Mexico close to achieving the largest energy reform for 75 years

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Mexico's President, Enrique Peña Nieto, recently unveiled a series of bills of law, implementing last year's historic energy reform. The package consists of nine new laws (including the Hydrocarbons Law) and 13 amendments to the current legal framework. It covers oil and gas contracts, the regulatory bodies *(Petróleos Mexicanos* ("Pemex") and *Comisión Federal de Electricidad* ("CFE"), transparency, relations with landowners, a sovereign wealth fund and taxes.

Hydrocarbons in the subsoil will still be the property of the State. However, the bills contain new contracting schemes that will allow private companies to participate in the whole oil and gas industry, from upstream activities to midstream and downstream. The exception to this is the sale of fuel to the public, which will be opened up to private companies in stages; by 2017, private companies will be able to have a presence in the Mexican retail market and, after 2018, will be allowed to import petroleum products. This will promote free participation and competition between State-owned and private companies.

The new laws seek to strengthen the State-owned companies and regulating entities (the Ministry of Energy, the National Hydrocarbons Commission and the Energy Regulatory Commission), by giving them budgetary autonomy and the power to issue permits and rules and impose sanctions.

Exploration & Extraction Contracts ("E&E Contracts") may be implemented under production sharing, profit sharing or licence schemes. They must be awarded through transparent public bids, and may only be rescinded due to a default under the exploration and development plans, the provision of false information to the authorities, the failure to make payments to the State, damage to the environment or the breach of a judicial resolution.

For E&E Contracts covering areas that could contain cross-border reservoirs, it is mandatory for a State-owned production company to hold at least a 20% interest. However, the law does not require the State-owned company to be the operator of such projects.

Pemex and CFE, under the new laws, will become wholly State-owned production companies, with increased financial and operational freedom. For Pemex, the government has proposed reducing the tax rate from 79% to 65%, which should give Pemex an additional US$11-12 billion a year to spend on exploration and production activities and technological development. In addition, both CFE and Pemex will have autonomy to decide their own investment priorities without interference from the Ministry of Finance.

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The new Hydrocarbons Law introduces a 25% local content target for all projects, to be achieved by 2025, with the intention of growing and strengthening Mexico's oil and gas industry.

In the power sector, the proposals retain the government's control (through CFE) over the electricity sector, including planning and the management of the national grid, while opening up power generation to private investment. The package of laws sets out CFE's organisational chart, as well as a new Electric Power Law. These statutes seek to guarantee: (i) the elimination of all obstacles to the integration of renewable energies into the grid; and (ii) that lower-cost generating companies will have preferential uptake rights.

The *Centro Nacional de Control de Energía* ("CENACE") will be the independent system operator. CENACE will ensure open access to power transmission and will incentivise private investment in order to expand the existing transmission infrastructure.

The package of laws includes two new statutes (the Hydrocarbons Revenue Law and the Mexican Petroleum Fund Law) and three amendments, which establish a competitive tax regime, strengthen Pemex and CFE, and guarantee an organised tax transition. The new tax regime will be applicable to the new contractual schemes.

The President's bills of law look very promising for the nation's economy. First impressions are that they have been well received by oil and gas majors. The bills will be discussed by Congress, and it is likely that they will be approved during an extraordinary parliamentary session before mid-June, with few, if any, amendments.