



EXPORTS

## PTSD Lingers in Mexico's Gas Market From February Freeze

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Mexico's growing gas sector might face an uncertain future as Mexico's nationalist-leaning administration tightens its grip, but it's last February's gas crisis north of the border it can't shake off

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Why? When Texas Gov. Greg Abbott ordered out-of-state gas exports curtailed as production plunged in the record cold enveloping the state, he also undermined Mexico's faith in Texas as a reliable partner.

"I think that we should remember that an executive order written on a single page was enough to put the entire energy supply of the country at risk for about a week," said Duncan Wood, director of the Wilson Center's Mexico Institute speaking at the US-Mexico Natural Gas Forum held last week in San Antonio. "And I think that that's something we should continue to be aware of in terms of developing independence policy, if you will."

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Mexico's suppliers and end-users would heartily agree judging by side conversations at the conference. But they also signaled a resignation that not much can be done to change the country's vulnerability to another arctic blast – whether it comes this winter or decades from now – given that Texas is by far the country's largest external gas source. Some 5 billion to 6 billion cubic feet per day or more flows from the US to Mexico, most of it produced in the Permian Basin.

“What can you do?” Miguel Barrios Antonio asked Energy Intelligence. Barrios handles gas purchases for a 500 megawatt combined-cycle gas-fired plant that supplies power for Mexico's largest copper mine operated by Grupo Mexico. As gas imports dwindled during the crisis, the power plant was shut down and a scramble ensued to find alternative sources of power for its electrified operation.

It was a hard lesson, Barrios said, but one that led the company to begin adding dual-fuel capacity at the plant in the event this ever happens again.

The only benefit to the force majeure was that the company only had to pay for a relatively small amount of gas priced at Texas benchmark Waha Hub, which skyrocketed to \$217.37 per million Btu in Feb. 16's frenzied trading at the height of the storm. By the time the dust settled, the company's gas bill was roughly three times higher than normal, he said.

Grupo Mexico wasn't alone. Most companies turned off the taps rather than pay exorbitant prices for what supply that was available during the crunch, a gas supplier with Macquarie Energy Mexico told Energy Intelligence.

### **Solutions Elusive?**

Lingering anxiety from last winter's events is mainly fed by how unavoidable it was once set in motion. The nearly week-long arctic incursion, which took temperatures to lows not seen in decades in Texas, shut in 13 Bcf/d – 41% of the state's gas production – prompting the governor to divert what gas was available to home heating and to gas plants that were still operating.

Conference panelists bandied ideas on how to prevent a replay of February's chaos, mainly by increasing available storage capacity either in Mexico, or more practically in Texas.

Texas Railroad Commissioner Jim Wright also assured attendees that his agency is “actively engaged with large producers, natural gas storage facilities, transmission pipelines around the state on their winter preparedness.”

“The winter storm we experienced in Texas and felt in Mexico was a wakeup call to all those who depend on natural gas to be adequately prepared for disruptions and demonstrated the need for greater storage capacity and fuel delivery options,” Wright said, adding: “Storage is key ... for energy security on both sides of the Rio Grande.”

On the sidelines of the conference, Wright said new storage capacity isn't needed for quickly bolstering the system, but employing the more than 100 Bcf of unused storage capacity already in place. That, plus keeping power to compressors that were cut off during the freeze, will go a long way to keeping Texas gas flowing to Mexico.

However, Eduardo Contreras Fuentes, managing director of GIGO Transport that supplies gas to its company GIGO Transport de Mexico, dismissed the idea as wishful thinking.

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"Who would fill the storage anyway? There's no money in it," he told Energy Intelligence.

## Perilous Policies

Public and private weather forecasters are in wide agreement that there is only a minuscule chance that Texas will see a similarly strong arctic incursion this winter. But the Mexico gas sector has other legitimate concerns to keep it up at night.

Foremost, a sector on the cusp of becoming a mature market will never get there under the current regulatory and political climate, speakers and attendees widely agreed.

For instance, Mexico's regulatory rulebook has no mechanism allowing someone who holds unneeded capacity to sell it to someone who needs it in a secondary market. This one change would take pipeline operations to a whole new level of efficiency, but it's not likely to happen as long as a resurgent resource nationalism permeates the political environment, attendees agreed.

The administration of President Andres Manuel Lopez Obrador has made no secret of its distaste for the private energy sector's involvement in Mexico's economy. That push crystalized in October when Lopez Obrador released details of a proposed law designed to, among other things, eliminate the country's independent oil and gas regulators.

But unless he can muster a supermajority needed in Mexico's legislature to reverse the 2014 reforms, the regulatory framework will survive no matter how stripped down it becomes, noted Tony Payan with Rice University's Baker Institute. "For him, the future is burning fuel oil to provide electricity. But he thinks it's worth the price to retrench the energy sector back in the 1970s. It's not going to pay off and the next [president] is going to have to face the music."

But no matter what the next decade holds, "Mexico has no intention to switch from natural gas to another fuel," said energy analyst Eduardo Prud'homme, noting like others at the conference that for the US, "Mexico is a big city gate."

The real danger is to firms within Mexico that will see downstream flexibility and competitiveness deteriorate, he predicted. "Basically, we are going to lose a lot of players and ... long-term economic growth could be affected."