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Natural Resources Subcommittee Hearing



MEXICO'S ENERGY REFORM

José María Lujambio I.

Texas Capitol
September 19, 2014



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History is made...

December 2013: CONSTITUTIONAL AMENDMENT

PARADIGM SHIFT:

Free market model with regulation where needed

21 transitory articles to guide further legislative
and executive action



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A new legal framework

After 3 months of Congressional debate:

9 new statutes

12 amended statutes



Came into force on August 12

10 key features everyone should bear in mind...





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1. E&P

Transparent bidding processes conducted by the
National Hydrocarbons Commission (CNH)
in order to grant **CONTRACTS:**

License / Production sharing / Profit sharing / Services

- Department of Energy (SENER): technical conditions
- Department of Finance (SHCP): financial conditions
- Mexican Petroleum Fund (FMP): revenues' administration



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1. E&P



Also, Pemex can receive **direct assignments**,
with the possibility of **joint ventures** and **migrations**

(**Round Zero** already performed:

Pemex received 83% 2P and **21% 3P reservas**)

Occupation of land surface via direct **negotiations with landowners** (entitled to receive 0.5% to 3% of profits)

Minimum **national content**: 25% in 2015 up to 35% in 2025



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2. Refining and processing



PARADOX:

Deer Park refinery... Pemex – Shell joint venture!

Oil refining and **gas processing**

opened to private investment through

permits granted by the SENER





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3. Hydrocarbons infrastructure

Gas transportation, storage and distribution

were opened to private investment in 1995

(now better rules for **open access** and **system integration**)

Services now opened for

oil, petrochemicals and refined products,

via **permits** granted by the Energy Regulatory Commission (CRE),

under **open access** conditions.



3. Hydrocarbons infrastructure

Gas transportation 2014



Gas transportation 2018





4. Fuels

Gasoline & diesel

- 2016:** CRE starts issuing permits to independent **service stations** (no Pemex franchise)
- 2017:** SENER starts issuing **imports** permits to private companies
- 2018:** **Prices** determined by the market

Propane

- 2016:** **Regulation** transferred to CRE; SENER starts issuing **imports** permits to private companies
- 2017:** **Prices** determined by the market (with focused subsidies)



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5. Power market

Power **generation** and **supply** completely
opened to private participation via **CRE permits** (>0.5 MW)



Wholesale market: qualified off-takers
(>1 MW load after second year)

To be operated by **CENACE** (ISO)



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6. Power utility



Power **transmission** and **distribution** will remain **public services** entrusted to CFE, but private parties may participate via **contracts** and **associations**.

Fees will be determined by CRE based on **cost-of-service** criteria, not by SHCP under economic or social policy considerations.



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7. Regulatory agencies

CNH and **CRE** are stronger:

- Now independent federal agencies, no longer part of SENER (just “coordinated”)
- Commissioners nominated by 2/3 Senate vote (now 7)
- Budgetary provisions
- Self-organization and consultative councils
- Transparency and accountability rules





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8. Safety and the environment

ANSIPAH:

New agency specialized in the hydrocarbons sector,
part of the Department of the Environment (SEMARNAT):

- Industrial and operational safety
 - Facilities' dismantling and abandonment
 - Waste and emissions control
- * Special Congressional concerns about hydraulic fracturing and deep-water exploration and production.



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9. Systems' operators

New public organisms:

CENAGAS: Inherits 90% of the country's existing gas transportation pipelines from Pemex

+ Integrated system operator

CENACE: Planning and operation of the electricity system and market

Their mission:
bringing about effective **open access** to their networks



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10. State enterprises

Pemex and **CFE** as “productive state enterprises”:

- No longer entities directly ruled by the Executive branch.
- Flexibility: special regime on affiliate companies, salaries, acquisitions, assets, budget and debt
- Corporate governance: international best practices
- CFE will be vertically and horizontally unbundled




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Next steps

E&P **Round One** preliminary blocks already announced;
RFPs in **February, 2015.**

Rule making:

- Presidential rulings (accelerated process: October, 2014)
- Regulations (+/- next 12 months)
- “Green Act” (December, 2014)  RPS do not seem enough!



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Thank you

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