Energy Fortnightly News

August 1 - 15, 2024

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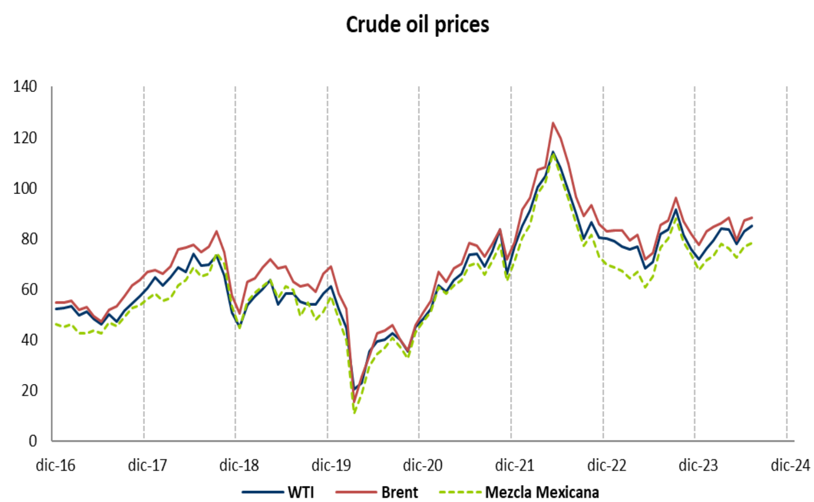
Fortnightly review

* 14/08/2024

*MME US/BD**	*71.70*
MME US/BD PEF SHCP*	*56.30*
Dif. MME AVG. 2024 vs. MME PEF SHCP	*17.22*
NG price HH US/MMBTU*	*2.24*
Mx crude production MMbd – June	*1.57*
Mx NG production MMpcd – June	*3,819*
US crude production MMbd - May	*13.17*
*FX Rate**	*18.84*



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

Oil & Gas - Mexico

Pemex strikes deal with driller to redevelop gulf oil fields – *Bloomberg*

Pemex reached an agreement with Mexico-based CME Oil and Gas to revive the Bacab and Lum fields, mature deposits that are part of the mammoth Ku-Maloob-Zaap play. CME and its subsidiaries OPEX Perforadora and Perforadora Profesional Akal I plan to extend well depths to boost production 10-fold to 40,000 barrels a day by 2028. Bacab and Lum are in roughly 60 meters of water, and output from each peaked more than a decade ago.

CME and its units are expected to invest around $1.65 billion over the next 15 years and assume all costs and risks of the drilling operations. The project is expected to ultimately pump the equivalent of 73.4 million barrels and revenues of $4.3 billion, with more than half the proceeds destined for government accounts, the people said. Pemex didn't respond to a request for comment. The deal is an example of how Pemex is seeking to farm out work on aging assets to private sector partners to redevelop fields after years of declining output.

Pemex to seek oil partnerships under new government – *Reuters*

Mexico's incoming government will encourage Pemex to seek equity partnerships with private oil companies, a model out of favor with the current president, in a bid to boost reserves amid towering debt. These partnerships would be similar to past Pemex joint ventures with private oil producers, also known as farm-outs, that Mexico pursued through an energy reform enacted a decade ago.

That reform allowed the oil regulator to approve private and foreign oil companies to partner with Pemex on E&P, a common practice in the international oil industry. President AMLO stymied that reform, however, canceling auctions for Pemex tie-ups as well as for private producers to win blocks and operate them on their own.

Neither Pemex nor Sheinbaum's team responded to requests for comment. Sheinbaum, a scientist who worked on climate issues, is expected to push for more renewable energy but it has been unclear what she plans to do with Pemex, which faces stagnating production, dwindling reserves and massive debt. Mexico, the 11th-largest oil producer, saw its proven oil reserves fall last year to 5.98 billion barrels from 6.12 billion barrels the year before, while crude production has declined to nearly 1.5 million barrels per day from a peak of 3.4 million bpd two decades ago. To help make Pemex more agile in finding partners, three sources said the new government plans to give the Pemex board decision-making powers over potential partners, removing the oil regulator CNH from the process.

Farm-out deals allow partners to share the risks and rewards of oil projects. The main current Pemex example is the Trion field, which two of the sources said the government was studying as a possible blueprint. Trion, an ultra-deep field in the Gulf of Mexico, is a partnership between Australia's Woodside Energy, opens new tab, with a 60% operating stake, and Pemex, which owns 40%. The project is expected to begin production in 2028. Pemex has debt of almost $100 billion, owes suppliers a further $20 billion and has about $3.6 billion in cash, leaving it little room for investment. The sources did not say whether partnerships with specific companies, or on specific fields, had been discussed. The current administration has favored contracts in which Pemex pays companies for their services but does not give them stakes in projects. One of the sources said Mexico's Hydrocarbons Law could also be amended to give more power to choose partners to Pemex's board.

Accidents at Deer Park, Olmeca refineries highlight ESG challenges at Pemex – *Bnamericas*

Two accidents at refineries owned by Pemex, one in Texas and the other in the Mexican state of Tabasco have highlighted the scale of the challenge that Mexico's national oil company faces as it tries to reassure its ESG-focused lenders. According to local media, a fire broke out in the naphtha reforming unit of the recently inaugurated Olmeca refinery in the port of Dos Bocas. The unit was shut down and no-one was injured.

Olmeca is currently running at around half its nameplate capacity and is gradually ramping up operations to its full processing capacity of 340,000b/d of crude. The naphtha plant was designed and delivered by Samsung Engineering. Deer Park refinery, which has been fully owned by Pemex since 2022 and which also has capacity of 340,000b/d, reported a diesel spill into the Houston shipping channel. In recent years, Pemex has reported serious accidents and fires across its upstream, midstream and downstream operations. In April, a Pemex employee died and several contractors were injured after a fire broke out at the Akal-B offshore platform in the Gulf of Mexico.

Regular accidents and environmental incidents have alarmed lenders who are focused on ESG criteria. Pemex has financial debt of around US$100 billion and could face higher financing costs if it does not improve its ESG performance.

Salina Cruz coking plant delayed – *Mexico Business News*

Pemex has confirmed that the coking plant at the Salina Cruz refinery in Oaxaca will not be completed during president AMLO's term. According to its director, Octavio Romero, the project will reach 68% completion.

The plant, designed to produce 75Mb/d and reduce fuel oil production by 84%, could potentially turn Mexico into a gasoline exporter. However, despite the government's efforts to achieve fuel self-sufficiency, the project will not be finished before Sept. 30, 2024. In May 2023, Reinaldo Wences, Deputy Director, Pemex Industrial Transformation, predicted that the plant would be operational by 2025. However, Pemex is facing delays in key projects, including the coking plants in Salina Cruz and Tula. One of the key objectives of the rehabilitation of the National Refinery System, particularly the construction of the coking plants in Tula and Salina Cruz, is to reduce the production of fuel oil, which is used for electricity generation but is highly polluting.

CNH approves Pemex Ocuapan-401EXP drilling well – *CNH*

CNH has approved a request from Pemex to drill the onshore Ocuapan-401EXP well. This project is in the state of Tabasco and is part of the Incremental Scenario of the Exploration Plan for the AE-0143-3M-Comalcalco assignment. The prospective resources are estimated at 5.8MMboe, with a 58% probability of geological success. The drilling and completion program is designed to last 189 days. The drilling phase is expected to take 147 days, from Dec. 10, 2024, to May 5, 2025, while the completion phase will take 42 days, from May 6 to June 16, 2025. The total estimated cost of the project is US $53.6 million, with US$46.2 million allocated for drilling and US$7.4 million for the completion of the well.

Pemex begins production at Olmeca refinery at half capacity – *Bnamericas*

Pemex launched operations at the Olmeca refinery in Tabasco state on August 3. Initially the facility will process 170,000b/d of crude and produce 87,500b/d of gasoline and 65,000b/d of ultra-low-sulfur diesel.

Located in the port of Dos Bocas, at full production the new refinery will process 340,000b/d of crude oil and produce 175,000b/d of gasoline and 130,000b/d of ultra-low-sulfur diesel. The project has been plagued by cost overruns and delays. Construction eventually cost US $16.8 bn, Pemex CEO Octavio Romero Oropeza. That is double the initial estimate of US $8bn. Along with the construction of the Olmeca refinery, Pemex is increasing the capacity of existing refineries. A coking plant in the Tula refinery will begin operations in September, producing 41,000b/d of diesel and gasoline, and will reach full capacity in 1Q25. At the Salina Cruz refinery, a 75,000b/d coking plant will be 68% completed by September. As a result of the company's downstream investments, Pemex said that Mexico's fuel imports will fall to 20,000b/d in 1Q25 and virtually fulfil López Obrador's goal of self-sufficiency.

Power/Renewable Energy – Mexico

Mexico's Sheinbaum taps first woman to lead state power firm CFE – *Reuters*

Mexican President-elect Claudia Sheinbaum named Emilia Esther Calleja to lead state power firm CFE, making her the first woman to hold the post. Calleja has held a number of posts at the power company over the past two decades and adds to the contingent of technocrats that Sheinbaum has named to her cabinet ahead of taking office on Oct. 1.

Calleja, said she would continue working in line with the aims of the current government, which sought to boost state control over the country's energy sector. The power policy of President AMLO has been severely criticized by the opposition who argue it has been expensive and ineffective, resulting in a lack of new power generation particularly in regards to renewable sources. Mexico suffered occasional power blackouts amid record temperatures this year. Sheinbaum said she would later share more details about her administration's energy plans, including hydrocarbons and renewable power sources.

CFE Secures MX$600 million in Short-Term Bonds – *Mexico Business News*

CFE announced the issuance of MX$600 million (US$35.29 million) in Short-Term Debt Certificates. The funds raised will finance short-term working capital needs and replace bank loans with less favorable conditions.

This issuance was divided into two tranches: one for MX$148.4 million with a 28-day maturity, a demand 3.2 times the assigned amount, and a yield of 11.25%, and another for MX$451.6 million with an 84-day maturity, a demand 3.7 times the assigned amount, and a yield of 11.29%, slightly below the 91-day TIIE. The placement intermediaries were Banorte, BBVA, and Scotiabank, with the latter acting as Coordinator, supported by Casa de Bolsa Intercam.

CFE invests MX$333 bn in power generation, infrastructure – *Forbes Mexico*

CFE and the government have invested approximately MX$333 billion throughout the current administration, with an annual average of MX$55.5 billion. These investments have funded the development of 35 generation projects, the acquisition of 13 former Iberdrola plants, and the financing of 60 transmission projects and 41 distribution projects.

In 2023, five transmission projects were completed with a total investment of MX$321 million. Additionally, 26 works were carried out, with an investment of MX$14.5 billion. Regarding distribution, 17 projects were completed during the same period with an investment exceeding MX$1.133 billion. Progress was also made on other projects with planned investments of over MX$4.7 billion. Currently, the generation system has a total capacity of 87,275MW, of which approximately 59% is used, equivalent to 51,406MW, according to CFE. The company clarified that it continues to strengthen its electrical infrastructure, including its generation facilities and transmission and distribution lines.

IMCO highlights that electricity demand will continue to grow, stressing the need for the new government to sustainably increase generation capacity without straining public finances. The institute argues that addressing this issue is crucial for welfare, competitiveness, development, environmental protection, and national security. IMCO recommends ensuring regulatory independence, allowing CFE to collaborate with private companies on generation projects, and strengthening state energy agencies to boost local investment in electricity generation, as reported by MBN.

Claudia Sheinbaum, from the outset of her political campaign and through the Shared Prosperity plan, has announced an investment of MX$55.4 billion for transmission projects through 2025. This investment will take place between October 2024 and December 2025, with the aim of completing 44 projects to strengthen transmission lines, resulting in an additional capacity of 8,548MVA.

Similarly, Oliver Probst, Researcher, Tecnológico de Monterrey, mentions that between 2024 and 2026, CFE is expected to add 8,392MW of new capacity, covering both fossil and renewable sources. Of this total, however, 7,699MW will come from fossil sources, while only 693 MW will be from clean energy. In contrast, the private sector is anticipated to add 3,581MW of new renewable capacity, with minimal increases in fossil capacity.

Oil & Gas - LATAM

Halliburton secures plug and abandonment contract offshore Brazil from Petrobras – *Halliburton Press Release*

Halliburton announced it has been awarded a contract by Petrobras to provide a full range of services in Brazil for integrated well interventions and plug and abandonment for offshore wells. This multi-year contract is set to begin in the second quarter of 2025.

Under the agreement's terms, Halliburton will provide a wide range of services to include fluids, completion equipment, wireline, slickline, flowback services, and coiled tubing. We will integrate and coordinate these services through Halliburton's project management service line to ensure efficient and effective execution. This contract, which covers nearly two-thirds of all interventions and plug and abandonment work for Petrobras, reinforces Halliburton's strategic position in the Brazilian market.

Crown Point buys oil assets in Argentina – *Crown Point Press Release*

Crown Point Energy Inc. announce that its wholly-owned subsidiary, Crown Point Energia S.A., has entered into an asset sale and purchase agreement (with Pan American Energy, an arm's length party, to acquire all of Seller's right, title and interest in the Piedra Clavada and Koluel Kaike hydrocarbons exploitation concessions.

The Company will acquire from the Seller a 100% operating interest in Piedra Clavada and Koluel Kaike blocks located in the Santa Cruz Province, on the southern flank of Golfo San Jorge basin, approximately 200 km southwest of Comodoro Rivadavia.

This acquisition represents an excellent opportunity for the Company to acquire a 100% operated interest in already producing oil assets in Argentina and with an average daily production level of 3,500 bbl/d during the three-month period ended December 31, 2023. The Santa Cruz Concessions, comprising a total of 71,593 acres, will include Company owned extensive infrastructure in place capable of handling larger than current production volumes.

The purchase price payable by Crown Point to the Seller is US$12,000,000 cash base consideration, subject to customary closing adjustments, plus certain contingent in-kind consideration that is payable throughout a fifteen-year period following the closing date. With respect to the in-kind consideration, Crown Point will deliver to the Seller a monthly quantity of oil produced from the Santa Cruz Concessions that may range from zero up to 600 bbl/d, subject to the oil market price so determined for each month. Crown Point intends to fund the base cash portion of the purchase price using its existing cash resources, operating cash flows, and by completing a debt and/or equity financing prior to closing of the acquisition.

Completion of the acquisition is subject to, among other things, the receipt of all necessary regulatory and Provincial approvals, including the approval of the TSX Venture Exchange ("TSXV"), and other customary closing conditions. Completion of the acquisition is not subject to approval by the Company's shareholders. The acquisition is expected to close in April 2024.

Petrobras Uchuva-2 well confirms major gas discovery – *Petrobras Press Release*

Petrobras has confirmed a natural gas discovery in the Uchuva-2 well in the Tayrona block offshore Colombia. Located 31km off the coast and at a water depth of 804m, the Uchuva-2 well was spudded in June 2024. The new discovery has been achieved as an extent of the natural gas discovery made in 2022 with the drilling of the Uchuva-1 well.

Currently, drilling is progressing with the five-phase programme. The gas-bearing interval was verified at phase 4 through wireline logging. The consortium, constituted by Petrobras as operator, in partnership with Ecopetrol will continue operations to complete the project to drill the well to the expected depth and characterize the conditions of the reservoirs found, with the prediction of carrying out a formation test by the end of 2024.

Petrobras' operations in the Tayrona Block are in line with the company's long-term strategy, aimed at replenishing oil and gas reserves through the exploration of new frontiers and acting in partnership, ensuring that global energy demand is met during the energy transition. The Brazilian company intends to continue operations to complete the project to drill the well to the expected depth and characterizing the conditions of the reservoirs found. A formation test is expected to be carried out by the end of this year. According to Petrobras, the Uchuva-2 offshore well contributes the necessary data required for the development of a new frontier of exploration and production in Colombia.

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