Energy Intelligence

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MARKET VIEW: Political Tensions Aside, US/Mexico Gas Trade Won't Be Curtailed

Relations between the US and Mexican governments may be shaky these days, with talks building of a border wall and unwinding free-trade agreements. But none of that appears likely to stem the flow of US gas moving across the border to meet Mexico's ever-growing energy needs.

That was the theme last week at the US-Mexico Natural Gas Forum in San Antonio, Texas, where talk centered far more on market fundamentals than on policy or politics.

US firms are investing billions of dollars in a years-long effort to build pipelines that might be able to deliver up to 9 billion cubic feet of gas per day to the US-Mexico border by 2025 -- and even that could be well short of Mexico's future needs.

For Mexico, the die is truly cast, Hector Moreira told *Natural Gas Week* on the sidelines of the conference. Moreira, a member of Mexico's National Hydrocarbons Commission, said when it comes to energy policy liberalization south of the border, "there is no going back. If anything I think it is going to go faster and faster."

Driving this acceleration in Mexico is next year's presidential election. "The way it works in Mexico is that once you have a new president ... the sitting president has to make a deal with you," Moreira explained. "He cannot take any decision he did not tell you beforehand."

This so-called co-government is meant to ensure continuity. It also means that reformers, with the six critical months of this arrangement beginning in May of next year, have to move as quickly as possible now.

"Liberalization cannot be turned back; the question is can it be accelerated or decelerated? It depends on who wins the next election," he said. "If the left wins the next election they are going to say we are going to need a couple of years to find out what is best for the country and it's going to decelerate. If the next election is won by the right wing party or the PRI, which is the sitting government, it is going to accelerate."

This is equally important to the US, which stands to benefit mightily from the growing gas exports to its southern neighbor, said Jim Duncan, director of Market Research for ConocoPhillips.

Foremost, Mexico will be strategically important as a demand market that Canada isn't, by assuming a critical role as an outlet for burgeoning associated gas in Texas -- especially as basin competition presses Marcellus and Utica Shale supplies into Midcontinent and Gulf Coast markets, he told NGW (NGW Jul.3'17).

This interdependence could also bring the two nations together in a way that has proved elusive, he said. But whether this strategic partnership will be forged depends on US willingness to respect Mexico as an equal partner and deal with customers on a more personal level than Americans are used to.

There are also practical matters that cement progress made to date, Moreira said. Mexico's Constitution had to be rewritten to liberalize the sector and changing it back could be impossible in an era of divided government. Also, within five years "half of the production is going to be private and ... half of the electricity will be produced by private companies. So how do you go back from that?"

In addition, if gas use attains high-end expectations, even 9 Bcf/d of imports from the US would be 2 Bcf/d shy of the country's needs. Some of the shortfall could be covered by increasing domestic production, but LNG is an untenable option, Moreira said. Why, he asked, pay $7 per million Btu for LNG when you can buy gas in southern Texas for $3.50/MMBtu?

"The answer is to build more infrastructure," he said, adding that more cross-border pipeline capacity will be built than people anticipate.

"We are going to need gas from the US," Moreira said. "The needs of Mexico are so big, there is no way we are going to produce it internally. CFE produces 50% of our electricity from natural gas, it's going to have to be 70%. So where is that gas going to come from?"

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The *Natural Gas Week* composite spot wellhead price this week is $2.69/MMBtu, 7¢ more than last week and 26¢ more than the Aug. 22, 2016, average. The spot delivered-to-pipeline price this week is $2.63/MMBtu, 30¢ more than last week and 21¢ more than last year's corresponding average.

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