event in Mexico City.

During the 2022 UN Climate Change Conference, former foreign minister Marcelo Ebrard announced that President AMLO decided to increase Mexico's clean energy goal from 22% to 35%, investing US$48bn together with the US government in renewable projects.

In April, however, AMLO announced the objective would be met by 2024, coinciding with the goal the nation committed to under the 2015 Paris Agreement. Rodríguez said that "36,000MW renewables are required, of which 16,000MW are wind and, of those, 10,000MW could be done if we wanted to start tomorrow, they are quite advanced. These are totally new projects that are at an advanced level but do not have permits."

Energy regulator CRE has not granted a single wind generation permit this year, and while the regulator has been criticized for keeping more than 7,000 requests on standby, renewable permits are among the ones granted the least. As of end-April, CRE had registered 12 wind and solar projects under construction, but only two related to wind power only. According to Rodríguez, nearshoring could change the government's perspective.

Petrobras requests licenses to build 10 offshore wind farms with IBAMA – *S&P Global Platts*

Petrobras plans to build 10 offshore wind farms in a move that will turn the country's biggest oil and natural gas producer into the largest developer of offshore wind power in Latin America's top economy. The plans and requests for permits were submitted to federal environment regulator IBAMA. The 10 projects would have installed capacity to generate 23 MW of electricity, the largest volume of potential generation capacity from a single company currently under IBAMA evaluation.

Petrobras' emergence as a key player in the country's transition to a low-carbon environment. Brazil, however, still needs to hammer out a regulatory regime to cover offshore wind power. Brazil's Congress is currently debating the rules and regulations, including how to sell or license offshore acreage for wind farm installations. The regulatory regime is expected to be passed before the end of 2023. Brazil's National Energy Policy Council also is expected to approve an action plan to improve existing rules for the sector at its December meeting.

Petrobras has already studied many of the key areas for offshore wind farm development, including a 10-year study that was recently completed. In addition, Petrobras is currently conducting tests that use Lidar laser equipment to read wind speeds and movement above offshore installations off the coasts of Ceara, Espirito Santo, and Rio Grande do Norte states.

Despite plans for a solo project, Petrobras will still seek out partners for offshore wind development. Equinor and Petrobras previously signed a letter of intent in March 2023 to study seven offshore wind projects capable of producing 14.5 GW.

The 10 projects that were submitted to IBAMA were primarily focused on offshore installations in Brazil's northeast, where onshore wind power installation has proved successful. The projects included three in Ceara state, three in Rio Grande do Norte state, and one in Maranhao state. Petrobras also requested licenses for single projects in Espirito Santo state, Rio de Janeiro state, and Rio Grande do Sul state.

IOCs "eager" to expand into natural gas blocks offshore Colombia – *Bloomberg*

International oil majors are eager to expand into promising natural gas projects off of Colombia's Caribbean coast, Ecopetrol SA Chief Executive Officer Ricardo Roa said. Recent deepwater discoveries have uncovered large volumes of natural gas that could eventually turn Colombia into an exporter of the fuel, and companies including Petrobras and Shell Plc have expressed interest in expanding their participation in these projects.

Ecopetrol is focusing future investments on offshore natural gas in Colombia and a fracking project in the Permian basin in the U.S., in the hopes of reversing declining oil and gas output. The first offshore gas production could start as early as 2027 and could grow enough to meet domestic demand for the power-plant fuel, and even allow for exports. Ecopetrol is looking for other companies to help cover the investments needed to bring these natural gas projects. Petrobras and Shell didn't immediately respond to requests for comment.

President Gustavo Petro has stopped awarding any new oil and natural gas exploration licenses as part of a pledge to wean Colombia's dependency on fossil fuels, which means oil companies will need to focus on developing the existing 11 offshore licenses. Roa said that Ecopetrol is looking into reviving onshore oil licenses that were previously abandoned by other operators due to issues including conflicts with local communities, which could help shore up the country's overall production.

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