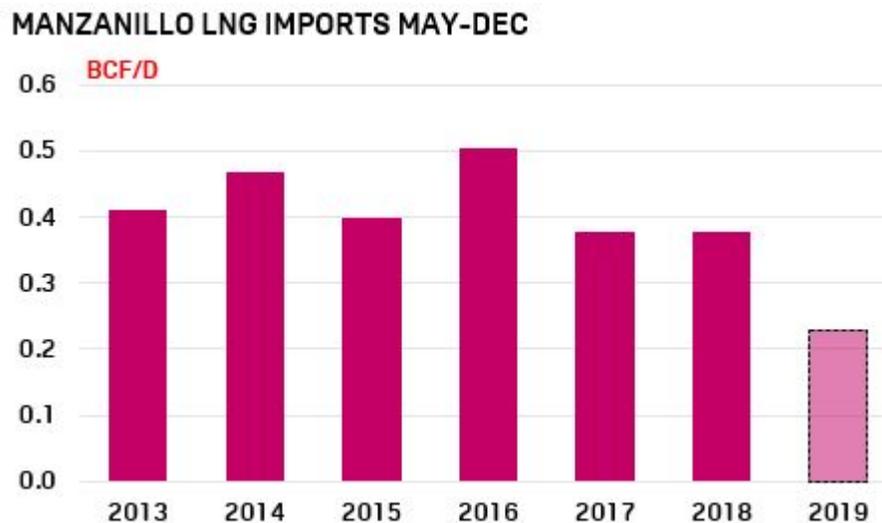


Mexico Energy Weekly: April 26, 2019

Written by John Hilfiker , Ross Wyeno 26 Apr 2019 11:17 EST/15:17 GMT

Platts reported a CFE tender for 17 LNG cargoes for delivery to the Manzanillo LNG import terminal between May and December. Assuming this is the only LNG that Manzanillo will take for the rest of the year, it would represent a YOY decline of 129 MMcf/d, or 36%, which is in line with Platts Analytics expectations that the start up of the Wahalajara system will displace gas in the Guadalajara area, but that LNG sendouts will still be necessarily to fuel demand in the Manzanillo area.

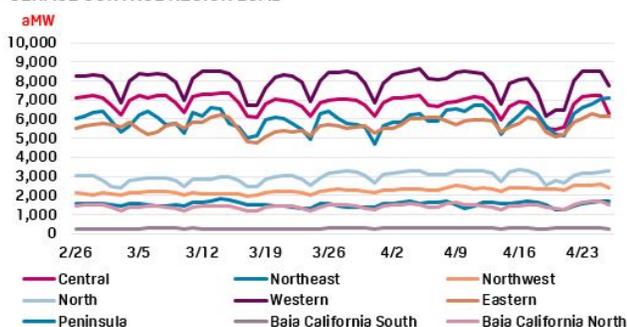


Platts Analytics doesn't expect the Wahalajara pipeline and the downstream 250 MMcf/d Guadalajara interconnect to fully displace LNG imports at Manzanillo. The TC Energy Manzanillo – Guadalajara pipeline cannot flow north-to-south, which means the 1.6 GW Manzanillo I & II (Alvarez Moreno) CCGT in Colima will still require LNG sendout from the Manzanillo import terminal to operate. The Wahalajara system will be able to deliver into the national pipeline grid, SISTRANGAS, which can deliver into the Guadalajara city gate -- the only Manzanillo demand that is expected to be displaced by the startup of the Wahalajara pipeline.

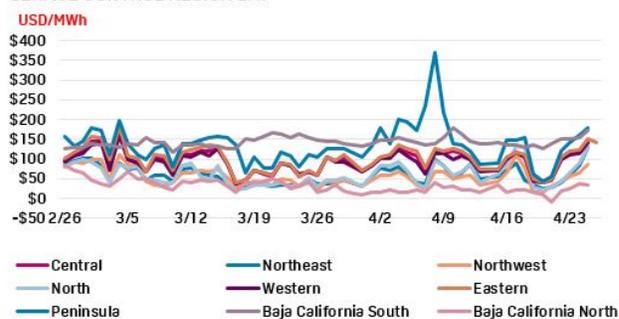
Platts Analytics ship tracking data shows that over the past five years, Manzanillo LNG has received an average of 32 LNG vessels from May through December, totaling 104 Bcf. Based on the 244 days from May 1 to December 31, the total volume equates to roughly 0.4 Bcf/d of sendout. For comparison, daily pipeline flow data on TC Energy’s Manzanillo – Guadalajara pipeline averaged 356 MMcf/d from May through December 2018.

The recent cargo tender was for just 17 vessels. Assuming the same average volume per cargo as the previous 3.26 Bcf, Manzanillo should be expected to receive 55.44 Bcf from May through December. The daily sendout estimate of 55.44 Bcf over 244 days is roughly 0.23 Bcf/d, which is 129 MMcf/d (36%) lower than last year. Therefore, the recent tender indicates that demand for Manzanillo sendouts will indeed be lower, year-on-year, supporting the case for a mid-2019 startup of the Wahalajara system. If there are subsequent tenders for LNG at Manzanillo, it would be an indication of potential additional delays to the Wahalajara system.

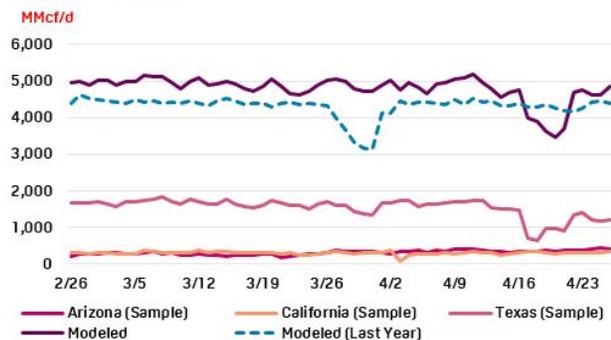
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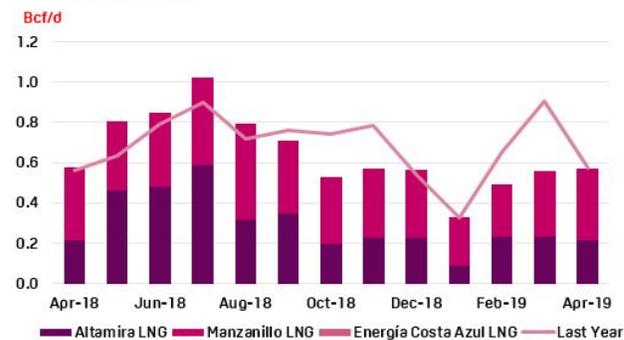
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US PIPELINE IMPORTS



MEXICO LNG IMPORTS



Pemex to see limited success increasing output from mature fields using service contracts: analysts

By Daniel Rodriguez

Published on - Thu, 25 Apr 2019 15:28:35 MST

Pemex might have limited success with its plan to boost oil and natural gas production from mature fields using exploration and production integrated services contracts (CSIEEs), analysts told S&P Global Platts Thursday.

On Wednesday, the state-owned company announced that by mid-2021, it would award service contracts across 21 areas in a first project phase focused on enhanced oil recovery (EOR).

EOR is integral to President Andrés Manuel López Obrador's plan to boost the company's oil and gas production.

EOR will increase Pemex's production by 978 MMcf/d of gas and 627,000 b/d of crude by 2024, according to the company.

The 21 areas to be awarded have a combined 2.7 billion boe of combined proven and probable (2P) reserves, with 70% being at Cantarell Complex's Akal field.

Currently, the Akal field produced 45,900 b/d in February, down from peak production of 2 million b/d in 2003.

According to an analysis from Mexico's National Hydrocarbon Commission, Cantarell could increase its production to 245,000 b/d from 113,000 b/d in 2019 by using EOR in Akal combined with a better fiscal regime.

Other fields in this first phase include Jujo-Tecomioacan with 173 million boe in 2P reserves, Coapechaca with 110 million boe, Samaria with 107 million boe, and Ayin with 93 million boe.

In a second phase, Pemex will evaluate granting service contracts for its Ku-Maloob-Zaap complex, Mexico's largest current oil field with production of 780,000 b/d in February.

Service contracts: back to the past

Under the CSIEEs scheme, Pemex will keep the ownership and operator status for the areas. The service providers will provide all the capital and operating expenses for the areas, receiving a tariff based on production results.

Pemex said this generation of CSIEEs will have an upgraded fiscal regime, with higher capital expense deductability that increases to 70% from 12.5%, and an attractive variable tariff.

Pemex used this type of contracts under previous administrations with mixed results. Under President Felipe Calderon, multiple areas were awarded service contracts without obtaining a significant production increase, said Gonzalo Monroy, director of Mexico City-based energy consultancy firm GMEC.

In the early 2000s, Pemex awarded multiple contracts to obtain 1 Bcf/d of incremental production in the Burgos region, but only obtained 350 MMcf/d, Monroy said.

"These contracts didn't succeed because they didn't account for the area's exploration potential, decreasing the interest from the service providers to explore the area over short-term production goals," he added.

Despite the improved terms, these won't be enough to attract operating companies, Monroy said.

Interest from companies might be limited due to high risks

The interest from companies in CSIEEs might be limited due to their financial and associated operational risk and high cost without an equity stake, a source close to Pemex told Platts.

"There is nothing that will allow contractors to finance the investment. [Lenders] will ask for reserves, something that [President Lopez Obrador] won't share, therefore, no bank will lend without guarantees," said the source.

In the case of Cantarell's Akal field, no major international company will take a service contract for this project due to its risk level, costly insurance policies and high development costs, the source added.

The only way for an international major to take a risk in Akal is via a farm-out where it can acquire reserves to leverage the project's development, the source said.

For Ramses Pech, a partner with energy consultancy firm Caraiva y Asociados, CSIEEs can still be an attractive opportunity for international service companies such as Schlumberger, Halliburton and Baker Hughes.

"The benefits of these contracts is that it will allow Pemex to invest its capital in other projects with a higher return and production potential," he added.

Pech estimates that if Pemex successfully awards all the 21 service contracts, these will yield additional production of more than 300,000 b/d, with most of this production coming from Akal.

Better opportunities abroad

According to Pablo Medina, research vice president with Welligence, one of the main shortcomings of the updated CSIEEs is that Pemex will not receive signing bonuses for these mature fields.

"The world's most indebted oil company requires liquidity and CSIEEs don't provide that," Medina said. Using farm-outs is a better alternative as it allows Pemex to share the risks, better align its incentives, and raise capital via signing bonuses.

Additionally, oil and gas companies will have better opportunities in other parts of Latin America and the world compared with the conditions being offered by Pemex.

"Why bother with such contracts with limited materials on marginal fields under a service contract? Aligning incentives might prove difficult," he added.

The CSIEEs' contractual terms preventing interested companies from booking reserves from the area is a significant limitation on attracting major international operators with the advanced technology required to revive Cantarell, Medina said.

Discounted Permian gas sees potential lift from Wahalajara startup

By J. Robinson ,John Hilfiker ,Veda Chowdhury ,Daniel Rodriguez

Published on - Tue, 23 Apr 2019 16:12:12 MST

Heavily discounted Permian Basin gas could soon access downstream markets in Mexico , following the recent startup of incremental gas deliveries to Fermaca's Wahalajara pipeline system.

On Monday, updated electronic bulletin board flow data showed that a new downstream segment on Wahalajara, the El Encino – La Laguna pipeline , began receiving about 40 MMcf/d on April 17.

In Tuesday trading, cash prices at Waha traded as high at 65 cents/MMBtu, up about 25 cents from weekend flow dates. Forwards prices for May jumped 32 cents on the day, rising to a \$2.47/MMBtu discount to benchmark Henry Hub gas on the improving outlook for Permian supply.

The startup of incremental demand on Wahalajara bodes well for Permian producers since all of the system's supply comes entirely from the West Texas play.

Over the past month, about 185 MMcf/d of Permian gas production has flowed westbound on Roadrunner Gas Transmission Pipeline where it meets the border-crossing Tarahumara Pipeline — Wahalajara's northern-most segment.

After flowing southbound on Tarahumara, an interconnection to El Encino – La Laguna offers access to additional demand in north-central Mexico , and to uncompleted Wahalajara segments and interconnections farther downstream.

Upon its completion, the Wahalajara system could ultimately provide an outlet for an incremental 250 MMcf/d of Permian gas production , according to S&P Global Platts Analytics.

Downstream demand

On Tuesday, flow data provided by Fermaca offered no clear indication on the current southbound reach of Permian gas production . It was also unclear whether recent deliveries to El Encino – La Laguna reflect line-packing or actual demand on the pipeline.

According to Platts Analytics, downstream demand on the Wahalajara system is likely to see its biggest boost upon completion of the Guadalajara interconnect in central Mexico . Recent construction status reports show that interconnection entering service sometime during third-quarter 2019.\

Another potential outlet for Permian gas production could come from a connection to Mexico 's national Sistrangas pipeline grid. The 70 MMcf/d interconnect at El Encino in Chihuahua state is being jointly developed by Fermaca and Cenagas, Mexico 's natural gas system operator.

The interconnect is expected to enter service sometime this year, although Sistrangas has yet to identify a new meter for the project.

Waha prices

The startup of incremental demand on Wahalajara gives Permian Basin gas producers some cause for optimism following an extended period of negative pricing from late March to mid-April.

On April 3, cash prices at Waha settled at a record-low negative-\$5.79/MMBtu as gas production reached the ceiling on available takeaway capacity, which was exacerbated by a series of maintenances.

Following the much-anticipated, full ramp-up in demand on Wahalajara, the next major pipeline expansion isn't scheduled to enter service until early autumn.

With the startup of Kinder Morgan 's 2 Bcf/d Gulf Coast Express pipeline in October 2019, and an anticipated in-service date of late 2020 for the midstream developer's 2.1 Bcf/d Permian Highway Pipeline , Platts Analytics anticipates a longer-term resolution for Permian producer's gas transportation constraints, at least though the early 2020s.

Cenagas evaluates a new gas pipeline loop in Reynosa, expanding cross-border import capacity

By Daniel Rodriguez

Published on - Wed, 24 Apr 2019 14:58:28 MST | Modified on - Wed, 24 Apr 2019 15:25:54 MST

The Reynosa Loop project opens an opportunity for shippers and end-users in central and southern Mexico to source more natural gas from South Texas .

System operator Cenagas is evaluating the development of a pipeline loop around Reynosa to increase import capacity into its Sistrangas network.

This loop offers an opportunity to pull more gas into central and southern Mexico , Emmanuel Silva , the deputy technical director at Cenagas, said at a forum held by the system operator on April 1 in Mexico City.

This loop along the reconfiguration of the Cempoala compression station could allow more gas to flow into central Mexico via the 48-inch San Fernando-Cactus pipeline , Silva said.

Historically, San Fernando - Cactus flowed from south to north, and the reconfiguration at Cempoala has created a significant change in gas flows inside Sistrangas.

According to environmental permits, the capacity at the San Fernando - Cempoala pipeline is 1.5 Bcf/d.

The loop will increase imports between 350 MMcf/d and 650 MMcf/d, and it will be operational in 2021, according to data from to the Mexican Energy Secretariat, known as SENER.

How capacity will be assigned is an uncertainty

This expansion is an opportunity for private companies to expand their market share, Edgar de León, an independent gas analyst based in Mexico City, told Platts.

In the past, new shippers entering Mexico 's liberalizing gas market has said that lack of cross-border pipeline infrastructure has curbed their expansion in the country.

“How new capacity will be assigned is the key question to consider, defining the direct opportunities users will have to access new supply,” said de León, who is a former Cenagas executive.

Under the current regulation, an open season should be held for any new capacity at Sistrangas. Mexico 's Energy Regulatory Commission still has to rule how this will be implemented, de León said.

The factor to be defined by the commission is if companies with upstream transportation capacity should have a relation at the time of awarding downstream capacity, he added.

How capacity is assigned at the 500 MMcf/d Monte Grande interconnection in Veracruz state between Sistrangas and TC Energy's 2.6 Bcf/d Sur de Texas -Tuxpan marine pipeline will create a major precedent for future projects connecting to Sistrangas including the Reynosa looping , he added.

It is also critical to set mechanism for interested users to secure upstream capacity along with this expansion, Davis Rosales, an analyst with Talanza Energia in Mexico City, told Platts.

“We always spoke of the importance of having a mirror in both the Mexican and American side so participants can anchor capacity in both sides,” Rosales said.

Kinder Morgan will need to expand pipeline capacity around McAllen, Texas , for this loop to operate, Rosales said. “However, this shouldn’t be very complex to develop,” he added.

A reconfiguration at El Caracol might be needed

Cenagas has to do further flow studies to determine how much gas from the loop could flow via the San Fernando-Cactus pipeline, Rosales said.

How much gas flow south will depend on compression capacity at Soto la Marina , Altamira and El Caracol, said Rosales, who is a former senior director with SENER.

Also, gas production at Pemex ’s Burgos Processing Center will be crucial for pressure conditions to ship gas south via San Fernando, he added.

According to SENER’s data, Burgos produced 366 MMcf/d of gas in January, half the volume produced in 2015.

A reconfiguration of El Caracol compression station could be needed to ensure more gas from Reynosa can flow south via San Fernando, Rosales said.

However, interested users and shippers in central and southern Mexico will have to compete with interested users further north, Rosales said.

“With the loop , some of this additional gas could be consumed in the [Reynosa] region, some could be sent to Saltillo [in Coahuila state], and the rest would flow through the 48-inch [San Fernando-Cactus] pipeline,” he added.

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