

INSIGHTS

Important Energy Reform Submitted by Mexico's President

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On August 12, 2013, Mexican President Enrique Peña Nieto submitted a highly anticipated constitutional reform proposal to the Mexican Congress for purposes of restructuring the Mexican energy sector, including oil, gas, petrochemical, and power, by allowing greater private participation in the Mexican energy market (the Bill). If approved, the Bill will eliminate some of the most important barriers that have limited the participation of private investment in the Mexican energy sector.

While ownership of hydrocarbons will remain with the Mexican State, the Bill proposes to open the door for private participation and investment in the upstream exploration and production of oil and gas, as well the midstream and downstream markets. The Bill also contemplates a step toward allowing greater participation by the private sector in the generation of power.

The Bill does not include specific language for all the changes to the Mexican energy sector that were expected. Instead it leaves many of the specific details for implementation of the constitutional reforms to future amendments to the secondary laws and regulations once the Bill is approved by the Congress.

With respect to the oil and gas sector, the main provisions of the Bill are as follows:

- Allows profit sharing contracts with Mexican and international private companies for the exploration and production of oil and gas or other similar contracts granting exploration and production rights or incentives.
- Allows private investment participation in the midstream and downstream markets, including petrochemicals, refining, transportation, storage, and distribution, through the obtainment of permits, likely to be granted by the Mexican Energy Regulatory Commission or "CRE."

Regarding the electric power sector, the Bill proposes that the State retain control of the transmission and distribution of electricity, but that private parties also be allowed to participate in contracts to assist the national electricity utility in performing these functions. Reference to the generation of electric power is removed from the Constitution under the Bill which would appear to open the door for significantly greater participation by the private sector in this area. In each of these cases, much will depend on secondary legislation passed by the Congress to determine the ultimate degree to which private parties may participate in the

electric power sector.

It is expected that the Mexican Congress will discuss the Bill during the legislative session starting in September, where an intense discussion is anticipated. We will monitor the approval process of the Bill and will keep you informed.