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Gas Daily Mexico

A Platts Pricing Report

09 May 2019

TODAY'S TOP PLATTS HEADLINES

Lack of pipelines to move gas could choke future offshore discoveries in Mexico

MARKET DATA

Platts Gas Daily Mexico Prices (\$/MMBtu)

Trade Date: 08-May

Flow Date(s): 09-May

Location	Region		Net Forward Location	Net Forward Price	Transport Cost	Price
Rosarito	Baja	AAZMC21	Socal Border	2.180	0.190	2.370
Aguascalientes	Central	AAZMO21	El Encino	0.928	0.578	1.506
Tula	Central	AAZMN21	Tuxpan	3.562	0.545	4.107
Valtierrilla	Central	AAZMH21	Los Ramones - Monterrey	3.120	0.615	3.735
Villa de Reyes	Central	AAZMI21	Los Ramones - Monterrey	3.120	0.579	3.699
El Encino	North	AAZME21	Waha	0.250	0.678	0.928
Juarez	North	AAZMA21	Waha	0.250	0.521	0.771
Los Ramones - Monterrey	Northeast	AAZMF21	Tennessee, zone 0	2.460	0.660	3.120
Reynosa	Northeast	AAZMB21	TETCO STX	2.505	0.512	3.017
Sierrita	Northwest	AAZMD21	Waha	0.250	0.973	1.223
Topolobambo	Northwest	AAZMP21	El Encino	0.928	0.554	1.482
Merida	Peninsula	AAZMK21	Ciudad Pemex	3.876	0.684	4.560
Ciudad Pemex	South	AAZMJ21	Tuxpan	3.562	0.314	3.876
Puente Moreno	South	AAZMG21	Los Ramones - Monterrey	3.120	0.492	3.612
Tuxpan	South	AAZML21	Reynosa	3.017	0.545	3.562
Guadalajara	West	AAZMM21	Aguascalientes	1.506	0.637	2.143

Prices are a netforward calculation using selected Platts Gas Daily indices plus fully loaded transportation costs and are published in USD per MMBtu.

Mexico Natural Gas Infrastructure



Source: S&P Global Platts

Final Daily Price Survey - Platts Locations (\$/MMBtu)

NATIONAL AVERAGE PRICE: 2.280

Trade date: 08-May

Flow date(s): 09-May

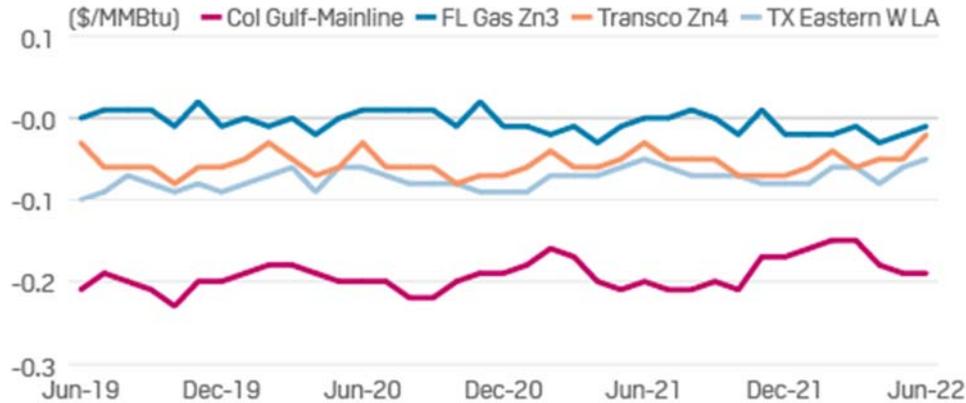
		Midpoint	+/-	Absolute	Common	Vol.	Deals
Agua Dulce Hub	IGBAV21	--	--	----	----	--	--
Houston Ship Channel	IGBAP21	2.580	+0.095	2.580-2.580	2.580-2.580	12	4
NGPL, STX	IGBAZ21	2.490	+0.040	2.490-2.490	2.490-2.490	1	
Tennessee, zone 0	IGBBA21	2.460	+0.095	2.350-2.540	2.415-2.510	285	52
Henry Hub	IGBBL21	2.585	+0.045	2.570-2.590	2.580-2.590	357	44
El Paso, Permian	IGBAB21	0.320	+0.100	0.100-1.930	0.100-0.780	1542	268
El Paso, San Juan	IGBCH21	1.950	+0.060	1.900-2.020	1.920-1.980	317	58
Waha	IGBAD21	0.250	+0.120	0.050-0.460	0.150-0.355	1107	188

Spot and Forward Basis (\$/MMBtu)

	Spot basis					Prompt forward basis			
	08-May	07-May	Chg	MTD	MTD	08-May	07-May	Chg	
				Avg.	last year				
Henry Hub	2.59	2.54	0.05	2.57	2.70	-0.13	2.61	2.54	0.07
Agua Dulce	--	--	--	0.14	0.04	+0.10	0.05	0.05	0.00
Houston Ship Channel	-0.01	-0.06	0.05	-0.07	-0.01	-0.06	0.04	0.04	0.00
NGPL S TX	-0.10	-0.09	-0.01	-0.09	-0.02	-0.07	0.04	0.04	0.00
Tenn Zn0	-0.13	-0.18	0.05	-0.15	-0.13	-0.03	-0.09	-0.09	0.00
El Paso Permian	-2.27	-2.32	0.06	-2.26	-1.13	-1.13	-2.19	-2.19	0.00
El Paso San Juan	-0.64	-0.65	0.02	-1.03	-0.94	-0.09	-0.82	-0.83	0.01
Waha	-2.34	-2.41	0.08	-2.34	-0.96	-1.38	-2.35	-2.35	0.00

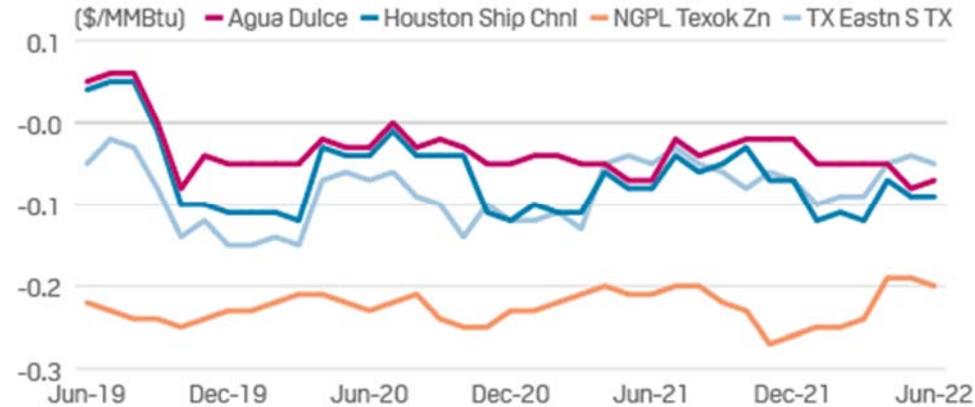
Source: Platts M2MS data

SOUTHEAST FORWARD BASIS



Source: S&P Global Platts

EAST AND SOUTH TEXAS FORWARD BASIS



Source: S&P Global Platts

Platts daily LNG markers (\$/MMBtu)

May 8			Change
FOB Gulf Coast Marker (GCM)			
GCM (Jun)	LGCSM01	4.495	-0.05
H2 May	LUGCA01	4.420	-0.05
H1 Jun	LUGCB02	4.470	-0.05
H2 Jun	LUGCC03	4.520	-0.05

INSIGHT

Lack of pipelines to move gas could choke future offshore discoveries in Mexico

- Transportation challenges are expected in areas where contracts were awarded
- Because of low natural gas prices, operators will have to collaborate to build infrastructure

Without a solution to move gas onshore, the development of future offshore upstream discoveries in Mexico could be limited, executives said Tuesday at the Offshore Technology Conference in Houston.

Depending on the circumstances, transportation infrastructure could be a choking point for operators, Andres Brüggmann, Fieldwood's country manager, said.

"As the exploration is going successfully we have to focus our attention how to get this oil out and into markets and create value across the value chain," Brüggmann said.

"The lion share of exploration is in areas where there is no infrastructure," the executive said. Transportation is a problem in undeveloped regions such as offshore Tabasco, Salina Basin, and the Perdido Foldbelt region, he added.

Under current prices, it is difficult to build standalone pipelines to bring gas onshore. To do this, it will require cooperation from multiple operators, Brüggmann said.

The key is materiality

Offshore discoveries must have a significant volume of recoverable oil, a couple of hundred million barrels at least, to back new infrastructure, Gabriel Gomez, Murphy Oil's Mexico country manager, said.

"In the US, you drill and find 25 million barrels, and you can make it work, but in Mexico, we are very distant from that," Gomez said.

Brüggmann said that most of the discoveries are large enough to develop new infrastructure. Any new field with over 300 million barrels in recoverable reserves should be able to back \$1 billion in infrastructure capital expenditure, he added.

Recent discoveries in Mexico could develop as hubs for future projects to tie in, Gomez said. For example, Murphy's Cholula deepwater discovery has the potential of connecting to Talos Energy's Zama shallow water project, which is 50 km away, he added.

Gomez said the energy reform already envisioned this issue from its inception. Contracts awarded during auction rounds force new operators to find the market interest to access any new transportation infrastructure they develop.

If any other company expresses interest, the operator has to hold an open season approved by Mexico's Energy Regulatory Commission, known as CRE, for the project.

The regulator doesn't have a technical definition between gathering and transportation projects, CRE President Commissioner Guillermo Garcia Alcocer said. "This was done in purpose because it is hard to differentiate both in a large scale project," he added.

Challenges of working with Pemex

For other projects in Campeche Bay like Fieldwood's Ilchakil field, companies can tie to Pemex's infrastructure, cutting costs and speed up development times, Brüggmann said.

Pemex is open to working with partners to utilize its midstream capacity for exploration and production, Ulises Hernandez, Pemex's upstream reserves and associations director, said.

"As long as we have spare capacity, we are obliged to analyze any third party proposals for the use of our facilities," Hernandez said.

Currently, Pemex is providing services to 21 operators to receive and handle over oil and gas for 31,500 b/d of oil and NGL and 120 MMcf/d of gas, he added.

Pemex's midstream infrastructure has ample spare capacity, considering the company is producing today 1.7 million b/d, half of its all-time peak it achieved in 2003.

However, working with Pemex for transportation has its challenges, Brüggmann said. First, Pemex's pipelines are over 20 years old and have to be replaced over the coming decade, he added.

It might be challenging to build new assets to replace Pemex's aging network, based on how the state-owned company values its transportation cost.

"If you price them at book value, there is no incentives to build new infrastructure because (Pemex's) fees would be so low," he added.

Also, this is the first time in its history that Pemex works with other operators and the market is going through a learning curve, Brüggmann said

"Pemex has to analyze how offering transportation services will impact its value chain, and the price signals it will give to other market participants," he added.

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