Energy Intelligence

NATURAL GAS WEEK

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MARKET VIEW: US-Mexico Gas Partnership Likely to Succeed, Even if it Takes Time

Three things crystallized at the second US-Mexico Natural Gas Forum last week in San Antonio: Potential demand for US gas is off the charts; obstacles to bringing that gas to Mexico remain formidable; and there is a pervasive optimism, however cautious, that by the end of next year Mexico will possess an 11,800 mile pipeline grid mainly supported by imports from north of the border.

The key difference from the first forum is that the administration of leftist President-elect Andres Manuel Lopez Obrador is no longer an abstraction but will be a reality as of December, when the six-month transitional period provided by Mexico's political system comes to an end (NGW Aug.21'17). Lopez Obrador is already wielding presidential power, speakers said, but there are still questions about how he will act in advancing or stalling energy reforms.

"Sometimes he says what he's thinking, but it's what he does that matters," said Michelle Brocklesby, a sales executive with Latitude Technologies, which was at the conference to show off its software that would facilitate Mexico's integration in the North American gas trading system. And Brocklesby reflected an almost universal attitude that Lopez Obrador might put some speed bumps in the road, but he won't run the process into a ditch.

"It's gone too far for that," said Victor Galido, a business development officer with TransCanada Mexico, which is about to start gas flows on its offshore Sur de Texas Pipeline from Brownsville, Texas, to Tuxpan, Mexico, southeast of Monterrey.

It was noted that, as the longtime leftist mayor of Mexico City, Lopez Obrador also exhibited a pragmatic side that got things done. The key question is which side will dominate in his six-year tenure.

That Mexico is hungry for US gas was palpable. Edgar Ortega, Owens Corning's legal manager for Mexico, told Energy Intelligence that his reason for coming to the conference was to drum up another source of gas for his factory in Mexico City. The Owens Corning plant -- and several other factories in his area -- are having supplies severed by Pemex, leaving the firms with no gas to fire the furnaces needed to melt fiberglass used in its production.

Without another source of gas supply, Ortega said his factory will be forced to shut down operations as will the other gas-dependent operations.

Two things are at play in Ortega's plight, according to other conference attendees who spoke informally with Energy Intelligence. And it puts a face on Mexico's dual energy challenge -- declining domestic gas production from more than 5 billion cubic feet a day in 2010 to about 2.8 Bcf/d in 2018, versus rapid growth in gas consumption to around 8 Bcf/d. making Mexico the world's eighth-largest gas market.

The legacy Pemex system that supplied the region to the south of Mexico City brings in gas associated with rapidly declining oil production in southern Mexico. This was once not such a problem as Pemex could order CFEnergia, the national power company, to stop burning gas at selected dual-fueled power plants. But that changed once efforts were launched to open the power grid to competition.

The process is painful, said one attendee from a major US energy company operating in Mexico. But it's necessary, he and others from both sides of the border said, if Mexico is to continue transitioning to an industrialized economy. And key to that is relying less on expensive LNG imports by tapping into vast reserves of relatively cheap gas, especially from the Permian Basin.

But it's not so easily done. The offshore Sur de Texas Pipeline won't be flowing its full 2 Bcf/d capacity for a good while and will initially supply about 250 million cubic feet per day to fuel two power plants now supplied by LNG imported at the Altamira. The pipe needed to bring gas inland to Tula, where it will connect to the larger grid, is mired in consultations with indigenous groups that continue to drag on.

And this is not an isolated case, as similar obstacles are delaying a number of pipelines for as long as a year or more (NGW Oct.29'18).

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The *Natural Gas Week* composite spot wellhead price this week is $3.48/MMBtu, 71¢ more than last week and 66¢ more than the Nov. 20, 2017, average. The spot delivered-to-pipeline price this week is $4.75/MMBtu, $1.06 more than last week and $1.84 more than last year's corresponding average.

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