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US-Mexico Pipeline Build-Out Shaken as Defiant TransCanada Halts Work

US efforts to ramp up gas exports to Mexico hit a major snag last week when TransCanada -- fed up with the pushback it has encountered building two gas pipelines in the Mexican state of Hidalgo -- said it is halting construction on the projects.

In the process, the Canadian pipeline giant is throwing a challenge to incoming Mexican President Andres Manuel Lopez Obrador to rein some of his most ardent supporters' demands, which are threatening gas-grid expansions across the country.

In statements, TransCanada showed its frustration with the consultation process that gives indigenous groups and farming collectives a key say in whether and under what conditions a gas pipeline can cross its lands. That constitutional right was not only reinforced but strengthened by Lopez Obrador during the six-month transition period that started with his election in July and ends with his officially taking office in December ([NGW Aug.21'17](#)).

In response to questions from Energy Intelligence, TransCanada clarified that the work had stopped on both the Tuxpan-Tula and Tula-Villa de Reyes pipelines -- but only on those portions within Hidalgo northeast of Mexico City.

"Entry into operations has been delayed due to multiple problems that stem from the issuance of permits to irrational and excessive requests by local authorities and communities in the state of Hidalgo," TransCanada explained. "There is deep social and legal uncertainty that hinders the successful, albeit untimely, completion of the projects."

In an open letter published in several Mexican newspapers last week, TransCanada was even more blunt. "The social and legal uncertainty that prevails in this state makes the continuity of our investments impossible," the company wrote. "On multiple occasions, social groups have made irrational requests that border on extortion and have performed acts outside the law."

The pipelines, originally set to start operations in December with the completion of the offshore Sur de Texas pipeline, had already been delayed to the third quarter of 2019. Both lines are vital to delivering almost 0.9 billion cubic feet of US-sourced gas into the Mexican heartland -- supply that will be delivered by the major pipeline that originates near Brownsville, Texas, and enters Mexico at Tuxpan in Veracruz state.

However, Victor Galindo with TransCanada Mexico told Energy Intelligence last week that Cenagas, which oversees Mexico's gas transmission system, could be capable of bringing about 0.5 Bcf/d into its grid at an interconnection at Monte Grande near Tuxpan, and he expected Cenagas to hold an open season for the capacity.

This massive marine pipeline, which is set to begin operation by early in the first quarter, benefited from its route along the Gulf of Mexico's relatively shallow offshore shelf, where environmental issues were minimal and consultations with indigenous and farming groups unnecessary, Galindo previously told Energy Intelligence on the sidelines of the US-Mexico Gas Forum earlier this month in San Antonio.

Sur de Texas will initially deliver about 250 million cubic feet of gas per day at Altamira, where it will be used by power plants now supplied by much more expensive LNG, Galindo said.

Exactly how this latest development will impact the timetable for starting Sur de Texas flows to Tuxpan wasn't clear, although TransCanada said it is "evaluating our options." It also noted that the consultation process is proceeding in neighboring states.

"Without exception, the prompt and decisive intervention of state governments has allowed us to move forward with our projects in each jurisdiction," TransCanada said. "We assume this is so because state governments are ready to identify and recognize the benefits that natural gas has on economic and industrial development. Ensuring economic development and continued industrial growth without the low-emission and low-cost benefits of natural gas makes the talks all the more difficult."

The company said its "perception is that state authorities in Hidalgo lack the will to resolve outstanding issues, hindering our progress, leading us to believe that Hidalgo does not want a steady and safe supply of natural gas," adding that it is looking at alternatives to the current route through Hidalgo.

TransCanada is not alone in its plight, as a number of pipelines have seen delays of a year or more due to obstacles thrown up by the Mexican consultation system ([NGW Oct.29'18](#)).

This presents a singular challenge for Lopez Obrador. Speaking at the San Antonio conference, Tony Payer, director of the Mexico Center at Rice University's Baker Institute, noted that this complicated populist politician has a strong pragmatic streak, but it's unclear how he will address consultation battles.

Lopez Obrador knows that pipeline access to relatively cheap US gas is a path to increasing industrialization and rising wages in Mexico. However, he is also beholden to rural voters who have in many ways been bypassed by Mexico's rising prosperity and often lied to by project developers, who promise compensation for their land but don't deliver.

For its part, TransCanada has taken the position that it is the Mexican government's responsibility to resolve landowner issues. And as a further incentive for Lopez Obrador to act soon, TransCanada is being paid by the government for the capacity even while the 56 mile stretch is on hold due to a clause in the contract.

Nueva Era Pipeline Advancing

Meanwhile, work continues on most of the 11,000 mile pipeline build-out south of the border, which could transport 6.9 Bcf/d of gas imported from the US by 2020, according to an Energy Intelligence Research & Advisory group outlook.

For years, LNG imports accounted for much of the gas imported into Mexico -- Cheniere Energy shipped 41 cargoes there last year, making it the top destination for Sabine Pass LNG supplies. However, Mexico is phasing out LNG imports in favor of cheaper piped-in gas, most notably from rising associated volumes flowing from the Eagle Ford Shale and Permian Basin of South and West Texas.

The Nueva Era Pipeline project is a prime example of what is going right in this effort, said Mike Howard, CEO of Howard Energy Partners (HEP). "We are the poster child of Mexico's energy reform," Howard said on the sidelines of the San Antonio forum.

Nueva Era, jointly owned by HEP and Grupo Clisa, began flowing gas in July. It includes a dedicated gas-gathering system for producer-shippers in the Eagle Ford region, as well as two 200 MMcf/d capacity gas processing plants. This provides the baseload supply for the pipeline, which also has interconnections with other pipelines in South Texas if needed supply falls short.

The 200 mile gas line, which crosses the border at Laredo, Texas, is like many new cross-border projects in that most of its 500 MMcf/d capacity will go unused until an end-user market develops in and around Monterrey, Mexico. However, it is delivering some 200 MMcf/d of gas to power plants and that is expected to continue

growing.

The pipe's capacity might eventually be expanded within five years to roughly 1 Bcf/d by adding compression, said Howard, whose optimism seemed undimmed by a coming shift in the political climate.

"It has to do with a new administration," he said. "But whether it will be better or worse, I have no idea."

Tom Haywood, Houston

