



LNG

New Fortress Rolls Out LNG Scheme Tailored for Mexico

Copyright © 2022 [Energy Intelligence Group](#) All rights reserved. Unauthorized access or electronic forwarding, even for internal use, is prohibited.

Wed, Nov 23, 2022

Author

[Tom Haywood, Houston](#)

Editor

[Mark Davidson](#)



Mexico's fledgling LNG export sector advanced this week as New Fortress Energy (NFE) announced it has finalized agreements with Mexico's state-owned oil company to create an integrated LNG export project off Mexico's southeastern Gulf coast near Veracruz.

NFE's agreement with Petroleos Mexicanos (Pemex) — coming as many industry leaders are skeptical of Mexico's planned LNG buildout — gas the blessing of President Andres Manuel Lopez Obrador as it checks a number of boxes for the populist leader. It also avoids the major pitfall most LNG export proposals face in Mexico, including NFE's FLNG Hub proposal offshore Altamira: access to available gas supply.

Rather than sourcing gas from Mexico's pipeline grid, NFE will secure supply by developing the Lakach deepwater as field, which Pemex discovered in 2007 but ceased developing in 2014.

Now considered a stranded asset, Lakach and two nearby gas fields contain an estimated 3.3 trillion cubic feet of reserves. NFE and Pemex estimate that Lakach will produce the needed gas for about a decade — longer if the other gas fields are tied in.

NFE has agreed to drill seven offshore wells at Lakach over the next two years and will deploy its 1.4 million tons per year capacity Sevan Driller FLNG unit to liquefy more than 125 million cubic feet per day of produced gas, which it will buy from Pemex at a contracted rate. Pemex will sell the remaining gas volumes and natural gas liquids to its customers onshore.

Altamira's Woes

NFE's project at Altamira isn't as likely to succeed. The problem: it proposes to source gas from the currently underused Sur de Texas marine pipeline. But this requires securing capacity on the pipeline from the Comision Federal de Electricidad (CFE), which has long-term plans for the capacity.

There are some elements in NFE's favor. In return for access to CFE supply at Altamira, NFE would sell its 135 megawatt La Pax power plant in Baha California Sur and bolster gas supply to the state utility's power plants on the peninsula.

That trade-off could entice the Lopez Obrador administration to allow NFE to deploy two or more FLNG units of 1.4 million tons/yr each offshore Altamira. The FLNGs could also sail away once CFE needs to reclaim capacity.

"I hope they're going for a short-term contract," a Mexico City-based natural gas marketer told Energy Intelligence on the sidelines of last week's US-Mexico Natural Gas Forum in San Antonio. "They still have a lot of things to figure out before actually closing long-term deals [for LNG]."

Lukewarm on LNG Future

Enthusiasm for developing an LNG export sector in Mexico was anything but universal at last week's conference. While US participants touted multiple plans for developing gas liquefaction and export projects in Mexico, many attendees from Mexico seemed lukewarm toward an LNG buildout.

That's because it's not apparent how Mexico benefits from exporting US gas from its shores as it struggles to develop its gas sector. And long-term, LNG could become an impediment to that effort.

That need for firming up long-term capacity for export projects could be the Achilles heel for developing a robust Mexican LNG sector, one speaker at the conference said.

There are compelling arguments for allowing spare capacity on the 5,000 miles of pipelines tendered by CFE to be used transporting gas to LNG export projects. The same goes for CFE capacity on other private ventures such as the underused Sur de Texas marine pipeline.

CFE is paying for firm capacity on the pipelines whether it fills them or not, and many of the power plants the capacity was meant to supply are still in development or still burning fuel oil, which Mexico

has in abundance. But that is today, and future gas needs could be quite different as the value of the fuel becomes more evident, the gas marketer said.

"I think the administration [of Lopez Obrador] has missed the mark in understanding that natural gas is very important for economic development. Gas has been neglected because it's been seen as a byproduct of petroleum and not as the main event in Mexico," he said. "It's so under-recognized that we're thinking about exporting our natural gas capacity instead of using it."

While NFE's Lakach project is tantalizing close to fruition, the only project certain to come on line is Semptra's 3.25 million tons/yr (460 MMcf/d) Energia Costa Azul terminal in Baja California. However, it has a dedicated pipeline from the US and like NFE's Lakach will not usurp capacity Mexico could need for future development.

Consultant Guillermo Turrent, who served as Director of Modernization for CFE when it tendered the 5,000-mile pipeline grid after the 2013 Hydrocarbon Law was passed, told Energy Intelligence that the documents and contracts now guiding the current administration "stipulate exactly how that capacity was going to be used. And I can tell you this right now: it's not for LNG."

Topics: [LNG Projects](#), [Gas Pipelines](#), [Gas-Fired Electricity](#)