Energy Fortnightly News

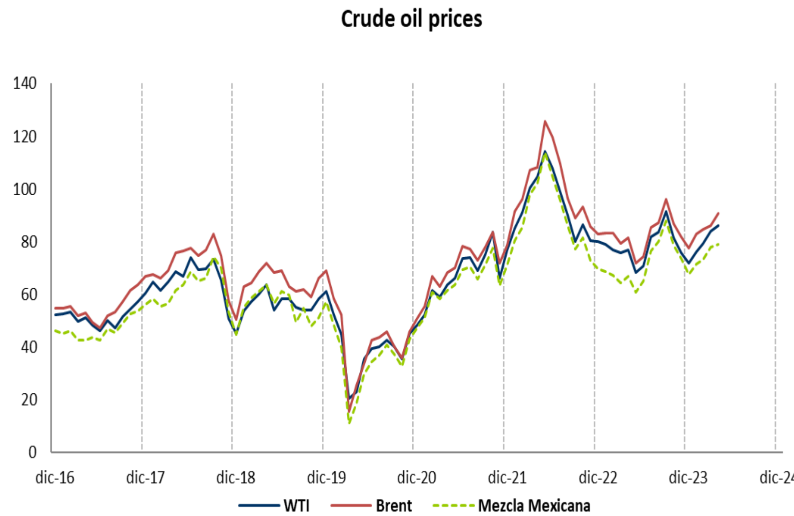
May 1 -15, 2024

Table of Contents

Fortnightly review

* 14/05/2024

MME US/BD*	73.50
MME US/BD* PEF SHCP	56.30
Dif. MME AVG. 2024 vs. MME PEF SHCP	17.10
NG price HH* US/MMBTU	2.40
Mx crude production MMbd – *March*	1.59
Mx NG production MMpcd – *March*	3,899
US crude production MMbd - *February*	13.15
FX Rate*	16.84



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

Oil & Gas - Mexico

Mexico weighs options to absorb $40 Billion of Pemex debt – *El Reforma*

Mexico is studying options to absorb as much as $40 billion in Pemex debt, the equivalent of what will come due in the next presidential term. The government is considering options that could include repurchasing bonds issued by the heavily indebted state oil firm Pemex or issuing sovereign debt to fund buyouts, Deputy Finance Minister Gabriel Yorio said. The plan would be gradual, to be exercised over the course of the next six years, and any significant operations would require legislative changes, he said at the meeting. Other potential paths include removing more taxes and moving to a policy of paying dividends.

Mexico's finance ministry to have bigger role in Pemex decisions, outgoing minister says – *S&P Global Platts*

Mexico's finance ministry will have a bigger say in the investment decisions of the state oil and gas company Pemex going forward, as the federal government continues with its restructuring, according to the outgoing minister. Support from the government or the lack of it have been at the center of the considerations from rating agencies like S&P Global Ratings in their analysis of Pemex.

Pemex has a total indebtedness of $106 billion as of December 31, 2023, 42.9% of which, or $45.5 billion, is scheduled to mature in the next three years, according to the 20-F report. The restructuring of Pemex has now come to a new level with the explicit support of the government. In 2024, the Mexican government decided to dedicate a specific budget of roughly $10 billion for the repayment of Pemex maturities for the first time in history, he noted. Going forward. This agenda will take a more concrete shape in the next stage of the restructuring.

Rodriguez de la O was recently invited publicly by Claudia Sheinbaum, the leading presidential candidate ahead of Mexico's upcoming general election, to remain in his position as head of the finance ministry. When asked about it during the May 7 meeting with bankers, De la O refused to comment. Since taking office in late 2018, President AMLO has injected roughly $56 billion into Pemex. Ramirez de la O said that the government would be more involved in addressing the company’s debt problems, building on the actions it has taken in recent years that have given the federal government a more explicit role in backing the company. He said that writing in transfers to Pemex for debt amortization payments in Mexico’s budget was the start of an “optimization” effort for the firm.

Pemex decreases deep water investments, bets on shallow waters – *Business Mexico News*

Pemex plans to reduce resources allocated to deepwater projects to concentrate on assets in shallow waters and onshore plays. Shallow water fields are an area in which Pemex has significant experience. This strategy seeks more accelerated production.

According to the 20-F report that Pemex submitted to the SEC, the company seeks to reallocate these resources as deepwater activities tend to be costly in the long term. The company hopes to generate short-term results in shallow waters and onshore fields. Pemex outlined plans to develop 40 fields in the current year, with a significant focus on shallow water assets. Of these, 20 fields have ongoing work initiated between 2019 and 2023, while five additional shallow water fields are slated to commence operations this year. Additionally, Pemex will dedicate attention to 11 onshore fields developed since 2019, with four more onshore assets scheduled to begin operations in 2024.

The company anticipates these efforts will yield substantial results, forecasting a production output of 570Mb/d of crude oil and 1.681Bcf/d of natural gas from the targeted fields in 2024.

Pemex aims to achieve a production objective of 1,859Mb/d, including condensates, and maintain gas production above 4.93MMboe. To meet these goals, the company plans to undertake exploration and development activities, bolster inventory reserves through new discoveries and reclassifications, and manage field production decline by prioritizing areas with proven expertise and historical success rates. By concentrating its exploration and production activities in areas with higher success rates, Pemex aims to optimize operations and enhance production efficiency.

13% of Pemex's extraction budget will be directed to Ku-Maloob-Zaap – *Global Energy*

Pemex announced that it will allocate more than 24 billion pesos for the extraction of hydrocarbons in the Ku-Maloob-Zaap complex, which is consolidated as the largest in the country in this area. This amount represents 13.3% of Pemex's total investment in Exploration and Production scheduled for this year.

According to the 20-F report presented by Pemex to SEC, the Ku-Maloob-Zaap complex represented 33.2% of the company's total oil production last year, reaching an average of 615.9 thousand barrels a day.

However, despite its importance, the Ku-Maloob-Zaap complex has experienced a decline in production. Since its peak in 2018, when it reached 874,731 barrels per day, its capacity has decreased by 28.5%. In concrete numbers, average production in 2023 was 615.9 thousand barrels per day. In addition, a similar amount of the extraction budget is allocated to five other prominent oil complexes in the country. These include Ek-Balam, Yaxché, the Veracruz Basin, Ogarrio-Sánchez Magallanes and Cantarell.

Pemex resumes payment of Shared Utility Rights (DUC) – *Bloomberg*

Pemex resumed its payment of DUC, transferring MX$22.661 billion to the Mexican Petroleum Fund (FMP) in March. Since August 2023, Pemex has experienced fluctuations in DUC payments, the primary components of oil income managed by the FMP. While the recent payments in March are a positive sign, they represent a 38.5% decrease compared to the same period in 2023.

In a departure from previous years, January 2024 saw the suspension of contributions from Pemex to the FMP, reflecting ongoing challenges in the oil sector. While support measures were announced by Deputy Minister of Finance, Gabriel Yorio, it was not until Jan. 24 that the Ministry of Finance officially extended the deadline for Pemex to fulfill its tax obligations without incurring fines.

Power/Renewable Energy – Mexico

CFE gets EUR-150m loan for floating solar project – *Renewables Now*

CFE has secured a EUR-150-million loan from French development agency AFD to finance Mexico's first floating solar project, the company said.

The project will increase renewable power generation by more than 120 MW, diversify CFE's generation fleet and offset lower hydro power production during drought periods. The project may use two sites as both northern parts of the states of Sinaloa and Coahuila are being considered as locations for the arrays. The projects are currently in the phase of feasibility-level engineering development.

AFD's loan has a term of 15 years and includes a two-year grace period. It is also associated with a grant of EUR 800,000 for technical cooperation to improve the planning, evaluation, and incorporation of renewable power plants into the Mexican grid. This work will be carried out by French power grid operator RTE and CFE's transmission subsidiary.

Mexico gears up for regulation on electricity storage – *Net Zero Circle*

CRE is gearing up to introduce a new energy storage regulation. According to Commissioner Ángel Jiménez, the proposed regulation will be made available for industry consultation in late May, with a vote and potential approval scheduled for June 2024. The regulation aims to address voltage and frequency issues, mandating that at least 30% of a power plant's installed capacity be available for energy storage.

Currently, only the Sol Insurgentes and La Toba solar parks, owned by Engie and Invenergy respectively, have implemented energy storage solutions in Mexico. Regarding the Puerto Peñasco photovoltaic plant operated by CFE, it will achieve 45% storage capacity. In developing the storage regulation, the CRE took insights from Chile’s regulatory approach. Additionally, the CRE is set to vote and likely approve a new electromobility regulation on May 29, following the conclusion of a consultation period exceeding 60 days.

Alongside the electromobility regulation, the CRE is also drafting a Mexican Official Standard for electromobility and plans to establish a working group to define electric charging tariffs. Companies operating electric chargers will need to regularize their operations. He also mentioned that most companies currently fail to comply with existing regulations that require notification of energy sales to end-users.

Oil & Gas - LATAM

Sapura Energy bags pipelaying contracts from Petrobras – *Rigzone*

Malaysia’s Sapura Energy Berhad joint venture companies have secured contracts from Petrobras to provide the services and charter of six pipe-laying support vessels (PLSVs).

The contracts are for a term of three years, beginning on different mobilization dates for each of the PLSVs, with the longest dated contract lasting up to 2028, Sapura Energy said in a bourse announcement. The total value of the contracts is $1.8 billion. The scope of work includes the provision of subsea engineering, installation and other services, by utilizing the PLSVs in Brazilian waters. Sapura Energy said the PLSVs will perform all operations required for the installation of flexible pipes, electric-hydraulic umbilical and power cables, new or used, such as loading, unloading, laying, connection between spans, vertical connection (first and second end) on submarine equipment, installation of submarine equipment and hydrostatic test, in a maximum water depth of 3,000 meters.

Ecopetrol eyeing bid for Canacol gas assets – *Bnamericas*

Ecopetrol could make a bid to acquire natural gas production assets belonging to Canadian operator Canacol, the former’s CEO, Ricardo Roa, said. The proposal forms part of wider plans by Ecopetrol and the government to allay fears of an impending natural gas deficit in the Andean nation.

In October, Fitch downgraded key ratings for Canacol and assigned a negative outlook after the cancellation of its Jobo-Medellín pipeline project and an associated contract with Empresas Públicas de Medellín (EPM). Canacol reported 2023 net income of US$86.2 million compared to US$147 million a year earlier.

Ecopetrol's plans to bolster gas supply also include the possibility of resuming piped imports from neighboring Venezuela. It estimated that Venezuelan state-oil company PDVSA could start delivering up to 50mn cubic feet per day via the 224km Antonio Ricaurte pipeline later this year or in early 2025. Roa said PDVSA would first need to invest US$35-40 million to repair and update the infrastructure, which has been out of use since 2015.

The other natural gas frontier for Ecopetrol is the company's slew of offshore projects spread across four basins in Colombia's Caribbean Sea. Among the most promising is the Uchuva area in the Petrobras-operated Tayrona block and the KGG block, a joint venture between Ecopetrol and Shell.

According to Ecopetrol's outgoing chief operating officer, Alberto Consuegra, the company will spud the first offshore well in its partnership with Occidental Petroleum in late 2024 or early 2025. The Bogotá-based firm is also undertaking a technical review of its 100% operated Orca Norte-1 well, which was drilled in February. Consuegra said the results of this analysis would likely be available by mid-year.

Petrobras records 38% drop in profits in Q1 2024 due to reduced sales – *Offshore Technology*

Petrobras announced a 38% decrease in its net recurring profit for the first quarter of 2024 compared with the previous year. Net recurring profit dropped to 23.9bn reais for the quarter ending in March, significantly below analysts' estimate of 30.2bn reais. The company attributed the results to a combination of factors including a worsened financial result due to exchange rate devaluation at the end of the period and a lower sales volume of oil and derivatives.

In the period, Petrobras recorded an operating cash flow of 46.5bn reais, while adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) stood at 60bn reais. The company reduced its financial debt by $1.1bn in the quarter, reaching $27.7bn, the lowest since 2010. The gross debt, including leases, remained controlled at $61.8bn. The company has approved a payout of 13.45bn reais in dividends and interest on equity to its shareholders, which is approximately 1.04 reais per common and non-voting share.

Oil, gas and byproducts sales totaled 2.7 million barrels of oil equivalent per day, a 3.7% decrease compared with the previous year. The variation can be attributed to several main factors including the increased production of the floating production storage and offloading units Almirante Barroso, P-71, Anna Nery, Anita Garibaldi and Sepetiba.

The company also said it began producing 19 new wells from complementary projects in the Campos (11) and Santos (8) basins.

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