



Energy Reform in Mexico

**Madrid, Spain
January 9th, 2015**

- ▶ Don't reinvent the wheel.



- ▶ Legal certainty for new and previous participants.

- ▶ Reduce costs through efficiency and competition.



▶ Working along with markets rather than against them.

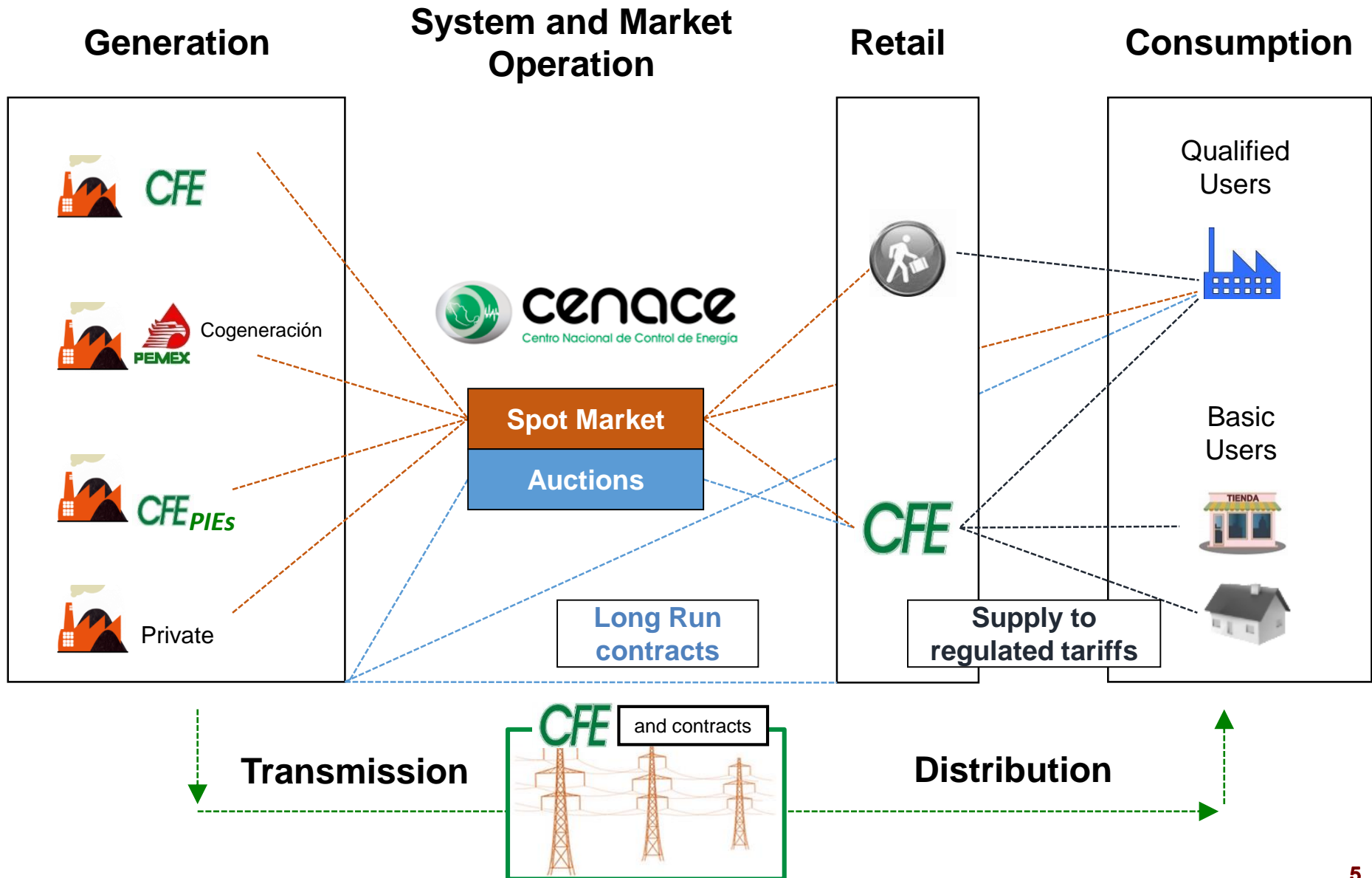


- Potential competition → Free entry
- Natural monopoly → Regulated tariffs

▶ Investments promotion and not stopping ongoing projects

ELECTRICITY MARKET







NEW INSTITUTIONAL SETUP



- Independent Operator for the system and the market



- Network open access

- Especialized bodies



- Clear rules

- Market surveillance

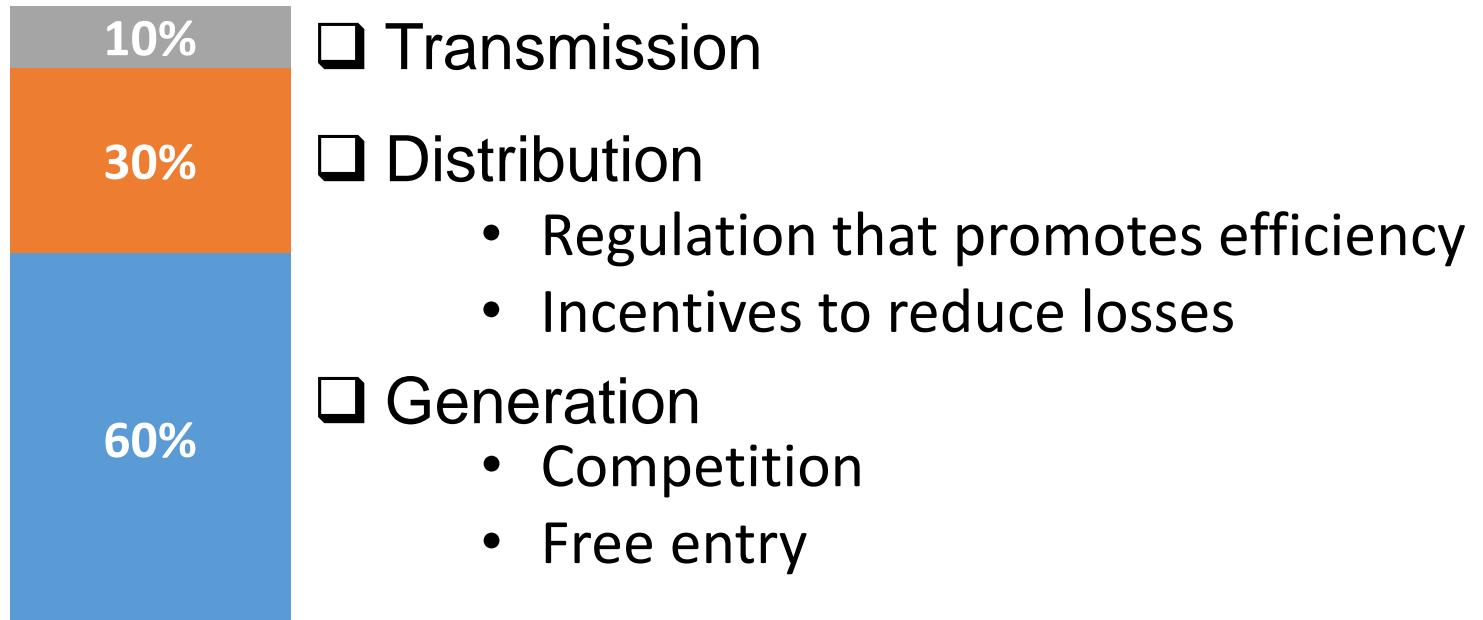
- Impartial planning

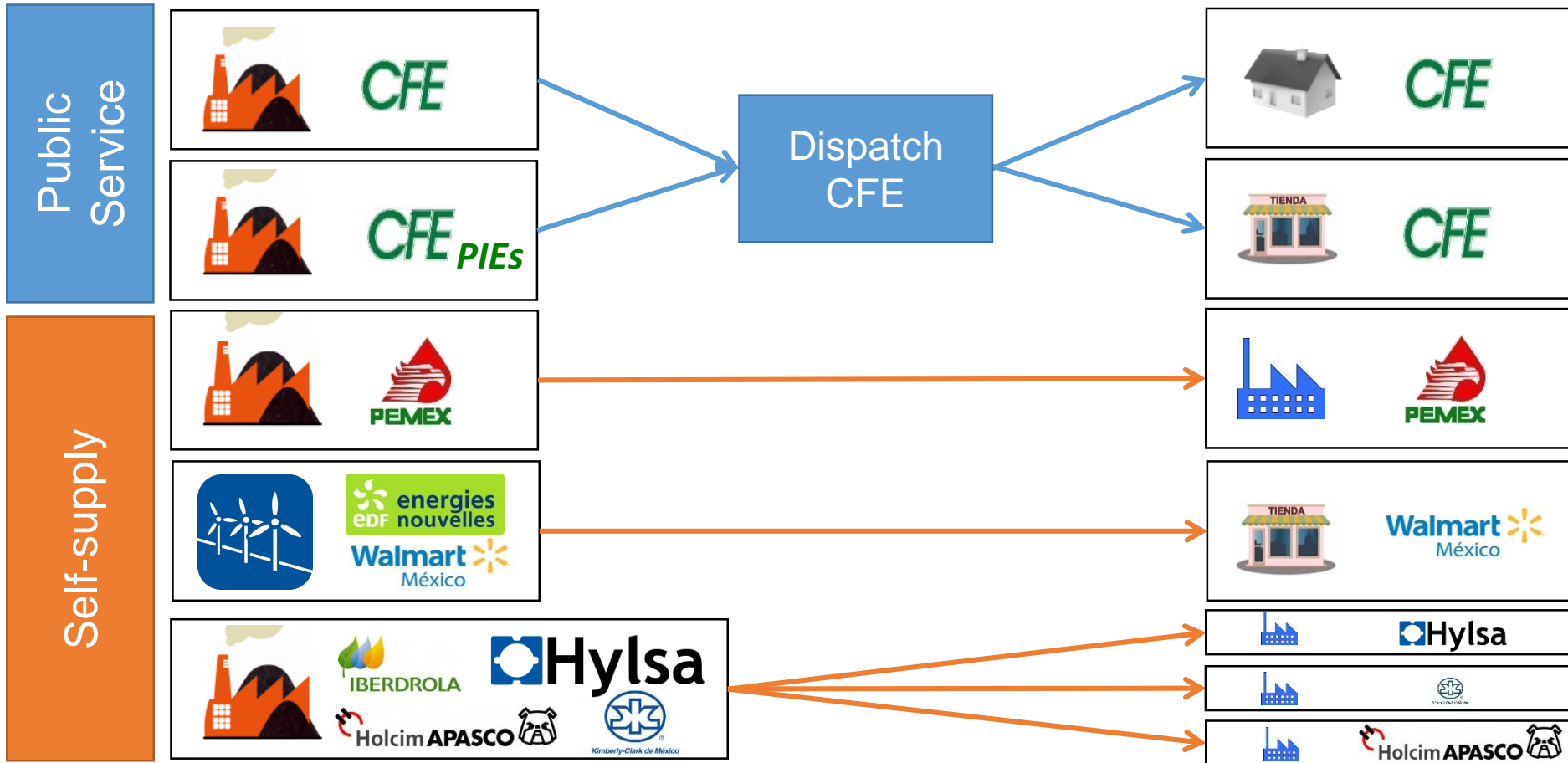


- Transparency

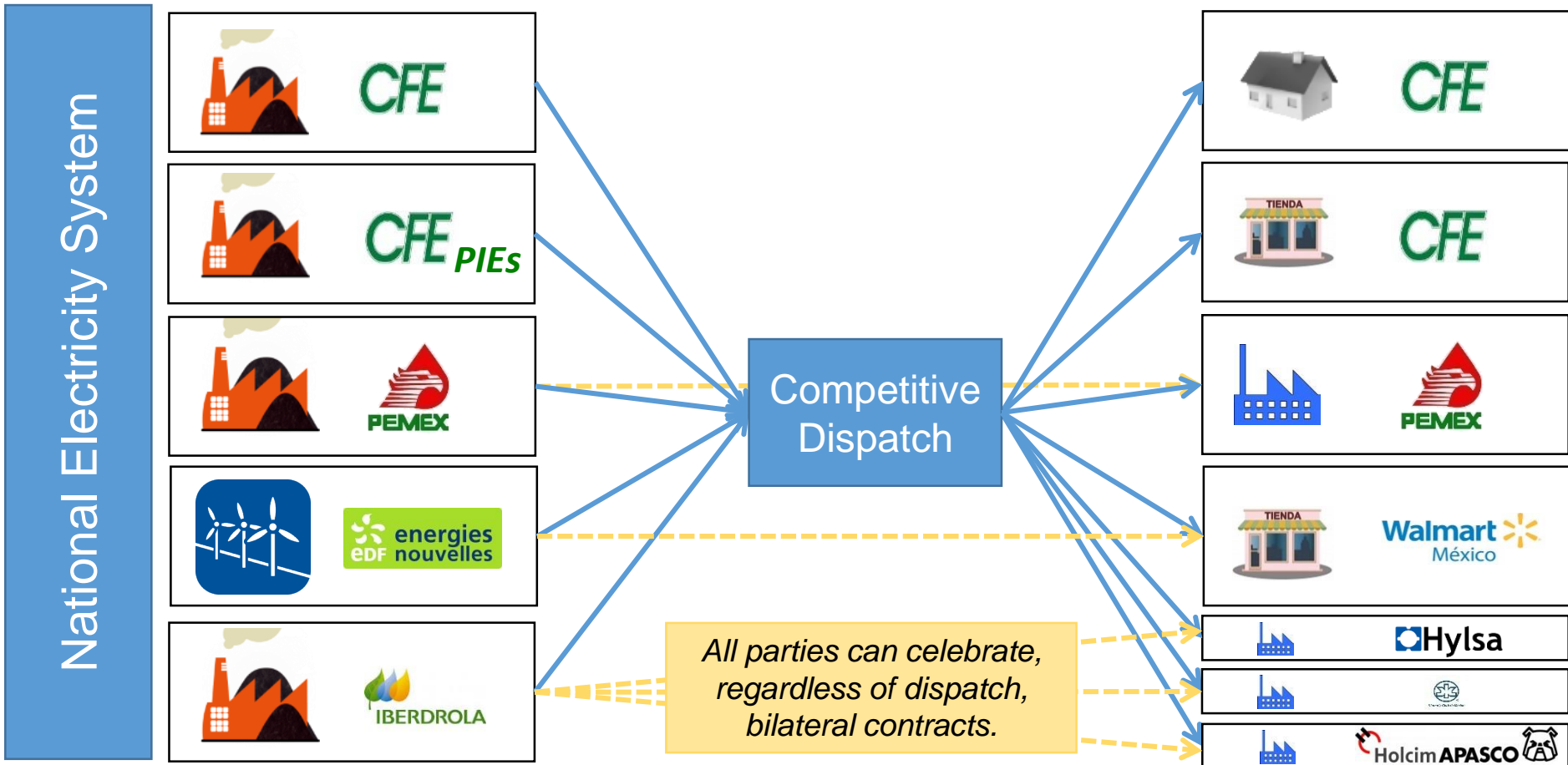


The main efforts are concentrated on the links heaviest in the tariff





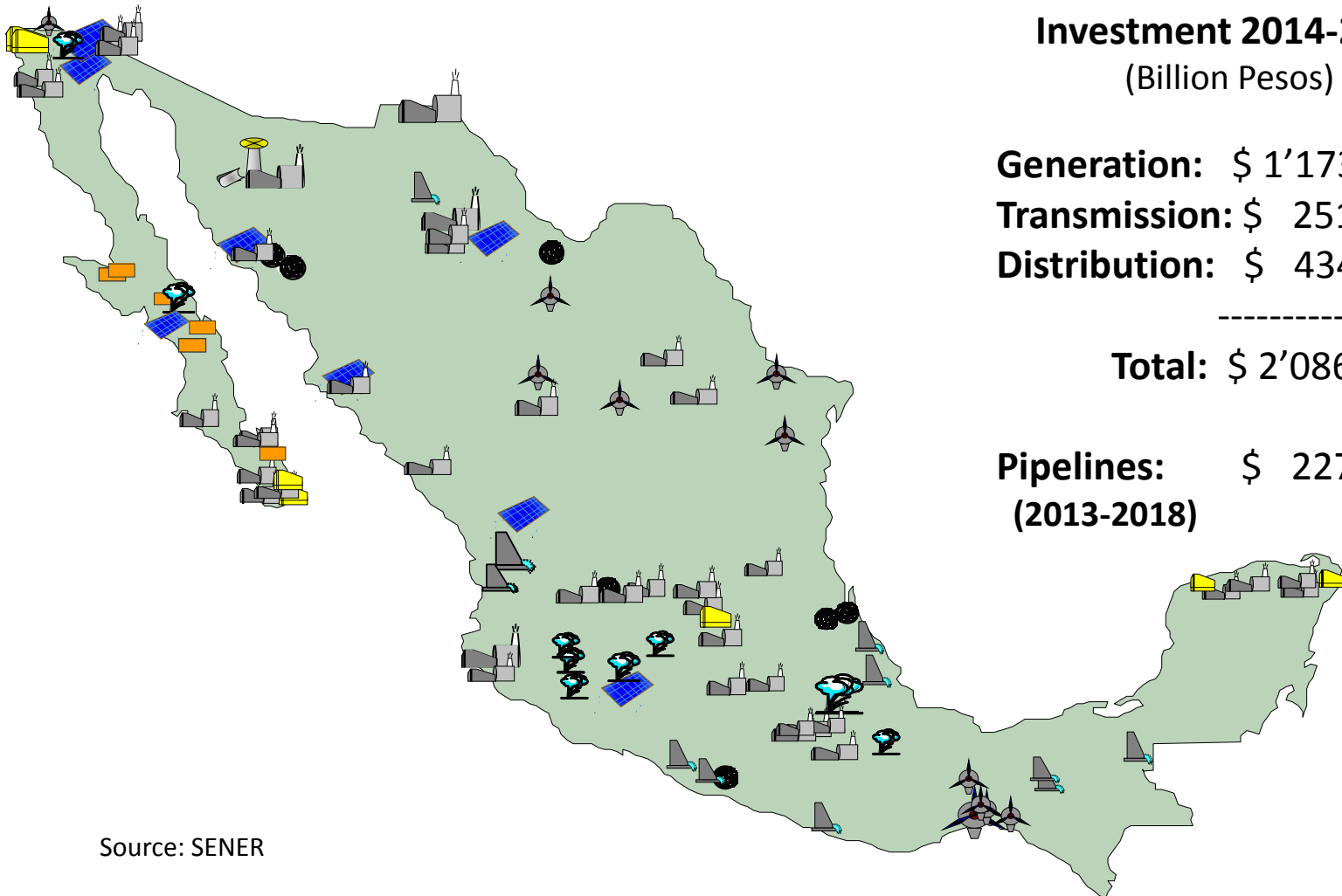
- Generators only sell when forming a partnership with its users.
- Self-supply plants are not allowed to be dispatched; surplus sales are at their own risk.



- Every plant can participate in the optimal dispatch.

INVESTMENT EXPECTED

- More than 2 thousand billion pesos will be invested in the electricity sector over the next 15 years mainly for cleaner and more efficient generation.



Investment 2014-2028 (Billion Pesos)

Generation: \$ 1'173.3

Transmission: \$ 251.0

Distribution: \$ 434.6

Total: \$ 2'086.7

Pipelines: \$ 227.2
(2013-2018)

Previous Issues

- ▶ **Lack of transmission capacity** from renewable sources location to consumption location
- ▶ **Tortuous process for interconnection**

Reform Solutions

Market and Interconnection

- ▶ Procedures without delays or cost overruns for interconnection and energy sales.

Clean Energy Certificates

- ▶ Promote clean energy of lower cost.

Distributed Energy

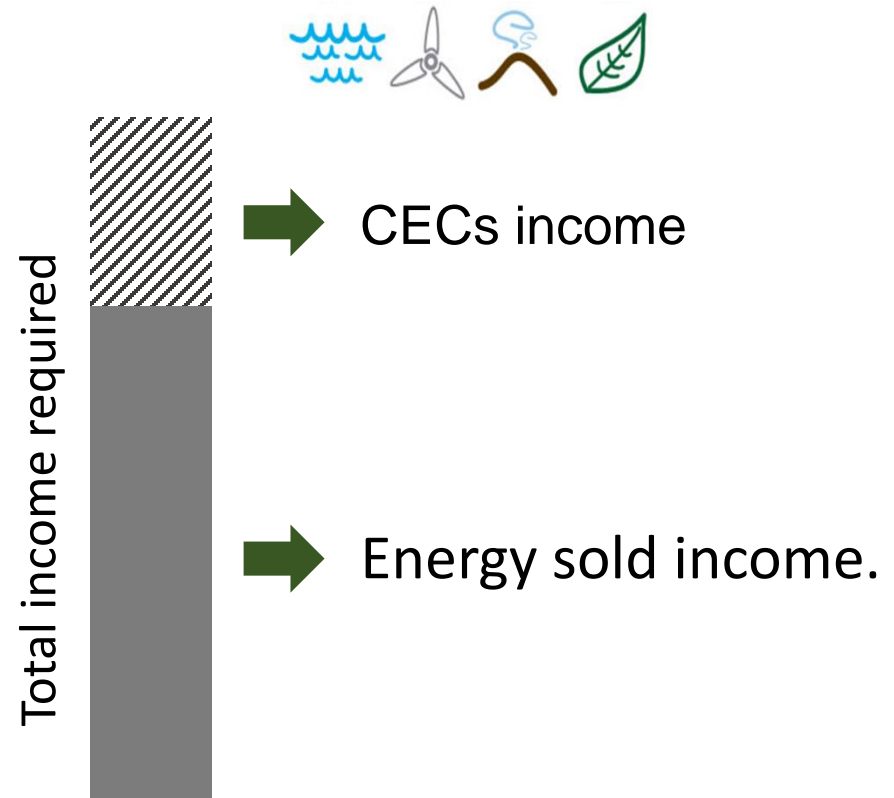
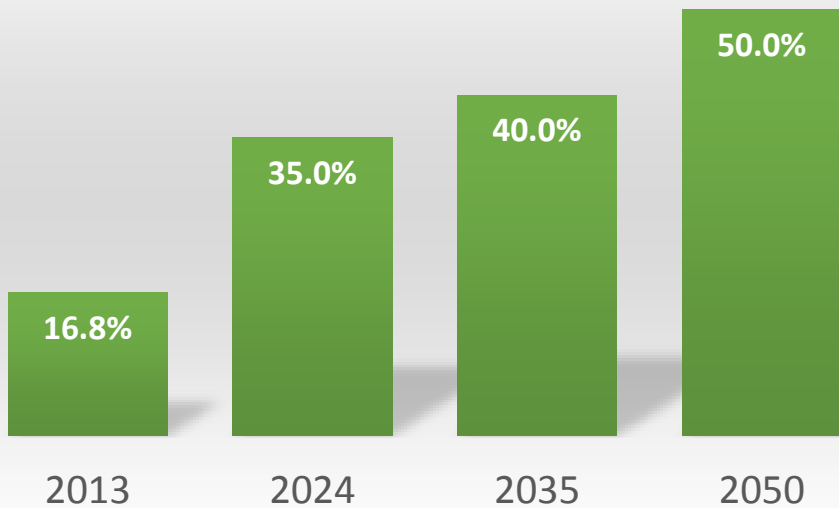
- ▶ Plants with solar panels will sell their energy to CFE or other suppliers at regulated prices.

Intelligent demand control

- ▶ Reducing demand will be rewarded.

- National goals become individual obligations: larger consumers and suppliers are obliged to purchase CECs proportionally to their consumption.
- Clean generators get an additional source of income.

Clean energy goals (% total generation)



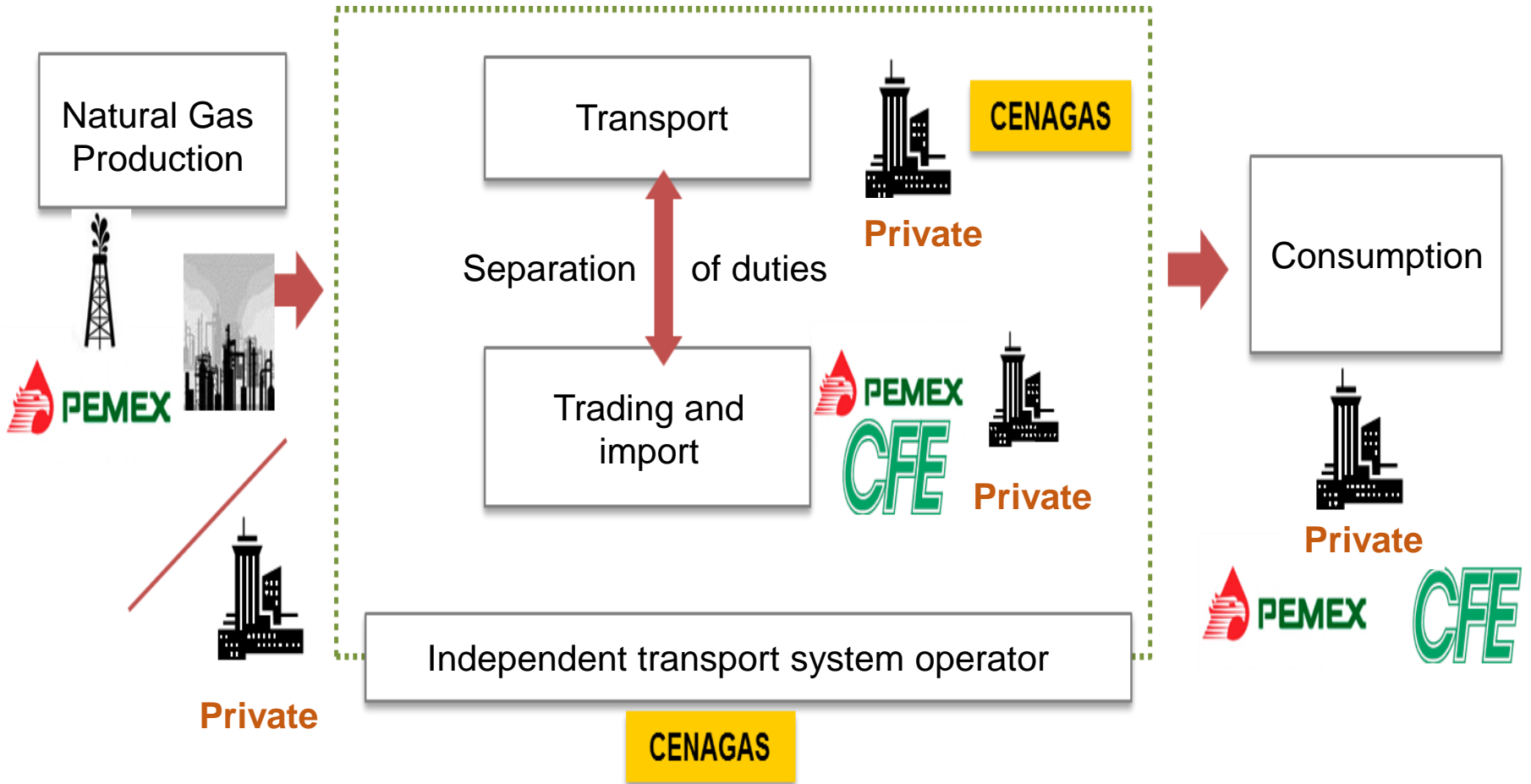
NATURAL GAS MARKET



Goals:

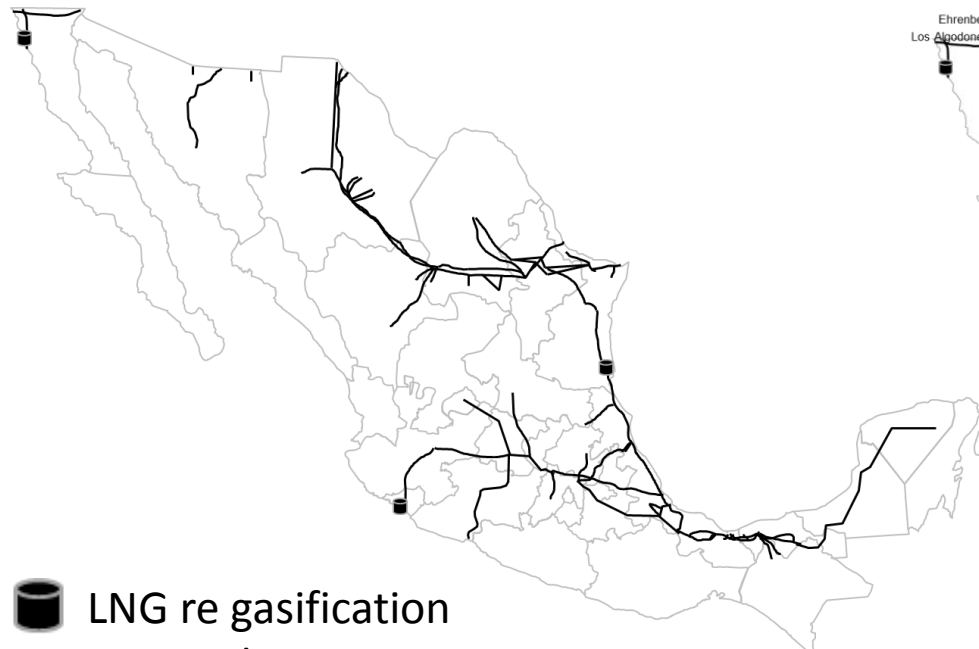
- ▶ Increase energy security.
- ▶ Pipelines network open access.
- ▶ Enhance gas supply.
- ▶ Develop pipelines network in order to expand the supply of natural gas to all the country.

- ▶ CENAGAS breaks the vertical integration of producer-transporter-trader.
- ▶ Transparency and fairness in the management of the transport system in the absence of conflict of interest.
- ▶ COFECE enforces competition legislation
- ▶ Stricter planning process:
 - i. CENAGAS proposes.
 - ii. Regulator technical opinion.
 - iii. Ministry of Energy approves.









- ▶ Competitive bidding to ensure lowest cost and best service.
- ▶ Private investment fund projects.
- ▶ Neutral assessment for projects strategic / non strategic qualification.
- ▶ CENAGAS capacity of financial guarantor for tenders:
 - i. Charges for system tariffs
 - ii. Budget for working capital.
 - iii. 9,260 kilometers of assets owned by parastatal institution.

Now



2018



-  LNG re gasification terminals in 2014
-  Pipelines 2014
-  Pipelines 2018
-  proposal for natural gas liquefaction / compression plant
-  proposal for natural gas re gasification / decompression plant
-  Sea route for natural gas supply

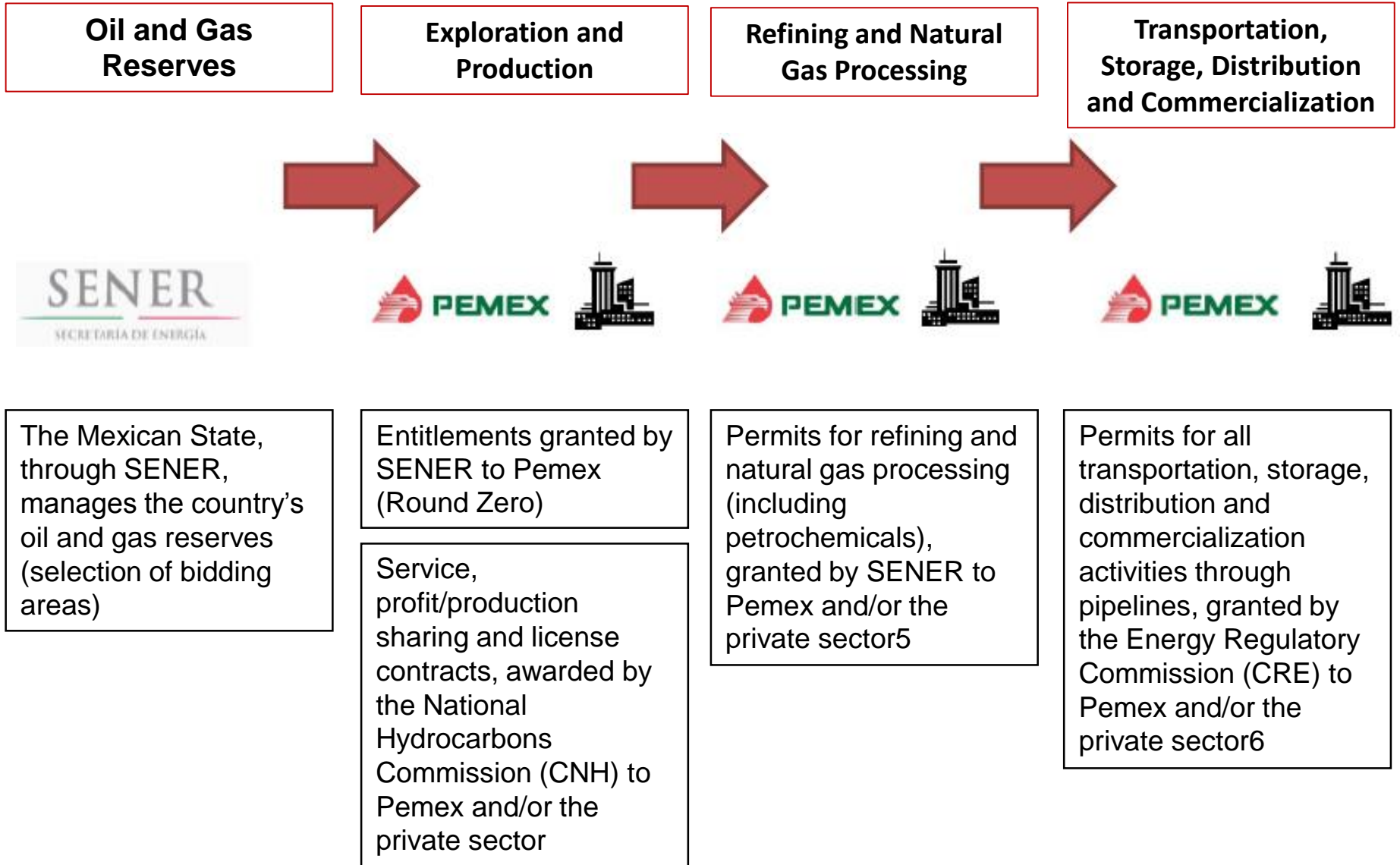
New

- 18 natural gas transportation projects
- 10,000 kilometers of new pipelines
- 13.3 billion dollar in expected investment

OIL MARKET



REFORM ALLOW PRIVATE INVESTMENT IN UP, MID AND DOWNSTREAM.





CRE

OVERVIEW OF THE OIL AND GAS REFORM

- ▶ E&P contracts for public and private companies: license contracts, production sharing contracts, profit sharing contracts, service contracts or a combination thereof.
- ▶ Round Zero.
- ▶ Permit schemes for midstream and downstream.
- ▶ Conversion of PEMEX into a company with freedom to form partnerships, financial and operational autonomy, and freedom to establish its employees' wages.
- ▶ New Tax Regime for PEMEX and private companies.
- ▶ Open market for Gas Stations.
- ▶ Independent System Operator for Natural Gas.
- ▶ Strengthening of the Regulators.
- ▶ Mexican Petroleum Fund for Stabilization and Development.
- ▶ Financial Transparency in every contract and bidding round.



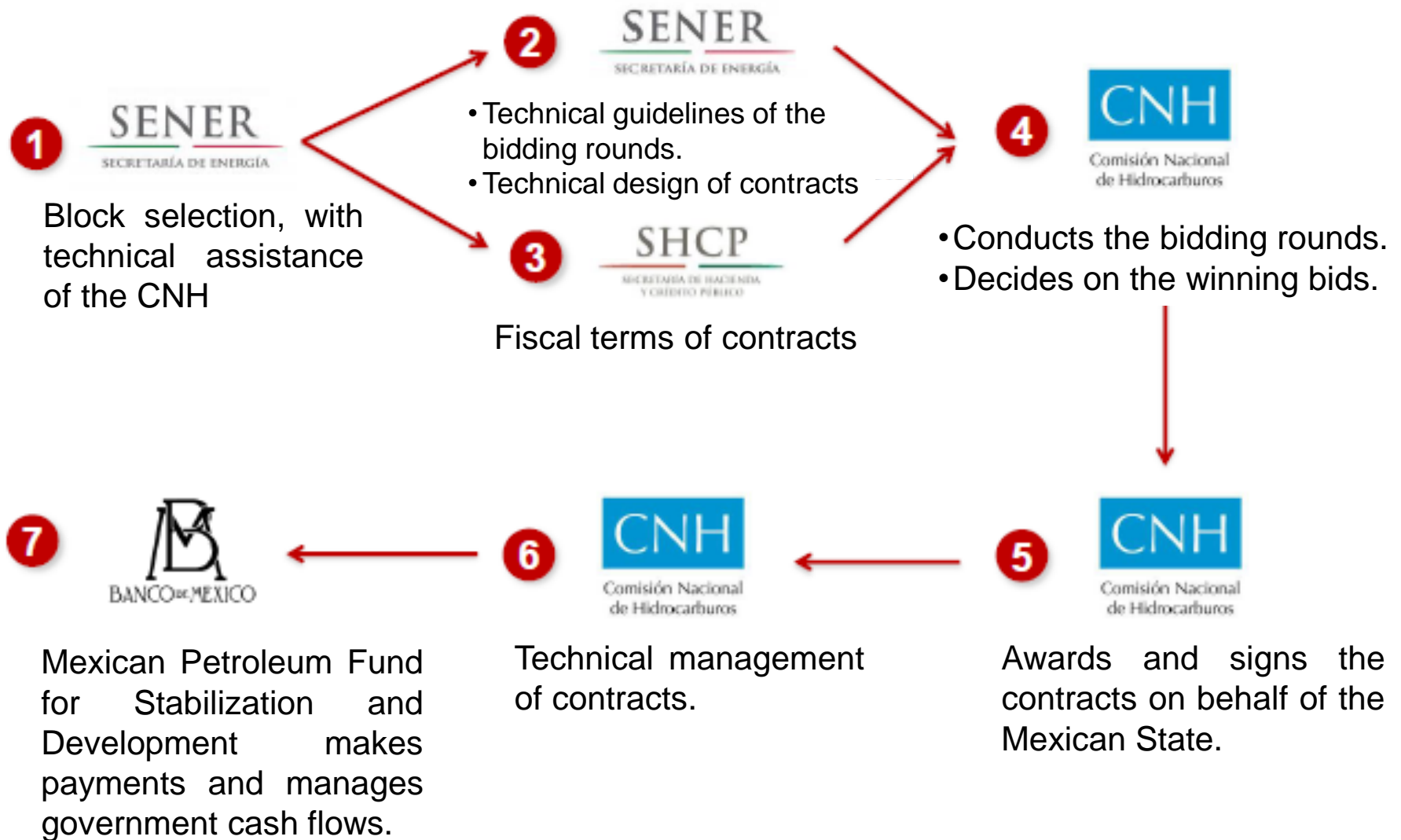
NEW CONTRACTUAL FRAMEWORK FOR OIL AND GAS EXPLORATION AND PRODUCTION

- ▶ A flexible contracting framework with standard, well-known-by-industry models was established to enable better use of Mexico's resources in order to maximize revenue for the nation:
 - i. Service: Fixed or variable payment where the operator is the responsible for the operations.
 - ii. Profit sharing: % of profits
 - iii. Production sharing: % of production
 - iv. License: Onerous transmission of the hydrocarbons once they have been extracted from the subsoil
 - v. A combination thereof.

- ▶ The approved reform allows companies to report, for accounting and financial purposes, the extent of the contract signed with the Mexican State as well as the expected benefits, as long as it is clearly stated on those leases or contracts that all solid, liquid or gaseous hydrocarbons in the subsoil are Mexico's property..

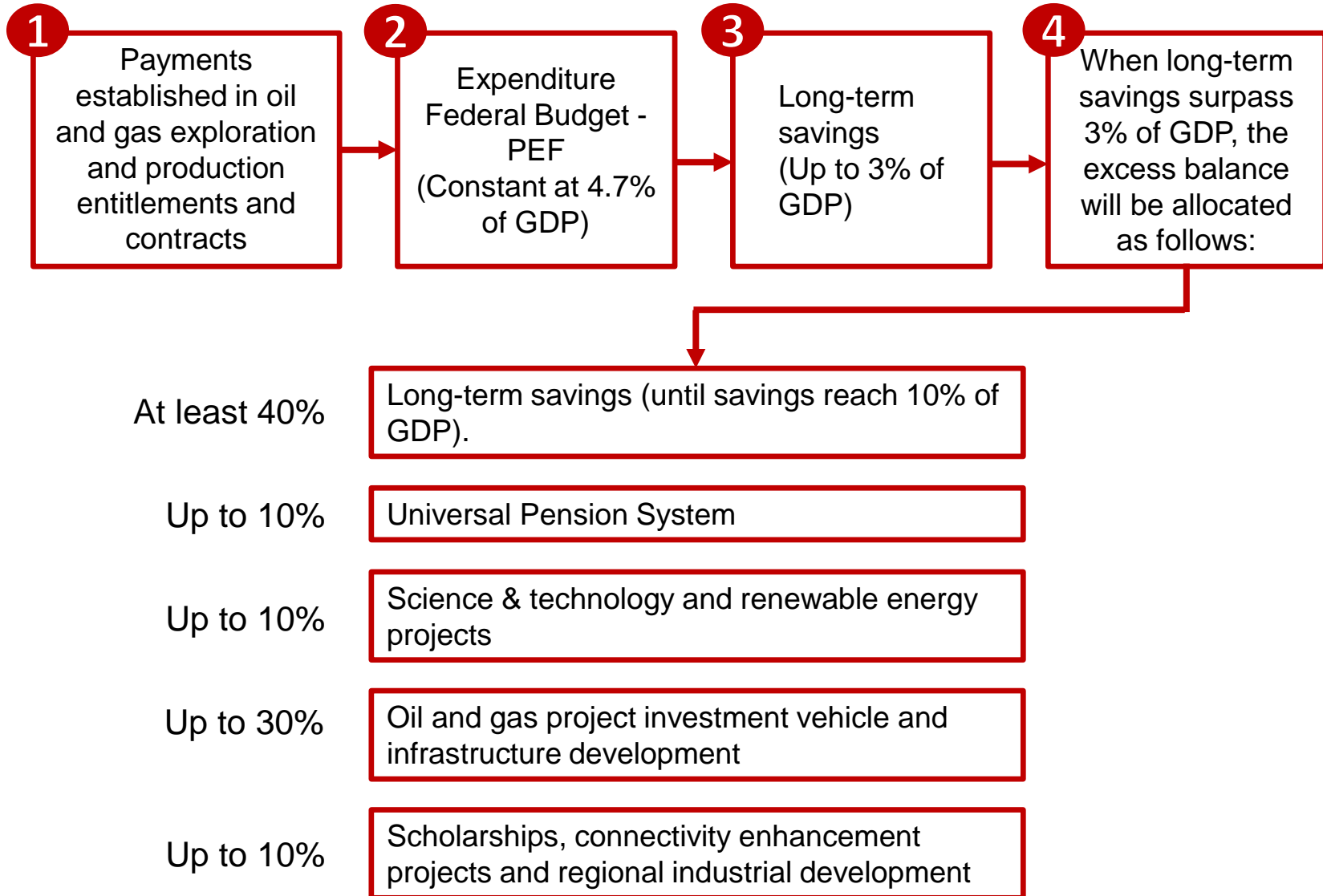
- ▶ Pemex has been transformed into a “State Productive Enterprise”, with budgetary, technical and operational autonomy (2-year transition).⁷
- ▶ “Round Zero” Pemex got a exploration and production investment portfolio.
- ▶ Associations in exploration and production of oil and gas, refining and petrochemicals.
- ▶ Pemex will have a new corporate governance structure, in line with international best practices.
- ▶ Pemex’s new Board of Directors will be composed of 5 board members representing the Federal Government (including the Energy Minister who will chair the Board), and 5 independent board members.
- ▶ Pemex will have a more flexible and competitive fiscal regime, so it can retain a larger share of its profits for reinvestment..

OIL AND GAS EXPLORATION AND PRODUCTION CONTRACTUAL FRAMEWORK





MEXICAN PETROLEUM FUND FOR STABILIZATION AND DEVELOPMENT



1

Bidding rounds and their guidelines will be public.

2

Transparency clauses will be included in oil and gas contracts.

3

Full disclosure of all payments associated to oil and gas contracts.

4

External audits to supervise cost recovery and accounting aspects.

The reform mandates the establishment of legal mechanisms to prevent, investigate, identify and punish actions or omissions against the law, as well as acts of corruption in general in the energy sector.⁶



Energy Reform in Mexico

December 8th, 2014