

OUTLOOK FOR PIPELINE DEVELOPMENT IN MEXICO

CFE and Pemex push for new projects in advance of the Energy Reform

BOTH PEMEX AND CFE ARE PROMOTING NEW PIPELINE PROJECTS at a fast pace. The companies seem to be racing to get the projects signed off, and funded, prior to the enactment of the most significant energy reform in Mexico in a half-century. Some observers ask: *What's the hurry?*

The new projects are to follow the old rules and style of government procurement. Mexican State-Owned Enterprise (SOE) offers the credit-rating of the Mexican government to serve as a bankable, long-term, service agreement. The criterion for an award is the lowest price. The contractor lays the pipeline at his expense, and is also responsible for obtaining permits and rights of way.



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CFE has already awarded pipeline routes along the western mainland (a project that Pemex had proposed in 1979). CFE is currently promoting five new natural gas lines to feed its power generation needs in northern markets. By 2028, CFE expects gas demand for its customers to be 7.7 Bcfd (Map 1).

Pemex, meanwhile, is promoting a new project that would bring refined products, gas and chemicals across the Isthmus of Tehuantepec. Another idea is a gas pipeline to Guatemala.

This report examines these projects and offers a critique of the current gas market structure in which CFE and Pemex operate. Still in doubt is the opening of the Mexican border to independent gas marketers.

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PERSPECTIVES ON THE MEXICAN NATURAL GAS VALUE CHAIN

File #	Published	Updated	Topic	Pages	Table/ graph
100143	• Oct 02, 12		<p>Tesis 193/2011 ~ Jurisprudence by Contradiction</p> <p>For more than a decade, in Guadalajara and in other cities where the CRE has issued permits for natural gas distribution, LPG interests have successfully blocked the local distribution company (LDC) from installing the pipeline infrastructure. Techniques have changed: in the late 1990s there were physical intimidation and misinformation campaigns, then a series of civil suits. At last, the Supreme Court (SCJN) stepped in, overturning a local court's ruling that Jalisco Civil Code could justify blocking LDC construction.</p>	9	3
100118	• Feb 27, 12	Mar 29, 12	<p>What the CRE Should Tell the Next Government?</p> <p>This report, the first of a series concerning the information that should be provided to the government that will be installed on December 1, 2012, concerns the institutional and policy challenges that confront the Energy Regulatory Commission (CRE) in fulfilling its mandate to regulate the electric and gas sectors on behalf of both public and private investors and consumers. These "challenges" are expressed in this report as a series of problems, each with suggestions about possible solutions.</p>	12	0
100097	• Aug 25, 11	Sep 10, 11	<p>Shale Gas in Mexico: Ready, Aim-Estimate</p> <p>This report reviews the seminar on shale gas in Mexico that was held in Houston on Aug. 23, 2011, at which Dr. Luis Ramos gave the first public presentation by Pemex on this topic. Pemex estimates that in the aggregate there are over 600 Tcf of recoverable natural gas in shale formations. The report also takes note of the study by the Baker Institute at Rice University which provides cost estimates for several shale formations.</p>	6	3
100085	• Apr 28, 11	May 12, 11	<p>Outlook for Natural Gas Pipeline Capacity: Who regulates the Pemex-CFE</p> <p>Mexican power and gas customers are becoming increasingly vulnerable to brown-outs and supply shortages that are both attributable to the lack of available capacity in Mexico's two natural gas pipeline systems: those of Pemex and CFE. Immediate public policy action is needed to integrate the two existing systems and to incentivize the construction of new pipeline capacity.</p>	5	0
100054	• Aug 25, 10		<p>Outlook for Natural Gas Storage in Mexico</p> <p>This market note briefly surveys the unmet expectations related to natural gas storage that have been experienced by policymakers and prospective investors in the fifteen years since this industrial activity was opened to private investment as part of the natural gas legislation of the mid-1990s. The project launched in 2005 between CYDSA and SalTec International is given attention.</p>	2	3
100029	• Mar 04, 10		<p>Energy and Drugs</p> <p>This report inquires into the relationship between illegal drugs and the energy market in Mexico. It is observed that in order to launder money efficiently, drug cartels need cash-based businesses to give the appearance of a legitimate business reason for depositing, daily, large amounts of cash. For this reason, cash-based business such as LPG distribution, gasoline franchises, hotels and massage parlours are ideal businesses for drug cartels. The strong LPG opposition to the expansion of NG should be seen in this light.</p>	1	1

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688	• Nov 21, 06		Calderon's first energy crisis: Natural gas pricing This report predicts that there will be a crisis in public policy over natural gas pricing in the first 100 days of the Calderón administration. The report examines the often-voiced complaints of Mexican residential and industrial consumers that natural gas prices in Mexico are too high. The analysis supports this conclusion, but for reasons not commonly heard in Mexico. The report offers an analysis of the steps needed to lower prices in the short- and medium-terms. It also identifies ideas that are not deemed workable in Mexico.	12	1
08242006	• Aug 24, 06		Natural Gas as a Factor of Regional Development A PowerPoint presentation given by George Baker as a guest lecturer at the business school of the University of Guadalajara on Aug. 24, 2006. The paper argued that the Houston price of natural gas included a “social wrapping” that was not included in the CRE calculation of the Mexican price. The paper also argued the the fully burdend cost of LPG service is much higher than the fully burdened cost of natural gas. The audience was upwards of 50 people, including LPG representatives (in the front row).	16	0
120105	• Dec 01, 05		El monopolio y el precio del gas This report examines alternative views about the pricing of natural gas in Mexico, including one by the Natural Gas Association (AMGN) that urges a cost-based, pricing system. The report was published in Spanish in ENERGIA A DEBATE (December 2005). http://www.energiaadebate.com/Articulos/dic_2005/george_baker.htm	2	0
694	• Jun 23, 05	Aug 6, 06	Indirect and social costs of LPG and natural gas service This report inquires into the total cost of service of LPG and natural gas for residential and commercial customers in Mexico, taking into account costs and risks for the customers and communities beyond those of the regulated prices for each product. Example: consumer fraud in LPG cylinder service has been estimated at US\$500 million annually. This report identifies components of costs and risk for both LPG and natural gas service. Translated titles from the Mexican press provide a glimpse into developments in the Fox administration.	16	12
678	• Oct 22, 04		Natural gas pricing and procurement controversies in Mexico, 1993-2004 This report surveys the landscape of proposals and practices for natural gas pricing, storage and transportation since NAFTA came into effect Jan. 1, 1994. The successes and shortcomings of public and private tenders and direct negotiations are examined in relation to projects in gas, power and refinery upgrades. The report retraces some of the early history of the 1990s as background for developments during the Fox administration.	8	2
667	• Mar 31, 04		Mexican energy in 2003. Year of natural gas This report highlights major developments in Mexico's energy sector in 2003, making special note of advances and setbacks in natural gas, power and energy policy. The report takes note of personnel changes during the year, and contains tables that document the Metrogas pipeline safety controversy in Mexico City and the CRE's five-year review of natural gas distribution permits.	13	3



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