Energy Monthly News

December, 2020

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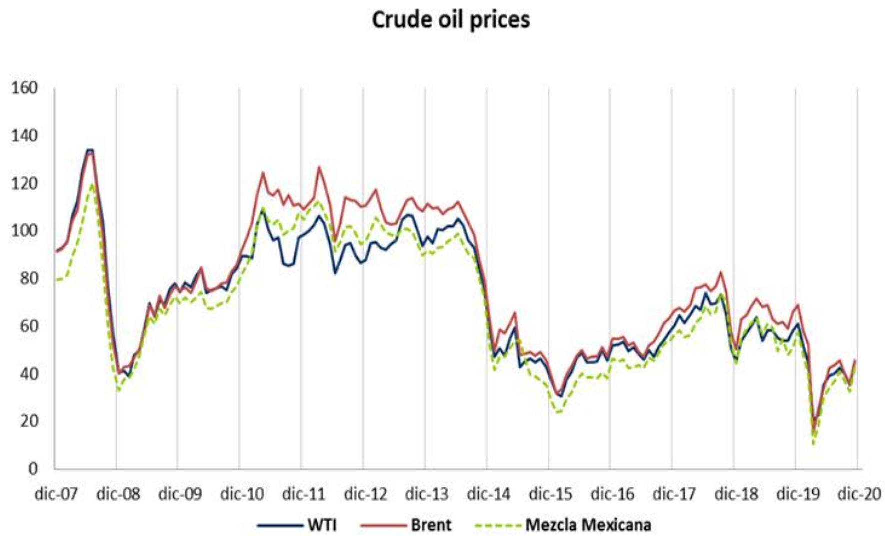
This month in review

* 18/12/2020 **18/12/2020

Crude oil price MME US/BD	46.96
NG price HH* US/MMBTU	2.67
Mx crude production MMbd - *October*	1.62
Mx NG production MMpcd - *October*	4,917
US crude production MMbd - *September*	10.86

FX Rate**	19.94



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

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Oil & Gas - Mexico

CNH approved Pemex exploration plans on Tlamatini field– *CNH*

CNH approved Pemex plan to spud six wells and build marine infrastructure, an oil pipeline and two natural gas pipelines over the next six years. The activities would involve investments of USD $431million and operating expenses totaling USD $128 million. The company expects to extract 34.6Mb of oil and 20.96Bcf of natural gas by 2027.

According to the CNH, the company considered four alternatives for the field with investments of up to USD $581 million, although ultimately settled on the one with the lowest activity and investment levels, as well as lower risk. The Tlamatini field was discovered in 2019 through the spudding of the Tlamatini-1 exploration well.

Hokchi and Eni set to splash out USD $825mn on oil projects – *Bnamericas*

CNH approved new work and budget programs presented for two promising privately-developed areas off the coast of Tabasco for total investments of USD $824.5 million next year. The commission approved an updated work and budget program for the A1 area presented by Eni México. The plan involves spudding nine wells using three platforms for total 2021 investments of USD $574.5 million.

The second plan, presented by Hokchi Energy, updates its guidance for the neighboring A2 shallow-water contract. The updated plan involves spudding three production wells and two injector wells using a central and a satellite platform. The firm plans to invest USD $250 million on the project in 2021. Hokchi spudded its first production well back in May. According to the CNH, Hokchi's processing plant is still in construction and production is being handed over to Pemex for processing for the time being.

Pemex's suspends business with Vitol amid U.S. bribery probe – *Reuters*

The commercial arm of Pemex has temporarily suspended business with the world's largest independent oil trader Vitol, which is the subject of a U.S. bribery investigation. As part of a wider probe, the U.S. Justice Department said that the U.S. subsidiary of Vitol paid bribes to Pemex employees in exchange for lucrative contracts.

The department said Vitol's U.S. unit had agreed to pay USD $164 million to resolve U.S. government probes into alleged bribes the firm paid in Mexico and other Latin American countries. In the letter seen by Reuters, Pemex arm PMI Comercio Internacional said it had "taken the decision to suspend temporarily commercial relations" with Vitol's companies.

Tax burden of Mexico's Pemex could be reduced further – *Reuters*

Lower taxes could mark a turning point for ailing Pemex, the country's largest company and tax payer. Pemex has been struggling for years to shoulder its crushing tax burden and what both investors and officials consider unsustainable levels of debt. "Changing the tax burden is a structural change that Pemex needs, but we have to do it gradually," Deputy Finance Minister Gabriel Yorio told Reuters in an interview.

What's in store for Mexico's downstream sector in 2021? – *Bnamericas*

The decoupling of Mexican from international oil prices is set to continue into 2021, according to fuel sector experts. The unprecedented nature of the COVID-19 pandemic has made fuel prices difficult to predict as they are now more dependent on demand rather than oil prices, according to a webinar hosted by fuel sales trade group Onexpo.

"The price slump has to do with refining capacity and the effects of the pandemic, and it is unclear whether the sector will recover as expected in 2021," said energy consultant Paul Alejandro Sánchez Campos. According to Sánchez, US refining capacity had never decreased below 80% throughout the last 40 years, despite changing price and production scenarios. Only the pandemic forced capacity below that mark, and the system has still not recovered to pre-pandemic levels. In particular, consumption of gasoline, kerosene and jet fuel in Mexico also remains below pre-pandemic levels, while natural gas and derived products have stayed relatively flat. Meanwhile, heavy oils like fuel oil have performed better than expected during the emergency, Sánchez said.

While Mexico's gasoline demand normally straddles around 800,000b/d, it fell to around 400,000b/d when the pandemic peaked in April. And the industry could not recover past 700,000b/d despite economic activity being allowed to resume. The price decoupling has highlighted the fact Pemex could profit from importing an increasing amount of fuel products instead of producing them at its refineries due to the lower price, the consultant added. However, public policy is prioritizing boosting Pemex's refining capacity to promote energy self-sufficiency.

- Regulation

According to consultant Maury Zapata, the government is likely to simplify a formula to determine the level of national contribution to the sale of a fuel product next year. Even though Mexico no longer demands sold fuel products to comply with a percentage of national contribution (origins of the hydrocarbon, refining location, transport, storage, or sale), the government still requires companies to keep track of the information and can fine those that do not keep records. Zapata also said, given a series of policies outlined in energy ministry SENER's policy agreement published earlier this year, the government was likely to change distributed generation regulation next year that could hurt fuel stations looking to self-supply electric power through solar panels.

- Permitting

All panelists agreed that the permitting drought at energy regulator CRE, which was severe last year but became much worse during the pandemic, is part of a complicated public policy agenda. The situation has led to a backlog of over 200 fuel sale permit requests at the regulator.

"There seems to be a filter," said Sánchez. "When –critical- reports have been published, such as the one by Cofece, CRE hurries, they raise their hands to approve 80 or 90 permits. He said the issue, stemming from pressures from the government to favor Pemex over its competitors, was compounded by the pandemic and staff shortages at CRE. He said companies should make sure their applications comply with every requirement to avoid further delays in the permitting process.

- Electric charging stations and hydrogen

Regarding the future of transport, Sánchez said he does not think existing fuel stations are well prepared to become charging stations for electric vehicles.

Dolphin drilling rig commences Mexico contract – *Rigzone*

The Blackford Dolphin semi-submersible rig on December commenced its contract with Pemex after successfully completing its contract checklist inspection. Pemex will use the rig to drill the SAAP-1EXP well. In September, Pemex signed an $83 million contract to secure the Blackford Dolphin for approximately 15 months.

Total cedes 50% stake in round two block to Qatar Petroleum – *CNH*

CNH approved a request by Total México and Shell México to incorporate Qatar Petroleum into the CNH-R02-L01-A15.CS/2017 contract off the coast of Campeche to assign 50% of the stake in favor of Qatar Petroleum.

In May 2020, the regulator approved the transfer of 40% of the interest that Shell Exploración y Producción de México had in favor of the French oil company, which made it the sole participant in the contract. On November 11 of this year, it asked the regulator for authorization to transfer 50% of the stake in favor of Qatar Petroleum and in the same act, Shell transfers 40% of control to Total. In this way, it is formalized that the participation in the contract is 50% in favor of Total and 50% in favor of Qatar Petroleum, with the French oil company being the operator of the block.

Premier Oil to be renamed Harbour Energy after merger – *Reuters*

Premier Oil will be renamed Harbour Energy Plc after the reverse takeover by private equity-backed Chrysaor to create the British North Sea's largest oil and gas producer. The merger is due to be completed by the end of the first quarter 2021. Premier was struggling to deal with a heavy debt burden after its profits were slashed when oil prices were hit by the COVID-19 lockdowns. The London-listed firm struck a deal with Chrysaor in October. A general meeting of Premier's shareholders to approve the transaction is taking place on Jan. 12.

McDermott awarded contract by BHP for pre-FEED extension phase for the Trion Project FPU – *McDermott Press Release*

McDermott announced it has been selected by BHP to perform the pre-FEED extension phase for a Floating Production Unit that could be installed in a water depth of approximately 8,200 feet (2,500 meters) at the Trion field, located approximately 19 miles south of the U.S./Mexico border and approximately 112 miles from the Mexican coastline.

McDermott was awarded the contract for pre-FEED services for the Trion FPU in March 2020. Its scope includes engineering tasks related to the configuration, sizing and preliminary analysis of the FPU, including topsides, hull, risers and mooring. McDermott will work in close partnership with Houston Offshore Engineering and Wood on the Pre-FEED extension. McDermott will lead a single, integrated team to perform project management, execution planning and estimation services. Houston Offshore Engineering and Wood will focus on engineering optimizations. Technical support for fabrication and integration planning will be provided by McDermott's fabrication yards in Batam, Indonesia, and Altamira, Mexico.

Cosco delivers FPSO set for Eni's Amoca field off Mexico – *Offshore Energy*

Chinese shipbuilder Cosco Shipping Heavy Industry has delivered the floating production, storage, and offloading vessel set to work on Eni's Amoca shallow-water project off Mexico. FPSO Miamte will be deployed on Eni's Amoca field which is, along with Miztón and Tecoalli, located within Mexico's Offshore Area 1 located in the shallow waters of the Campeche Bay.

Braskem vows legal action as NG transport service cut off by Cenagas – *NGI*

Braskem said that Mexico's Centro Nacional de Control del Gas Natural "Cenagas" has cut off natural gas transportation service for the Etileno XXI complex in Mexico's Veracruz state. Cenagas is the state entity tasked with coordinating operations and allocating capacity on the Sistrangas natural gas pipeline network.

Etileno XXI, the largest petrochemical complex in LATAM, is owned by Braskem Idesa, a joint-venture between Braskem and Mexico's Grupo Idesa. Braskem said it received notification from Cenagas "related to the unilateral termination of the service of natural gas transportation, an essential energy input for the production of polyethylene" at the complex. "As a result, in compliance with safety protocols, Braskem Idesa initiated procedures for the immediate interruption of its operating activities, which may have a material effect on the company's operating or financial results, depending on the timing of the stoppage," the company said. Etileno XXI's ethane cracker has the capacity to produce 1.05 million tons/year of high and low density polyethylene.

While Cenagas provides natural gas transport services for Etileno XXI, the natural gas molecules are supplied by Pemex. Braskem Idesa has been a favorite target of Mexican president AMLO, who contends that Pemex got a raw deal in a separate contract signed in 2010 to supply 66,000 b/d of ethane to the complex under a 20-year, take-or-pay/supply-or-pay contract. Pemex has struggled in recent years to meet the commitment due to its own declining natural gas production. Braskem CFO Pedro Freitas said that Pemex has been supplying about 70% of the contractually required ethane volumes in recent quarters. Braskem also said it is owed $65 million so far in receivables and unpaid credit notes from Pemex as payment for liquidated damages for the supply shortfall. Freitas said that talks with Pemex about the ethane contract were ongoing, but that no agreement had been reached to amend it.

Pemex is no longer participating in the OIGC – *Business Mexico News*

Pemex is no longer an active member of the Oil and Gas Climate Initiative (OGCI), the largest organization within the global oil and gas industry. According to its annual report of the organization currently has 12 members. The Oil and Gas Climate Initiative (OGCI) – a group composed of the major oil companies that support the Paris Agreement- aims to work collaboratively to address climate concerns. OCGI has among its goals to lower the carbon intensity of upstream operations by 2025. This is not the first time that OGCI has lost an active member, Reliance Industries Ltd left in 2018. Meanwhile, in the same year, Exxon, Chevron Corp., and the Occidental Petroleum Corp joined the initiative.

Mexico ratified the Paris Agreement in 2016. However, with the AMLO administration setting its sights on returning Pemex to its former splendor, the country appears far from reaching its pledge. In October, The Guardian published an investigation of the 20 companies responsible for a third of the global CO_2 emissions. Pemex, PDVSA and Petrobras were among the list, reported LatinAmerican Post. The study showed that Pemex is the most polluting company in Latin America, contributing 1.67% of the total greenhouse gas emissions in the world.

Oil & Gas - LATAM

Colombia forging ahead with USD $2.9bn gas project pipeline – *Bnamericas*

Energy developers are on track to pump USD $2.9bn into Colombian natural gas projects over the next two years, according to the latest forecast by industry association Naturgas. The transport segment will lead the way, with expected investments of USD $1.66bn, followed by exploration and production (USD $1.16bn) and distribution (USD $30mn). The projected outlay for transport initiatives includes USD $575mn for the Pacific LNG regasification terminal and associated pipeline, USD $400mn for the Jobo-Medellín pipeline, USD $225mn for the Mariquita-Bogotá line and USD $457mn for other pipeline projects, such as the Cusiana phase 4 expansion.

Exploration and production developments are spearheaded by a series of projects in the eastern Llanos basin in Casanare department, which will require estimated capital expenditure of USD $430mn. Drilling campaigns off the Caribbean coast will require USD $170mn and fracking pilots USD $140mn, Naturgas said.

The bulk of distribution investments have been earmarked for the metropolitan areas of Bogotá and Medellín, and the Caribbean coast. "Despite the situation that the industry has experienced in recent months, companies have worked to maintain production levels that guarantee the country's energy security, which is evident with the increase in the availability of local natural gas," Naturgas president Orlando Cabrales said. Naturgas said gas producers had increased their five-year output forecast by 24BBTU/d, or 2.2%, compared to their previous projection in June. The higher figure was driven by revised declarations from Ecopetrol, Hocol and Lewis.

Mexico: exploratory epicenter – *Welligence*

The oil industry has experienced very difficult times in 2020: budget cuts, operational delays and investment deferrals have been recurring themes. Within the sector, exploration is particularly vulnerable to fluctuations in the price of a barrel.
According to our Offshore Exploration Well Tracker, in Mexico 19 wells have been drilled in 2020 versus 17 wells drilled in 2019. Regionally, only the United States comes close with 17 wells and Guyana remains a distant third 6. Some will assume that this was due to Pemex's exploratory wells, but only 30% correspond to it. The other 70% were drilled by private oil companies with contracts derived from the Energy Reform.

Thanks to the confidence of the private sector, Mexico became a global exploratory epicenter in 2020. This milestone is worth noting, as few are willing to spend USD $ 40-100MM on an offshore exploratory well with a 10-40% probability of success. Even with a discovery, it can take 4 to 8 years before the production stage. Already producing they will pay 60-90% of their profits in taxes. All this, without risking a penny from the treasury.

Exploration is a complex business where only the best opportunities are pursued. Oil companies have investment opportunities around the world. The fact that they have risked their capital exploring in Mexico during a year like 2020 indicates the level of the existing potential.
Let us remember that since 2018 there have been no tenders, and that the "inventory" of opportunities is limited. Many New Opportunities teams previously focused on Mexico may now be focusing on Guyana, South Africa or Brazil. Competition for capital is fierce and constant. Pemex has financial and operational limitations that have led the government to decide to stop its activities in deep waters. Isn't it preferable to reactivate tenders so that private companies can risk their capital generating income for the Government in case of success? Do we really prefer to leave our wealth underground with the clock against us and renewable energies just around the corner? For the sake of Mexico, I hope not.

Brazil sells 17 blocks in second open acreage round – *Bnamericas*

Brazil sold 17 exploration blocks and one marginal accumulation area for a total signing bonus of 57mn reais (USD $11mn) and 160mn reais investment commitments in the second open acreage round.

In the auction, Campos basin block C-M-757 was the only offshore area sold. Shell paid 12mn reais in bonuses and offered a 29mn-real investment for the block. Since 2017, the Anglo-Dutch oil major has acquired at least 10 blocks in the region, either as operator or partner. The company operates the Parque das Conchas (BC-10) producing field complex. The highest bonus – nearly 25.8mn reais – was paid by Eneva for the Juruá onshore field, in Solimões basin, beating Imetame's offer for the marginal area. Eneva made a 3.6mn-real investment commitment. The company is betting on natural gas assets in north Brazil and aims to replicate its Parnaíba basin reservoir-to-wire model, where the company's fields supply its thermoelectric plants, as in the case of the Azulão-Jaguatirica II project in the states of Amazonas and Roraima.

Eneva also acquired the AM-T-62, AM-T-84 and AM-T-85 blocks in the Amazonas basin for a total bonus of 16.3mn reais and investment of 68.5mn reais. In addition, it acquired four assets in partnership with Enauta (PAR-T-196, PAR-T-215, PAR-T-86 and PAR-T-99) for a total bonus of 593,000 reais and an investment of 22.8mn reais. These are Enauta's first onshore assets. The Brazilian company operates the Atlanta field, in the Santos basin, and has blocks in Foz do Amazonas, Pará-Maranhão, Sergipe-Alagoas, Camamu-Almada and Espírito Santo.

Imetame and ENP Ecossistemas won seven onshore blocks in Espírito Santo: ES-T-305, ES-T-409, ES-T-429, ES-T-466, ES-T-486A, ES-T-517 and ES-T-527 for a total bonus of 356,000 reais and a 4.49mn-real investment commitment. Imetame plans to build the Imetame I natural gas-fired plant in Espírito Santo, where it operates the Lagoa Parda field complex, acquired from Petrobras. Total capex is USD $160mnby 2025.

Another block sold was POT-T-702, to PetroRecôncavo for a 75,000-real bonus and a 6mn-real investment. The independent, mature field operator has several assets in the Recôncavo and Potiguar basins. And the TUC-T-172 block was sold to Petroborn for a 50,000-real bonus and a 2.4mn-real investment. Petroborn operates the Campo de Itaí natural gas field in Tucano Sul basin.

Power/Renewable Energy – Mexico

China's SPIC buys Mexican IPP Zuma Energía – *Renewable now*

China's State Power Investment Corporation (SPIC) has acquired Mexican independent power producer (IPP) Zuma Energía, Zuma said. SPIC bought Zuma through its Hong Kong-based unit China Power International Holding Limited (CPIHL), from where it will now focus on creating "a regional sustainable development platform", according to the statement. Financial details of the transaction were not disclosed.

Zuma is said to be the largest renewable energy company in Mexico with a total installed capacity of 818 MW. The company was launched in 2014 with the financial backing of Actis and Mesoamerica. SPIC's acquisition represents the company's commitment and support for clean and renewable energy generation, as well as confidence in the Mexican economy, SPIC chairman Qian Zhimin said in a statement. He added that Zuma will contribute to the operational development and investment in the countries in the region.