MEXICO

Challenges and opportunities


Photo: Reporte Indigo

Ahead of IP Week 2019, taking place in London on 26–28 February, *Aldo Flores-Quiroga*, Former Undersecretary of Energy for Hydrocarbons, Mexico, highlights some of the latest developments impacting Mexico's oil and gas sector.

Since the new government entered power, what is being done to encourage new development and foreign investment in Mexico's oil and gas sector?
Mexico's new government has suspended the auctioning of exploration and production (E&P) blocks, a process that the preceding administration launched in 2015 to attract private investment in the oil and gas industry. President Andrés Manuel Lopez Obrador has stated his preference to wait until private oil companies demonstrate palpable results derived from the E&P rights they were awarded. He has emphasised that contracts between the Mexican State and these companies will be fully respected.

Between 2015 and 2018 the Mexican government held nine bid rounds, awarding 103 contracts to 73 oil and gas companies from 20 countries. Pemex also held bid rounds to farm-out some of its projects, finding partners for one deepwater and two onshore blocks; and it 'migrated' four production projects to the new contractual regime, which offers more flexible fiscal terms. The combined expected investment of private companies and Pemex in these 110 blocks is estimated to reach $160bn – assuming they reach the commercial stage.

Pemex will decide whether to operate on its own the remaining 428 blocks it was awarded in 'Round 0' or seek more partners. The company has announced it will tender a set of service contracts to accelerate drilling and enhance recovery in existing fields.

Gas is becoming more important, but demand is outpacing storage, transportation, and distribution capacity – how is Pemex tackling this?
Mexico's natural gas storage is the reserves Pemex holds underground. No other form of storage has been developed to date in the country. However, the Mexican government published a new Natural Gas Storage Policy in 2018 that requires the new transportation operator created by the energy reform, CENAGAS, to store five days of domestic demand by 2026. To comply with this policy, CENAGAS selected a field for underground storage in the Gulf State of Veracruz, after a survey conducted with the support of the National Hydrocarbons Commission. CENAGAS is expected to auction this project in the first or second quarter of 2019.

Pemex lost its monopoly over imports, storage, transportation and distribution of natural gas as a consequence of the energy reform of the early 1990s, while the more recent reform of 2013 mandated it to sell its transportation system, known as SISTRANGAS, to CENAGAS. The purpose was to facilitate the entrance of more players and foster competition in the natural gas market. CENAGAS conducted bid rounds in 2017 to allocate SISTRANGAS capacity among private suppliers and consumers. Today, more than 60 private companies participate in this segment and represent 30% of the volume. Private investors are also set to expand national transportation capacity from 11,000 km to 18,000 km in 2019.

How is Pemex' $23bn programme to upgrade its refineries in partnership with the private sector progressing?
The Mexican government stated three main objectives for Pemex in 2019 – increase oil and gas output, conclude maintenance and repair work at the country's six refineries, and build an additional refinery. The company's budget will be 20% higher in 2019 than in 2018, an increase not seen since the oil-price fall of 2014–2016 that debilitated its financial position.

A larger budget will allow Pemex to make progress in its refinery maintenance programme and reduce the incidence of unprogrammed stoppages, a fundamental factor in the pronounced fall of refined products output and the stark rise in imports, which amounted to 60% of domestic demand in 2018. During the presentation of the National Refining Plan in December 2018, the government outlined the actions it will pursue to increase the operational efficiency in each refinery.

Partnerships to upgrade refineries, as well as the specifics of the new refinery – its size and configuration – have yet to be determined or made public. Building activity for the new refinery has been limited to clearing the grounds where it will operate, in the Dos Bocas port of the South Eastern state of Tabasco, the main hub for Pemex's oil exports. The government expects to have the refinery up and running in three years.

What is Pemex doing in terms of developing new renewables initiatives in response to the global energy transition?
Pemex is an integrated oil and gas company. It can consume electricity generated with renewable sources of energy, but it does not operate directly renewable energy power plants. The national power company, CFE, and the private sector are the main providers of renewable energy to the national grid.

Pemex does have a commitment to support the climate agenda and to operate with social and environmental responsibility, with a programme to reduce venting and flaring of natural gas and overall reduction of its CO_2 emissions. The company is supporting renewable energies indirectly, considering that a share of its oil revenues is mandated by law to support research and development of new technologies, including clean energy. ●