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Mexico Energy Reform – Implementing Legislation by [Ariel Ramos](#), [William \(Hunt\) Buckley](#), [Carlos Canales](#) and [Eduardo Corzo](#)

Mexico's Senate received on April 30, the first round of the long-awaited secondary legislation to implement the constitutional energy reform effective last December. This first legislative package includes 9 new laws and modifies 12 existing laws. We anticipate that the package will be discussed and voted on during the extraordinary legislative sessions by the end of June. Below we list some of the highlights.

Initial Highlights of the Implementing Legislation*

Oil and Gas

Private Participation in Oil and Gas

- Participation and competition between state-owned “productive” companies (PEMEX, for the time being) and private companies in upstream and midstream activities.
- The opening to the retail fuels sector will be gradual.

Exploration & Production

- In situ hydrocarbons will continue to be sole property of the Mexican State.
- E&P contracts will be awarded through public bids by the National Hydrocarbons Commission (CNH).
- CNH will execute E&P Contracts with PEMEX, other State Productive Companies, or private-sector companies (domestic companies which may be 100 percent foreign owned).
- PEMEX may enter into joint venture agreements or joint operating agreements with the private sector.
- The Ministry of Energy may determine the participation of PEMEX or other State Productive Companies in certain E&P contracts up to 30 percent when it considers that such entities will receive an aggregate value in technology and experience from the private sector or when such projects are supported by specialized financing vehicles of the Mexican government.
- Depending on the type of E&P contracts, booking of reserves becomes possible.

E&P Contract Payment and Compensation

- In connection with “*production sharing*” contracts and “*profit sharing*” contracts, generally private contractors will pay an exploration stage fee, royalties, and a payment of a percentage over the operating profit.
- In “license contracts,” generally private contractors will pay an exploration stage fee, royalties, a signing bonus and a percentage over the operating profit or the contractual value of the hydrocarbons.
- The specifics of each payment and compensation scheme will vary on a case-by-case basis for each contract, including production payments, net profit arrangements, cost recovery and sliding scales.

PEMEX Direct allocations

- PEMEX or other State Productive Companies will receive from the Ministry of Energy direct allocations (*asignaciones*) for E&P projects.
- PEMEX and State Productive Companies may only enter into cash-based service contracts with private companies, and may not enter into farmouts or participation agreements.
- PEMEX or the State Productive Company must first relinquish the allocated contract area so that it may be subject to a bidding process to select the private industry participant.

Transboundary Reservoirs

- PEMEX and other State Productive Companies must mandatorily participate with at least a 20 percent participating interest in any contract area that possibly contains transboundary reservoirs.
- PEMEX or other State Productive Company may be the operator or a non-operator.

Oil and Gas Surface Use and Rights of Way

- The legislative package creates a mechanism to regulate surface use for E&P activities.

Taxation

- The legislative package contains two new tax laws, the Hydrocarbons Revenue Law and the Mexican Petroleum Fund Law, and amendments to the current Federal Law of Government Fees and the Fiscal Coordination Law.
- These laws contain the provisions regarding exploration license fees, sign-on bonus, royalty, profit sharing, and production sharing, as well as other tax and revenue related provisions.
- The goal is to cut the tax burden on PEMEX and establish a comprehensive oil and gas payment and tax regime for contractors.

Mining Concessions and Coal Seam Gas

- Beneficiaries of carbon mining concessions may obtain a direct contract award for E&P of coal seam natural gas.

Local Content

- Although there is a local content requirement, it will be phased in gradually until it reaches an average of 25 percent by 2025. A public trust will be created to assist local contractors.

Power Industry

Power

- Private companies will be allowed to participate in the financing, construction, maintenance, operation, and expansion of the National Electric Grid.
- Private industry will be allowed to generate electrical energy to sell in the wholesale (industrial) market; however CFE will continue as the exclusive supplier of the retail (residential) market.
- Reorganization of the national power utility currently under the monopoly of CFE is also included.
- A new statute will govern the exploitation of geothermal resources by private entities. Amendments to the Federal Water Law are introduced.

Regulators and State Companies

Governmental Authorities and Companies

- The CNH and the Energy Regulatory Commission (CRE), as industry regulators, will have greater budget, greater scope of authority, and will be endowed with some measure of technical and management self-government.
- As expected, a National Natural Gas Center and an Agency of Industry Safety and Environmental Protection for the Oil and Gas Sector will be created.
- The National Energy Control Center (CENACE) will be created to own and operate the National Transmission Grid.
- A Board of Coordination to oversee energy policy will also be created. The Board will be integrated by members from the Ministry of Energy, three under-secretaries and representatives from the CRE, the CNH, the National Natural Gas Center, and the CENACE.
- PEMEX and CFE will, under a new statute and with greater budget and self-rule management, become the first two State Productive Companies.

List of Implementing Legislation

HYDROCARBONS	PRODUCTIVE STATE COMPANIES
<ol style="list-style-type: none"> 1. New Hydrocarbons Law (<i>Ley de Hidrocarburos</i>) 2. Amendment to various related or affected laws such as: <ol style="list-style-type: none"> a. Foreign Investment Law (<i>Ley de Inversión Extranjera</i>) b. Mining Law (<i>Ley Minera</i>) c. Public Private Partnership Law (<i>Ley de Asociaciones Público Privadas</i>) 	<ol style="list-style-type: none"> 1. Restructuring of the Pemex Law (<i>Ley de Petróleos Mexicanos</i>) 2. Restructuring of the CFE Law (<i>Ley de la Comisión Federal de Electricidad</i>) 3. Amendment to various related or affected laws such as: <ol style="list-style-type: none"> a. Acquisitions, Leases and Services of the Public Sector Law (<i>Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público</i>) b. Public Works Law (<i>Ley de Obras Públicas y Servicios Relacionados con las Mismas</i>) c. Federal Public Entities Law (<i>Ley Federal de Entidades Paraestatales</i>)
POWER	REGULATORS
<ol style="list-style-type: none"> 1. New Electric Industry Law (<i>Ley de la Industria Eléctrica</i>) 	<ol style="list-style-type: none"> 1. New Law of the Regulatory Entities in Energy Matters (<i>Ley de los Órganos Reguladores Coordinadores en Materia Energética</i>) 2. Amendment to the Organic Law of the Federal Public Administration (<i>Ley Orgánica de la Administración Pública Federal</i>)
INDUSTRIAL SAFETY AND ENVIRONMENTAL	PETROLEUM FUND
<ol style="list-style-type: none"> 1. New National Agency of Industrial Safety and Environmental Protection of Oil Sector Law (<i>Ley de la Agencia Nacional de Seguridad Industrial y Protección al Medio Ambiente del Sector Hidrocarburos</i>) 	<ol style="list-style-type: none"> 1. New Law of the Mexican Petroleum Fund for the Stabilization and Development (<i>Ley del Fondo Mexicano del Petróleo y Responsabilidad Hacendaria</i>)

GEOTHERMAL	FISCAL
<ol style="list-style-type: none">1. New Geothermal Energy Law (<i>Ley de Energía Geotérmica</i>)2. Amendment to the National Waters Law (<i>Ley de Aguas Nacionales</i>)	<ol style="list-style-type: none">1. New Hydrocarbons Income Law (<i>Ley de Ingresos sobre Hidrocarburos</i>)2. Federal Government Fees Law (<i>Ley Federal de Derechos</i>)3. Fiscal Coordination Law (<i>Ley Federal de Coordinación Fiscal</i>)
BUDGETARY	
<ol style="list-style-type: none">1. Amendment to the Federal Budgetary and Fiscal Responsibility Law (<i>Ley Federal de Presupuesto y Responsabilidad Hacendaria</i>); and2. General Public Debt Law (<i>Ley General de Deuda Pública</i>)	

To access the Spanish text of the bills of the implementing legislation [click here](#).

If you have any questions, please feel free to contact one of the attorneys listed below.

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****Please note that the content of this document is for informative purposes only. We are currently reviewing the full legislation, and we will be sending further summary alerts.***