



# ENERGY LEGAL REFORM

The Mexican new energy model



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## ■ PART I. Background and legislative process

- México: a precarious situation.
- Energy Industry on the edge of colapsing.
- 2013 Context: ¿Why now?
- From Constitutional amendment to secondary laws.

## ■ PART II. The new energy model

- A glance to the new energy model
- Institutional planning
- Hydrocarbon
- Electricity
- New productive corporations.
- Mexican State Income.
- Transparency and balance statements.
- Sustainability and Enviroment.

## ■ PART III. ¿What is next?

- Green initiative package.
- From legislating to executing.

# **Background And Legislative Process**

México had the challenge to find a model to boost the Economic Growth, and at the same time foresee mechanisms to face unequal opportunities.

**53**

millions

of Mexicans in  
poverty.

**25**

Per cent

Of GDP comes  
from informal  
economy

**.46**

Gini Index

Second country of  
OECD with most  
inequality.

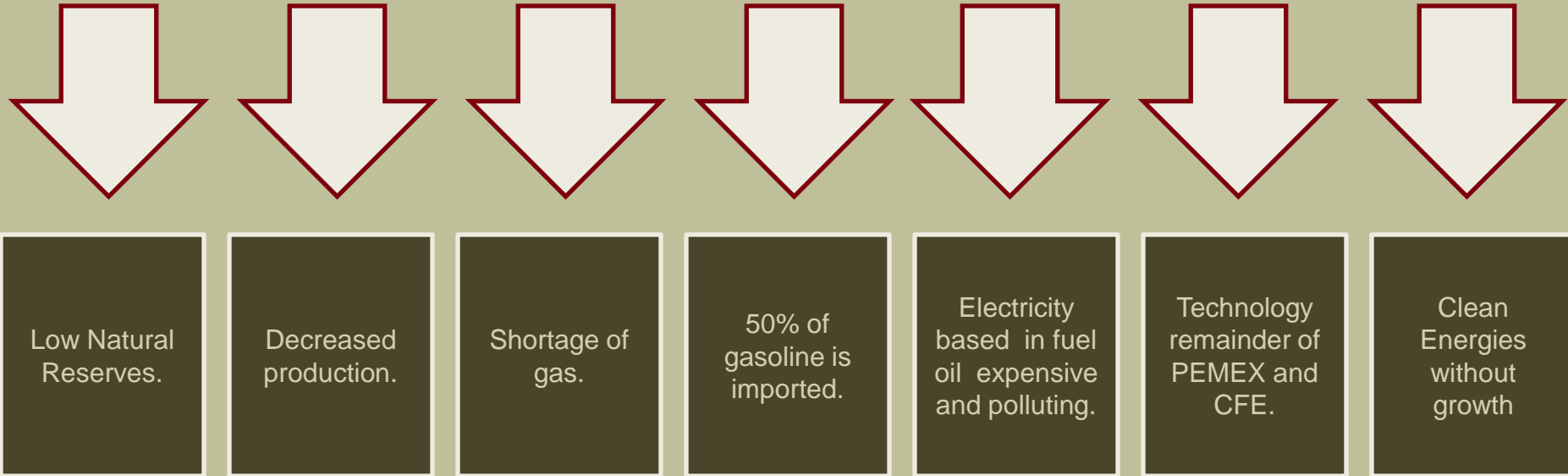
**2.0**

growth GDP

Last decades, low  
growth.

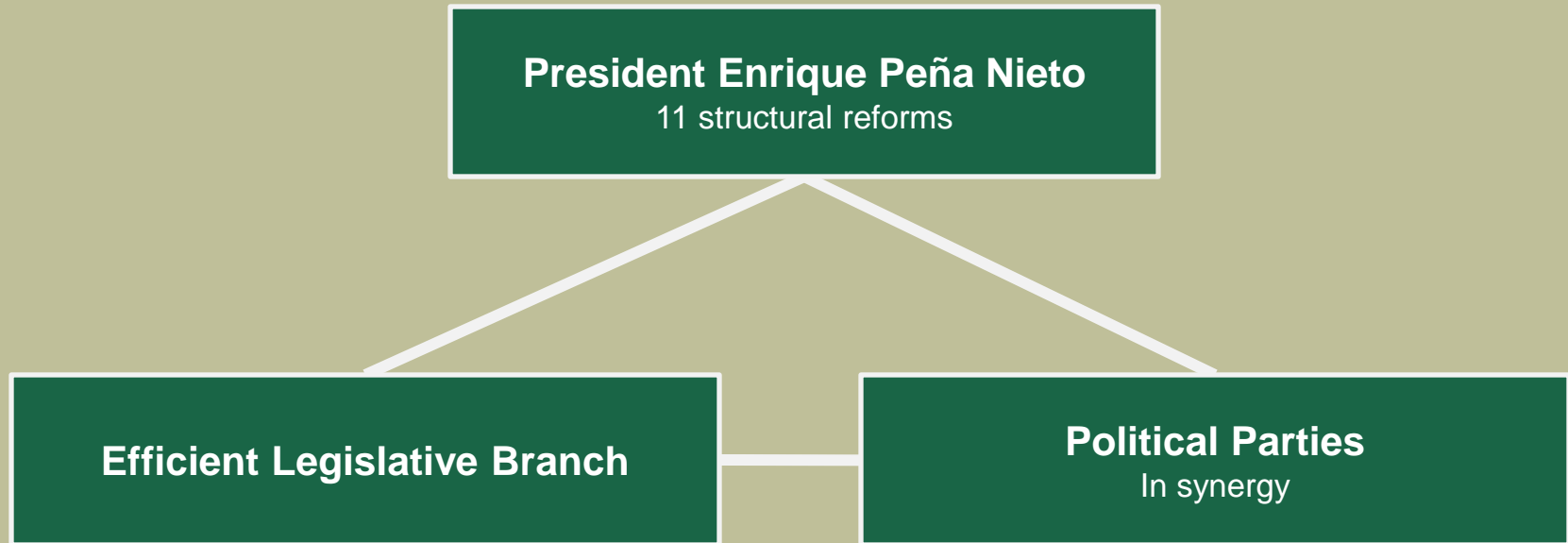
The change in the economy model was indispensable

Our energy sector, was declining...



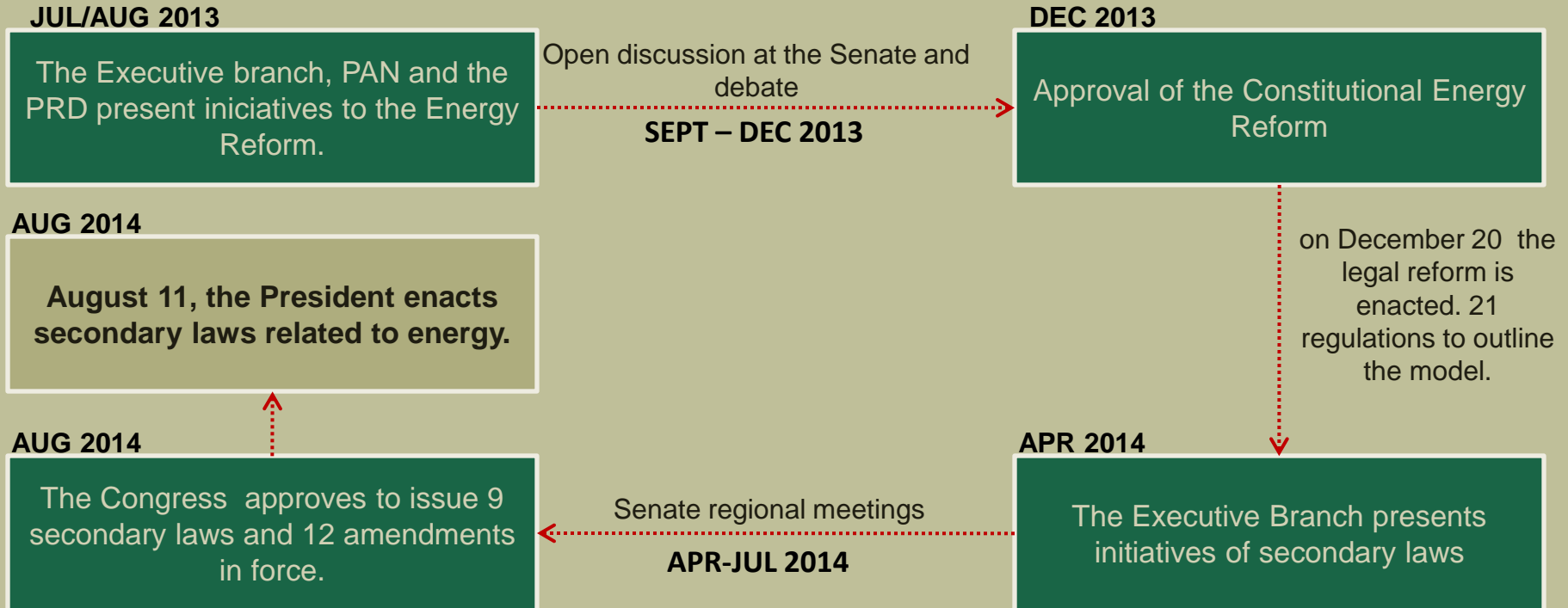
This was a short term, inefficient and non sustainable energy model.

After decades of debates, with legal initiatives that did not succeed, and others like in 2008 that were not enough; in 2013 different conditions are generated:



# Energy Reform: from the Executive initiative to enacting.

In July 2013, President Enrique Peña Nieto, PAN, and the PRD introduce their initiatives to the Energy Reform starting the debates at the Congress.



During the analysis and discussion of the initiatives, in its various phases, the Energy Legal Reform had feedback from different sectors as well as political parties. This was achieved with:

**201**

hours

Of discussion at both houses.

**113**

hours

Commission's discussions.

**376**

days

Took place from the initiatives to enactment.

**1,350**

speeches

Of representatives of all political parties at Congress.



PART II

# The new energy model

## AN ENERGY MODEL OF MEXICANS, FOR MEXICANS



### HYDROCARBONS

- Keeps the State original property.
- Allows sector competition.
- Strengthens the national content.
- Broad options for consumers

*More competition to increase production.*



### ELECTRICITY



- Promotes competition to reduce rates.
- Guarantees supply and energy safety.
- Encourages whole country services.
- Stimulates production with renewable sources .

*Free competition under State rules.*

3 AXES

AUTONOMOUS AND RIGID RULES

TRANSPARENCY AND ACCOUNTABILITY

SUSTAINABLE AND FUTURE PLANNING

# Institutional Design of the Mexican Energy Sector

## Mexican State

**SENER**

- Conducts and coordinates energy policies.
- Awards allocations (included Round Zero).

**SHCP**

Establishes economical conditions for purchases and contracts.

**Contratos**

**SE**

- National Content

**SEMARNAT**

**NATIONAL AGENCY**

- Enviromental protection for the sector through new policies.

TECHNICAL COUNSELING

**CNH**

- Gathers geological information.
- Executes and opens purchases.
- Supervises extractions plans.

RESOURCES PEF

**MEXICAN OIL FUND**

**Coordinated regulatory councils**

**CRE**

- **Hydrocarbons:** regulates and authorizes storage, transportation, distribution, access to ducts and sale.
- **Electricity:** regulates and authorizes production, as well as rates.

**State owned Companies**



**PEMEX**

TRANSFERS



**CFE**

TRANSFERS



**Part State Companies**

**CENAGAS**

Manage of the National Duct System of Storage and transportation

**CENACE**

Manage the National Electricity System, access To the national network of transmission and distribution.

## 5 contracts

Shared profit contracts

Services contracts

Shared production contracts

Licencee Contracts

Contract Including all specifications mentioned before



+

+ or

+ or

+ or

I. PRIVATE

I. PRIVATE

I. PRIVATE

I. PRIVATE

## STEP 1: CONTRACT DESIGN

*Selection of areas to tender*

SENER

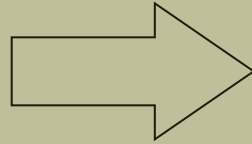
CNH

*Technical guidelines*

SENER

*Fiscal Conditions*

SHCP



## STEP 2: Tendering Process

*Process guidelines*

SENER

*Tendering and allocation of contracts*

CNH

*Signing contracts*

PEMEX

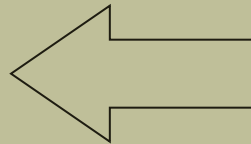
I. PRIVATE



## STEP 4: Income Management

MEXICAN OIL FUND

*Will pay the contracts and manage the State oil income.*



## STEP 3: OPERATION

*Approval of exploration and development plan*

CNH

*Autorization for surface exploration and wells*

CNH

*Technical Management*

CNH

*Regulation and security supervision*

AGENCY

# Gasoline and diesel: dates of aperture and terms of price releases

In the new law gradual release process for imports and prices is considered:

**2014**



Control increases are kept:

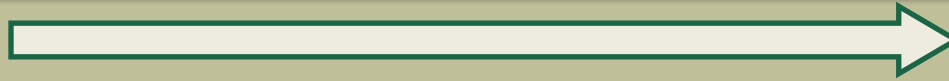
**+ 9 cents**

Gasoline Magna

**+ 11 cents**

Gasoline Premium and Diesel

**2015**



*Maximum prices are kept and are adjusted according inflation.*

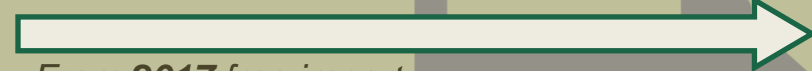
**2018**



*Free price, set by the market conditions.*

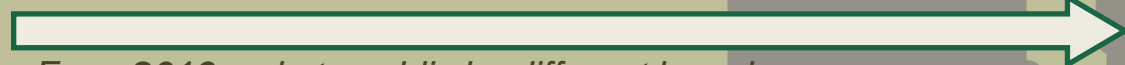
**2020**

**2017**

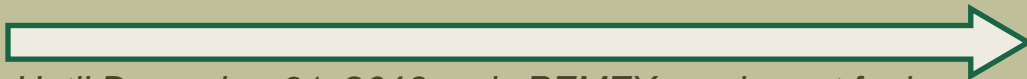


*From 2017 free import.*

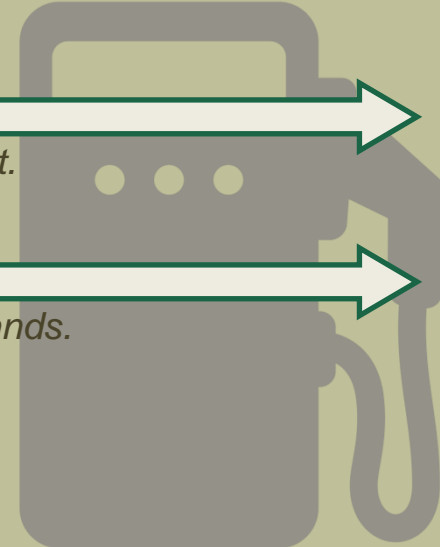
**2016**



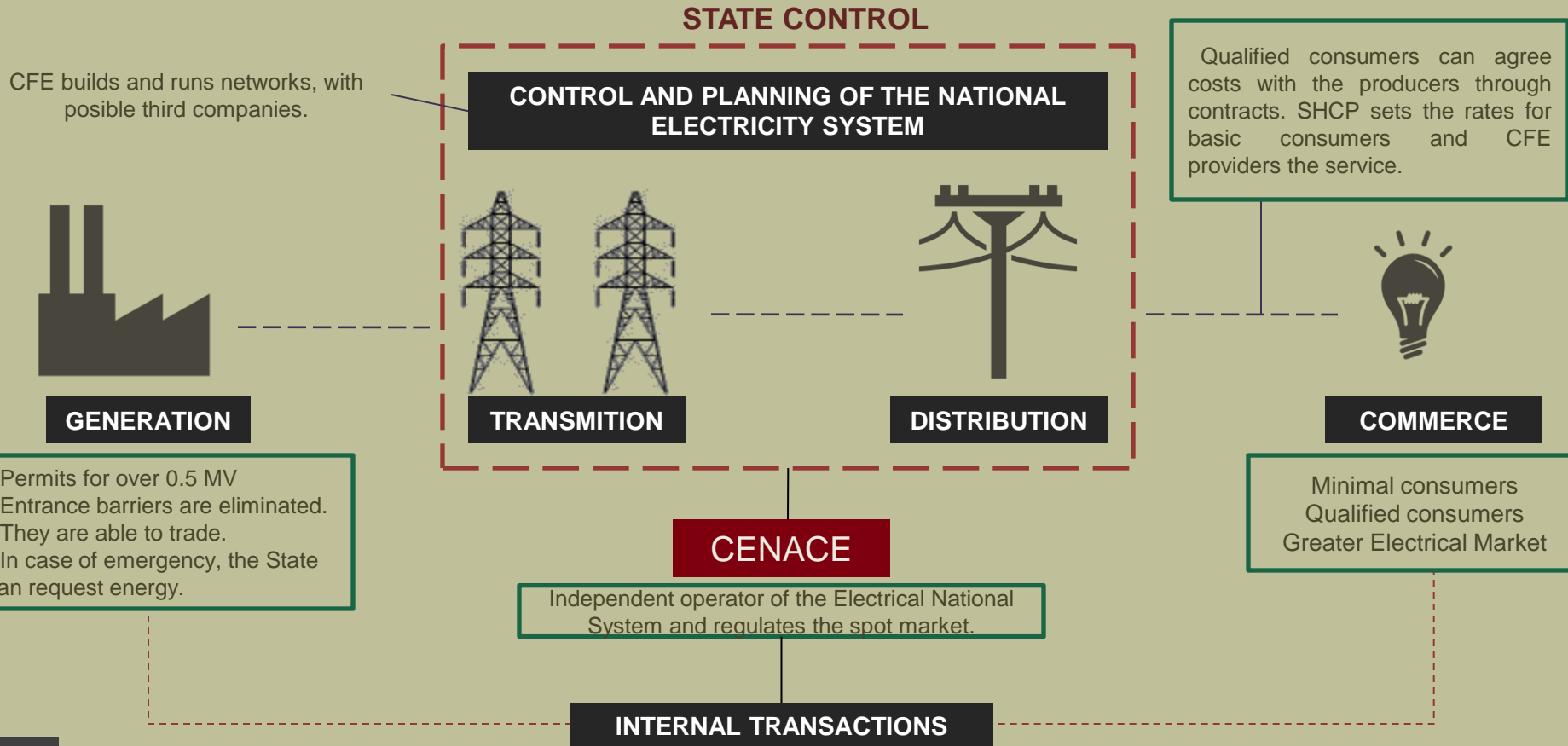
*From 2016, sale to public by different brands.*



*Until December 31, 2016, only PEMEX can import fuels.*



# Electricity: competition under the State rules



## SENER

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Establishes, conducts and coordinates national energy policy.

Establishes requirements to acquire Clean energy certificates.

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Promotes competition.

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Prepares and coordinates infrastructure projects.

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Reaches rural communities and deprived areas.

## CRE

Establishes conditions for transmission, distribution and supply.

Rate regulations.

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Issues foundations for the Electricity market and monitors operation.

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Issues model contracts for interconnecting.

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Grants clean energy certificates.

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Records qualified consumers.

## CENACE

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Operational control of the National Electricity System.

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Safe supply, and continuity of the electricity system.

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Auctions for national electricity contracts.

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Expansion and modernization of the national transmission network.

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Demand guarantees to fulfill contracts.

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## Our Productive companies: ready to compete with the world

### MORE FLEXIBLE

**Flexible legal framework.** Its Law will be the main rule, with civil and commercial law as supplementary.

### MORE INDEPENDENT

Both companies will have full **budget autonomy**.

### MORE CORPORATE

They are created according to the best International practices.

### MORE TRANSPARENCY

Monitoring scheme and auditing results, management and accountability to prevent corruption.

### STRONGER FINANCES

Option to release them from liability with fewer burdens that impede their growth

### LOOKING TO THE FUTURE

Greater freedom to decide how to invest in productive projects to generate more value.



The Constitutional Reform established a **ZERO ROUND**, that allowed PEMEX to keep the fields that would not be tendered. On August 13, 2014, SENER announced the **results of round zero** and awarded PEMEX with:



All Reserves of 2P requested (20 thousand 589 mob).

**67%** of perspective resources requested (22 thousand 126 mob).

PEMEX remains as 5th world leader in proven reserves.

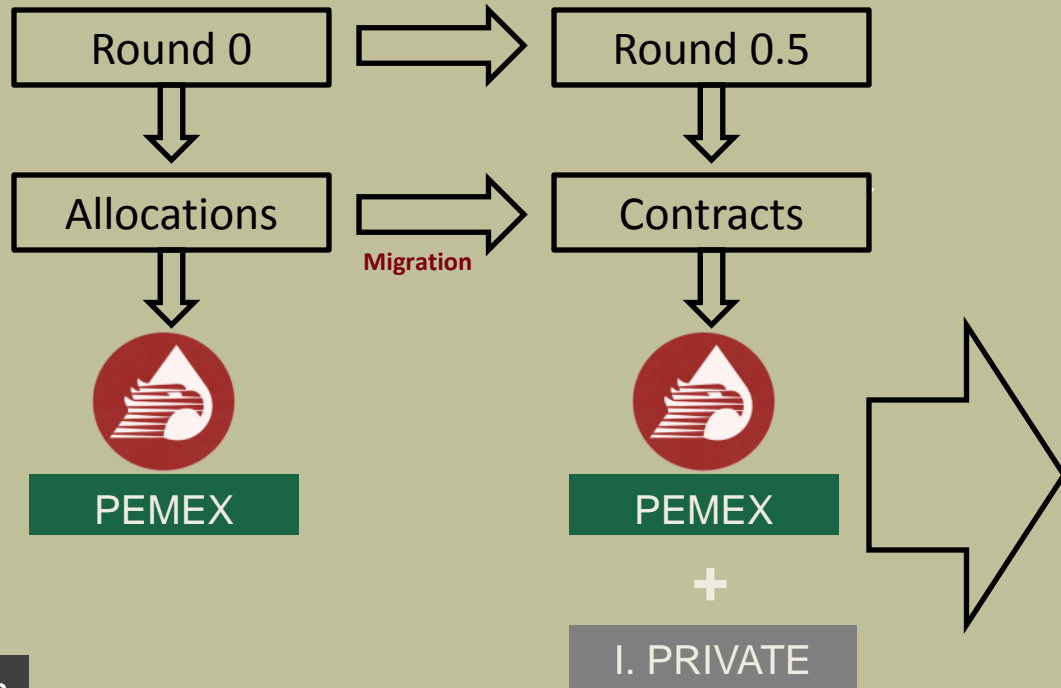
This guarantees that will produce 2.5 millions of barrels per day at least **20.5 more years**.

**IMPORTANT:** Round Zero does not exclude PEMEX of future rounds, so it will may continue participating, independently or associated. Furthermore, the law provides for possible additional allocations to PEMEX as a productive enterprise.

10 PEMEX associations in the short term

The fields have equivalent reserves of 2P and 3P

Average investments per year are estimated at 4 billion dollars



## Fields with technical complexity and high capital investment

Consolidated matured land zones

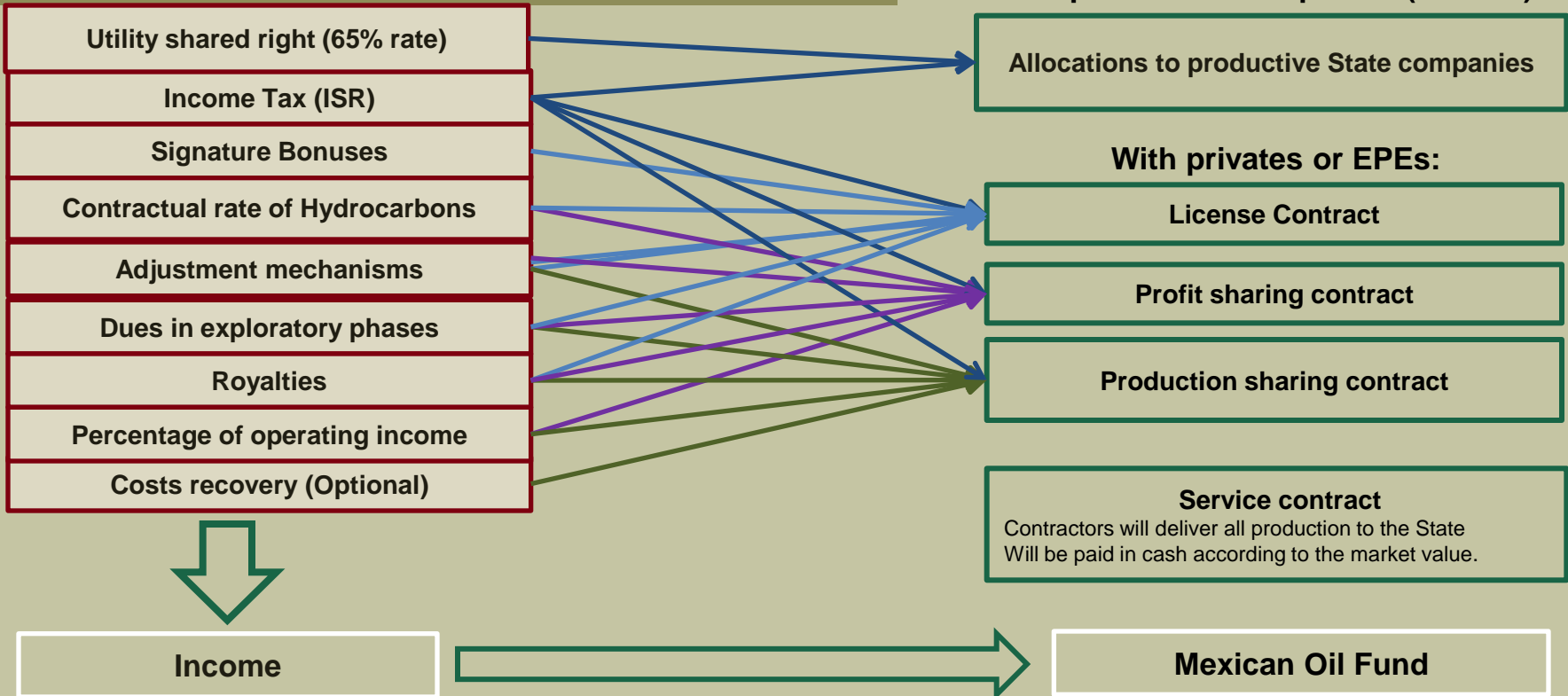
Consolidated matured sea zones

Extra thick oil fields

Large Oil and Gas deep ocean fields

Findings in unknown ocean zones

The new tax regime is oil rents



# Mexican Oil Fund for Stabilization and Development

Our oil revenues will be invested, administered and distributed by the Mexican Oil Fund, a State public trust, with the Bank of México as trustee.



## Expenses on first phase:

Contract payments and allocations
Stabilization Fund of budgetary income
Stabilization Fund of the States budgetary income
Hydrocarbon Extraction Fund
Sector Fund CONACYT-SENER-Hydrocarbons
Sector Fund CONACYT-SENER-Energy Sustainability
Federal treasury for expenditure control (ASF)
Federal Treasury to provide the, PEF up to 4.7% del GNP

## TECHNICAL COMMITTEE OF THE MEXICAN OIL FUND:



Governor  
**BANXICO**



Ministers of  
**SENER Y SHCP**



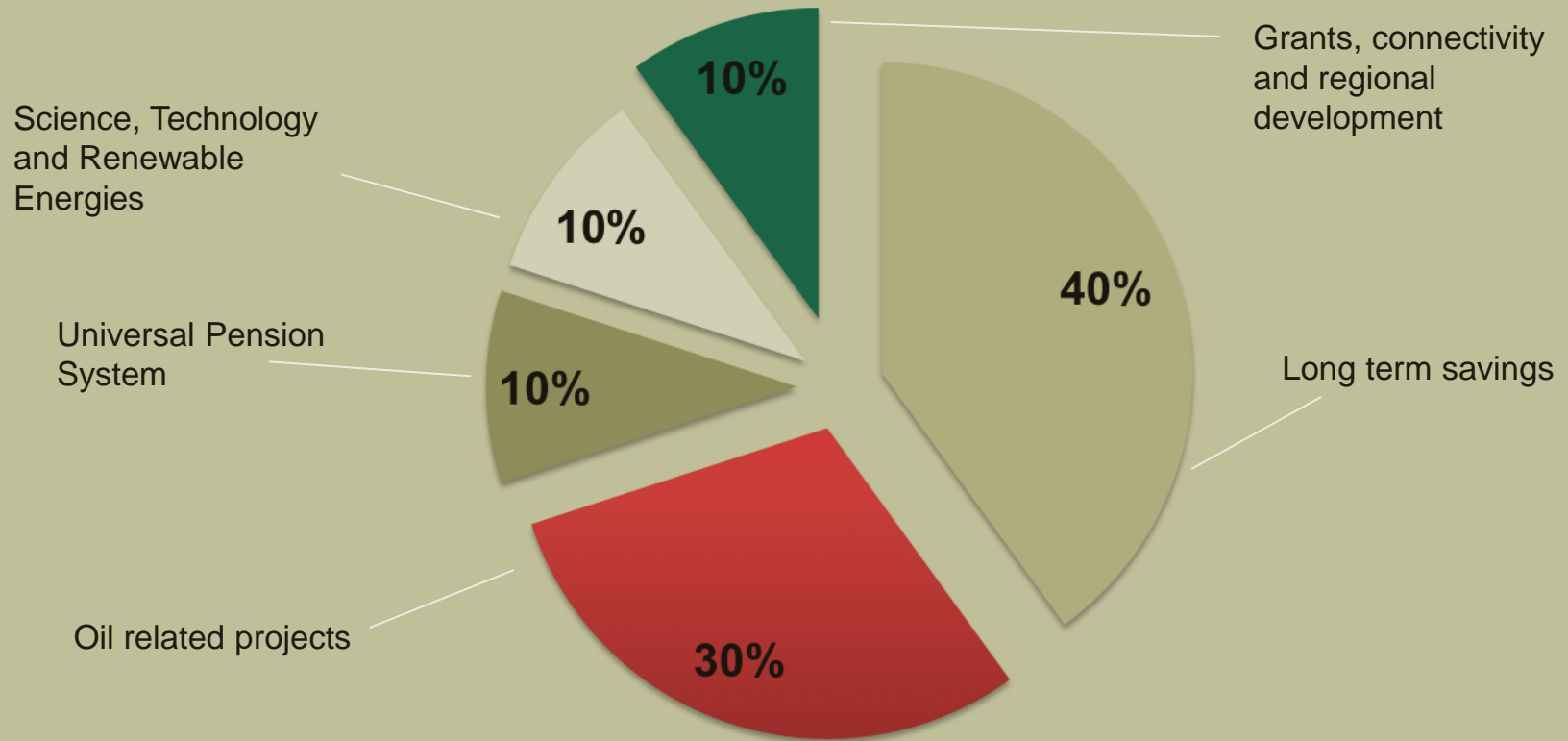
**Independent members**  
(Executive proposal, Senate approval)

## TRANSPARENCY

- ✓ Controlled by the Higher Audit
- ✓ Will publish monthly balances.
- ✓ Will have an external auditor.

## Reserves destination of the Mexican Oil Fund (Phase II)

After the prior expenses, when the profits reach 3% of the GNP, the rest of the money may be invested in the following manner:



# Transparency and accountability to protect our resources



## TENDER AND CONTRACTS

Checks and balances between SFNFR/CNH/SHCP

Contracts, contributions, remunerations and payments will be public.

Results of tender in open session.

External audits of cost recovery.



## PRODUCTIVE COMPANIES

Publish information required by the Securities market law (company situation; subsidiaries and affiliates; projects).



## REGULATORY BOARDS

Sessions, agreements and public resolutions

Ethical Code

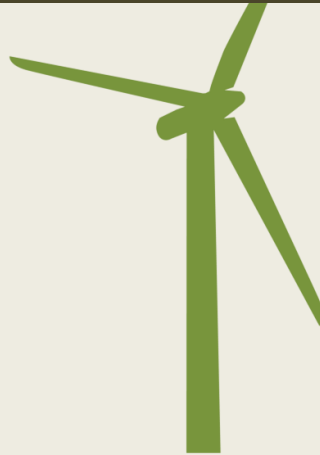
Prevents conflicts of interests



**Protects the environment and guarantees the industrial security.**



**Encourages the use of clean and renewable energies.**



**Creates a law to promote geothermal energy.**



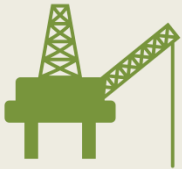


## The National Agency of Environment and Industrial Protection of the hydrocarbon Sector

Has 2 roles

### 1. Industrial and administrative security

- ✓ *National and International technical Standards*
- ✓ Prevention and containment of **spills and leaks**.
- ✓ Emergency **Financial coverage**.
- ✓ Physical and operational integrity of **facilities**.



- ✓ Design and planning to **prevent and cope emergencies**.

### 2. Environmental Care

- ✓ Protects, preserve and **restore ecosystems**
- ✓ Establish conditions for management of **industrial waste**.
- ✓ Control **pollution emissions**.
- ✓ Issue the technical components for **environmental and energy policy**.



The executive branch will publish the law before **November 10, 2014**

## Four measures to promote the use and creation of clean energies.



Creates a market for Certificates of Clean **Energies**



**Loans for large companies** for reducing their consumption at peak hours.

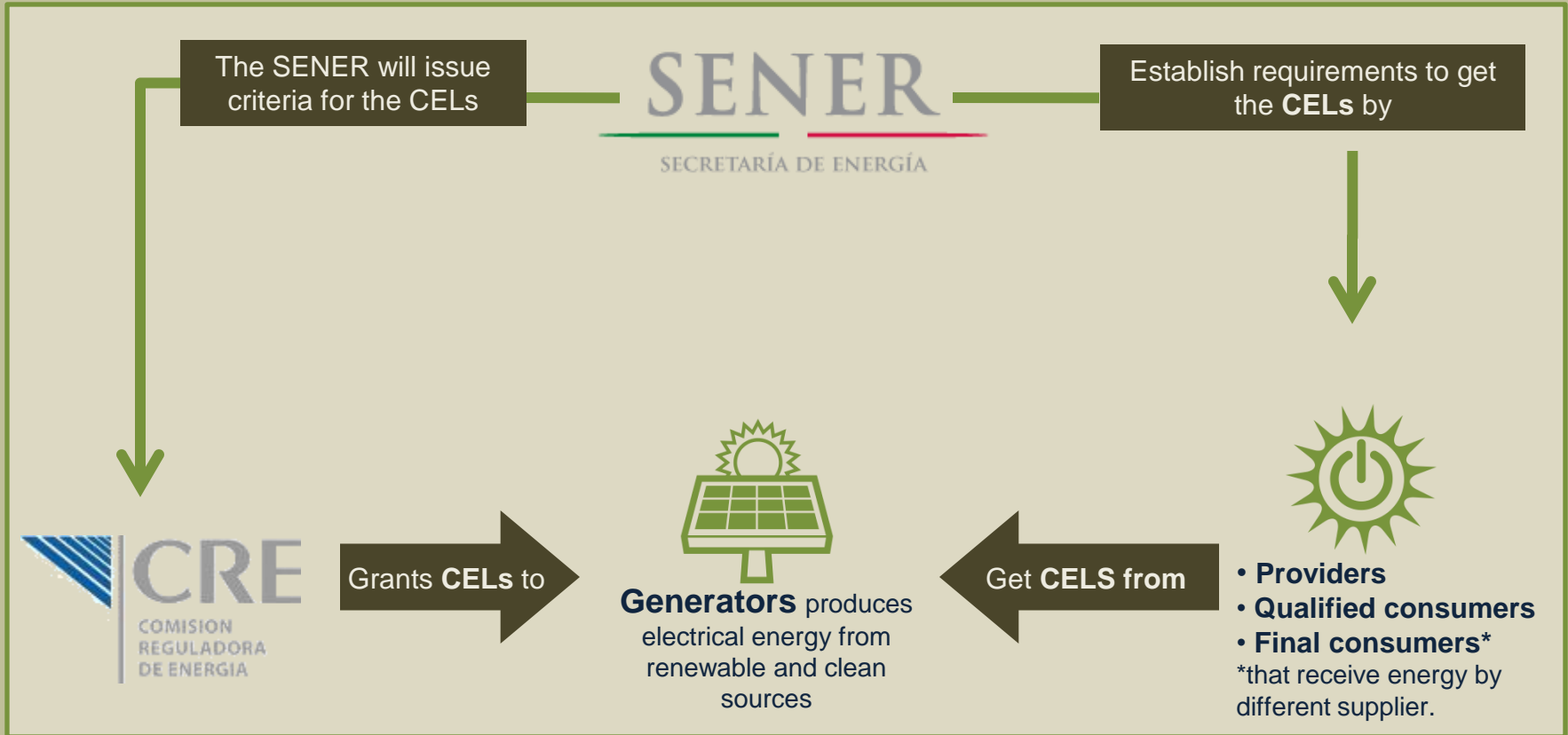


Micro **renewable generators** will be able to sell their energy



Expansion of networks of high potential of renewable energies

# Certificates of Clean Energies (CELs): how they work.



With this new law, the Energy Reform will promote clean energy for Mexico's benefit

## WHAT IS GEOTHERMAL ENERGY:

Geothermal energy is obtained from the use of the earth's internal heat

**Geothermal energy has two benefits:**

- ✓ It is **cleaner** than renewable energies.
- ✓ It is **more reliable** than other clean energies.



Solar  
Eólico

geothermal energy

*Cleaner since does not create greenhouse gases*

*More reliable since is continuous*

Fuel  
Gas

## Accomplishments:

### IN FINDINGS:

*Easy procedure to obtain registration, up to 8 months.*



### IN EXPLORATION:

*Authorization granted for up to three years (renewable for three more) in areas of **150km2**.*



### IN EXPLOTATION:

*Licensee can obtain authorization up to **30 years**.*



**ROUND ZERO:** CFE has 120 days to determine the geothermal areas for development.

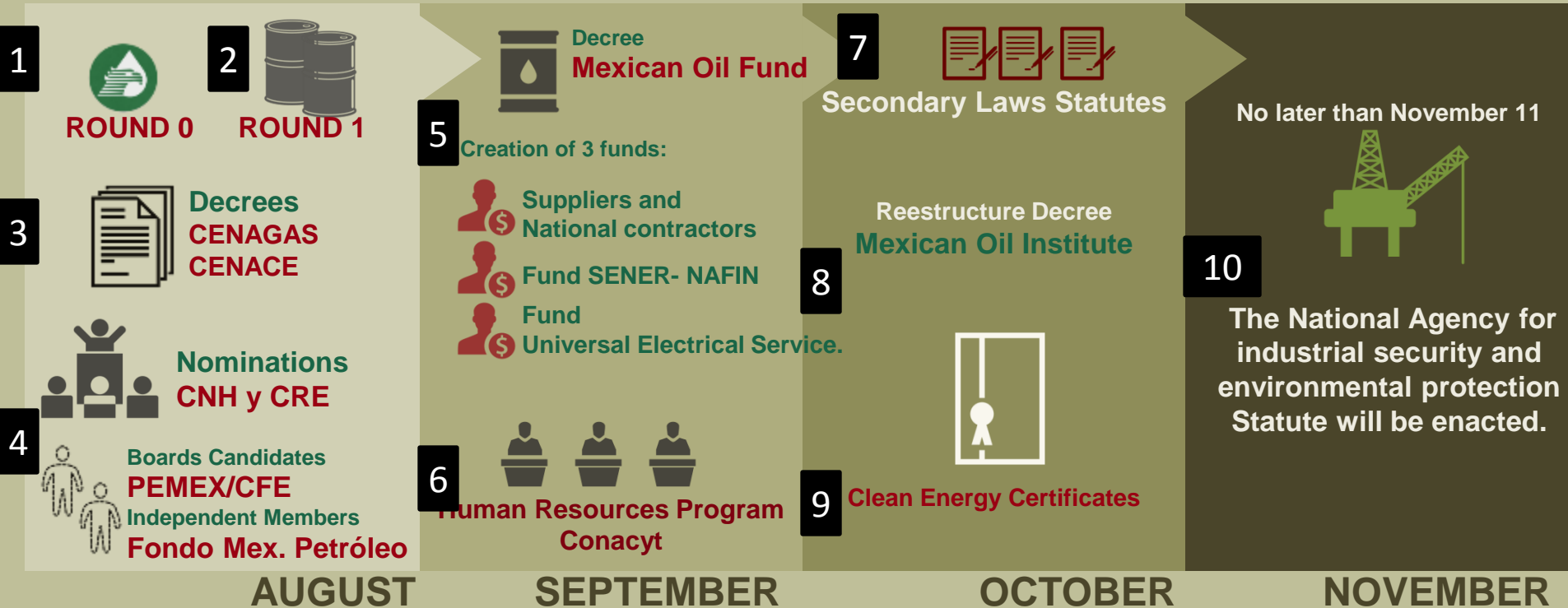
## Objectives:

- ✓ Provide greater legal certainty to investors
- ✓ Reach 10GW (now 840MW)
- ✓ Fulfill international agreements regarding the climate change.
- ✓ Reach the target for 2024 which means 35% of the energy obtained of renewable resources.

# ¿What is next? Implementation

# The 10 instructions of the Executive branch

On August 11, 2014, President Enrique Peña Nieto enacted the secondary laws, outlining 10 actions for the Federal Government to be done in the coming months:



**2014** will be remembered as the year that **México** overthrew past myths and dare to believe that we can build a better future.

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*We must ensure that these new rules and instruments will really contribute to promote **the talent and sucesess of every mexican.***

***Foundations are placed**, we need to take advantage of this new and historical platform to build together, **a new Mexico.***

**President Enrique Peña Nieto,  
August 11, 2014**



## Energy Legal Reform 2014

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