### Table of Contents

This month in review .................................................................................................................................................. 3

Oil & Gas - Mexico .................................................................................................................................................. 3
- Mexico's Pemex swings to $61 million profit in third quarter – Reuters, Pemex .............. 3
- BHP to reevaluate commercial viability of Trion field – CNH ...................................................... 3
- Pemex places bond to refinance debt, gets strong demand – Reuters ................................ 4
- Premier Oil merges with Chrysaor Holdings – Premier Oil Press Release .......................... 4
- IEnova expects Mexican export permit for Costa Azul LNG this year – Reuters ................ 4
- Mexico’s Dos Bocas refinery facing USD $0.9bn budget overrun – Bnamericas .............. 5
- Salina Cruz LNG export project said unfeasible under current conditions – NGI ............ 5

Oil & Gas - LATAM ................................................................................................................................................. 6
- Exmar wins USD $150 million FLNG settlement – America Economía ................................. 6
- Argentina’s launches NG production stimulus plan from Vaca Muerta – NGI ................. 6
- Shell target Argentina’s Vaca Muerta for oil export growth – S&P Global .................... 6
- Oceaneering awarded services contract from Petrobras in Brazil – Oceaneering Press Release ........................................................................................................................................... 7
- Colombia oil auction has 16 companies qualified to bid – Reuters ................................ 7
- Equinor to drill three production wells in Brazil in 2021 – Bnamericas ............................ 7
• Foreign-backed consortium in talks for Petrobras gas fields in Brazil – Reuters ........8

Power/Renewable Energy – Mexico ..............................................................................................................8
• New legal setback for Mexico’s energy policy – El Financiero .................................................................8
• US legislators plead for change in Mexican energy policy – Business Mexico News ......................9
• Iberdrola suspends Mexico investments until regulatory uncertainty clears – Bnamericas .. 9
• Mexico plans to alter dispatch priority to favor public hydros – Bnamericas ................................. 9
This month in review

* 28/10/2020    **28/10/2020

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil price MME</td>
<td>36.2</td>
</tr>
<tr>
<td>US/BD</td>
<td></td>
</tr>
<tr>
<td>NG price HH*</td>
<td>3.3</td>
</tr>
<tr>
<td>US/MMBTU</td>
<td></td>
</tr>
<tr>
<td>Mx crude production</td>
<td>1.64</td>
</tr>
<tr>
<td>MMbd - September</td>
<td></td>
</tr>
<tr>
<td>Mx NG production</td>
<td>4,915</td>
</tr>
<tr>
<td>MMpcd - September</td>
<td></td>
</tr>
<tr>
<td>US crude production</td>
<td>10.98</td>
</tr>
<tr>
<td>MMbd - July</td>
<td></td>
</tr>
<tr>
<td>FX Rate**</td>
<td>21.16</td>
</tr>
</tbody>
</table>

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

For daily prices and other news, visit our NEW website [www.marcos.com.mx/](http://www.marcos.com.mx/)

**Oil & Gas - Mexico**

**Mexico's Pemex swings to $61 million profit in third quarter – Reuters, Pemex**

Pemex reported a third quarter net profit of $1.417 billion pesos (USD $61 million), reversing losses from the same quarter last year, the company said in a filing to the Mexican stock exchange. The swing to profit was attributed mostly to the performance of financial instruments as well as currency gains during the quarter. In the third quarter last year, Pemex posted a loss of $87.36 billion pesos.

Revenue at Pemex totaled $239 billion pesos during the July-to-September period, down by nearly a third compared to the $350 billion pesos reported during the same quarter last year. Pemex produced an average 1.66mn b/d of crude in the third quarter of this year, down against the 1.69mn b/d in the prior-year period. Pemex operated 6,789 wells, down by 658 wells from the prior-year period. Pemex drilled 36 production wells and five exploration wells during the quarter. Operating drilling rigs during the quarter averaged 48, down by 29 from the prior-year period.

Pemex’s total financial debt both short-term and long-term has grown 24.9%t thus far this year to $107.8 billion mainly drew to the drawn amounts from the credit facilities and the depreciation of the Mexican peso.

**BHP to reevaluate commercial viability of Trion field – CNH**

CNH has approved a request by Australia’s BHP to modify its evaluation plan for the Trión deepwater block off the coast of Tamaulipas state. The modification will add studies to the evaluation phase to establish the commercial viability of the project.

BHP would also reevaluate the technical and financial capacity of the project’s subcontractors and add a 3D study that could improve the quality of the seismic image to better assess the discovery’s potential. Under
a second scenario, BHP would carry out more detailed studies and begin designing the superficial installations that would allow it to move forward with production later. For this second scenario, BHP would have to secure an extension of its field evaluation rights since the current agreement is valid until the end of February 2021. That would extend the verdict by the company on the commercial viability of the project until 2022. An initial request for such an extension was denied by CNH on the grounds that the company could not prove that the conditions prompting a timetable extension were outside its responsibility. The commission said that BHP could now make a new request.

The Trión field was discovered by Pemex in 2012 and is estimated to contain 222Mboe. BHP won its 60% participation in the country’s first deepwater round in 2016. The project is a farmout between Pemex and BHP, with the former having a 40% interest. BHP drilled the Trión-2DEL exploration well in 2018. A second Trión-3DEL well was drilled last year. Under the base scenario, the company expects to invest USD $114 million this year and at the beginning of 2021, while the contingent scenario would increase that amount to USD $710 million between 2020 and 2022.

Pemex places bond to refinance debt, gets strong demand – Reuters
Pemex placed a USD $1.5 billion bond to refinance debt, with bids more than six times oversubscribed, the first such operation since it lost its investment grade rating. Total bids for the five-year bond, which carried a 6.875% coupon, were around USD $10 billion. The placement is 100% refinancing, it will not be new debt or raise the balance of Pemex’s debt. The financial institutions involved with the transaction, are SMBC Nikko, Bank of America, Goldman Sachs, and Mizuho.

Premier Oil merges with Chrysaor Holdings – Premier Oil Press Release
Premier and Harbour have reached an agreement with Harbour’s UK operating company Chrysaor, regarding a proposed all share merger between Premier and Chrysaor.

- Key highlights
  - Premier to merge with Chrysaor through a reverse takeover; London listing retained.
  - The Transaction is expected to result in Premier’s stakeholders owning up to 23% of the Combined Group (Premier’s shareholders are expected to own up to 5.45% of the Combined Group.) and Harbour and other Chrysaor shareholders owning at least 77%.
  - Premier’s approximately USD $2.7 billion of total gross debt and certain hedging liabilities will be repaid and cancelled on completion.
  - A cash payment of USD $1.232 billion will be made to financial creditors of Premier and its subsidiaries; Premier’s approximately USD $400million of letters of credit will be refinanced; Existing Creditors will also receive shares in the Combined Group.

In Mexico, Premier Oil participates as a non-operating partner in Block 7 (the location of Zama discovery), as well as Block 30. Both are shallow-water blocks in the Sureste Basin, located off the coast of Tabasco. It also has two 100% operated blocks, 11 and 13, won in Round 3.1, in the northern offshore Burgos Basin region.

IEnova expects Mexican export permit for Costa Azul LNG this year – Reuters
IEnova still expects to get an export permit from Mexico soon that will allow it to make a final investment decision this year to build its Costa Azul liquefied natural gas “LNG” export plant. IEnova has been waiting for that 20-year export permit all year. It has been held up in part by the coronavirus. “We continue to work closely with the federal government to obtain the export permit and have final investment decision
shortly,” IEnova Chief Executive Tania Ortíz Mena said. Oil and gas companies around the world have pushed back decisions this year to build new LNG terminals after global demand for energy collapsed due to the coronavirus.

Investment demand in LNG had been running high for several years due to heavy consumption from mostly Asian countries to meet growing energy demand and diversify fuel sources away from dirty coal toward cleaner gas and renewables. Costa Azul’s Pacific Coast location gives it an advantage over U.S. Gulf Coast export facilities in reaching those Asian markets. U.S. plants usually ship LNG to Asia through the Panama Canal. At the start of 2020, a dozen or so North American LNG developers said they planned to make investments to build projects by the end of this year. Currently, that total is down to just two. Sempra and IEnova plan to build the export facility, expected to cost about USD $1.9 billion, at the existing Costa Azul LNG import plant, which entered service in 2008.

**Mexico’s Dos Bocas refinery facing USD $0.9bn budget overrun – Bnamericas**

Pemex has confirmed that the government’s flagship USD $8bn Dos Bocas refinery in Tabasco State has overrun its original estimated budget by USD $918 million. The refinery, which would process 340,000b/d once completed, is in the early stages of construction and works have advanced 13% so far. The government has budgeted 45bn pesos (USD $2.1bn) in extraordinary financial aid for Pemex to fund the construction of Dos Bocas in 2021. The announcement comes on the heels of an explicit refusal by President AMLO to heed a call issued by the International Monetary Fund to put the flagship refinery project on hold to make funds available to boost pandemic-related fiscal support. AMLO administration have often firmly assured the public that Dos Bocas would not exceed its budget and pushed back against independent estimates that put the cost of the project USD $10bn or more.

An initial technical evaluation conducted by the Mexican petroleum institute (IMP) said in 2019 that the project would cost USD $14.7bn. A first tender for the refinery’s construction last year was declared void after all offers exceeded the cost estimates set by the government.

**Salina Cruz LNG export project said unfeasible under current conditions – NGI**

A proposed liquefied natural gas “LNG” export project touted by Mexico’s government is not logistically or economically feasible under current conditions, according to Gadex consultancy co-founder Eduardo Prud’homme. The government this month unveiled a long-awaited infrastructure plan with five projects listed under the energy category, including a $25.2 billion-peso (USD $1.18 billion) gas export terminal in Salina Cruz on the Pacific Coast. The terminal would have a liquefaction capacity of 200 MMcf/d with the option to expand to 400 MMcf/d, according to government documents, with construction slated to begin in 2021.

The problem, however, is that, “basically, they don’t have gas to liquefy,” Prud’homme told NGI’s Mexico GPI. Gas would have to be sourced from production by Pemex, and/or via the Sur de Texas-Tuxpan offshore pipeline that moves gas from South Texas to Mexico’s Veracruz state. Neither of these sources are currently in conditions to meet the terminal’s gas supply needs, explaining that Pemex is not producing anywhere near enough gas. Furthermore, there is no commercial pipeline route as of now to connect gas supply from the offshore pipeline to Salina Cruz. Salina Cruz currently connects with Jáltipan on the other side of the Tehuantepec isthmus via the 12-inch diameter, 90 MMcf/d Jáltipan-Salina Cruz natural gas pipeline, in theory allowing access to gas produced by Pemex and gas imported by pipeline from the United States.
The government has indicated it plans to reactivate a shelved project to expand gas transport capacity from Jaltipán to Salina Cruz, although details remain scarce. Nor is it clear how the economics of the LNG export project would work. He explained that the cost of transporting gas from the United States all the way to Salina Cruz would make it difficult for the molecules to compete in Asia, which would presumably be the project’s main export market. No offtakers for the project have been announced either. Prud’homme added that the government’s estimate for the project’s cost appears to be well below that of comparable liquefaction terminals. The plan consists of a list of projects with no explanation of how they will be funded, nor in what capacity the private sector would participate in their development.

Oil & Gas - LATAM

Exmar wins USD $150 million FLNG settlement – America Economía
Belgium-based shipowner Exmar has settled a dispute over the charter of the Tango FLNG with YPF.

YPF in June sent a force majeure notice to Exmar, saying it was not able to pay for the charter of the Tango FLNG unit due to the effect of the coronavirus pandemic. Exmar at the time said the notice was unlawful, adding it was considering the best option to defend its interest. Finally Exmar had reached a settlement agreement with YPF. Under the agreement, YPF will pay a settlement amount of USD $150 million to Exmar “in consideration of the early termination of the agreements and withdrawing the arbitration proceedings.” The first installment of USD $22 million was already paid. The remaining USD $128 million will be paid in 18 monthly installments.

Argentina’s launches NG production stimulus plan from Vaca Muerta – NGI
President Alberto Fernández unveiled the country’s long-awaited natural gas scheme on from the heart of the Vaca Muerta shale formation in Neuquén province. Fernández said that spurred by the plan, known as Plan Gas 4, the state producer YPF would invest USD $1.8 billion in gas production over the next three years. The plan would leave the state company “more alive and stronger than ever.

Natural gas production has been in steady decline this year in Argentina due to investment uncertainty in a country facing heavy external debt and mired in a three-year recession. The coronavirus pandemic also slammed the upstream industry, and the country’s rig count fell to zero in April. The new gas plan is a four-year tender scheme wherein producers would be able to offer natural gas to the market at a price up to USD $3.70/MMBtu, well over the Henry Hub benchmark.

The tenders would total 70 million cubic meters/day, or 2.47 Bcf/d, just over half of current production. Vaca Muerta has technically recoverable resources of 308 Tcf of natural gas within 8.6 million acres, according to the EIA. It is geologically comparable to the Eagle Ford Shale in South Texas, and only 4% of Vaca Muerta’s acreage has entered the development phase so far, according to EIA.

Shell target Argentina's Vaca Muerta for oil export growth – S&P Global
Shell is considering launching its second development in Vaca Muerta, helping to increase oil and natural gas production already on track to reach 40,000 boe/d over the next year. Shell is already producing some 13,000 boe/d its first development on the three adjacent blocks - Coiron Amargo Sur Oeste, Cruz de Lorena and Sierras Blancas - in Vaca Muerta's oil window, and plans to launch a plant that will take output there to 40,000 boe/d in 2021.
Vaca Muerta, one of the world’s biggest shale plays, came into development in 2012-13, attracting majors like Chevron, ExxonMobil and Total for the potential to develop resources so large that it could make Argentina a global supplier of oil and gas. While the focus at first was on the gas window to plug a local deficit, attention has since shifted to the oil window for better prices and export potential. Argentina is self-sufficient in oil — it hasn’t imported crude since 2018 — and has excess capacity in pipelines, allowing companies to ramp up exports this year of Medanito, a light crude produced from Vaca Muerta and the Neuquen Basin where the play is located. Medanito exports shot up to an average of 10,500 b/d in the first eight months of 2020 from 1,340 b/d in all of 2019. The other drivers of the increase were a drop in domestic demand during a now more than six-month lockdown for the coronavirus pandemic and a suspension in the 8% export tax since May. Shell has made two international shipments of Medanito, helping to test market demand for the product.

Oceaneering awarded services contract from Petrobras in Brazil — Oceaneering Press Release
Oceaneering has been awarded a BOP tethering services contract offshore Brazil from Petrobras. The contract duration is one-year with the option to extend for an additional year. The scope of work includes data acquisition and real-time riser analysis for dynamic positioning rig operations for up to seven wells in water depths between 150 meters and 700 meters. Oceaneering will provide eight suction piles that will be manufactured locally as well as 10 wellhead load relief (WLR) tensioners, one monitoring system to be integrated on the BOP, and one suction pile pump to install the suction piles. An anchor handling tug supply (AHTS) vessel will launch and install the suction piles and tensioners. The drilling rig will be used to connect the tensioners to the BOP.

Colombia oil auction has 16 companies qualified to bid — Reuters
Sixteen companies are qualified to bid in Colombia’s auction of four onshore oil blocks later this year, the national hydrocarbons agency “ANH” said, including international producers like Parex Resources. The ANH received 19 submissions from companies interested in bidding in the upcoming auction, including 16 previously authorized companies and three new entrants. Of the companies allowed to take part in the auction, 15 were previously authorized. French company Maurel & Prom was the only successful new company. Colombia offers solid regulation, a favorable fiscal framework and attractive contractual conditions, which has established confidence among the oil companies which have qualified for the third permanent process of assigning areas.

Equinor to drill three production wells in Brazil in 2021 — Bnamercias
Norway’s Equinor plans to drill three production wells in 2021 in the Peregrino field, off Brazil’s southeastern coast. According to a schedule, the wells will be drilled between the end of July and the end of November. The campaign is part of the Campos basin field’s second development phase, which involves the addition of a third fixed wellhead platform (Peregrino C), extending its main productive life and adding 273Mb (million barrels) in recoverable reserves. In total, the next stage of the project will encompass 15 new production and seven injection wells.

Equinor’s schedule foresees the drilling of four production and three injection wells in 2022, five production and one injection well in 2023, and three production and three injection wells in 2024. Located 85km off the coast at a depth of 100m, the Peregrino field’s production system comprises two wellhead platforms (A and B) and one FPSO, which receives the oil and gas volumes extracted by fixed units. Capable
of producing 60,000b/d of oil, the Peregrino C platform will have its production lines connected to the flow system linking Peregrino A to the FPSO. Until March, the field was producing an average of 60,000b/d of oil and 94,000m3/d of natural gas. However, operations were interrupted at the beginning of April due to a problem with subsea risers. According to Equinor, the repair or replacement of the equipment will still “take some months.”

**Foreign-backed consortium in talks for Petrobras gas fields in Brazil – Reuters**

A consortium of Brazil’s 3R Petroleum and Norway-linked DBO Energy is in bilateral talks with Brazil’s Petrobras to purchase a cluster of offshore natural gas fields, according to two sources with direct knowledge of the matter. The Pernoa cluster, located off the coast of Espirito Santo state, would be among the first all-gas offshore fields sold by Petrobras amid a larger push to break the company’s near-monopoly in Brazil’s natural gas value chain.

Petroleo Brasileiro, has long dominated most segments of the Brazilian natural gas sector. But in recent years, it has begun selling off pipelines and assets in transport and distribution, in a move the company and the government hope will spur competition. Several international firms already produce significant amounts of natural gas in Brazil, as they operate oilfields where so-called associated gas is removed during the production process. Much of that gas is simply reinjected into the ground, however, and few are producing at standalone gas fields.

In 2019, the Pernoa cluster produced just short of 1 million cubic meters of gas per day, though it produced several times that amount in recent years. The cluster also includes the Malombe prospect, discovered in 2011, which studies indicate could produce up to 2.5 million cubic meters daily if developed. Due in part to Pernoa’s mature profile, it is expected to be sold for a relatively low price compared with other production assets being offered by Petrobras in the area.

---

**Power/Renewable Energy – Mexico**

**New legal setback for Mexico’s energy policy – El Financiero**

Second district judge Gómez Fierro extended a definitive protection in favor of Demex subsidiaries Desarrollos Eólicos Mexicanos de Oaxaca and Desarrollos Eólicos Mexicanos de Oaxaca 2. The ruling would suspend the effects of a measure enacted by grid coordinator CENACE on April 26 that forbade the connection of new wind and solar projects in order to avoid power outages during the COVID-19 pandemic. According to judge, CENACE was unable to justify why limiting the new renewable connections would help it achieve this goal.

It is the latest in a series of court decisions limiting the executive branch’s ability to enact its agenda, which explicitly includes favoring public utility CFE and Pemex and limiting private sector participation in the country’s energy market. The goal is to achieve domestic self-sufficiency and reduce dependence on private investors. In his decision, judge Gómez Fierro pointed out that the policy should have “general effects”, as granting the protection not only for the two companies that requested, but also for the other participants of the wholesale electricity market, avoiding distortions affecting competition and the development of the sector.
He concluded that CENACE went beyond its powers, as decisions regarding grid reliability; quality and security were instead the purview of Mexico’s energy regulatory commission CRE. President AMLO said: if the Supreme Court rules against the “reliability policy” agreement issued earlier this year by energy ministry SENER, the government will pursue the necessary legal and constitutional modifications that allow it to move forward with its policies.

**US legislators plead for change in Mexican energy policy – Business Mexico News**

More than 40 US lawmakers wrote a letter to US President Donald Trump to voice their concerns regarding Mexico’s energy policy. Legislators argue that Mexican President AMLO’s efforts to save its state production companies endanger US investments in Mexico and go directly against regional trade deals.

The letter cites reports of Mexican government bodies delaying or canceling permits for US energy companies. The letter furthermore refers to a recent memo circulating in the media, in which AMLO asks regulators to do what is necessary to rescue PEMEX and CFE. “These efforts violate and contradict the spirit, if not the letter, of USMCA, an agreement among whose primary objectives are to promote growth among the participant countries,” the letter reads. Legislators note “a pattern of obstruction” against the billions of dollars in investment coming from the US and urged Trump to take action to find a resolution and keep the market open like Mexico’s 2014 Energy Reform stipulated.

Aiming to use Pemex and CFE as the cornerstones for national development, the president has stated earlier that a change in the constitution to undo the energy reform is still in the cards. Private interests should never go above the public interest, AMLO said. According to a press release from COPARMEX, the government’s actions could obstruct investment worth USD $6 billion. The confederation pleaded the government to follow the law and abide by international treaties to generate certainty for long-term investment. Several experts have pointed out that companies may ask for international arbitration if they feel their rights have been affected and the state has taken measures to favor public players at the expense of private firms.

**Iberdrola suspends Mexico investments until regulatory uncertainty clears – Bnamericas**

Iberdrola will not make any new investments in Mexico until the regulatory outlook clears. During its Q3 results presentation, Iberdrola said it hoped the government would make its energy policy clear after sending ambiguous signals to the market. Iberdrola was the subject of direct attacks from President AMLO earlier this year, including non-specific accusations of corruption. “We don't make energy policy, it's made by governments,” said CEO José Ignacio Sánchez Galán. “If they say they don’t want private investment, we won’t invest.” The company will instead shift its focus towards growing in home country Spain.

The current government’s inconsistent regulatory record has led to a loss of confidence on the part of international investors. The government has pursued a strategy to enact its policies through regulatory changes that sometimes contradict existing laws and regulations.

**Mexico plans to alter dispatch priority to favor public hydros – Bnamericas**

Mexico’s government has announced a new measure aimed at favoring public utility CFE’s hydroelectric generators by arbitrarily modifying their dispatch priority. President AMLO will issue a decree changing the normal dispatch priority, currently based on economic principles. Grid coordinator CENACE will be instructed to give extraordinary priority to CFE’s hydropower generators, sidelining private producers.
AMLO confirmed he would move forward with the decree, arguing the existing policy has privileged private plant owners, while not allowing CFE’s dams to release their accumulated water.

The move marks the latest in a series of regulatory decisions requested by AMLO to boost the CFE and allow it to increase its market share at the expense of private generators. The new measure would break the existing regulation and ignore the principle that the system should be operated by allowing plants with cheaper operating costs to inject their output first. According to AMLO and CFE, the move was also related to the administration of the water flow in the Grijalva river, which supplies four hydroelectric dams. The government argues that, under the previous scheme, water accumulated and then had to be released suddenly, leading to flooding downstream. The new regulation, which would allow the dams to release water more constantly, would allow it to prevent flooding, as well as generating 40% of the energy consumed in Tabasco state, according to CFE. The decree would break with a framework that comes from the constitution and laws.