

## **An Update on Energy Reform in Mexico September 23, 2016**

On December 2013, the Mexican congress approved an historic constitutional reform, which transformed the energetic sector in Mexico. This transition, known as the Energetic Reform, keeps as main objective the opening of market access, allowing direct competition amongst state owned enterprises and private companies.

As of September 2016, the Mexican government has implemented three rounds of bidding, along with "deep water blocks", which are expected to be held on December 2016. The Energetic Reform launched a long term process of establishing new exploration and production regimes for oil under: Free market rules, institutions, players, patterns of engagement, and policies. The Reform also considers the development of a centralized wholesale electricity market.

The Ministry of Energy (SENER), is the institution in charge of leading the Energetic Policy in Mexico. Due to the importance of the Energetic Reform and the intention to promote it internationally, the SENER representation in Washington D.C. has sought to bring together several representatives of the Energy industry to discuss the status of the reform, and explore future steps in cooperation and development.

*Energy & Diplomacy* is an initiative led by the SENER in Washington that congregates government officials responsible for energy affairs from different Embassies. As of August 2016, the initiative has included over 30 countries. The objective of *Energy & Diplomacy* is discussing best international practices on energy affairs, regulations, and outlook on the sector. Ultimately, the initiative seeks to foster cooperation opportunities among different countries. As part of its annual meeting, we carry out the event: An Update on the Energy Reform in Mexico.

### **Program:**

1. Keynote Presentation "Mexico's Energy Reform, An Ocean of Opportunities" by Cesar Hernandez Ochoa, Undersecretary for Electricity.

During Undersecretary Cesar Hernández's presentation, he emphasized the SENER's efforts in establishing new models that enhance economic growth, job creations, an increased oil production, and a reduction of electric rates.

The Undersecretary stated that the Reform not only had a constitutional ground, but also legislative and regulatory requirements that allow the Energetic Reform be an operative reform with density and content according to international practices.

Among the changes in the legal and the institutional framework are included: 3 modifications to constitutional articles, 21 secondary laws issued, the creation of 4 institutions, the strengthening of the CRE and the CNH, as well as the transformation of PEMEX and the CFE into Productive State Enterprises, allowing the private sector to seek opportunities in the Mexican energetic sector.

Undersecretary Cesar Hernandez noted the necessity to keep creating contracts and schemes attractive to investors.

During the presentation, there was mention of the advances in the implementation of the Energetic Reform. For Round 1, the Undersecretary said that three hydrocarbons tenders had been completed. 30 contracts have been signed, with 37 companies participating in the process. The contracts amount for an investment of 7 billion USD. 60% of the income will be awarded to the state. For the upcoming 4<sup>th</sup> tender in December, there will be 10 contracts in deep water and ultra-deep water fields. 26 companies have registered for this tender.

The Undersecretary addressed the results from the first Clean Energy Auction, in which 11 companies won a total of 18 deals, benefiting 7 entities. With an investment of 2.6 billion USD and 16 new power generation plants expected, among the winner companies are: *Enel, Nordex, Acciona, Jinko, Sunpower, Aldesa, and Recurrent Energy.*

Furthermore, the 1<sup>st</sup> tender of Round Two is currently underway. Submission of proposals and allocation is due on March 2017. For this tender, 15 contracts of shared production on exploration and extraction in shallow waters will be auctioned. For the 2<sup>nd</sup> tender, it is expected to have 12 contracts of license for exploration and extraction in onshore fields. Deadline for the submission of proposals and allocation is set on April 2017.

The Undersecretary concluded his participation by stating that one of the key elements for the success of the Energetic Reform is the creation of strong, permanent regulatory authorities and entities that will continue with the work of the Reform beyond the current administration.



2. Conversation with the Commissioner President Guillermo García Alcocer, Energy Regulatory Commission (CRE)

The second part of the event represented a conversation between Hector Castro Vizcarra, Representative of the SENER office in Washington, and Guillermo García Alcocer, Commissioner President of the Energy Regulatory Commission (CRE).

García Alcocer emphasized that one of the most important results of the first round of Hydrocarbons is the "business of trust" that the Mexican authorities have developed with third parties who seek to get involved in the business.

During the Q&A Session, it was mentioned that the Ministry is currently facing a challenge in terms of Human Resources: 135,000 more people are needed in the energy sector, both in the public and private spheres. Out of this number, 80% are needed in the Technical area, with the resting 20% in the Professional area.

Finally, Commissioner President García Alcocer reaffirmed the benefits of Natural Gas for the Mexican market. With the combined cycle plans in the mix that were considered in the most recent round, the Ministry intends to move forward in the market, as well as attract a large set of suppliers that will benefit the Natural Gas industry for Mexico and the United States.



3. Panel - Regulatory and Policy Challenges in the oil and gas Sector

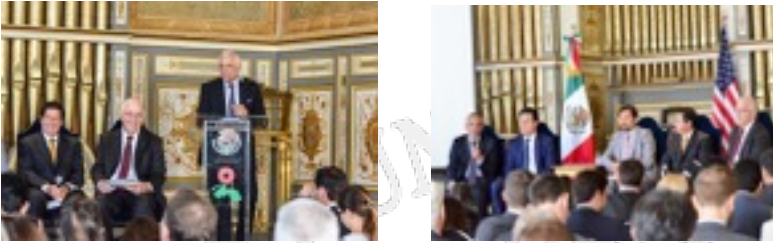
Among the participants of this panel were,

Mr. Lucian Pugliaresi, President of Energy Policy Research Foundation, as Panel Chairman, introduced the panel's participants: Adam Sieminski, Director of the US Energy Information Administration (EIA); David Goldwyn David, President of Goldwyn Global Strategies, LLC (GGS); Edgar Jones, Commercial BD and Strategy



VP at Sierra Oil & Gas; Fausto Alvarez, Head of Leases and Contracts of the National Hydrocarbons Commission, and Alberto Galvis, CEO at Citla Energy.

The participation of Adam Sieminski, Director of the US Energy Information Administration, turned out to be a sign of the strong bilateral relationship between Mexico and the United States in energy issues.



#### **Final Notes:**

Among the 121 attendees were Diplomats, US Government officials, high level Business executives, Think-tank directors, and NGO's representatives all related to the energy sector.

During this final remarks, SENER Representative Hector Castro addressed the importance of the Energetic Reform for the creation of a new regime in Mexico. In two years and nine months, there have been substantial changes and investments in the Mexican energetic sector:

In the Oil and Gas sector, after the first three tenders held, there were more than 31 companies from 17 different countries. After these three tenders, there has been an accumulated investment of 7.1 billion USD. It is expected, for the upcoming fourth tender in December, to have an investment of 4.1 billion USD.

The Power sector involved two separate auctions. For the first one, which involved an investment of 2.6 billion USD, 11 countries were elected out of 69. For the second auction, with an investment of 4 billion USD, 23 countries were elected out of a participation of 57.

In total, there is a projected investment of 239 billion USD for both the public and the private sector.

The Mexican government holds very ambitious goals in terms of energy generation. For instance, it is expected that by 2024, 35% of electricity will come from clean

sources. By 2015, 50% of electricity must be clean, as part of a trilateral agreement between Mexico, the United States, and Canada.

The Representation of the SENER in Washington, as well as several of the goals of the government, are an outcome of the Reform. Energy and Diplomacy, as an initiative supported by the SENER office, will continue to seek to bring diplomats involved in energy policy-making together, and further foster cooperation and development.

