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4-28-1999

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Recommended Citation
LADB Staff. "New PEMEX Processing Plant to Boost Mexico's Production of Natural Gas." (1999).
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LADB Latin America Data Base News & Educational Services
SourceMex
LADB Article Id: 54332
ISSN: 1054-8890

New PEMEX Processing Plant to Boost Mexico's Production of Natural Gas

by LADB Staff
Category/Department: Mexico
Published: 1999-04-28

The state-run oil company PEMEX has opened a new cryogenic plant in southeastern Mexico that could help address the rapid growth in domestic demand for natural gas. The plant, located in Tabasco state, has the capacity to process about 18 million cubic meters of wet gas to produce the equivalent 15.5 million cubic meters of natural gas per day.

With the output from the new plant, Mexico's natural-gas production is expected to approach 150 million cubic meters per day by the end of this year. The latest increase in production is part of a trend that began in the mid-1990s. Natural-gas output increased from about 107.725 million cubic meters per day in 1993 to about 137.37 million cubic meters in 1998. In February of this year, daily production was estimated at about 142.41 million cubic meters. The steady increase in natural-gas production, however, will be insufficient to meet the surge in domestic demand.

A forecast published by the Secretaria de Energia (SE) earlier this year said demand for natural gas in Mexico is expected to reach 13 million cubic meters per day, more than four times the 2.58 million cubic meters recorded in 1998. Mexico to face 20% deficit in natural gas by 2007 Because of the sharp increase in demand, Mexico expects a natural-gas deficit of more than 20% by 2007.

The SE predicted Mexico will become a net importer of natural gas as early as 2001. The US and Canada, Mexico's partners in the North American Free Trade Agreement (NAFTA), will probably supply the majority of Mexico's imported natural-gas. Under a NAFTA timetable, Mexico is scheduled to eliminate all tariffs on US and Canadian natural-gas imports by December 2002.

The US and Canadian governments, with the support the Mexican business community, have been pushing Mexico to eliminate the tariff much sooner. Energy Secretary Luis Tellez has also endorsed a faster phaseout of the tariff (see SourceMex, 1998-10-21). The rapid increase in natural-gas demand is partly a result of the government's efforts to promote the conversion of gas-distribution systems in many metropolitan areas to natural gas from liquefied petroleum (LP). The SE has targeted a reduction in LP usage to 45 million cubic meters by 2007, or roughly one-fifth of Mexican households.

Since 1995, the Comision Reguladora de Energia (CRE) has awarded 11 contracts to Mexican-foreign consortia to construct infrastructure and distribute natural gas in some of the country's largest metropolitan areas. The partnerships that obtained the concessions have thus far invested an estimated US$1.5 billion in the natural-gas projects. Five gas distribution concessions scheduled this year The CRE is scheduled to award another five concessions this year for gas-distribution projects in communities and industrial corridors in the states of Coahuila, Durango, Tamaulipas, Baja California, Aguascalientes, Tlaxcala, and Puebla states (see SourceMex, 1999-01-20).

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The construction of natural-gas infrastructure has been easier in cities like Monterrey, which already had a system of pipelines. Other metropolitan areas like Mexico City lacked such infrastructure, which then required greater investments. Two Mexican-foreign consortia received concessions for Mexico City in July and August of last year (see SourceMex, 1998-08- 05). The two consortia, Metro Gas and Mexi-Gas, are expected to begin major construction in May. Metro Gas, a partnership formed by US-based Lone Star Gas and Mexican companies Grupo Diavaz and Controladora Comercial e Industrial, committed to provide service to 440,000 households within the Federal District by 2003.

But in a recent interview with Associated Press-Dow Jones news service, Metro Gas director Luis Vazquez said the company will be able to provide gas service to as many as 500,000 residential and industrial customers. Mexi-Gas, a jointed venture between Gaz de France and Mexican engineering company Bufete Industrial, has committed to provide natural gas to 35,000 users in the Texcoco-Cuautitlan corridor just outside Mexico City. The corridor comprises 28 communities, all in Mexico state.

Mexi-Gas director Gerard Mallet said the company will be able to provide gas service to 400,000 customers by 2003 and 900,000 users by 2008. The industrial sector is also expected to fuel the rapid growth in demand for natural gas. The SE has projected a 38% increase in demand for electricity in coming years, which will also boost demand for natural gas. Many power plants constructed in recent years operate on natural gas.

Demand for natural gas should also get a boost from the need to create cleaner alternatives for public and private transportation. For example, transportation authorities in Mexico City have introduced buses that run on compressed natural gas to replace vehicles that operate on gasoline or diesel. The SE projects that 140,000 buses and taxi cabs will operate on compressed natural gas by 2007. In contrast, only 2,000 vehicles were equipped to operate on natural gas as of 1998.

Private companies are also expanding construction of service stations offering compressed natural gas. Ecomex, a partnership formed by Gaz de France, Canada's Hydro-Quebec, and US-based Pan American Enterprises, inaugurated the first such station in April of this year in Mexico state, just outside Mexico City. The company is expected to open other stations in coming years. Ecomex will face some competition from Gas Vehicular de Mexico, which plans to open 10 service stations offering compressed natural gas by 2003. This company is a subsidiary of Mexican engineering company Bufete Industrial. (Sources: El Economista, Novedades, 01/29/99; 02/09/99; The News, El Universal, 02/09/99; Reuters, 04/22/99; Associated Press-Dow Jones news service, 04/26/99; Excelsior, 04/27/99; El Financiero International, 04/29/99)

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