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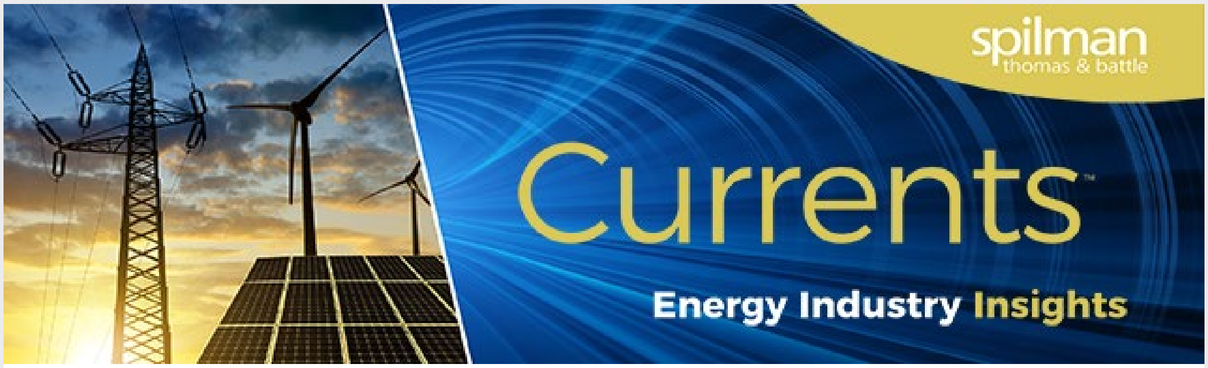

Issue 15, 2020

BREAKING NEWS - Supreme Court Issues Mixed Ruling on Reach of Clean Water Act

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Industry Expert Insights

We reached out to a well-known expert in Mexico in the energy and legal industries to get his thoughts on the current energy climate.

Juan Serra is a partner in the Mexico City office of Basham Ringe y Correa, S.C. His specialties include energy, infrastructure and mining projects.

Juan Carlos Serra
Partner
Basham Ringe y Correa, S.C.

How is the COVID-19 pandemic affecting the energy sector in Mexico?

Exploration and extraction of oil and gas, refining of gasolines, and transmission, distribution and generation of electric energy are considered strategic activities in Mexico, and therefore their continuity is guaranteed during this pandemic. As per government decree dated March 27, 2020, essential activities that may continue being carried out during the COVID-19 pandemic are precisely distribution and sale of energy, as well as those required for the conservation and maintenance of critical infrastructure to guarantee the distribution and production of basic services, meaning electric energy, gas, oil, and jet-fuel.

Energy regulatory government bodies (Energy Regulatory Commission and the National Hydrocarbons Commission) have suspended legal terms and proceedings carried out before them while the COVID-19 pandemic continues. The effect of these suspensions is that permit holders carrying out any procedures before such authorities will have to wait until federal government and such bodies determine lifting the suspension of their activities as to continue the proceedings.

The COVID-19 pandemic has had, and will have, an economic impact in the energy industry. In the past months, Mexican crude oil barrel price drastically decreased its value to an estimated amount of USD $14.17 (as of April 17, 2020). Additionally, many companies with gasoline service stations have reported significant losses in their revenues, derived from the fact that most of the Mexican population is currently in a lock-down.

Although it may be difficult to determine the exact impacts the oil industry is having, it is likely many permit holders having contracts in place (i.e., exploration and extraction contracts with the Mexican State) could fall in contractual defaults regarding their production commitments (as per their corresponding production programs). For the electric energy industry, infrastructure projects projected to be developed by private companies likely will be suspended for reasons such as regulatory suspension from the corresponding authorities or lack of funds/investments.

Secretive Group's Petition to FERC Could 'End Net Metering as We Know It,' Lawyers Say

"The filing makes the case that any behind-the-meter, or customer-sited, energy generation is a wholesale sale, subject to FERC jurisdiction."

Why this is important: The article summarizes an attempt at the Federal Energy Regulatory Commission ("FERC") by a "secretly" funded northeast "Ratepayers Association" to subvert the ability of customers to own or lease their own on-site generation (sometimes called distributed energy resources) to meet their own sustainability goals and/or to offset power costs with their own investment (or through leases with third-party providers). Net metering allows the customer to sell any excess power it produces back to the regulated utility. According to the article, if the case at FERC is successful, then the pricing customers receive for net metering from their utility would become jurisdictional to FERC as a wholesale transaction, which means the customer-generator likely would receive a lower price for the excess power and may be subject to other barriers, such as needing to have a rate on file with FERC. In turn, such a ruling could upset state-level regulation of net metering, which has fostered some robust inroads in small-scale solar development. The article also reflects the irony the "Ratepayer Association" pursuing these limitations is echoing utility positions that arguably harm ratepayer interests and limit customer options and competition in the development of certain on-site generation. --- Derrick Price Williamson

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Citi to Stop Working with Thermal Coal Miners, to Reject Funding for Arctic Oil, Gas Exploration

"By 2025, the bank won't provide underwriting and advisory services to the industry and will cut its credit exposure in half, Citigroup said."

Why this is important: Bowing to environmental pressure, Citigroup has announced it will stop providing financial services to thermal coal mining companies by 2030. The company plans to accelerate a shift away from fossil fuels and will reduce its credit exposure to thermal coal by 50 percent by 2025 and cease all underwriting and advisory services to thermal coal by that year. Citigroup believes there will be a significant shift from fossil fuels to renewables and low carbon energy in the effort to fight global warming. Aside from moving away from coal, Citigroup also has announced it will stop financing oil and gas exploration in the Arctic, and it has financed $100 billion in activities to mitigate climate change. All these changes will continue to hurt a rapidly declining thermal coal export market in the U.S. --- Mark E. Heath

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A Hunt for Storage Space Turns Urgent as Oil Glut Grows

"With oil depots that normally store crude oil onshore filling to the brim and supertankers mostly taken, energy companies are desperate for more space."

Why this is important: The coronavirus pandemic has caused worldwide demand for oil to drop by a third. As a result, futures briefly sported a negative cost and distributors are scrambling to locate every available storage space for the glut of oil that exists on the market. Much of the space is already committed to prior leases and not available to house the glut. Although this dynamic characterizes the enormity of the collapse of the world oil markets, there has been opportunity for some who see oil prices creeping upwards once the pandemic is under control. --- Bryan S. Neft

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The Effects of Coronavirus Measures on Electricity Markets

"The most pronounced impact for electricity markets has been a decrease in demand."

Why this is important: Total electricity demand worldwide has fallen an unprecedented 5 to 10 percent, with some regions as much as 15 to 20 percent, due to global measures to fight the coronavirus, such as social distancing and quarantine policies. Along with low seasonal demand, this reduced demand due to the coronavirus has collapsed prices for electricity and as well as oil, LNG, coal, and domestic natural gas commodities. While the reduced demand is resulting in lower pollution, environmental regulators in China and the U.S. indicated they may relax regulatory restrictions as a desire to jumpstart economic activity trumping the concern over air pollution. The financial fall-out and long-term concerns regarding this pandemic also are impacting construction activities with many energy sector projects being placed on hold or canceled and leading to layoffs. As this significantly reduced demand likely will decrease utility revenues, industry experts anticipate the potential for force majeure declarations to break long-term contracts just as many states and countries are halting utility shut-offs for non-payment "to avoid exacerbating energy poverty and worsening economic suffering." While the long-term impacts of the current economic disruption are uncertain, the most lasting effects could be accelerated coal and nuclear retirements. --- Dennise R. Smith

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● Daimler, Volvo Trucks Team Up on Hydrogen Fuel Cells for Heavy Trucks

"Daimler and Volvo Trucks plan to collaborate on development and sales of fuel-cells for heavy-duty trucks, as the costs of new technology and uncertainty related to the coronavirus pandemic are pushing large manufacturers to pool resources."

Why this is important: There are currently significant challenges to utilizing on-board hydrogen fuel cells for transportation. Hydrogen is not very dense and must be stored at high pressure to ensure sufficient on-board supplies. This requires a reinforced vehicle frame that adds substantial weight and decreases efficiency. There are also difficulties in transporting hydrogen to filling stations, as on-road delivery is prohibitively expensive. Producers cannot utilize existing natural gas pipelines to transport hydrogen by itself, but may utilize them to transport a blend of hydrogen and natural gas. Hydrogen fuel cells must overcome this storage issue before they can become an economical alternative to gasoline. --- Nicholas S. Preservati

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● Austria’s Last Coal-Fired Power Station Closes as the Country Pushes Renewables

"Its closure comes as the Austrian government attempts to meet its target of producing 100% of its electricity from renewable sources by the year 2030."

Why this is important: To meet the EU's "European Green Deal" plan to be climate neutral by 2050, Austria set itself aggressive goals to support renewable energy and end coal burning and is carrying them out. Last week, the last operational coal-fired power plant in the country shuttered, the Mellach facility, which has operated for 34 years in the providence of Styria. This comes as a number of other coal-fired power stations have closed in the U.K., with another announced to occur in 2021, further signaling coal's dim future in Europe. --- Dennise R. Smith

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● Sweden Becomes Third European Country to Close Its Last Coal Power Plant

"The closure came earlier than expected with a mild winter accelerating the decision to shutter the plant."

Why this is important: This week, Sweden became the third European county to close all of its coal-fired electrical generation plants. (Austria and Belgium have also closed all their plants.) Sweden plans to use renewables and recycled energy in the future. Six more European countries - France, Slovakia, Portugal, UK, Ireland, and Italy - plan to close their last coal-fired electrical generation plants by 2025. Five more countries - Greece, Netherlands, Finland, Hungary, and Denmark - plan to close their coal-fired generation plants by 2030. Germany plans to close its coal-fired plants by 2038. These developments will continue to weaken thermal export markets. --- Mark E. Heath

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Bearish Stance on Coal Prices Remains

"Research agency Standard & Poor's Global Platts says there is a lack of upside signals for global coal demand, and the agency remains cautious around any significant rebound."

Why this is important: Forecasts for the global coal industry continue to weaken and will negatively affect U.S. producers. Standard & Poor's Global Platts sees no upside signals for global coal demand this year and is cautious of any significant rebound. Coal had a bull market from 2016 to the third quarter of 2018 at which time prices appeared to bottom out. Then prices declined a third in 2019. Platts now sees several 2020 headwinds for U.S. producers. 1) China's domestic production is surging and is now half of the world's production, so it will import less. 2) As natural gas is around $1.70, using natural gas for electrical generation will displace even more steam coal in the U.S. 3) Traditionally low cost lignite coal is now being displaced by natural gas. 4) Russian exports likely will displace both U.S. and Columbian coal exports this year. These events will continue to pressure U.S. coal producers, many of whom have sought bankruptcy protection in recent years. --- Mark E. Heath

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Energy Question of the Week

Last Week's Question and Results

When should the COVID-19 stay-at-home directives be lifted?

- Now - 14.7%
- 1-2 weeks - 14.7%
- 2-4 weeks - 14.7%
- 1-2 months - 14.7%
- Once doctors say it is safe - 38.2%
- Do not know - 2.9%

Which country benefited the most from the recent agreement on petroleum production?

Saudi Arabia

Select

Russia

Select

United States

Select

Venezuela

Select

Other

Select

Do not know

Select

EIA Energy Statistics

Here is a round-up of the latest statistics concerning the energy industry.

PETROLEUM
This Week in Petroleum

Weekly Petroleum Status Report

NATURAL GAS
Short-Term Energy Outlook - Natural Gas

Natural Gas Weekly Update

Natural Gas Futures Prices

COAL
Short-Term Energy Outlook - Coal

Coal Markets

Weekly Coal Production

RENEWABLES
Short-Term Energy Outlook

Monthly Biodiesel Production Report

Monthly Densified Biomass Fuel Report

What are your areas of interest? If there are particular industries or issues that you would like to hear about, email us ! We have a large number of attorneys willing to weigh in on the issues that impact you and your business.

If you would like to subscribe to this weekly e-blast or know someone who would, please email us with contact information and CURRENTS in the subject line. We will add you or your acquaintance to the email list.

If you have any energy questions, please feel free to contact us .