

Updates and Highlights in the Mexican Energy Sector, March 2017

April 19, 2017

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As part of the implementation of the Mexican Energy Reform of 2013, several new regulations and administrative guidelines affecting the hydrocarbons and power industries were issued during March 2017. These are of particular importance to oil and gas producers, power generators and others looking to invest or expand operations in Mexico's dynamic energy sector.

I. Hydrocarbons

March 6, 2017. Ayín-Batsil Farmout. The National Hydrocarbons Commission ("CNH") approved the Bidding Process to explore and produce heavy crude oil in the shallow water area of Ayín-Batsil. Pemex will be looking for an association in which Pemex will have 50 percent of the participation in the production sharing contract. As in Trion, CNH includes a joint operating agreement in the bid package. The project features an estimated 281 million barrels of oil in proven, probable, and possible reserves based on past Pemex discoveries.

March 16, 2017. Guidelines for Fracking. The Energy and Environmental Safety Agency for the Hydrocarbons Sector ("ASEA") published in the Federal Gazette the Guidelines applicable to E&P activities for unconventional onshore fields through fracking ("Guidelines").

The principal characteristics of the Guidelines are the following:

- They will be jointly enforced by the ASEA, the CNH, and the National Water Commission ("CONAGUA").
- They consider the recommendations of the International Energy Agency ("AIE") based on its experience of more than 10 years.
- They establish safe distances to avoid damage to fresh water aquifers.
- They obligate disclosure of additives, chemical composition, and percentages in fracking fluids.
- They prohibit the construction of wastewater dams.
- They mandate the characterization of the chemical composition of wastewater.
- They prohibit gas venting.
- They restrict gas flaring pursuant to CNH regulations.
- They mandate certain measures to prevent induced seismicity.

II. Power

March 1, 2017. Demand Aggregation for Load Points. To aggregate the load points to be deemed as qualified users, the Ministry of Energy set new criteria under which low tension load points with a demand of 25 kW may be aggregated as qualified users. States and municipalities may aggregate

demand from street lighting service and public facilities even if they do not have a demand of 25 kW.

March 2, 2017. Price Methodology for the Calculation of the Short-Term Total Cost ("CTCP"). The Energy Regulatory Commission ("CRE") determined that the value of the CTCP would correspond to the local marginal prices ("LMP") resulting from the models of the Wholesale Electricity Market. The LMP will be used to calculate payment to the corresponding permit holders. The LMP that will be used is the closest node price to the interconnection point of the permit holder.

March 7, 2017. Provisions and Model Contracts for Distributed Generation. Under these provisions, the CRE has issued the method for calculation of electricity prices by distributed generation, the technical specifications for distributed generation power plants, and the model contracts to be used for this activity.

March 31, 2017. Clean Energy Obligations for 2020, 2021, and 2022. SENER has established the minimum CEL purchase requirement for 2020 at 7.4 percent; for 2021 at 10.9 percent, and for 2022 at 13.9 percent. The obligated parties that must comply with these requirements are qualified users, suppliers, self-supply users, and holders of legacy contracts that are producing energy from non-clean energy sources.

For more information please contact one of the lawyers listed below.