Committee on Gas and Committee on International Relations

Mexico Regulatory Reforms

Tuesday, February 11, 2020 | 2:45 – 3:45 pm
Mexico’s energy sector: a very brief history

- 1901 - first commercial oil production
- 1938 - Oil Nationalization
- 1979 – Cantarell field starts production
- 2013 – Peña Nieto Constitutional reform
- 2008 – Calderon reform attempt
- 2004 – Peak oil production
- 2015-18 – Oil rounds
- 2018 – AMLO election & suspension of bidding rounds
- 2019 – uncertainty & institutional erosion
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Mexico’s Natural Gas Policy and Regulatory Highlights under AMLO Administration

José María Lujambio
President AMLO leads a nationalist-statist-populist unstable coalition: energy “sovereignty” focus, seeking to increase domestic production, strengthening State-owned Pemex (and CFE).

Suspension of E&P bidding rounds as well as farm-out schemes; announcement of “new” fields (Quesqui), and some old-fashioned unattractive service contracts.

Ambiguous statements about hydraulic fracturing. MORENA initiative to ban it, although generally, environmental enforcement does not seem to be a government priority.
Midstream & Downstream

• Controversy between CFE as shipper and pipeline transportation giants Sempra, TransCanada, as well as Carso and Fermaca.
  • Several months of uncertainty, impacting the whole economy.
  • Diplomatic involvement.
  • Agreement reached apparently supposes longer contractual terms but smaller rates per year.

• Major projects finalized (Sur de Texas-Tuxpan, Wahalajara system), but no new bids.

• Energy shortages in the Yucatan peninsula.
  • Recently announced: Engie’s Mayakan pipeline will be connected to the national grid (SISTRANGAS) through a government-sponsored pipeline (Cuxtal I).

• Power generation: fossil fuels over renewable sources (CCGT projects – government estimates 30 GW in next 30 years).
What’s next?

- No significant constitutional or legislative changes should be expected.
- National Hydrocarbons Commission (CNH), but particularly Energy Regulatory Commission (CRE) and environmental agency ASEA will be significantly weaker, with less relative autonomy.
- CENAGAS as integrated system operator, now as purchaser for regular balancing purposes. Storage is still a big need but projects slowed down.
- Market will keep growing: huge coverage opportunities, and end users always looking for better options.
- Eventual domestic price hubs somewhere in the system’s main pipelines.
MANY THANKS

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Mexican balance: declining domestic production

Domestic production is sharply declining. Investments would just curb the plunge without changing the trend.

Dry Gas Production (Mcfd)

**Processing facilities:** 2015-18 annual decline of 1.3 Bcfd

**Wellhead production:** constant decline (except for Ixachi).

**Ixachi:** started injecting gas in 2019. Goal 2022: 0.6 Bcfd

More than 50% of the Mexican natural gas demand is met by imports:
- Pipeline- US natural gas.
- LNG regas facilities (Manzanillo and Altamira).
2019: Natural gas imports through 21 cross-border receipt points. SISTRANGAS is supplied through 7 international interconnections (5 direct, 2 indirect).

Daily exports from US to Mexico Mcfd

Import capacity Bcfd

Expansion of the pipeline network: import capacity from 8.35 to 13.5 Mcfd

Plot showing daily exports from US to Mexico and import capacity.
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