NASEB WGQ Board Chair’s Formal Comments on 2017 WGQ Annual Plan Items 5.a and 5.b (Mexican Addendum)

As part of the 2017 NAESB WGQ Annual Plan, the WGQ Executive Committee proposed and the Board approved a two-step process under 2017 WGQ Annual Plan Item 5:

a. Consider and determine if a need for a Mexican Addendum or Base Contract, and b. Develop the Mexican Addendum or Base Contract according to the analysis completed in item 5.a.

The NAESB WGQ Contracts Subcommittee held a meeting on December 15, 2016 under Item 5.a and is recommending no-action by the Subcommittee on item 5.b to develop the Mexican Addendum or Base Contact at this time.

I understand the meeting had approximately 11 companies participating, but none of the participants were from companies originally expressing interest such as; BP, Santa Fe Natural Gas, Pemex, any of the four Mexican national member companies, or most importantly, the CRE. I could guess it may have been due to scheduling conflicts going into the holiday season. I also had a scheduling conflict and assumed the December 15 meeting would be; a kick-off, organizational, preliminary discussions etc., but I did not anticipate a No Action recommendation to be the result of a single meeting.

As discussed at the presentation made by Meney de la Peza, from the Regulation Unit of Mexico’s Energy Regulatory Commission the week before, the CRE has expressed specific interest in this standards development activity. Building NAESB’s relationship with the CRE, would be beneficial to the U.S. gas and electric markets, especially in light of the January 2017 information posted by the U.S. Energy Information Administration highlighting [Natural gas-fired power plants lead electric capacity additions in Mexico - Today in Energy - U.S. Energy Information Administration (EIA)](http://www.eia.gov/todayinenergy/detail.php?id=29592).

Natural gas is Mexico's largest source of electricity generation, accounting for 54% of the country's generation in 2015, up from 34% in 2005. According to Mexico's national energy ministry (SENER), more than 60% of Mexico's electric capacity additions between 2016 and 2020 are projected to come from natural gas-fired power plants, and significant natural gas capacity additions are expected to continue through 2029.

SENER projects that natural gas-fired capacity will account for 24.9 gigawatts (GW) of total capacity additions from 2016 to 2029. The remainder of Mexico's projected capacity additions are made up of renewables (20.4 GW) and nuclear (3.9 GW). The growth in natural gas-fired capacity is projected to accelerate sharply over the next four years; with SENER projecting that 14.7 GW of new gas-fired capacity will come online by 2020. New natural gas-fired capacity additions are planned to continue through 2029, replacing more than 15.9 GW of retiring capacity, of which most are plants fueled by coal and fuel oil. Most new natural gas-fired capacity additions will be located in the northern and central parts of the country.

New natural gas-fired plants will greatly increase Mexico's natural gas demand. SENER projects an increase in natural gas demand by the power generation sector from 3.6 billion cubic feet per day (Bcf/d) in 2015 to 5.4 Bcf/d in 2029. Expected demand growth will be met mainly by a combination of increasing imports of natural gas from the United States and by large expansions of both cross-border U.S.-Mexico pipeline capacity and Mexico's domestic natural gas pipeline networks.

Recent reforms in Mexico's electricity sector are intended to open it to private investment and create a new wholesale power market to encourage development of cost-effective electric capacity, reduce high electricity costs, and transition Mexico's generation fleet to cleaner fuels. Much of the new natural gas-fired capacity added in recent years replaced petroleum-fired capacity. More than 4.3 GW of fuel oil units were converted to natural gas by the end of 2016. Mexico's Federal Electricity Commission is targeting a 90% reduction in the country's fuel oil consumption for electricity generation between 2012 and 2018, leaving the remaining fuel oil power plants to serve as peaking units for reliability purposes. Most fuel oil plants will be retired, with 6.2 GW scheduled to be retired from 2016 to 2020 and another 4.7 GW from 2021 to 2029, according to SENER.

Similarly, in the United States the electricity industry is planning to increase natural gas-fired generating capacity by 11.2 GW in 2017 and 25.4 GW in 2018, based on information reported to EIA. If these plants come online as planned, annual net additions in natural gas capacity would be at their highest levels since 2005.

In consideration of the tremendous gas-fired generation outlined by the EIA, and a courtesy to parties originally expressing interest by unavailable for the December 15 meeting, I believe the prudent step at this time is to re-schedule a meeting in co-ordination with Mexican representatives before acting on the no action recommendation.

Thank you for your consideration to my concerns,

Valerie Crockett, Chairman, NAESB WGQ