

NEW LEGAL FRAMEWORK

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Mexico received an energy boost with the 2013 structural and legal reform (Energy Reform) that ended State monopolies in oil, gas and power industries, opened opportunities for new business ventures and attracted the attention of local and foreign investment. Two years after implementation, the Energy Reform has already resulted in new projects, despite the volatile market conditions:

NEW UPSTREAM PARADIGM

- After nearly 80 years, the oil and gas exploration and production (E&P) market reopened to private investment.
- Petróleos Mexicanos (PEMEX) retained fields representing 83% of proven and probable reserves and 21% of prospective resources.
- The government has already held three Round 1 international bids for E&P contracts, with an allocation of 30 fields.
- The auction for 10 deep-water fields will take place this year with the participation of large-scale international oil companies as ExxonMobil, Chevron, Shell and BP, among others.
- Farmouts for E&P between PEMEX and private entities will allow increased productivity and long-term investments of new players.

- CFE to convert diesel power plants into natural gas generation.

FINANCING ENERGY PROJECTS

- Inspired in Master Limited Partnerships's (MLP) structures, the new "Fibra E" vehicle allows public to invest in tax efficient energy and infrastructure asset-owning entities.
- Recent Public-Private Partnership (PPP) schemes are triggering innovative financing structures attracting participation of local and international institutions.
- PEMEX and CFE as state-owned productive companies, using alternative financing options, such as asset monetization and financial leasing.
- Although the Energy Reform implies opening the sector to private players, the new legal framework

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MIDSTREAM & DOWNSTREAM OPPORTUNITIES

- A sustained expansion in the oil and gas business and the opening of fuel distribution markets call for massive investments in pipeline, storage and port capacities.
- The government opened the gasoline and diesel market of 800,000 barrels per day (bdp); any company with a permit may import fuel as of April 2016
- Private companies can operate all kinds of midstream facilities, which are available to all interested users through open/non-discriminatory access.
- A newly created Independent System Operator (ISO) -National Natural Gas Control Center- will manage the national gas pipeline system.
- Comisión Federal de Electricidad (CFE) plans to add more than 7,500 kms to the gas pipeline system.

ELECTRIC INDUSTRY

- New wholesale electricity market, comprising time-based markets for energy purchase, clean energy certificates and auctions for transmission rights.
- New ISO -National Power Control Center- for the entire electric grid.
- Open/non-discriminatory access to the electric grid and distribution networks.
- Target of 35% production from non-fossil fuels by 2024 and 60% by 2050

also provides regulatory boundaries to assure the establishment of a competitive new market:

- E&P contracts in general require an average of 25% of minimum local content (35% by 2025)
 - Farmouts will be subject to international and transparent bidding processes that maximize financial returns to the State
 - Prior E&P services agreements executed by PEMEX will migrate into new E&P contracts
 - Governmental approval will be typically required to create securities over licenses, permits and regulated assets (e.g., pipelines, water treatment and power plants)
 - New financing subject to comply with Principles of Ecuador (e.g., environmental impact assessment, waste management, air and water emissions, and preventive/mitigation measures with local ethnic or indigenous groups)
 - Additional environmental/social procedures required for infrastructure projects
 - Antitrust limits in vertical-integration and crossed-ownership in regulated activities, such as commercialization of oil products and midstream activities
- With this new framework, it is clear that Mexico passed the critical milestone of implementing the Energy Reform. The ambitious package of legal, social, political and economic improvements offer remarkable business opportunities in all areas of the energy field. ☺