Energy Fortnightly News

August 15 - 31, 2024

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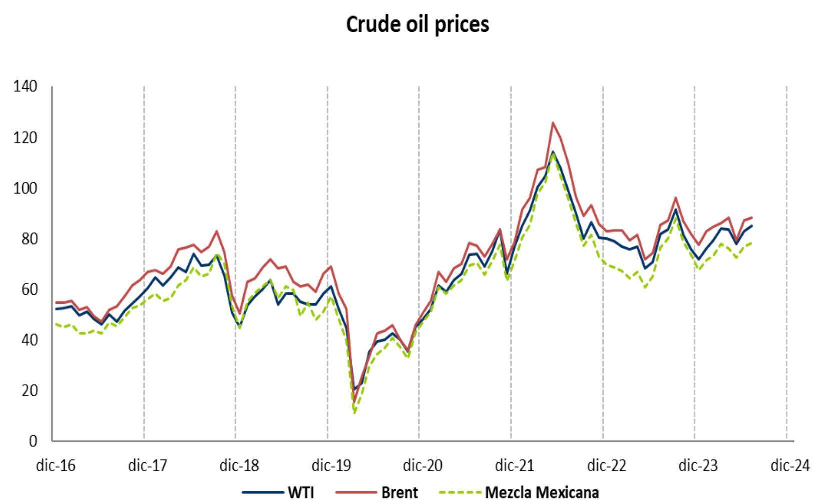
Fortnightly review

* 29/08/2024

MME US/BD*	71.04
MME US/BD* PEF SHCP	56.30
Dif. MME AVG. 2024 vs. MME PEF SHCP	17.22
NG price HH* US/MMBTU	2.14
Mx crude production MMbd – July	1.56
Mx NG production MMpcd – July	3,692
US crude production MMbd - May	13.17
FX Rate*	19.81



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

Oil & Gas - Mexico

Mexico's Sheinbaum appoints veteran energy economist as Pemex CEO in effort to revive oil and gas production – *Bloomberg*

Mexico's President-elect Claudia Sheinbaum appointed energy economist Victor Rodriguez Padilla to lead state-owned oil driller and refiner Pemex as her administration looks to revive the company's flagging production and trim its nearly $100 billion debt burden.

Sheinbaum tapped Rodriguez, a professor at the National Autonomous University of Mexico, for the job to boost Pemex's profitability and rescue the company from ballooning debt and recurring accidents as she seeks to jump-start Mexico's green energy transition. "He has 42 years of experience in the energy sector and of course he's been a defender of the energy companies of the nation," Sheinbaum said when she announced the appointment during a news conference.

Rodriguez will face the gargantuan task of turning around production that has slumped to about half its peak 20 years ago. The company's debt burden stands at about $99.4 billion, making it the world's most indebted oil producer. It's been saddled with deadly fires, oil spills and methane leaks in recent years as its infrastructure crumbles. It relies heavily on government handouts to stay afloat. "Pemex is not a dead company — nor is it as bad as they think," Rodriguez said during the news conference. "We need to maintain the energy base of the economy, which continues to be oil and gas, while we carry out the energy transition." Mexico will maintain crude production at around 1.8 MMbpd, but all new energy demand will be met through renewable sources, Rodriguez said. It's a goal that Sheinbaum, an environmental engineer, repeatedly touted during her campaign.

“Pemex is not going to limit itself to making oil and gas condensate as it has always done,” Rodriguez said. “We will have to make a big effort to develop renewable sources of energy of all kinds, and Pemex will have a fundamental role.” He cited solar and offshore wind power energy as potential options. Rodriguez, who has co-authored several academic and opinion articles with Sheinbaum, holds a doctorate in energy economics from Pierre Mendès-France University. He has spent the majority of his career at National Autonomous University of Mexico, where he received degrees in physics and engineering.

Returning Pemex to profitability will be a monumental task. Last quarter, the company posted its worst loss since the global pandemic emerged more than four years ago, mostly due to a slide in the value of the peso in recent months. To stay afloat, the company has relied on government handouts. President AMLO has showered it with capital injections and tax relief totaling as much as $80 billion, though the infusions have done little to improve oil output.

Pemex is also facing billions in late payments to service providers. Repeat accidents in recent years have led many investors concerned with environmental, social and governance metrics to flee. Rodriguez will take the helm when Sheinbaum assumes office Oct. 1. Pemex’s outgoing CEO, Octavio Romero, will remain in the government, Sheinbaum said, without specifying his role.

Another major question is how Pemex will work with the private sector to turn around production, such as the company’s recent deal to farm out some of its offshore production to private drillers. Sheinbaum has vowed to keep state-owned enterprises at the center of Mexico’s energy sector, echoing a position taken by AMLO. Sheinbaum has also said she expects to refinance the company’s bonds before large maturities come due in 2025. The company has more than $7 billion in bonds maturing next year.

Tim Duncan steps down as president and CEO of Talos Energy – *Oil and Gas Magazine*

Talos Energy announced that Tim Duncan has stepped down from his role as President and CEO, effective August 29, 2024.

Joseph Mills, who has served on the Company's Board since March, 2024, will serve as interim President and CEO until a successor is in place. The Company's Board of Directors has initiated a search for a successor in partnership with a leading executive search firm. Mills has over 42 years of experience in all facets of the oil and gas energy business. Mills serves as the CEO of Samson Resources, a position he has held since March 2017. Prior to joining Samson Resources, Mills served in various leadership roles, including Chairman and Chief Executive Officer positions for several public and private oil and gas companies including El Paso Energy, Sonat Exploration, Black Stone Minerals and Montierra Minerals & Production.

Talos reaffirms its third quarter 2024 production guidance and operational and financial guidance for the full year 2024. As previously reported, for the third quarter 2024, Talos expects average daily production of 92.0 - 97.0 thousand barrels of oil equivalent per day.

Mexico's LNG projects face decisive moment as developers hold back on investment decisions – *Bnamericas*

Mexico's goal to become the fourth largest LNG exporter is encountering obstacles due to financial and political challenges. Major LNG projects—importing US shale gas, liquefying it on Mexico's Pacific coast, and exporting to Asia—are delayed. Issues include the Biden administration's halt on LNG export permits to non-FTA countries and expiring US Department of Energy approvals. Additionally, with President-elect Claudia Sheinbaum's incoming administration, Mexico's state utility CFE may prioritize using natural gas for domestic industries and power plants over exporting it.

Mexico's major LNG project, the $14 billion Saguaro Energía plant in Puerto Libertad, Sonora, developed by Mexico Pacific, has missed its target for making a final investment decision (FID) this year due to permitting uncertainties. Despite having offtake agreements with major energy firms like ConocoPhillips and Shell, the project's non-FTA permit will expire in December 2025. Additionally, Sempra has postponed the start of commercial operations at its Energía Costa Azul plant in Baja California from summer 2025 to spring 2026. The delay will add another US$300mn to the cost of the project, which was initially estimated at around US $2bn.

The Amigo export facility being developed by the Singapore-based LNG Alliance at the port of Guaymas in Sonora has also appeared to hit a hurdle. An FID that was expected in July has not yet materialized. The Amigo project, which has a non-FTA permit from the DoE that expires in 2027, will export 4.2Mt/y of LNG from a first train, with potential to add a second train of 3.6Mt/y. Amigo had originally expected to send its first LNG shipment to Asia in 2Q26 but it now seems unlikely to meet the DoE's deadline.

In May, Houston-based Big River Energy and its Mexican partners sought approval from the DoE to export LNG to FTA countries from a proposed 4Mt/y plant in Manzanillo. The project, Gato Negro Permitium Uno, began the Mexican permitting process in June 2022. The developers say that as well as exporting LNG they may sell some natural gas for consumption within Mexico. The Gato Negro project appears to be delayed. The developers originally applied for a 20-year authorization from the DoE, effective from an expected launch of commercial operations in September 2027. In a supplemental filing in August, they requested that approval be "effective on the date of first exportation under this authorization, and terminate on December 31, 2050."

Elsewhere, Houston-based energy companies Pilot LNG and GFI LNG are teaming up to develop an LNG terminal in the Salina Cruz in Oaxaca State. The small-scale Salina Cruz LNG joint venture will produce 0.34Mt/y of LNG. An FID is expected in the second half of 2025 and operations will start in mid-to-late 2027.

Another LNG project focused on regional markets is the 1.4Mt/y offshore LNG terminal in the Gulf of Mexico that US energy firm New Fortress Energy commissioned in July. Located offshore Altamira, the terminal has made its first delivery of LNG to a power plant operated by CFE. It will also send shipments to markets such as Puerto Rico. NFE has closed a US$700mn loan for a second LNG terminal, which will be located onshore at Altamira. The onshore terminal will be developed in partnership with CFE.

Pemex gets approval to up investment in deepwater field Lakach by $400 million – *CNH*

CNH approved Pemex plan to expand the natural gas project in the Lakach deep water field, with an additional investment of just over US$400 million. This approval increases the total investment plan for Lakach to US$2.218 billion for the period from 2024 to 2041, including US$1.667 billion earmarked for investments and US$551 million for operational expenses.

The Lakach field, discovered in 2007, is a potential gateway to a new deepwater gas frontier in Mexico. However, it has faced multiple setbacks over the years, including being shelved twice, most recently after the collapse of an agreement with US Company New Fortress Energy in late 2023 due to disagreements over gas pricing. The updated plan for Lakach includes the recovery and completion of wells, management of production, and commercialization of hydrocarbons. A significant change in the strategy involves constructing gas pipelines to transport gas to land, replacing the previous plan to use ships for liquefaction and transport. CNH's approval also extends the project timeline, moving the production deadline from 2025 to 2026.

Under the modified plan, Lakach is expected to recover 3.17MMb of condensate and 847.9Bcf of gas. The project will maintain a maximum production platform of 200MMcf of gas for eight years, with a final gas recovery factor of 77%. In addition to Pemex's efforts, Grupo Carso, has signed an exploration and extraction services contract with Pemex, committing US $1.2 billion in investment.

Mexico wins ICSID arbitration in Oro Negro case – *Expansión*

Mexico won an international arbitration case against oil services company Oro Negro. On August 19, 2024, the International Centre for Settlement of Investment Disputes (ICSID) tribunal ruled in Mexico's favor, rejecting claims from investors who sought $270 million in damages.

The arbitration, initiated in 2018, centered on claims made by investors in Integradora de Servicios Petroleros Oro Negro, a company that rented offshore oil rigs to Pemex between 2013 and 2017. The investors alleged that Mexico had violated the NAFTA by mistreating their investments.

The tribunal ruled in favor of Mexico, finding it lacked jurisdiction. The plaintiffs were ordered to pay Mexico approximately $400,000 for arbitration costs. This decision is a key precedent in investment arbitration, particularly concerning the rights of dual nationals. Mexico was represented by the Directorate General of International Trade Legal Consulting from the Ministry of Economy, with support from Pillsbury Winthrop Shaw Pittman LLP and Tereposky & DeRose LLP, and received institutional backing from Pemex.

Hokchi gets green light for development of Xaxamani field – *CNH*

CNH has approved Hokchi Energy's US$3 billion development plan for the Xaxamani oil and gas field, located in the shallow waters of the Salina basin offshore Veracruz, Mexico. Hokchi's plan includes investing US $1.1 billion in development and US $1.9 billion in operations through 2048.

Production is expected to begin in 2028, with peak output forecasted for 2030 at 18,400 barrels per day of crude oil and 3.9 million cubic feet per day of natural gas. The project will involve drilling 15 wells, constructing four platforms, and laying eight pipelines. The operator will load crude oil directly from the FPSO onto tankers, while the natural gas will be sent to an existing onshore facility and sold to Pemex, Mexico's national oil company.

By 2048, when Hokchi's operating contract expires, the Xaxamani field will have produced 97.8 million barrels of oil and 20.3bn cubic feet of gas. Hokchi Energy is a subsidiary of Argentine firm Pan American Energy. It is the operator of the Hokchi field off the coast of Tabasco state, where it produces 27,000boe/d, making it one of the largest privately operated fields in Mexico. The company is currently embroiled in a legal dispute with debt-laden Pemex over the NOC's alleged failure to pay for Hokchi's oil and gas output.

Citi and Deutsche Bank help Pemex to pay outstanding bills to SLB – *El Financiero*

Citigroup and Deutsche Bank have provided financing to Pemex, to help pay outstanding bills to SLB. In effect, SLB has effectively guaranteed against a Pemex default on the loan by issuing more than $1 billion of credit-default swaps to the two banks. U.S.- based SLB disclosed the swaps in US federal filings- $550 million in July and $560 million in January, but did not disclose the names of the banks.

Citigroup and Deutsche Bank’s roles in the transactions have not been previously reported. Oilfield rivals Halliburton and Baker Hughes have disclosed similar swaps with unnamed financial institutions to cover loans to Pemex over the same period. The financial arrangements mark the latest moves by major oilfield contractors to get paid for work already performed for Pemex. In October, SLB said unpaid bills owed by its largest customer in Mexico had jumped 20% in three months to $1.2 billion. Oil explorers typically do not own drilling rigs or seismic gear, so they rely on oilfield contractors to perform the manual work of finding and extracting crude. As of the end of July, Pemex owed suppliers about 126.4 billion pesos ($6.7 billion), inclusive of projects and materials pending invoice, according to the latest company figures.

Sheinbaum to define extent of private participation in the sector – *Mexico Business News*

President-elect Claudia Sheinbaum shared with the Mexican Association of Hydrocarbon Companies (AMEXHI) her stance PPPs, saying that they will not be part of her energy policy. Nonetheless, she mentioned that her administration will be open to private investment in the oil and gas sector, although denying a return to Enrique Peña Nieto's energy model, which, in her view, “favored private companies at the expense of the State.” AMEXHI considers that relaunching bidding rounds and opening to private participation could generate budgetary benefits of nearly US$160 billion. Alberto de la Fuente, President, AMEXHI, emphasizes that ensuring a reliable electricity supply is paramount to maintain competitiveness in the Mexican industry and capitalize on the opportunities offered by nearshoring. Although Sheinbaum dismissed the PPPs model, she assured that she will explore other mechanisms of collaboration with the private sector.

State-favoring policies could also jeopardize USMCA negotiations and hinder economic competition in Mexico. Legal uncertainty could directly conflict with USMCA’s Chapter 32, in which the signatory parties commit to refrain from signing free trade agreements with non-market economies. If Mexico’s institutional degradation reaches the point where it could be classified as a non-market or emerging non-market economy, its partners could have grounds to withdraw from the treaty and impose tariffs under WTO rules.

Government announces new fertilizer plant in Poza Rica – *Mexico Business News*

President AMLO, announced that on Oct. 1, construction will begin for a new fertilizer plant in Poza Rica, Veracruz. The project will be a collaboration between Pemex and Mota-Engil. AMLO highlighted that this development is part of his administration’s efforts to revitalize the country's petrochemical industry, which has seen a decline in productive capacity over the past decades.

The plant is projected to achieve an annual production surpassing 700,000t. This volume represents 131% of the ammonia production that Pemex aims to achieve in its petrochemical complexes in 2024, which currently stands at 533,000t. Mota-Engil emphasized that the project will promote sustainable environmental solutions by reducing the emissions of polluting gases into the atmosphere, which involves incorporating AdBlue into fuels. AdBlue is an additive used in diesel vehicles, prepared from a solution of urea and water. This substance aims to reduce the nitrogen oxide emissions from vehicles equipped with a Selective Catalytic Reduction system. The use of AdBlue can reduce harmful emissions released by a diesel vehicle during combustion by up to 90%.

In addition to the Poza Rica plant, the fertilizer industry has been active over the past year, as part of Lopez Obrador’s plan of boosting the petrochemical sector and reducing fertilizer prices domestically. Increasing fertilizer production is also part of Claudia Sheinbaum Agenda for the next term.

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. 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.

Oil & Gas - LATAM

Colombia's Ecopetrol Q2 net profit falls 17.4% to $830.9 mn – *Reuters*

Colombia's majority state-owned oil company Ecopetrol, reported a 17% fall in second-quarter net profit, citing market conditions. Ecopetrol's net profit for the three months to June 30 stood at 3.38 trillion pesos ($830.9 million). First-half net profit fell 24% to 7.39 trillion pesos, versus 9.75 trillion pesos in the first six months of 2023. Ecopetrol faced a challenging environment, which remains impacted by various outside variables, such as the revaluation of the Colombian peso and inflationary pressures," Chief Executive Ricardo Roa said.

Helix bags 3-year contracts with Petrobras for well intervention vessels – *Rigzone*

Helix Energy Solutions has secured new three-year vessel charter and service contracts Petrobras for the riser-based well intervention vessels Siem Helix 1 and Siem Helix 2 working offshore Brazil.

The new three-year contracts are valued in aggregate at an estimated $786 million, in accordance with Petrobras' estimated value. The Siem Helix 1 and Siem Helix 2 are purpose-built, advanced well intervention vessels capable of performing a wide range of subsea services including production enhancement, well decommissioning, subsea installation, offshore crane and Remotely Operated Vehicle operations, offshore construction, and emergency response. Each contract includes an additional three-year option.

Siem Helix 2 has been performing riser-based well intervention activities for Petrobras in the Santos and Campos Basins since 2017, and to date has completed more than 100 well interventions. Siem Helix 1 previously worked for Petrobras from April 2017 to July 2021, completing 74 well interventions in the Santos and Campos Basins.

Petrobras eyes Argentina deals to boost energy imports – *Bloomberg*

Petrobras is hunting for shale gas deals in Argentina as part of a bigger plan to increase supplies of the fuel to spur industrial growth. Assets in which Petrobras is looking to acquire a stake include those of Tecpetrol, a unit of billionaire Paolo Rocca's Techint Group, said the people, who asked not to be identified because the matter is confidential. Petrobras said in a response to questions that it's looking to generate value and restore oil and natural gas reserves through opportunities in Brazil as well as abroad, which it outlined in its five-year strategic plan. Tecpetrol declined to comment.

Petrobras is looking to expand internationally, with a particular focus on oil and gas projects in Latin America and off Africa's Atlantic coast, instead of limiting itself to deepwater fields in Brazil. The strategy is a source of controversy within a government that also vows to prioritize its environmental agenda, including attempts to foster a green transition of Brazil's economy. Other major gas producers in Argentina's heralded Vaca Muerta shale patch are state-run YPF, TotalEnergies SE, Pampa Energia, and Pan American Energy Group, which is 50% owned by BP.

Petrobras, which retained a 34% stake in the Rio Neuquen shale gas field after divesting its Argentine assets, aims to be involved in gas production rather than just import it. With new developments in Vaca Muerta, Argentina could start exporting gas to Brazil next year. Plans include reversing a major pipeline so that Vaca Muerta drillers can send surplus fuel to São Paulo via Bolivia, despite Bolivia's declining gas output. In August, Argentina pre-authorized Tecpetrol and TotalEnergies to export gas to Brazil, according to the province of Neuquen, which holds the largest share of Argentine shale reserves. Government officials and industry executives are toying with the idea of also extending another pipeline network to be able to send gas directly into southern Brazil, avoiding a circuitous route through Bolivia.

Petroperú asks the government to evaluate the possibility of bankruptcy – *El Economista*

Petroperú's internal crisis has reached a critical point, leading the company's board to urge the government to provide clear responses regarding the proposed solutions for its complex financial situation. These proposals include injecting capital, declaring bankruptcy and/or liquidation of the company, or initiating a restructuring.

Regarding the first option, the board stated that if capital is injected, it would be unrealistic to expect or guarantee credible organizational changes aimed at improving efficiency. The members emphasized that "it would be irresponsible and immoral to request additional state funding" without the company committing to significant reforms. The second option involves accepting bankruptcy and/or liquidation, along with the associated legal and financial obligations. Lastly, the board suggests a deep restructuring of Petroperú, requiring government capital and organizational efficiency measures with international firm support. After stabilization, the focus would shift to attracting private investment. This option carries institutional risks and should be backed by a strong legal framework.

This is a newsletter industry update courtesy of Marcos y Asociados Consultoría Energética, SAPI de CV.
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