

ADVERTISING SUPPLEMENT

# NEW RULES

THE ENERGY ISSUE

## NEW OPPORTUNITIES

MEXICO'S  
ENERGY SECTOR  
IS OPEN FOR  
**BUSINESS**

G R U P O  
**REFORMA**

The Wall Street Journal news organization was not involved in the creation of this content



GRAND | HYATT®

## GREAT EXPERIENCES GREAT CELEBRATIONS

Join us to celebrate in style our first year of fun and relaxation in stunning Playa del Carmen.

- ✓ 20% discount of Standard rate
- ✓ 15% discount in food and beverages
- ✓ 15% discount in massages and treatments at Cenote Spa
- ✓ 2 complimentary hours in Camp Hyatt Tortuguita (up to 2 children, one time per stay)
- ✓ 15% discount in car rental at NU

*BW: May 30th - July 30th, 2016 | TW: May 26th - August 31st, 2016  
Minimum length of stay: 2 nights. Pre-payment required. Non refundable.*

**GRAND HYATT PLAYA DEL CARMEN RESORT**  
grandhyattplaya.com | grandhyattplaya.reservations@hyatt.com



ALTOS HORNOS DE MEXICO

Calidad con Voluntad de  
**ACERO**

Técnicos y operadores altamente capacitados, equipamiento de avanzada y procesos internacionalmente certificados garantizan la calidad y competitividad mundial de los aceros AHMSA.

Quality with the Strength of  
**STEEL**

Highly trained technicians and operators, advanced equipment and internationally certified processes guarantee the quality and world-wide competitiveness of the AHMSA steels.



PLACA, LÁMINA ROLADA EN CALIENTE, LÁMINA ROLADA EN FRÍO, PERFILES ESTRUCTURALES, HOJALATA Y LÁMINA CROMADA.  
PLATE, HOT-ROLLED SHEET, COLD-ROLLED SHEET, STRUCTURAL SHAPES, TINPLATE AND TIN-FREE STEEL (TFS).

OFICINAS CORPORATIVAS • CORPORATE OFFICES  
Prolongación Juárez s/n • Edificio GAN Módulo II, 2do. Piso • Col. La Loma • Miniclova, Coahuila • México 25770  
Tel. +52 (866) 649-3400, Ext. 13499 y 13403 • Lada sin costo / Toll free in Mexico 01-800-7186290 y 91

www.ahmsa.com

f AceroAHMSA



WELCOME

# MEXICO FACING its energy future

**O**n the Second Edition of the editorial work “New Rules New Opportunities” published by Grupo Reforma we focus on Mexico’s energetic sector and its development since the approval

of Energetic Reform two years ago, which will allow our country to pursue the global trends.

Throughout this period, advancements and areas of opportunity are on the table in the application of the amendments at several laws and in the tenders undertaken. However, investment opportunities and of associations of overseas companies in exploration and extraction of oil & gas contracts, in the expansion of transmission grids and the management of electrical supply, are still very attractive.

Players that participate in the necessary changes will benefit the market opening and new, healthier and more competitive businesses for our country.

Some Mexican Law Firms experts in the field, offer their view on these pages about what energetic sector offer to companies that are looking to expand their business opportunities beyond south border of the United States.

Besides, ProMexico and Comisión Reguladora de Energía, both government agencies, present a general overview of the new rules of the game and that how they are creating an environment that will encourage investment, competitiveness and for the benefit of final consumer. ☺

The opinions and the comments in the articles written by the Firms do not represent the views of Grupo Reforma.

## NEW RULES NEW OPPORTUNITIES

MAY 2016  
**GRUPO REFORMA**  
newrules@reforma.com

**Alejandro Junco de la Vega** President and CEO  
**Rodolfo Junco de la Vega** Vice President  
**Lázaro Ríos** Chief Managing Editor  
**Ricardo Junco Garza** Chief Advertising Officer  
**Ignacio Mijares** Chief Financial Officer  
**Alejandro Junco de la Vega E.** Chief Digital Officer  
**René Delgado** Executive Editor  
**Roberto Zamarripa** National Editor  
**René Sánchez** Business Editor  
**Leonardo Valero** International & Soft News Editor

**Gerardo Lara** Advertising Director  
**Roberto Castañeda** Deputy National Editor  
**Miguel González** Circulation Director  
**Jorge Arturo Padilla** Deputy Business Editor  
**Luis A. Soto** Digital Content Editor  
**Guillermo Toledo** Art Director  
**Jorge Obregón** Production Manager  
**Edgar Espinosa** Chief Technology Officer  
**Ricardo Del Castillo** Deputy Art Director  
**Roberto Segura** Circulation Manager

**Juan Carlos Pulido** Special Editions Manager / **Marcela Díaz de Sandi** Advertising Coordinator  
**Elena Ramírez** Commercial Editor / **Zusett Santa Ana** Commercial Art Editor / Design  
**Marisol Núñez** Investigation / **Lourdes Otero** Translation  
**Aline Olvera** Advertising / 5255-5628-7878 ext.1864 / aline.olvera@reforma.com

Published and printed in the workshops of: Consorcio Interamericano de Comunicación, S.A. de C.V., Av. México-Coyoacán No. 40, Col. Santa Cruz Atoyac, Delegación Benito Juárez, México, D.F. 03310  
Printed by: División Comercial 5255-5628-7503.



**DISTRIBUTION: Wall Street Journal:** Austin 7,000; Dallas 8,000; Houston 10,000; San Antonio 5,000; Washington 10,000 copies.  
**Grupo Reforma:** Reforma 20,000; El Norte 10,000

**Website:** www.reforma.com **Image bank:** Shutterstock **Follow us:** Facebook: /ReformaSuplementosEspeciales / Twitter: @ReformaSupEsp

The Wall Street Journal news organization was not involved in the creation of this content

## GONZALEZ CALVILLO, S.C.

ABOGADOS

Mexico City based full-service and transactional law firm, enabling opportunities to private investors in the oil, gas and electricity sectors in Mexico’s new markets

### Energy Practice Focus

Oil & Gas | Power Generation | Electric Industry

Project Finance & Infrastructure | Environment, Water & Natural Resources

M&A, financings, international public bids and projects in the areas of pipelines, E&P, petrochemicals, natural gas (distribution, transportation and storage), LNG facilities, fuels, power generation, IPPs, solar, cogeneration, EPC’s and PPP’s.

To learn more about our energy sector experience and practice, please contact us at:

**Enrique González Calvillo**  
egonzalez@gcsc.com.mx

**Gonzalo Vargas Ateca**  
gvargas@gcsc.com.mx

**Jorge Cervantes**  
jcervantes@gcsc.com.mx

**Leopoldo Burguete-Stanek**  
lburguete@gcsc.com.mx

Mexico City, Mexico  
+(52 55) 5202 - 7622  
www.gcsc.com.mx



Antitrust & Competition | Banking & Finance | Bankruptcy & Insolvency | Capital Markets  
Corporate | Data Protection | Energy, Oil, Gas & Power Generation | Environment & Natural Resources  
Financing & Infrastructure | Franchising, Licenses & Distribution | Government Procurement  
Intellectual Property | Labor | Litigation & Arbitration | Mergers, Acquisitions & Strategic Alliances  
Private Equity | Real Estate | Telecommunications



# CONTENTS

8	MEXICAN ENERGY SECTOR: MOTOR OF CHANGE PROMÉXICO
12	THE ENERGY REFORM: FREER MARKETS, BETTER RULES COMISIÓN REGULADORA DE ENERGÍA (CRE)
16	INVESTMENT OUTLOOK: OPPORTUNITIES AND TRENDS IN THE MEXICAN ENERGY SECTOR BAKER & MCKENZIE
20	BUSINESS OPPORTUNITIES IN MEXICO: THE NEW ENERGY ENVIRONMENT BASHAM, RINGE Y CORREA
22	THE OTHER SIDE OF THE COIN. INVESTMENTS IN THE ENERGY SECTOR DELOITTE
24	LESSONS AND CHALLENGES. THE ENERGY REFORM GALICIA ABOGADOS
28	UPDATE ON MEXICO'S ENERGY OVERHAUL GONZÁLEZ CALVILLO ABOGADOS
30	UPGRADING THE MEXICAN ENERGY MARKET TO INTERNATIONAL STANDARDS GREENBERG TRAURIG
34	IMPLEMENTING THE ENERGY REFORM IN MEXICO HAYNES AND BOONE
36	INVESTMENT OPPORTUNITIES HOGAN LOVELLS
38	MODERNIZATION OF THE MEXICAN ELECTRICITY SECTOR KPMG
40	NEW RULES FOR THE ELECTRICITY INDUSTRY MIJARES, ANGOITIA Y CORTÉS FUENTES
42	DISPUTE RESOLUTION IN THE NEW HYDROCARBONS EXPLORATION ORTEGA & GÓMEZ RUANO
44	PRIVATE INVESTMENT IN POWER SECTOR SOLCARGO
46	INVESTING IN THE MEXICAN RENEWABLES MARKET VON WOBESER
48	TERMS FOR THE STRICT LEGAL UNBUNDLING OF CFE WHITE AND CASE

NOTE: ROUND ONE AND TWO MENTIONED BY SOME LAW FIRMS IN THIS SUPPLEMENT HAVE BEEN AWARDED



Metrología Electrónica de México

Innovation and Technology

Oil & Gas Control Solutions

Fuel Inventory Management System  
Filling & Distribution Control System  
Management & Monitor Software

Monterrey, México  
Tel. (52) 81 8358 8831  
8358 9159

[www.mte.com.mx](http://www.mte.com.mx)



OPPORTUNITIES  
TO OFFER  
RELATED SERVICES

FRANCISCO N.  
GONZÁLEZ DÍAZ  
CEO at ProMéxico\*

Few countries  
have lived such  
deep structural  
changes in  
the last years  
as Mexico.  
Probably one  
of the major  
steps in this  
transformation  
has been taken  
on the energy  
sector

For decades, Mexico has been a privileged country in this sector. Due to its large hydrocarbon reserves and its potential on renewable energies, Mexico has played an essential role in the international market and the energy industry has had a deep impact in the country's economy and development strategies.

Notwithstanding, in a globalized world, with constantly changing realities and fluctuating markets, it becomes important to innovate, transform and diversify production processes in energy matters to be able to remain competitive. The Mexican Government has identified these challenges and, accordingly, has launched sever-

al public policies and projects driven by the Energy Reform, to strengthen Mexico's future in the energy sphere.

As a result, for the first time in more than 75 years, private companies can participate in Mexico's energy sector. Nowadays, private investment -both domestic and international- is allowed in the country's energy sector under several mechanisms such as service agreements, production and profit

sharing agreements, licensing contracts for exploration, extraction, treatment and refining of hydrocarbons, as well as transport, storage and distribution of petroleum, natural gas, gasoline, diesel and other derivatives.

Mexico's Energy Reform has drawn the world's attention. Recently, during the 35th IHS CERAWeek 2016, the President of Mexico, Enrique Peña Nieto, received the prestigious IHS Global Energy Lifetime Achievement Award in recognition of his vision and leadership in the historic modernization of Mexico's energy industry.

NEW ROADS OPEN

The benefits of this modernization process are clear. In the industrial sector, for example, the Energy Reform will result in savings on electricity and gas, as a result of the progressive reduction in energy generation costs. To date, the cost of electricity for the industrial and commercial sectors has already decreased by 22% to 31%, and it is expected that, by the end of 2016, the cost of domestic electricity will have a 2% reduction.

This is partly due to the substitution of fossil fuels in favor of more economic and more environmentally friendly energy sources, taking ad-

vantage of the low costs of gas and the country's hydroelectric resources. This change on the sources that the Country uses to satisfy its energy demand is evidence of the new path towards electricity market competition opened by the Energy Reform and of the transformations undergoing within the Federal Electricity Commission (CFE). It also demonstrates Mexico's commitment towards climate change mitigation.

Prior to the Energy Reform, the private sector could only take part in the electricity industry as a provider to CFE or as a producer under a self-sufficiency scheme. Today, with the recent opening of the wholesale electricity market, bidders can sell energy to all Qualified Users or their representatives. Free competition is guaranteed by the National Power Control Center (CENACE), which as-

Mexico is considered  
a reliable destination  
for productive  
investment. The reform  
has not only  
strengthened this  
reliability for investments  
on the energy sector,  
but it will help increase  
Mexico's competitiveness

MOTOR  
of Change





# OPPORTUNITIES TO OFFER RELATED SERVICES

\*ProMéxico is the Mexican Government's agency responsible for promoting Mexican exports, the internationalization of Mexican companies, and the attraction of foreign investment into the country.

sure the efficiency, transparency and open access to the electricity market. Due to the new rules of the market, private companies are allowed not only to produce and sell energy, but to offer related services, power, financial transmission rights and, in the case of renewable energy producers, certificates of clean energies.

## CHANGES ARE ALREADY TAKING PLACE

The full transition to a mature and strong energy market might take some time. However, Mexican energy sector remains active through medium and long term auctions-coordinated by CENACE- for 15-year energy supply contracts and 20-year clean energy certificates.

The results of the first of these auctions-which received 450 technical offers-will be announced in 2016. Also, this year CENACE will release the second auction for the long term contracts and the first auction for medium term agreements on power, energy, and financial transmission rights.

The Mexican electricity sector is highly attractive for investors. It is estimated that the country will require 60GW of additional capacity to cover its energy demand for the next 15 years. These energy needs will be fulfilled through projects of distributed generation-recalling that 88.5% of the 39.5 million clients of CFE corresponds to the domestic sector.

The Energy Reform has opened innumerable business opportunities along the supply chain of

the energy sector. These opportunities are not exclusive for large companies; there is a wide range of them available to SMEs in supply projects of pipelines, valves, screws, laminates, welds, galvanized items, and boiler vessels, among other articles for industrial use. There are huge opportunities in the services sector as well. For example, the energy industry is in need of software professionals to develop specialized computing systems.

The Energy Reform has also opened a window of opportunity for the development of renewable energies. Mexico is the third region with the highest solar irradiation in the world and is the largest manufacturer of photovoltaic modules in Latin America. Also, the country's wind power potential is one of the most attractive at a global level. Likewise, Mexico hosts one of the largest geothermic complexes in the world.

The new contractual schemes will help promote this potential. For example, eight new wind energy projects were announced after the Energy Reform.

Mexico is considered a reliable destination for productive investment. The reform has not only strengthened this reliability for investments on the energy sector, but it will help increase Mexico's competitiveness by creating new opportunities in the global value chain and reducing energy costs for companies established in the country.

Seneca used to say: "The wind is favorable for those who know where they are going." Mexico is navigating through a path leading to prosperity, boosted by structural changes and competitive advantages in the energy sector.☺



“ Three decades in litigation protecting and representing legally in a timely, honestly and effective way the interests of citizens, companies, banking and government ”

### THE FIRM

Guerra González y Asociados S.C. is a leading Mexican law firm specialized in litigation which is recognized by the high success rate in the cases it represents, as well as by the professional ethic of its members and the personalized service offered to its clients.

The way in which the firm is structured allows it to handle court proceedings all over Mexico as well as abroad thanks to the solid strategic alliances that it has built mainly in USA, Canada and Latin America.

Founder Jaime R. Guerra González, its twelve partners and a team of over 100 professionals are committed in providing a service of excellence.

### LEGAL EFFECTIVENESS...

- ✓ Guerra González y Asociados S.C. has represented the Debtor lawsuit with the highest value registered in Mexico, as well as the Creditor lawsuit with the greatest recovery value registered in the same country.
- ✓ The firm has built a solid network with reputable law firms based in North America, Central America, South America, Europe and Asia in order to respond with professionalism to challenges that cut across borders.
- ✓ Recognized as a "Leading Firm" by "Chambers & Partners", "The Legal 500", "Best Lawyers", "Insolvency Law Experts", "Who's Who Legal", "Practical Law", "Martindale Hubbell", among others.

### LEGAL SERVICES

CIVIL, COMMERCIAL, ADMINISTRATIVE AND FAMILY LITIGATION / INSOLVENCY AND RESTRUCTURING PROCEEDINGS / ALTERNATIVE DISPUTE RESOLUTIONS MECHANISMS / CONSTITUTIONAL PROCEEDINGS

### MAIN OFFICE

Santa Margarita 232, Col. Insurgentes San Borja, Del. Benito Juárez, 03100, Mexico City, Mexico.  
T. 52 (55) 5488 6100 / guerra@gga.mx

MEXICO CITY · MATAMOROS · MONTERREY · MONCLOVA · SAN DIEGO

[www.guerragonzalez-abogados.com](http://www.guerragonzalez-abogados.com)



## ESTABLISHING SUITABLE CONDITIONS

GUILLERMO ZÚÑIGA  
Commissioner at the Energy  
Regulatory Commission

# FREER MARKETS, better rules

The title of this article paraphrases the name of the book “Freer Markets, More Rules”, wrote by Steven K. Vogel to analyze regulatory reforms in industrialized economies. One of the most powerful insights that Vogel’s work has to offer is the fact that, in a counterintuitive approach, economic liberalization of regulated sectors carried out by different countries did not entail a “retreat” of the State; since the government and the markets are not linked by a zero-sum relationship, he argues that a modern regulatory reform is a reorganization of the governmental tools used to better align the development of private activities with public interests.

The dominant trend of the use of economic regulation policies to substitute old approaches in governmental intervention in the markets is one of the major economic shifts worldwide. Moreover, when it comes to analyzing the energy industry, in recent years we have witnessed the most important developments in the history of this sector: legions of new market structures and creative business strategies, from non-conventional hydrocarbons to offshore wind farms, have challenged the traditional business-government relationship.



## An Angelical Experience...

In Hotel Boutique Parador San Miguel Oaxaca we strive to achieve that your stay in the fascinating city of Oaxaca will be a memorable encounter with popular art, culture, the unique hospitality of our staff, the appetizing cuisine, the colors and the magic of our streets.



[www.paradorsanmigueloaxaca.com](http://www.paradorsanmigueloaxaca.com)

Av. Independencia 503, Centro, Oaxaca, Oaxaca. C.P. 68000



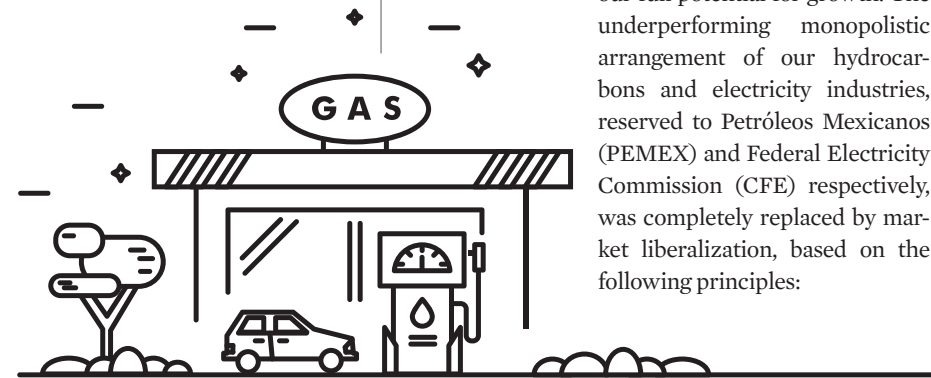
HotelParadorSanMiguel



HOTEL RESERVATIONS: 01 800 P A R A D O R  
[info@paradorsanmigueloaxaca.com](mailto:info@paradorsanmigueloaxaca.com) / [sanmigueloaxaca@hotmail.com](mailto:sanmigueloaxaca@hotmail.com)



## ESTABLISHING SUITABLE CONDITIONS



**When it comes to analyzing the energy industry, in recent years we have witnessed the most important developments in the history of this sector: legions of new market structures and creative business strategies**

- Elimination of entry barriers to private parties.
- Corporate overhaul of PEMEX and CFE, now stripped from any government authority in order to assure a leveled plain field with new entrants.
- A new governmental architecture.

However, before just laying all hopes at the door of the removal of entry barriers, the Reform followed the best international experiences, which showed that

In this context, in order to reap the benefits of the new realities, Mexico chose to take an important part of this new dynamic in the global energy industry.

For decades, the status quo of Mexico's energy industry had proven to be resilient against any reforming attempts. However, the 2013 Energy Reform represents a deep commitment to update the underlying structures of our energy markets in order to reach our full potential for growth. The underperforming monopolistic arrangement of our hydrocarbons and electricity industries, reserved to Petróleos Mexicanos (PEMEX) and Federal Electricity Commission (CFE) respectively, was completely replaced by market liberalization, based on the following principles:

the market complexities that remained implicit in energy industries - presence of dominant enterprises, asymmetric information, agency problems, high concentration, natural monopolies, etc.- demanded the creation of agencies with the necessary technical capabilities to deal with the core of those complexities in a balancing act: providing conditions to attract and reward investments, while taking care of the efficient performance of the new markets as a whole, including looking after the interest of the users and other stake holders.

### HYDROCARBONS

In the specific cases of hydrocarbons midstream activities (transportation, storage, distribution, trading and end-users sales of petroleum, gas and fuels) and electricity activities (generation, transmission, distribution, trading and supply), the Reform created the Energy Regulatory Commission (CRE) as the agency in charge of regulating those markets, all strategic in terms of economic growth as well as social development.

In terms of authority, the CRE was given broad economic tools, such as capacity to issue terms and conditions to which its regulated activities must be subject to, including open access obligations; determination of the applicable considerations, prices and tariffs for all regulated activities and issuance of technical regulation in quality and metering matters, as well as powers to shape market structures, including regulation and oversight of vertical and horizontal integration between regulated companies.

Additionally, the CRE was vested with budgetary autonomy and an institutional design that promotes technical oriented priorities and isolation from political cycles, including a strict contacts regulation with permit holders that promotes transparency and avoids discrimination. All the features of the CRE represent the pinnacle of a government arrangement wired to create the best conditions to foster encourage investments and benefits to the economy in terms of the balancing act above referred.

Finally, even though relying on sound regulatory agencies to orientate industries can help unleash the productive power of markets, addressing the vast investment opportunities in Mexico requires the involvement of all economic stakeholders, often having to bridge ideological stands and overcome pressures from vested interests. Dissemination of information plays a key role in this arena, by creating trust and educating about the benefits of this new reliance on competition in open energy markets, not only policymakers, but also citizens and businessmen alike. ☺



Burgoa Toledo & Asociados, S.C.  
Consultores y Asesores Legales



Homero 404, 6º piso,  
Chapultepec Morales.  
5254-7716 | 5203-3560  
| 5545-3593

## LEGAL ASSISTANCE AND PROFESSIONAL EXCELLENCE

**Burgoa, Toledo & Asociados** is a professional firm comprised of lawyers and accountants. Members of our staff are regularly invited to participate in Government conferences, TV and radio as experienced consultants.

Our services are deployed on a case by case basis to ensure our clients comply with legal and regulatory duties and requirements. We provide counsel and advice in all areas of our client's commercial activities.

Due to recent legislative changes, new opportunities are available for foreign investors, especially within the energy and oil sectors. We are experienced in these fields of law and can help clients navigate the many rules and regulations governing this area.

#### Some of the services we provide:

- Support on tax reporting and FATCA obligations. The SAT (Tributary Administration Service)



has established online reporting requirements and tax filings as well as official audits; thus, timely compliance is a critical issue. New billing reporting rules have been created. There are in addition to the monthly

submission of the taxpayer's accounting to the SAT.

- In the energy sector, our firm provides legal and accounting assistance from contract through implementation and to completion. The goal of our firm is to help clients to reach and maintain the better environment to invest funds in Mexico through various types of business entities.

With new rules comes new challenges. And new challenges are an opportunity for success. At Burgoa, Toledo & Asociados, we provide the services to overcome these challenges. The better the compliance, the better the outcome of your financial and investing the activities.

Our services are tailored to meet the needs of our clients. Our services are rendered in Mexico, and in the USA we work closely with the law firm of Bailey and Glasser LLP ([www.baileyandglasser.com](http://www.baileyandglasser.com)).

[contacto@burgoa-toledo.mx](mailto:contacto@burgoa-toledo.mx)

[www.burgoa-toledo.mx](http://www.burgoa-toledo.mx)



## INVESTMENT OUTLOOK

BENJAMÍN TORRES  
BARRÓN AND JORGE  
CORELLA-MARTÍNEZ  
Partner and Associate  
at Baker & McKenzie

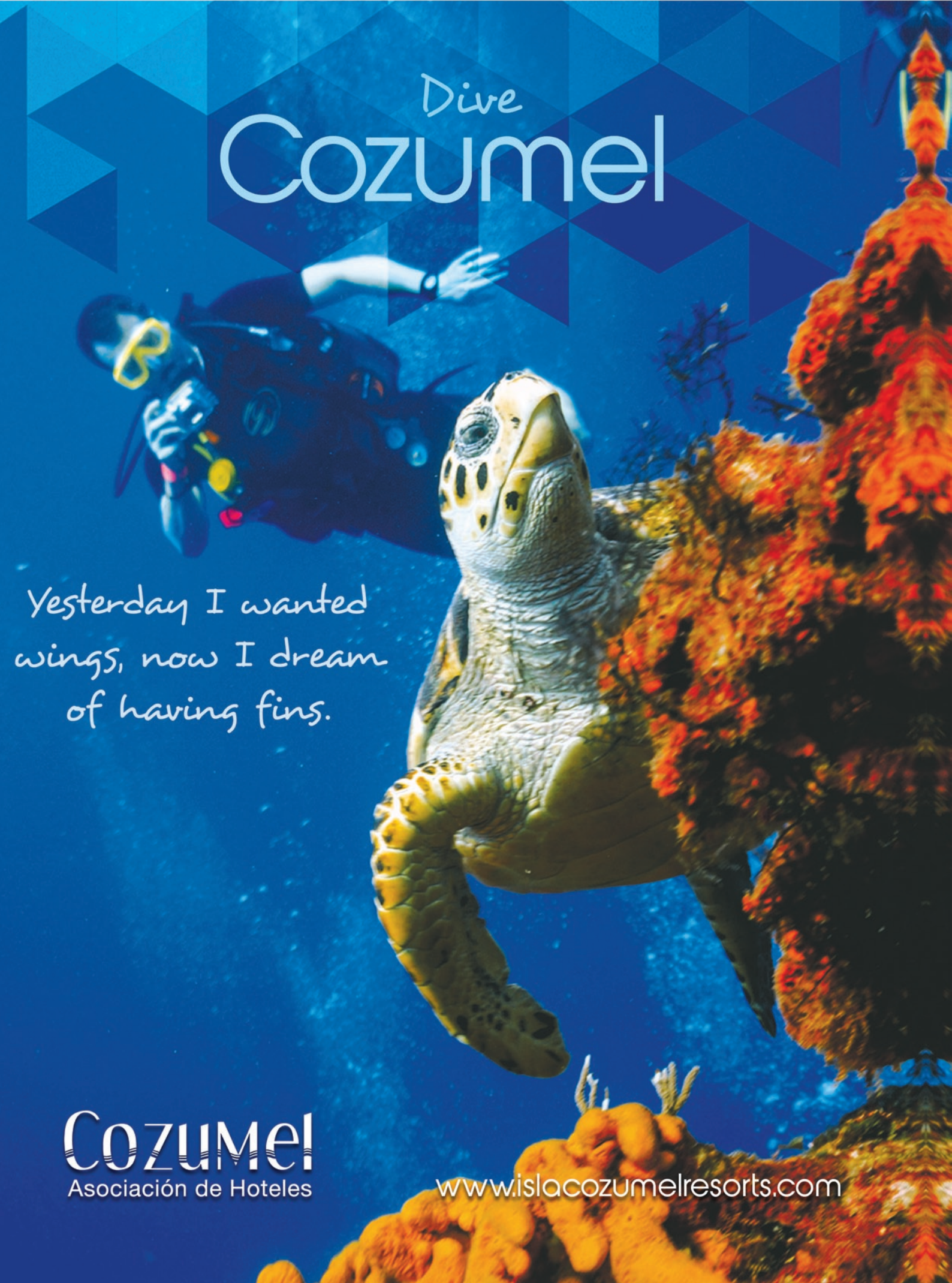
More than two years have passed since the Mexican Constitution was amended to set the foundation for opening the Mexican energy sector, which, investment-wise, was considered as one of the most closed regimes in the world. As the Energy Reform fosters private participation, opportunities in the sector have emerged and show a considerable growth

### HYDROCARBONS SECTOR OPPORTUNITIES

The hydrocarbons sector entails many different avenues of opportunities. In upstream, private parties may now conduct exploration and production (E&P) activities by executing a contract with the National Hydrocarbons

Commission (CNH), acting on behalf of the Mexican State. E&P contracts are awarded by CNH through public tenders under which any foreign or Mexican company may participate. However, only Mexican companies that are tax residents in Mexico and having an exclusive corporate purpose of E&P may enter into contracts with CNH. Currently,

# Opportunities & trends IN THE MEXICAN ENERGY SECTOR



*Yesterday I wanted  
wings, now I dream  
of having fins.*

Cozumel  
Asociación de Hoteles

[www.islacozumelresorts.com](http://www.islacozumelresorts.com)



30 contracts have been awarded under 3 different public tenders for a total expected investment of 6 billion USD. There is an ongoing bidding process considered by upstream players as the most exciting of all, comprising 10 deep water E&P areas located at the Gulf of Mexico with a water depth from 500 to 3,600 km and 10,537 MMboe of total prospective resources. The contractual modality for such bidding is a license contract, allowing private parties to own 100% of the extracted resources upon payment of certain fees and royalties to the Mexican State.

Midstream and downstream opportunities are also expected to attract investment. The National Center for Natural Gas Control (CENAGAS) anticipates a 5,159 km increase of transportation pipelines by 2019, requiring an estimated investment of 10.19 billion USD. Among the relevant projects to be tendered in 2016 is the construction of the “Los Ramones-Cempoala” pipeline which will go from north to central Mexico with a length of 855 km and an estimated investment of 1.6 billion USD. Moreover, fuel markets (i.e. gasolines and diesel) were finally opened on January 2016 and now other brands different from Petróleos Mexicanos (PEMEX) may sell fuels to the public. Also, gasolines and diesel may be imported into Mexico as of April 2016, an activity previously reserved exclusively to PEMEX.

## POWER SECTOR OPPORTUNITIES

For the power sector, the main opportunity for private investment is in the power generation industry which has been broadly liberalized. Private parties may now freely generate power for self-purposes or for selling it into the newly introduced Wholesale Power Market. Only Mexican companies or individuals may request and obtain a generation permit from Energy Regulatory Commission (CRE). The average time to obtain a permit is of 4 to 6 months and companies do not necessarily require to have power generation activities in their corporate purpose.

Although transmission and distribution activities remain reserved to the Mexican State, private parties could form associations or enter into agreements related to these activities. It is expected that by the 3rd quarter of this year a tender will be launched to invite privates to participate in the installment of transmission lines. The Mexican Government estimates a total investment of 127 billion USD in the power sector during the following 15 years, by increasing the generation capacity to 60 GW and to extend the transmission infrastructure into an additional 25,000 km.

## HOW TO REACT TO THE NEW OPPORTUNITIES?

The Mexican Energy Reform is a complete game changer. Interested parties shall exploit the opportunities proactively but with a dose of caution. Investors, consultants and even the Mexican authorities will naturally experience a learning curve prior to dominate the rules for the game. But exploring them now can turn into benefits such as acquiring experience, market knowledge, developing a network and clarifying uncertainties and questions for any particular process.®

# Taking your business aboard? We can help you plan for growth.



There are many ways to achieve success in expanding your business. Grant Thornton Mexico can advise you from setting it up to preparing for mergers and acquisitions, with tax planning and financial statement audits. We have over 800 professionals in Mexico and the support of more than 42,000 in 130 countries around the world.

We are Grant Thornton Mexico.

[SallesSainz@mx.gt.com](mailto:SallesSainz@mx.gt.com)

+52 55 54246500

[www.grantthornton.mx](http://www.grantthornton.mx)



Salles Sainz

# Grant Thornton

An instinct for growth™



ATTRACTING  
POTENTIAL  
INVESTORS

JUAN CARLOS SERRA  
AND JORGE EDUARDO  
ESCOBEDO MONTAÑO  
Partner and Associate at  
Basham, Ringe y Correa

THE NEW ENERGY  
environment

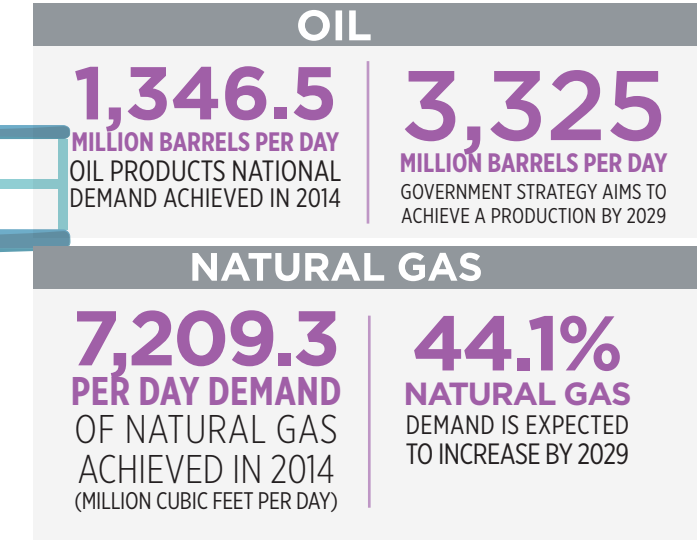
2013 MEXICAN ENERGY REFORM. CONSTITUTIONAL AMENDMENTS

The Mexican Energy Reform opens and allows participation of private companies in hydrocarbon and electricity projects, which prior to 2013 were completely banned to private investment and were carried out only by the Mexican State. Mexican government goal is to attract private companies to invest in the Mexican energy industry. As of today, Mexican government has already called for Round One, the first one out of a series of Rounds aimed to attract private investments in hydrocarbon exploration and extraction matters. Additionally, the National Power Control Center (CENACE) has called for the first long term electric auction, which purpose is to award contracts for the purchase and selling of power, cumulative electric power and clean energy certificates.

MEXICO'S POTENTIAL. OIL AND GAS RESOURCES. INVESTMENT OPPORTUNITIES

All tenders included so far in Round One have as main goal to attract potential investors and increase oil production in 500 thousand barrels for 2018 and 1 million barrels for 2025. According to evaluations made, up to January 1, 2015, Mexican oil resources that have not been discovered, but may be potentially recovered are estimated in 112,834 MMbpce (billions barrels) of crude oil equivalent, out of which 52,629 MMbpce (47%) are conventional resources and 60,205 MMbpce (53%) are non-conventional resources.

» Demand and Expected Production



» Exploration and Extraction Plan  
The Plan contemplates an exploration and extraction surface of 235,070.0 km<sup>2</sup> and establishes four bidding rounds for exploration and extraction fields and areas to be executed from 2015 - 2019 with an average of an equivalent of 104,778.6 Billion Barrels of Crude oil.

» Exploration & Extraction Plan / Round One  
Includes:

- 109 EXPLORATION BLOCKS AND 60 EXTRACTION FIELDS COVERING A SURFACE OF 28,500 km<sup>2</sup>.
- PROSPECTIVE RESOURCES OF AN EQUIVALENT OF 70,095.3 BILLION BARRELS OF CRUDE OIL.
- FOURTH TENDER UNDER PROCESS.

» Exploration and Extraction Plan / Round One / Fourth tender

- ANNOUNCED BY CNH ON DECEMBER 17, 2015.
- INCLUDES 10 CONTRACTUAL AREAS FOR OFFSHORE EXPLORATION AND EXTRACTION CONTRACTS IN DEEP WATERS.
- PROSPECTIVE RESOURCES OF 10,537.3 BILLION BARRELS.

» Coming Rounds / Two, Three and Fourth  
Three additional Rounds are pending to be called. These Rounds will include total resources of approximately 34,693.3 billion barrels which will be tendered as follows:

ROUND	RESOURCES (BILLION BARRELS)	SURFACE (KM <sup>2</sup> )
Second	14,796.2	75,342.8
Third	12,276.5	61,557.1
Fourth	7,620.6	64,095.9
TOTAL	34,693.3	200,995.8

» PEMEX assignments  
Petróleos Mexicanos (PEMEX) was given preference over certain exploration and extraction fields in which it had technical, performance and financial skills for operation.

- 489 ALLOCATION'S GIVEN TO PEMEX.
- 20,589 BILLION BARRELS OF CRUDE OIL EQUIVALENT OF 2P RESERVES.
- 23,447 BILLION BARRELS OF CRUDE OIL EQUIVALENT OF PROSPECTIVE RESOURCES.

Hydrocarbon Law allows PEMEX to migrate those assigned fields, prior approval of National Hydrocarbons Commission (CNH), to the new exploration and extraction contracts. In 2015, CNH has already approved to migrate some developed onshore and offshore fields with 2P reserves of approximately 2,211 billion barrels. Additional undeveloped fields are expected to be farmed out by PEMEX with 2P reserves of approximately 296 million barrels and 3P reserves of 1,007 billion barrels. CNH will publish an invitation to tender in which private investors will be able to compete to associate with PEMEX for those areas.

» Midstream and Downstream  
Private investment will be required for: (i) storage terminals; (ii) railroads lines; (iii) pipelines; (iv) highways; (v) ports; (vi) service stations.

» Natural Gas / Current infrastructure  
Natural gas demand has increased since 2004 and is expected to reach 10,390.3 million of cubic feet per day by 2029.

» Natural Gas / Transportation and Storage System Plan  
Which includes 12 different pipeline projects for more than 5,150 km of gas pipelines and investments of approximately 9,056 billion USD. The above mentioned projects will be reflected as follows once executed. Additionally, 8 projects are to be executed by the Federal Electricity Commission (CFE) in order to supply natural gas to new power generation plants in other Mexican regions.

A complete legal framework has been issued and is fully in force to strength the legal certainty for companies so they might come and participate in the tender and auction procedures

MEXICO'S POTENTIAL. ELECTRIC ENERGY INVESTMENT OPPORTUNITIES  
Between 2004 - 2014 the gross consumption of electric energy increased 2.9% while the forecast for the period 2015 - 2029 presents an annual increase of 3.5%. Maximum demand forecast is expected to increase for the period 2015 - 2029 in an annual rate of 3.8%, meaning 69,846.9 MWh. In order to attend national consumption and the demand of electric energy the Federal Government intends to expand the National Electric System to meet a requirement of 59,985.6 MW for the period 2015 - 2029 (56.9% with new projects). In addition, the Federal Government expects to increase the electric transmission system. Between 2015 - 2029 construction of 24,599 km of electric lines is expected as well as 410 km of transmission works. The electric sector prospective program contains approximately 21 projects to be tendered between 2016 - 2019. Mexico has a great potential for investment in the oil, gas and electric energy industries having a considerable amount of resources. Activities related to the hydrocarbons and electric energy sectors have been completely open for investment and private participation. A complete legal framework has been issued and is fully in force to strength the legal certainty for companies so they might come and participate in the tender and auction procedures.



## INFRASTRUCTURE NETWORK EXPANSION

ARTURO GARCIA BELLO  
Partner at Deloitte Mexico

Today's global context of low oil prices does not represent a threat to energy investments in Mexico, though, a resources assignment strategy change is implied.

A new timeline in this economic turmoil sets investments developments to be focalized on updating and scaling the infrastructure network, while oil prices recover.

Round One bid winners, as of today, have not withdrawn from the process, holding their investment position plans and interest in Mexico.

The current situation could be seen as an opportunity to detonate investments in some enterprises with infrastructure developments, to anticipate and take advantage of a better pricing framework.

Many project developments are on construction nowadays. On the gas sector, pipeline network expansions are well on their way. The second phase of "Los Ramones" is about to go live, which will supply to industrial and commercial parks in San Luis Potosí, Guanajuato and Querétaro States. The third phase of this mega-project is under construction.

Also, the North-Northwest gas pipeline is in progress, this one runs from the border line through the state of Sinaloa, promoting not only

On the other hand, delayed infrastructure developments must be overcome in the near future. For example, in Cantarell and another oil fields, short term investments are required for oil & gas extraction, including fracking technique that consumes great amounts of water, for which treatment plants are also required.

In fact, the National Hydrocarbons Commission (CNH) has allowed fracking exploration at Tamaulipas and Veracruz states for the first time ever, triggering new investments in the sector.

It is foreseen that PEMEX's financials must be improved for the long term, by selling some of its assets or alternatively

## THE OTHER SIDE of the coin

the energy sector, but will also detonate production of added value products mainly in the agroindustry of Sinaloa.

President Enrique Peña Nieto announced that since April 1st, the private sector will be able to import gasoline & diesel for local distribution. It was meant to go in force until 2017 in accordance with the guidelines of the Mexican Energy Reform. Situation that allows for anticipated investments on pipelines and storage segment, maximizing economic benefits for petroleum products importing enterprises.

Why does Mexico's gasoline price exceeds 13 pesos/ltr today? Net cost per liter of imported gasoline is, on average, 11 pesos, depending on its transportation mode. If carried by pipelines it could decrease to around 9 pesos/ltr., giving as much as 4 pesos margin to importers. Unfortunately, Petróleos Mexicanos's (PEMEX) pipelines are up to their limit capacity, compelling reason to make investments in pipelines and storage tanks.

through joint ventures with local or international enterprises, in order to update and expand refineries and other production assets, detonating further investments to invigorate the sector.

Another area where important investments are taking place is the Power sector, with new transmission line projects, wind and solar cell farms for sustainable energy production.

Infrastructure investments represent the other side of the coin for the oil sector. Its execution will generate an adequate environment to take advantage of future bonanza times of high oil prices, which will surely be seen again, although, not in the short term. ☺



## "Se habla español"

Mexico represents the 13th economy of the world and its economic potential shows that because of the demographic explosion (67% of the population have 26 years or less) Mexico will be a powerful partner.

However, navigate in Mexico it's not an easy task. As many Latin American countries, it doesn't matter what you know but who you know and what kind of advice and relationships can you get from your connections in Mexico.

In BILO, we have seen many foreign companies trying to make great business with a lot of potential and unfortu-

nately nothing happens and after a while they take their bags and go back to their country of origin disappointed; on the other hand, we have seen business that have more revenue in Mexico than in their own countries, consumer products, retail, energy, manufacturing, aerospace, hospitality, etcetera.

Companies like BP, Walmart, Starbucks, Inditex and many others have succeeded and provided to their board of investors better ROI than their counterparts in other countries.

Download our app and order your bond from your smartphone



### » What has been the difference?

Here are some of the rules of engagement that we think you need to understand before going global:

- 1 Explore with open mind. Many companies go global and make their expansion plans before even getting to know Mexico country. Mexico has many Mexico's. In the north they eat flour tortillas, at the south they do not even know them. If you come to Mexico you have to step in Mexico City (Tijuana doesn't count) and feel the vibrating economy and opportunities under your feet.

Nobody in Mexico will accept that they don't understand what you are expressing, it's a cultural thing! They will say "Yes, right" even if they don't have a clue on what you are saying!

- 2 Get the right partners (someone with bicultural knowledge). Get those that understand how you communicate and work and get the results that you are looking for. Lots of people speak English just to make themselves understood, however not all of them can truly understand and have a business conversation.

- 3 Take small steps. Go one by one and learn, change, focus and do it again. I was very impressed to work with a consumer product company that study Mexico retail market (with actual teams in the country) for three years before making any sale! Mexico is one of the countries that will grow in any way. We have our challenges, as any other country, but there is no way to stop a train carrying 75 million of young Mexicans to raise the country.

Jorge J. Quiroga

Principal - BILO Risk Management



01800 227 1230

[www.biloasesores.com](http://www.biloasesores.com)  
[servicios@biloasesores.com](mailto:servicios@biloasesores.com)

Finally, if you need security bonds or risk management administration, call us, we will take care of your business and "Se habla español".



# LESSONS AND challenges

**The time has come to put to the test our Energy Reform. The constitutional reform, the secondary laws and the regulation of the sector at last have come out of the lab and are facing reality. In the hydrocarbons sector, the awaited amendments to the legal and constitutional framework seem to arrive late.**

**T**he first actions to bring to life the new legislation is occurring at a moment in which hydrocarbons are more expensive, difficult to extract and compete against environmentally friendly alternatives. Moreover, the global economic context could not be more adverse.

On the contrary, the start of the new electricity market, although subject to complex rules not yet completely understood, has attracted a much more greater interest than expected.

## THE FIRST STEPS: BID ROUNDS FOR OIL CONTRACTS

The National Hydrocarbons Commission (CNH) was in charge of carrying out the bid process and awarding the new oil exploration and production contracts: the bidding process through the “Rounds”.

The first Round, Round Zero, was an exclusive selection process for Petróleos Mexicanos (PEMEX), in which approximately 83% of the proved and probable hydrocarbon total reserves and 21% of prospective resources, were granted in diverse assignments. The rest of the “oil inventory” of the Country remains “available” to be offered to the best bidder.

The Rounds were carried out in the middle of an unexpected and brutal fall of oil barrel prices, which has been a consequence of the “perfect storm”: overproduction of Organization of the Petroleum Exporting Countries (OPEC), incorporation of Iran to the market, the deceleration of China’s economy, non-foreseeable oil exports by the “tea cup producers”, small Chinese producers that stopped marketing their product in China and had to sell it in international markets. With such prices, a lot of the companies of the sector did not have the necessary resources to take the plunge into the available Mexican oilfields.

The first bid process resulted disappointing: only two areas were awarded; the second one improved and three areas were awarded. In the third bid process, rules were clearer and license contracts were granted (licenses provided greater benefits - as developers took higher risks - than the models used in previous bids.) 100% of the bidding areas were granted.

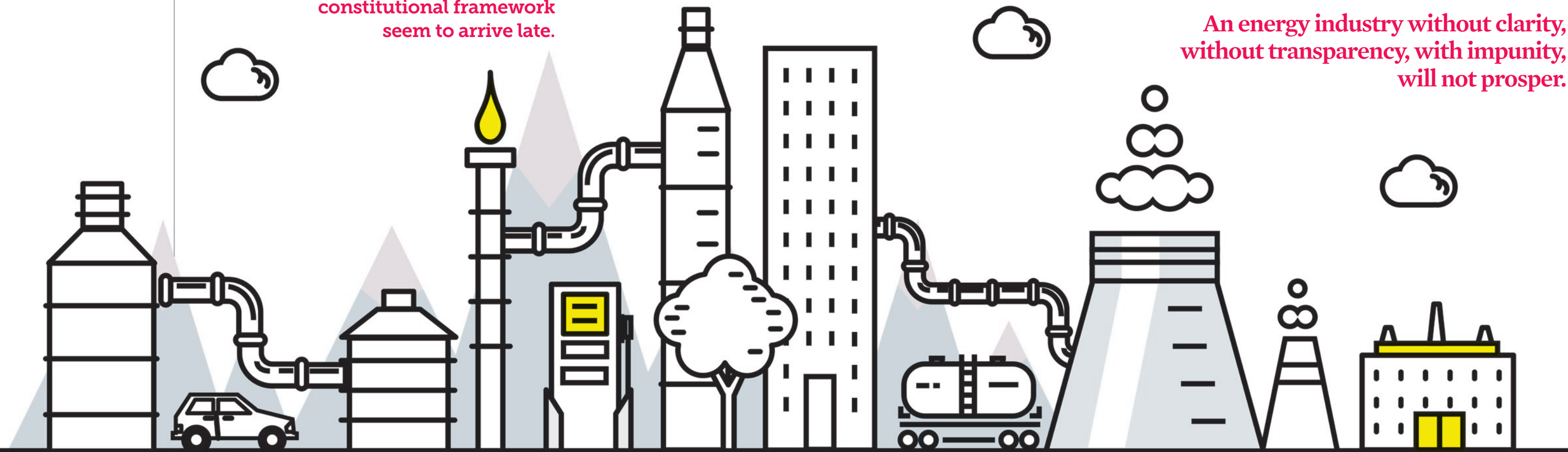
The fourth bid process is for deep-water blocks (offshore) and increased bidder’s interest has been shown. It looks like we are learning.

## THE ELECTRICITY MARKET AUCTIONS

In parallel, the creation of the new electricity market has brought new players to engage in the different activities of the productive chain in the electricity industry. Moving from a state monopoly to a market model represents a monumental challenge, not only from a regulatory perspective, but also from a cultural standpoint.

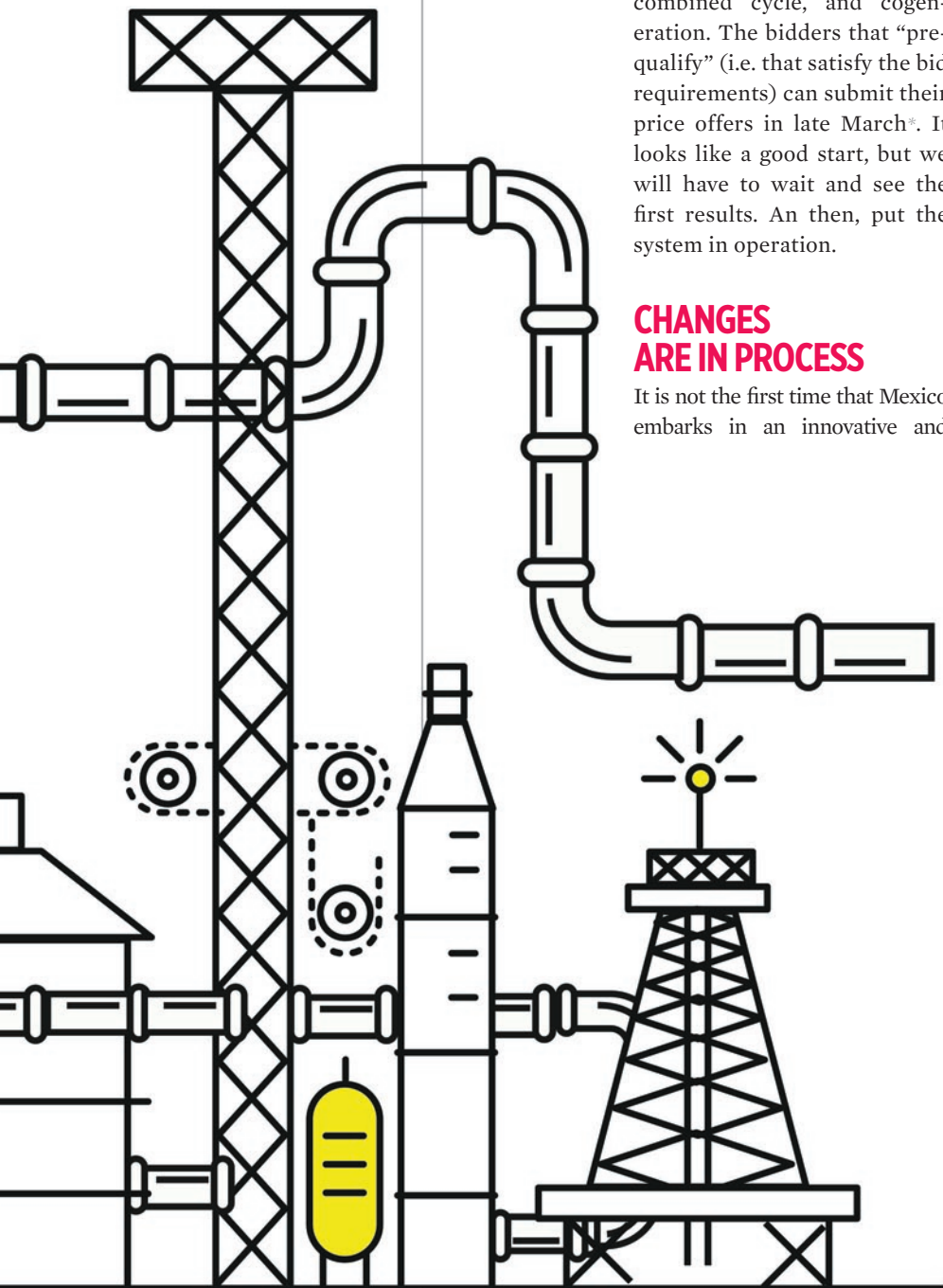
And although the new rules are extensive, complex, and the doubts have not yet been entirely resolved, we had to start with something: the first auction was organized for a single purchaser, the new Federal Electricity Commission (CFE), now under a more “commercial” mandate than when it provided

**An energy industry without clarity, without transparency, with impunity, will not prosper.**





# TURNING POINT



“public services”. CFE submitted a purchase offer to acquire power capacity, electricity and clean energy certificates “CELs”.

The interest to participate in the auction has been overwhelming, more than a hundred bidders with more than four hundred and fifty offers that cover various times and volume required by CFE. The proposals include solar, wind, hydro, combined cycle, and cogeneration. The bidders that “pre-qualify” (i.e. that satisfy the bid requirements) can submit their price offers in late March\*. It looks like a good start, but we will have to wait and see the first results. An then, put the system in operation.

## CHANGES ARE IN PROCESS

It is not the first time that Mexico embarks in an innovative and

ground-breaking process of regulation in an industry.

We have already modernized the rules of the automotive, telecommunications and banking sectors, among many others. These experiences always imply a learning process for the Government and for all the new participants.

As bidding processes have been taking place, rules have been clarified in certain cases and become more flexible in others, seeking to avoid contradictions. Authorities and bidders have initiated a direct dialogue that has brought appropriate solutions.

Transparency has been privileged, which has increased trust in both parties. It is clear that we must be patient and take the necessary time to understand, test and improve the rules.

Besides, the cultural change that we envision is not going to be easy. We are moving away from a monopoly scheme we had for many decades.

The process of taking decisions, the reasons behind them, the commercial practices, the objectives, the personalities of public officials are very different in a state-driven industry than in a market-based economy.

The ideology that was created around PEMEX and CFE during decades generated deep roots. The expected ideological and practical change will not occur magically, just because new rules were issued.

And more importantly, the legality of the process should be respected. A few days ago, former president Ernesto Zedillo declared that Mexico needs three things to grow steadily: “the rule of law, the rule of law and the rule of law”. An energy industry without clarity, without transparency, with impunity, will not prosper.

Particularly, in the oil industry, the challenges are colossal. The global environment is almost catastrophic. Oil is seen as a resource that is just about to be obsolete: electricity is now generated from renewable sources; laws are looking for clean generation; internet has reduced the people’s mobility needs, thus, reducing the use of fuels. Massive production of electric cars advances. Oil is increasingly more complex, expensive and harmful to the environment.

It seems like we spend too much time debating what to do. Our decision-making processes have not moved according to reality. We have to think better and act faster. We cannot continue watching solutions being made “on the other side” to later import or copy them.

We don’t want to end like the tough, but indecisive boxer that, as a commentator narrates: “when he could, he didn’t want to; and then... when he wanted... he couldn’t”.

*\*Note: This information had a recent update.*

# Hidrosina

OFRECE A SUS CLIENTES DIFERENTES PRODUCTOS ACORDE A SUS NECESIDADES  
Y SIEMPRE A LA VANGUARDIA EN TECNOLOGÍA Y PRESTACIÓN DE SERVICIOS



HIDROSINA, en su compromiso por mantener la mejor red de estaciones de servicio en México ha desarrollado en colaboración con importantes empresas, diversas formas de pago como monederos recargables (Hidrotag, tarjeta corporativa) y tarjetas desechables

A lo largo de 21 años en el mercado mexicano, Hidrosina siempre se ha preocupado por ofrecer a sus clientes los productos más innovadores y un alto nivel de servicio; resultado de este esfuerzo es que actualmente cuenta con certificación ISO 9001:2008, una garantía de calidad en el servicio. Para optimizar su nivel de atención, Hidrosina realiza constantes auditorías operativas y tiene un programa permanente de certificación y calibración de equipos, así como facturación electrónica en línea. Adicionalmente cuenta con avanzados y modernos sistemas para la administración de la empresa (SAP y Salesforce).



En las estaciones de HIDROSINA se ofrecen productos y servicios que benefician a los clientes y hacen más placentera su visita.



Recarga de tiempo aire  
Puede abonar saldo a celulares de cualquier compañía



Recarga de tags  
Pase Urbano, Televía, IAVE, VíaPass

Pago de servicios  
Agua, luz, teléfono y TV de paga entre otros



Grupo Hidrosina reconoce la labor humanitaria de las fundaciones y asociaciones que apoyan a los mexicanos en situaciones difíciles. Es por eso que participan y brindan apoyo a causas altruistas ayudando a que se cumplan. Algunas de estas asociaciones son: Teletón, Fundación Michou y Mau, I.A.P. para niños quemados y Cruz Roja Mexicana, entre otras.

Para mayor información favor de ingresar a: [www.hidrosina.com.mx](http://www.hidrosina.com.mx)



## NEW LEGAL FRAMEWORK

ENRIQUE GONZÁLEZ CALVILLO, GONZALO VARGAS ATECA, JORGE CERVANTES TREJO AND LEOPOLDO BURGUETE-STANEK  
Partners at González Calvillo

Mexico received an energy boost with the 2013 structural and legal reform (Energy Reform) that ended State monopolies in oil, gas and power industries, opened opportunities for new business ventures and attracted the attention of local and foreign investment. Two years after implementation, the Energy Reform has already resulted in new projects, despite the volatile market conditions:

### NEW UPSTREAM PARADIGM

- After nearly 80 years, the oil and gas exploration and production (E&P) market reopened to private investment.
- Petróleos Mexicanos (PEMEX) retained fields representing 83% of proven and probable reserves and 21% of prospective resources.
- The government has already held three Round 1 international bids for E&P contracts, with an allocation of 30 fields.
- The auction for 10 deep-water fields will take place this year with the participation of large-scale international oil companies as ExxonMobil, Chevron, Shell and BP, among others.
- Farmouts for E&P between PEMEX and private entities will allow increased productivity and long-term investments of new players.

- CFE to convert diesel power plants into natural gas generation.

### FINANCING ENERGY PROJECTS

- Inspired in Master Limited Partnerships's (MLP) structures, the new "Fibra E" vehicle allows public to invest in tax efficient energy and infrastructure asset-owning entities.
- Recent Public-Private Partnership (PPP) schemes are triggering innovative financing structures attracting participation of local and international institutions.
- PEMEX and CFE as state-owned productive companies, using alternative financing options, such as asset monetization and financial leasing.
- Although the Energy Reform implies opening the sector to private players, the new legal framework

## Update ON MEXICO'S ENERGY OVERHAUL

### MIDSTREAM & DOWNSTREAM OPPORTUNITIES

- A sustained expansion in the oil and gas business and the opening of fuel distribution markets call for massive investments in pipeline, storage and port capacities.
- The government opened the gasoline and diesel market of 800,000 barrels per day (bdp); any company with a permit may import fuel as of April 2016
- Private companies can operate all kinds of midstream facilities, which are available to all interested users through open/non-discriminatory access.
- A newly created Independent System Operator (ISO) -National Natural Gas Control Center- will manage the national gas pipeline system.
- Comisión Federal de Electricidad (CFE) plans to add more than 7,500 kms to the gas pipeline system.

### ELECTRIC INDUSTRY

- New wholesale electricity market, comprising time-based markets for energy purchase, clean energy certificates and auctions for transmission rights.
- New ISO -National Power Control Center- for the entire electric grid.
- Open/non-discriminatory access to the electric grid and distribution networks.
- Target of 35% production from non-fossil fuels by 2024 and 60% by 2050

also provides regulatory boundaries to assure the establishment of a competitive new market:

- E&P contracts in general require an average of 25% of minimum local content ( 35% by 2025)
  - Farmouts will be subject to international and transparent bidding processes that maximize financial returns to the State
  - Prior E&P services agreements executed by PEMEX will migrate into new E&P contracts
  - Governmental approval will be typically required to create securities over licenses, permits and regulated assets (e.g., pipelines, water treatment and power plants)
  - New financing subject to comply with Principles of Ecuador (e.g., environmental impact assessment, waste management, air and water emissions, and preventive/mitigation measures with local ethnic or indigenous groups)
  - Additional environmental/social procedures required for infrastructure projects
  - Antitrust limits in vertical-integration and crossed-ownership in regulated activities, such as commercialization of oil products and midstream activities
- With this new framework, it is clear that Mexico passed the critical milestone of implementing the Energy Reform. The ambitious package of legal, social, political and economic improvements offer remarkable business opportunities in all areas of the energy field. ☺

## THE FIRST TOURISTIC MEZCAL FACTORY IN MEXICO AND THE BIGGEST OF ITS KIND

*Come to visit us on a tour through its magical spaces and crops, and taste in a private session this spirit drink*

In the shell of a 19th century hull of a ranch, exalting the colonial tradition of our country, we planted four varieties of agave all over the property: the one called Cupreata because it is representative of the region; Criollo since it is endemic of this area; Weber Agave Tequilana, because it is the most representative of the popular culture, even in Mexican songs; and Espadín, which was the one that rescued the current passion for mezcal.

*Resiú Nayaá: Zapotec language which means "strong and clear".*

### DESIGNATION OF ORIGIN

Unlike the vast majority of mezcal that exist in the market, our mezcal is produced and packaged in the place of origin following the highest standards of production. Testing of the above, it is our international Kosher certification issued by OU Kosher (Orthodox Union) and our registration with the Regulatory Council of Mezcal, the NOM-G272R, which qualifies us as manufacturers, packers, and distributors of our product.

### HEADQUARTERS MEXICO CITY

LAGO ALBERTO 320-1001,  
TORRE KMD II, PARQUES POLANCO  
TEL. 52(55) 52500875  
info@nayaamezcal.com

### SELLS

ALBERTO CELESTRÍN  
TEL. 00 4917 2692 6975  
alberto.celestrin@nayaamezcal.com

[nayaamezcal.com](http://nayaamezcal.com)



@Nayaamezcal



NayaáMezcal





Recent reforms that Mexico has made to its electrical, oil and natural gas sector has the function to update our Country compared with the regulation and openness that exists to invest in these sectors in other countries that have reached levels of development such as Mexico aspires

# Upgrading THE MEXICAN ENERGY MARKET TO INTERNATIONAL STANDARDS



We affirm the aforementioned due to such reforms achieve the following:

- (i) Simultaneous creation of a wholesale electric market;
- (ii) Release of oil import (gas, diesel and tubosine) and its selling on private service stations (retail);
- (iii) The most important transfer of natural gas transport system through pipelines in the country with length of 9000 km to an independent manager - National Natural Gas Control Center (CENAGAS) - to ensure interconnection and contracting on equal circumstances and open access;
- (iv) The creation of a secondary market for gas selling and transportation capacity;
- (v) The possibility of expansion of electrical transmission networks through private investment (both private and public networks in partnership with State enterprises)

(vi) Network management through National Power Control Center (CENACE) Independent Organization (Independent Power System Operator ISO) to ensure interconnection and contracting on equal and open access;

(vii) Bids for various rounds of contracting oilfields with an independent National Hydrocarbons Commission through production sharing contracts or licenses;

(viii) Creation of Clean Energy Certificates (CELs) and a market for listing and exchange along with a gradual acquisition commitment of renewable energies for consumers;

(ix) The tenders organized by CENACE for CELs purchase, power, energy and financial transmission rights for basic supply;

(x) The transformation and disaggregation of the Mexican State utility Federal Electricity Commission (CFE);

(xi) The transformation and disaggregation of the oil company of the Mexican State (PEMEX) and the removal of the monopoly held previously of all activities related to the oil industry (geology, exploration, production, import, first-hand sales, refining, transportation, processing, petrochemical, marketing and supply to service stations that could only exclusively operate with its brand under a franchise scheme).

This with the aim of (i) treating gas, oil, electricity, petroleum products and transport capacity, transmission and associated storage, as true "commodities", just as happens in other markets, and (ii) have rates for such products and services that make Mexico a competitive market in its manufacturing and operation costs.

As to financing schemes to modernize existing infrastructure to expand or build it, it requires new and creative mechanisms to deal with the great challenges of investment.

For that purposes, the recent regulation creates two new investment vehicles: FIBRAS E and CERPIS,



## CERPI's will allow pension funds, insurance companies and other domestic institutional and foreign investors, to invest in any kind of project in all productive sectors of the Mexican economy.

which will allow to capture in an effective, agile and with the best international standards in terms of corporate governance and transparency, important flows of domestic and foreign investment in all the economic sectors, especially in the electricity, oil and natural gas sectors.

With the introduction of these vehicles, Mexico updates its investment instruments to generate greater flow to important strategic public projects and those of private interest.

### CERPI

Certificates of Investment Projects (CerPI) are a complement of the Certificates of Capital Development (CKDs) they have a modern design of corporate governance and flexible in its operation, will allow pension funds, insurance companies and other domestic institutional and foreign investors, to invest in any kind of project in all productive sectors of the Mexican economy.

### FIBRA E

Through FIBRA E, the large investing public will have access to mature projects in the sectors of energy and infrastructure through vehicles that generate stable and predictable flows under a specific tax regime.

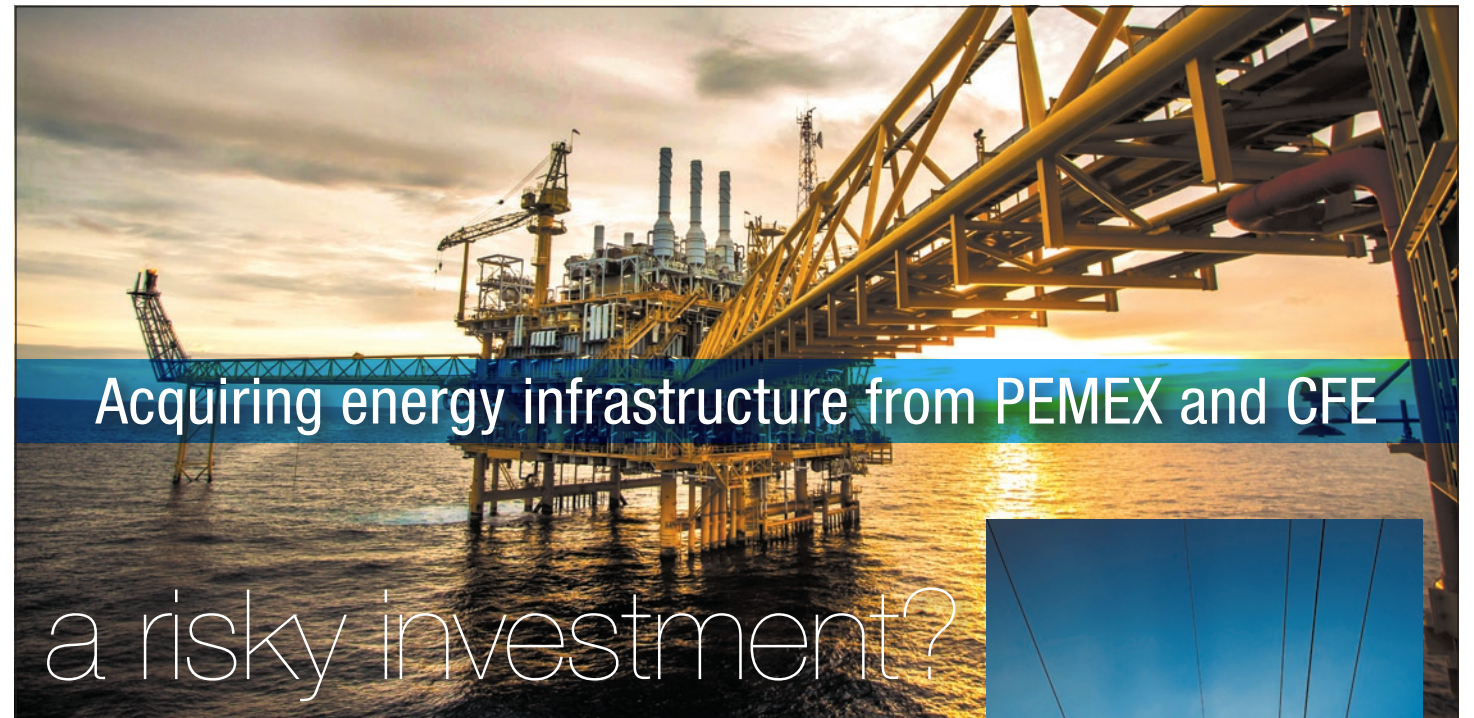
These instruments gather the experience of national and international instruments that have proved to be successful. In Mexico, as a precedent of the FIBRAS E, we have a real estate FIBRAS. To date, there are more than 10 issuers which together have issued about \$ 150 billion pesos in real estate FIBRAS.

From an international point of view, in the United States there are similar instruments to finance energy and infrastructure projects that require a great amount of resources and long terms, such as Mas-

ter Limited Partnerships (MLPs) and YieldCo (Company Performance). The first ones emerged in early eighties and the end of 2014, its market capitalization amounted more than \$500 billion dollars. The MLPs operate as transparent vehicles for tax purposes and generally, the tax is paid to the level of the individual investor at the time of receiving distributions and these contribute fiscally according to their particular tax rate. Moreover, the YieldCos, alternative vehicle from the MLPs arise in 2013, in order to segregate mature assets with predictable flows. Despite its relatively short history, the capitalization value of this vehicle now exceeds \$30 billion dollars.

Considering the above, it is expected that FIBRAS E have an important positioning not only for the appetite but for the scholarships of various projects usually were not open to all types of investment, such as the electric, oil and natural gas sectors, and also, petroleum products, gas pipelines, roads, highways, railways, transport systems, ports, public security, social rehabilitation and water, among others.

Given all that international experience, we applaud the initiative for the creation of investment vehicles, that by having corporate governance rules, will grant greater transparency and confidence to the investing public, besides by increasing that range of assets, the market will be stronger by the financing capacity that will be generated. In the securities industry, we celebrate and reaffirm our commitment and support to promote the development of these instruments and the new operational modalities in order to meet the financing needs for infrastructure required by our Country. ☺



On December 2013 when the energy reform was launched, investors in the field wondered where the best business opportunities to invest in Mexico would be. No one would've thought that they could be in the acquisition of infrastructure and assets from PEMEX or CFE, simply because at the moment their assets were just not for sale; mainly due to legal and financial reasons. The situation of the Government's Productive Companies (Empresas Productivas del Estado) is now different, as they are no longer considered authorities, but a sort of hybrid between public and private entities somehow financially troubled.

At this point, the question that investors should be making is: how risky is it to invest in acquiring infrastructure and assets from PEMEX and CFE? As Warren Buffet once said, "only when the tide goes out do you discover who's been swimming naked".

Recently -on January 1, 2016- PEMEX transferred to the National Center for Control of Natural Gas (CENAGAS) the ownership of the Infrastructure for Pipe Transportation and Storage of Natural Gas, formed by the Integrated Systems of Natural Gas known as "Nacional de Gasoductos" and "Naco-Hermosillo". PEMEX itself has admitted however, in the "Inventory of rights of way and easement agreements" (In-

ventario de derechos de vía y contratos de ocupación superficial) attached to the Infrastructure Transfer Agreement, that at least 39% of the easements and rights of way present some legal irregularities.

But what is the cause of those irregularities? Prior to the energy reform, PEMEX and CFE's legal regime vaguely provided for rules and controls to ensure due acquisition, documentation and registration for their real estate assets. Even though CFE was operating the Real Estate Information and Administration System (SICABIN) and PEMEX the SAP ERP PM module, it was not enough. Historically, the acquisition of real estate property and rights of way (derechos de vía) focused in obtaining from the owners or possessors the authorization to work on their lands, neglecting in many cases the legal formalization of such agreements. As of today, both Pemex and CFE, operate several assets without having proper legal title or documents. For years, the main -if not the only- guarantee that PEMEX and CFE's assets would be honored, laid in their role as authorities. Both companies negotiated and signed agreements with those involved, or litigated the claims in never ending proceedings, regardless of the cost to the Mexican Government.

With the transformation of PEMEX and CFE into Government's Productive Companies (therefore their capacity as public



entities set aside) there is no guarantee that their infrastructure will hold against third parties' claims. For that reason, specialized real estate lawyers recommend our clients interested in: acquiring, lending money backed with, or otherwise associating in projects involving such assets, to conduct a thorough due diligence in order to obtain complete, organized, updated and verifiable information about their legal situation, thus avoiding ending "swimming naked".

**Jorge Cardoso Sánchez**  
jcardoso@ogorman.com.mx



## NEW CONTRACT SCHEMES

NICOLÁS BORDA  
AND EVERT SÁNCHEZ  
Partner and Associate  
at Haynes & Boone

The eagerly awaited implementation of the 2013 Reform is finally near completion as the last two years following such Reform were defined by the issuance of the secondary laws and regulations. Once the pieces are in place and after learning from the experiences of the projects awarded last year, 2016 is poised to be a critical year for the arrival of new investment as the uncertainty of the implementation of the Reform has been reducing

# Implementing THE ENERGY REFORM IN MEXICO

During the first steps of the implementation of the Reform, the regulators have shown empathy with the arrival of new competitors into the newly opened markets by adopting the best international practices in order to grant them legal certainty when building their strategies. As an example of this was the increasing participation of bidders during the second and third bids of Round 1 launched by the National Hydrocarbons Commission (CNH). The experience gained during these bids will be invaluable for the participants of the

ongoing bid comprising the award of license contracts for the exploration and production of hydrocarbons in deep water fields in the Gulf of Mexico.

The interest shown by the investors towards the liberalization of the oil & gas industry has pulled the Ministry of Energy to lift the restriction to import gasoline and diesel imposed to the private parties moving forward this opening as of April 1, 2016. The early liberalization to import such fuels by the private sector encourages the arrival of investment focused in the construction of midstream and downstream infrastructure such as maritime terminals, storage facilities and pipelines.

Mexico's shift towards a cleaner and efficient power generation policy will be led by the substitution of the existing power plants supplied by fuel oil into plants fueled with natural gas, a vast

resource in Mexico's geography. However, until Mexico is able to tap into its own resources, it has resulted very attractive for the midstream participants during the recent public bids called by the Federal Electricity Commission (CFE) to import and transport natural gas into Northern Mexico such as Los Ramones pipeline. Natural gas projects will continue to be an attractive area of opportunity in Mexico as envisioned in the National Infrastructure Program 2014-2018 with the construction of more than 5,000 km of pipelines and investments of over US\$8 billion.

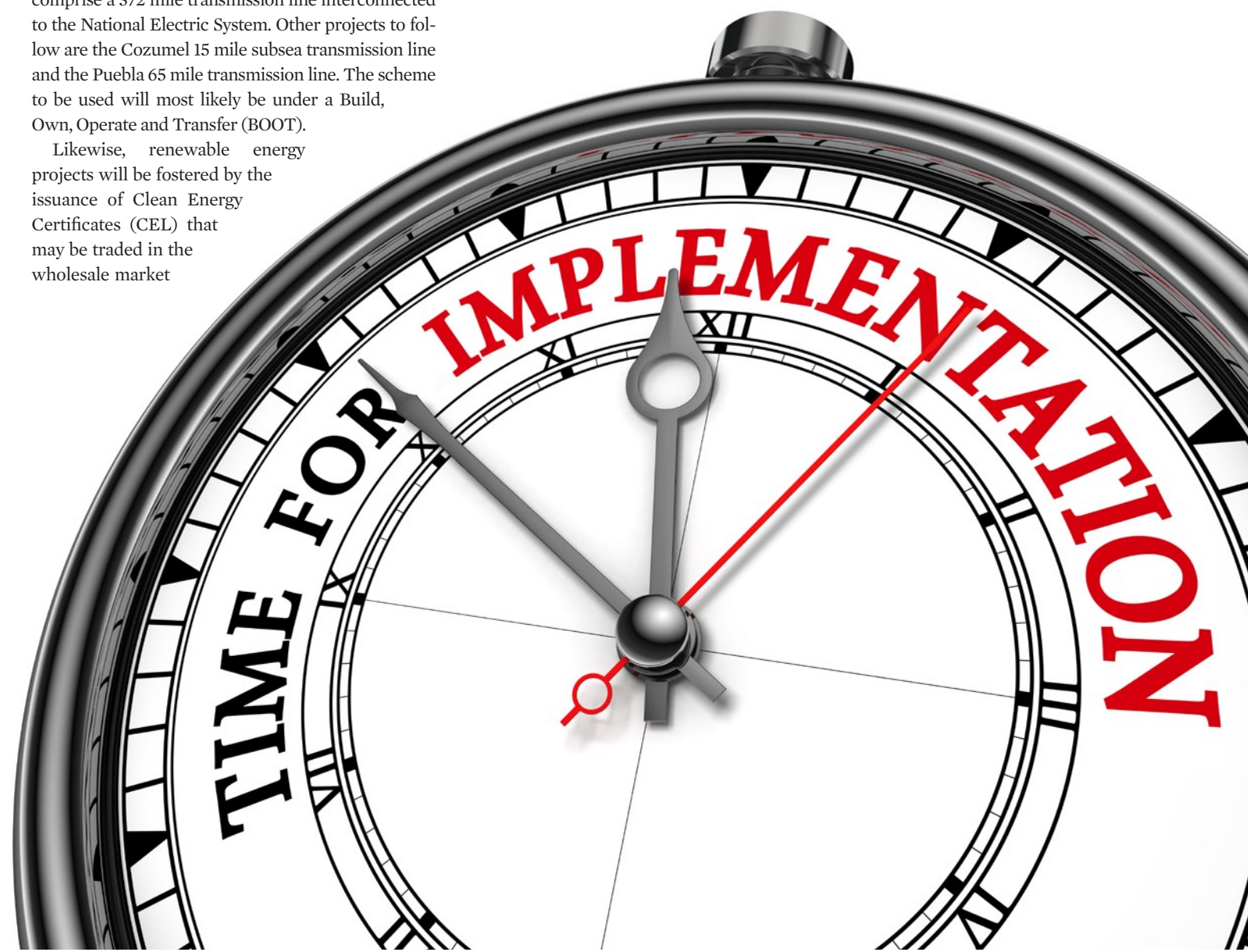
## PROJECTS

As part of the strategy to transit to clean energy sources, renewable projects will be reinforced with the construction of transmission grids that will be developed together by the CFE and private parties using the new contracting schemes brought by the Reform, such as the Public-Private Partnership (PPP) and joint ventures. One of these projects is the Tehuantepec Istmo-Central Mexico transmission grid that will be announced the second trimester of 2016 and it will comprise a 372 mile transmission line interconnected to the National Electric System. Other projects to follow are the Cozumel 15 mile subsea transmission line and the Puebla 65 mile transmission line. The scheme to be used will most likely be under a Build, Own, Operate and Transfer (BOOT).

Likewise, renewable energy projects will be fostered by the issuance of Clean Energy Certificates (CEL) that may be traded in the wholesale market

or in the long term auctions called by National Power Control Center (CENACE). The ongoing first auction caused a surprising response by having received 468 offers from 103 bidders to satisfy the demand of CFE comprising 500 MW of power; 6.3 million MWh of electricity and 6.3 million CEL.

Last but not least, accurate and prompt legal advice will play a major role for investors during the implementation of the Reform by understanding the rationale of the different provisions and concepts of the Reform and public policy matters to interpret the new regulatory framework, creation of new opportunities and first mover advantages, as well as the interaction of the new regulatory agencies and non-technical risks such as liabilities, tax and environmental issues. Haynes and Boone has been a very active law firm in Mexico representing national and international clients during the development and financing of energy projects. Its Mexico City office has more than 20 years of experience in the Mexican market. ☺





## FIRST COME, FIRST SERVED

JUAN FRANCISCO  
TORRES LANDA R.  
AND MIGUEL ÁNGEL  
MATEO SIMÓN  
Managing Partner  
and Counsel  
at Hogan Lovells BSTL



# INVESTMENT opportunities

It has been two years since the Mexican Constitution was amended, and roughly one year and a half since the implementing legislation and regulations were published. The Mexican Government has been working thoroughly to issue “tertiary” regulations for all sectors impacted by the reform. As a consequence of all these activities, investment opportunities have materialized giving substance to a new and growing energy marketplace in Mexico. Let us look at some of the main developments that we have witnessed in this implementation phase, one that is still to see its full potential

## OIL & GAS (UPSTREAM, MIDSTREAM AND DOWNSTREAM)

Round 1 - Exploration and Extraction Contracts (E&E Contracts). Round 1 has triggered the first round of tenders organized by the National Hydrocarbon Commission (CNH), which purpose is the award of E&E Contracts. Four bidders have been organized in Round One. The E&E Contracts for the first three bids have been awarded and included Production Sharing Contracts and contracts for onshore and shallow water blocks. The fourth tender comprises the award license contracts for deep-water blocks. At this time significant opportunities exist in farm-outs

associated with the E&E Contracts awarded in the first three tenders and significant association opportunities related with the fourth tender.

**Midstream and Downstream.** The midstream sector has been very vibrant. The Federal Electricity Commission (CFE) has been organizing public bids seeking to award long-term transportation services contracts (for natural gas). In addition to these bids, the Energy Regulatory Commission (CRE) issued specific regulations to organize detailed natural gas, crude oil, petroleum products and petrochemical midstream activities. As a result there is increasing interest of national and foreign investors to develop the required infrastructure, and, with CRE leading a new drive to promote open access in midstream infrastructure, a mature secondary capacity market is growing at the same time.

As for the downstream sector, the Mexican government lifted the ban on imports of gasoline and diesel. The ban was supposed to be lifted in January 2017. However, the fact that that transportation and storage of petroleum products is liberalized and that these products will be imported starting on April 2016, creates substantial opportunities in this sector.

## ELECTRIC ENERGY

Implementation of this segment of the reform has been moving slower than the oil & gas upstream and midstream sectors (due to its complexity). So far, the Wholesale Electricity Market (WEM) guidelines have been issued, along with other regulatory instruments. However, a number of new regulations must be issued so that the WEM is fully implemented. To date, bilateral transactions can be carried out; spot transactions will come after, once the relevant regulatory instruments are issued.

The National Power Control Center (CENACE) organized an auction with the purpose of awarding a long term Power Purchase Agreements (PPA) to sell energy, power and clean energy certificates to the CFE. This auction is the result of the new market structure.

As for opportunities in this sector, the most obvious opportunities that exist are: (i) potential Mergers and Acquisitions transactions with companies that are awarded PPA's derived from the long term auction; and (ii) grandfathered generation projects with PPA's already executed.

All in all the energy sector in Mexico as well and vibrant. We are convinced that a “first come, first served” applies in the sense of companies that engage in these developments early on will benefit significantly compared to others that decide to follow a “wait and see” approach. ☺

**GT** GreenbergTraurig

1900 ATTORNEYS | 38 LOCATIONS WORLDWIDE\*



## Business-Focused Legal Services In Mexico and Across Latin America

Our legal practice in Mexico City reflects our firm's multi-disciplinary platform and focus. We offer our clients closely integrated legal advice that spans both traditional fields and contemporary regulatory sectors, including:

- > Anti-corruption (FCPA)
- > Antitrust Litigation & Competition
- > Banking & Finance
- > Corporate & Securities
- > Environmental
- > Financial Regulatory & Compliance Group
- > Global Energy & Infrastructure
- > Labor & Employment
- > Mergers & Acquisitions
- > Mining & Mineral Resources
- > Private Equity
- > Privacy & Data Security
- > Real Estate
- > Tax & Administrative Litigation
- > Telecommunications, Media & Technology

Leveraging the resources and reach of Greenberg Traurig's global platform that spans more than 100 practice areas and industry groups, we provide clients with tailored legal advice reflective of the specific industry and market conditions in which they are doing business. In particular, this experience helps our clients achieve their business objectives while navigating the differing legal systems in cities around the world.

Greenberg Traurig, S.C. | Paseo de la Reforma No. 265 PH1  
Colonia Cuauhtémoc | México, D.F. C.P. 06500  
T +52 55 5029 0000 | F +52 55 5029 0002

GREENBERG TRAURIG, S.C. | ATTORNEYS AT LAW | WWW.GTLAW.COM

ALBANY | AMSTERDAM | ATLANTA | AUSTIN | BERLIN\* | BOCA RATON | BOSTON | CHICAGO  
DALLAS | DELAWARE | DENVER | FORT LAUDERDALE | HOUSTON | LAS VEGAS | LONDON\*  
LOS ANGELES | MEXICO CITY\* | MIAMI | NEW JERSEY | NEW YORK | NORTHERN VIRGINIA  
ORANGE COUNTY | ORLANDO | PHILADELPHIA | PHOENIX | SACRAMENTO | SAN FRANCISCO  
SEOUL\* | SHANGHAI | SILICON VALLEY | TALLAHASSEE | TAMPA | TEL AVIV\* | TOKYO\* | WARSAW  
WASHINGTON, D.C. | WESTCHESTER COUNTY | WEST PALM BEACH

Greenberg Traurig is a service mark and trade name of Greenberg Traurig, LLP and Greenberg Traurig, P.A. ©2016 Greenberg Traurig, LLP. Attorneys at Law. All rights reserved. Contact: Juan Manuel Gonzalez / Pedro Resendez in Mexico City at +52 55 5029 0000. \*These numbers are subject to fluctuation. -Greenberg Traurig's Berlin office is operated by Greenberg Traurig Germany, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. \*\*Operates as Greenberg Traurig LLP Foreign Legal Consultant Office. \*Operates as a branch of Greenberg Traurig, P.A., Florida, USA. -Greenberg Traurig Tokyo Law Offices are operated by GT Tokyo Horitsu Jimusho, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. -Greenberg Traurig's Warsaw office is operated by Greenberg Traurig Grzesiak sp.k., an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. 27147



# Modernization OF THE MEXICAN ELECTRICITY SECTOR

**B**efore the Energy Reform, Mexico had a traditional industry model where the Federal Electricity Commission (CFE) was responsible for developing all activities of the power industrial chain, from energy generation to delivery to end users, allowing limited participation of the private sector in generation activities.

The technological change in the global power industry and the rigidity of the model previous to the Energy Reform, among other factors, led to various inefficiencies in the system which, in turn, resulted in higher electricity costs, significantly impacting the competitiveness of the domestic productive sector.

The reform seeks to establish a new industrial organization that, on one hand, allows the productive sector to acquire electricity at competitive prices from a Wholesale Electric Market (WEM), and have a legal framework that allows regulators to develop such market in an efficient and competitive way, and on the other hand give strength and thrust to an electrical industry with huge challenges ahead, by attracting private resources for development.

## CHALLENGES OF THE SECTOR TOWARDS THE FUTURE

Source: KPMG analysis with information from Mexico's Ministry of Energy (SENER).

Power generation opportunities (WEM)

**1. Long-term auctions:** this mechanism provides new and existing generation projects a stable income for a 15-20 year period. Projects in a pre-construction or construction phase are entitled to participate in these auctions, providing certainty over the return of an investment; designed exclusively for clean technology plants.

**2. Short-term market:** This mechanism is designed to give larger profit margins to cleaner and more efficient technologies through Location Marginal Prices (LMP). The Economic Dispatch Model provides generators with the lowest variable cost more attractive returns per megawatt produced, and lower margins to less efficient, fossil powered plants.

- As investment in clean technology increases, least efficient plants will be gradually displaced out of the market, causing a larger dependence on natural gas-fired plants during peak hours. At least 54% of new investment in electric utilities will consist on clean energy.

- CFE's planned restructure will be a key factor to determine the success of the implementation of the Reform, as the previously state-owned company will need to degrade its monopolistic power to enable a competitive environment in the market.

As it has been stated, Energy Reform implementation brings plenty of opportunities for private investors to participate in the expansion and modernization of the Mexican Electricity Sector, in every link of the industrial chain. ☺

## TRANSMISSION AND DISTRIBUTION

SENER has announced that this year it will tender two transmission lines with a combined length of 1,225 km and a total cost of USD\$1.44 billion. The projects will be awarded as Public Private Partnerships contracts (PPP) through international public tenders.

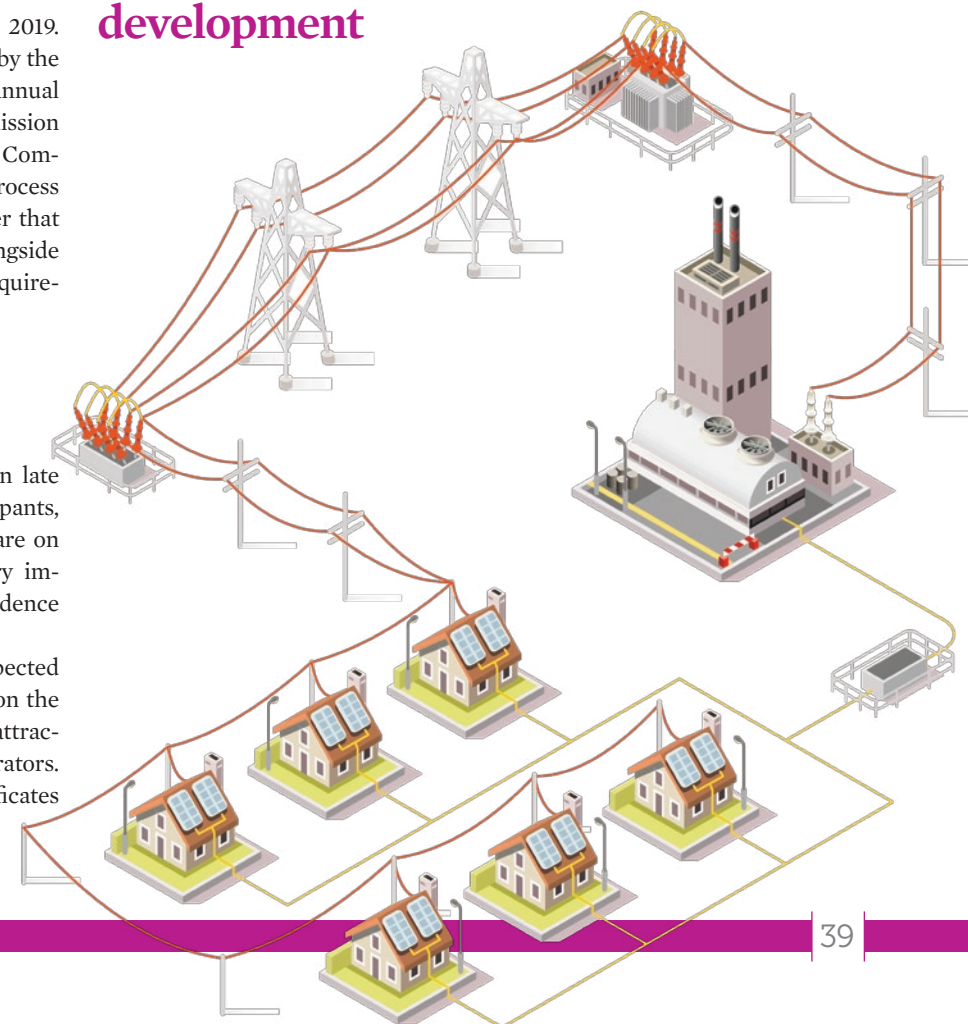
Both lines should enter into operation in 2019. The capex costs for the lines will be covered by the sponsors. The winning bidder will receive annual payments based on their requested transmission rate once it is approved by Energy Regulatory Commission (CRE). In the competitive tender process the contract will be won award by the bidder that proposes the minimum annual payment, alongside with the other technical and economic requirements.

## FUTURE DEVELOPMENT OF THE SECTOR

- The short term market began operating in late January, but there are still few market participants, given that investors and private companies are on a wait-and-see attitude. Adequate regulatory implementation will be needed to create confidence among new investors.

- Clean Energy Certificates (CEL's) are expected to become one of the most traded products on the market in the long term, and represents an attractive investment mechanism for clean generators. These will account for at least 70 million certificates on the market by 2024.

The reform seeks to establish a new industrial organization that, allows the productive sector to acquire electricity at competitive prices from a WEM and a legal framework that allows market's development

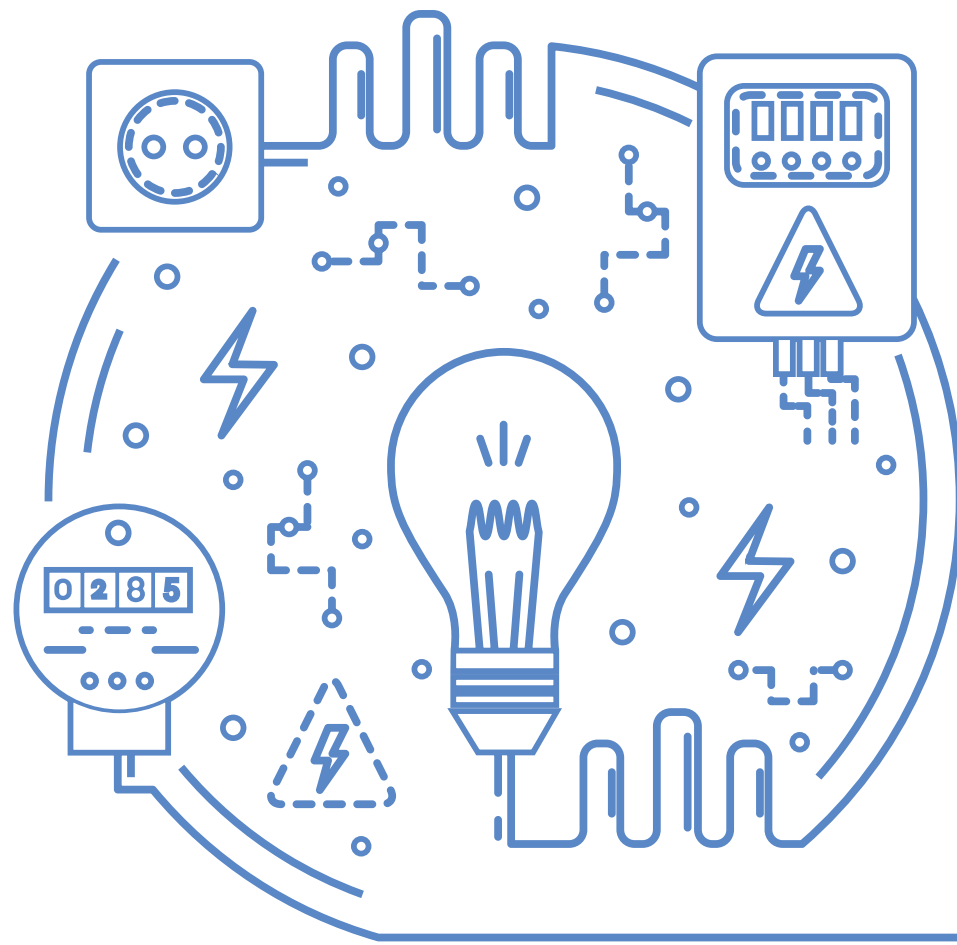




## ENDING A CHAPTER OF RESTRICTIONS

AISHA CALDERÓN  
Associate at Mijares,  
Angoitia, Cortés y Fuentes

As a result of the constitutional reforms approved late in 2013 and supplemented with the laws and implementing regulations issued in the last couple of years, the Mexican electricity sector has opened up almost entirely to private participation



While in the past, electricity generation had been limited to the sale to the Mexican electricity utility Federal Electricity Commission (CFE) or for self-supply or supply to the generator's shareholders, the current electricity framework allows all kinds of entities to develop power plants and sell electricity, power, clean energy certificates and financial transmission, among others, in the Wholesale Electricity Market run by the National Power Control Center (CENACE). The electricity market is comprised of a spot market, futures market, and electricity auctions for CFE and other large-scale users (with mid-term and long-term contracts), as well as bilateral contracts with large-scale users.

The spot market commenced operations last January and allows for real-time and day-ahead transactions. In this platform, participants can sell and purchase electricity and related products at nodal prices, which are determined based on CENACE's economic dispatch and the generation cost at each generation region. The calculation of nodal prices is based on a transparent process (unlike the calculation of the Short Term Total Cost (CTCP) that was previously used), which allows knowledge of the actual production costs. Future markets includes Power, Wheeling Rights and Clean Energy Certifi-

cates; the first two will commence operations in the second semester of 2016, while the market for clean energy certificates will begin operations in 2018.

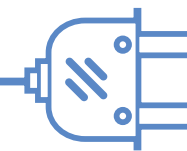
As for public auctions, it is intended to hold at least one long-term auction each year in order for CFE to anticipate its consumption needs three years in advance. The Invitation To Bid (ITB) for the first long term electricity auction was published in November 2015 (where power stations are expected to reach COD in 2018). Pre-qualification applications were submitted by more than 450 bidders and CFE offered to buy 500 MW of power, 6.3 million MWh of electricity and 6.3 million clean energy certificates.

Clean energy sources have been given preferential treatment, being allowed to enter into long-term electricity contracts (for 15 years) in the public auctions, as well as the possibility to trade clean energy certificates (in a scheme similar to Certificates of Emission Reduction or CERs) in a domestic market (with 20-year contracts). This is supported by obligations of large-scale users and CFE to obtain a given percentage of their electricity out of clean sources.

### CHANGES IN CFE

CFE has become a state-owned enterprise that acts as an equal market participant but with ex-

# New rules FOR THE ELECTRICITY INDUSTRY



clusivity in transmission and distribution, activities that have remained under state control. Nonetheless, a special procurement regime has been created for this entity, allowing it to retain private contractors to perform construction, operation and maintenance activities in the sector. In this context, Mexico's President announced in February that the first ITB for the construction of a large-scale transmission system would be issued during 2Q of 2016.\*

CFE is in the process of being unbundled into several generation divisions and independent divisions for transmission, distribution supply and commercial activities, all of which will have to compete in market conditions, and despite it being the sole operator of the National Electricity Grid, CFE has the obligation to grant open access to its transmission and distribution system to other participants of the electricity industry.

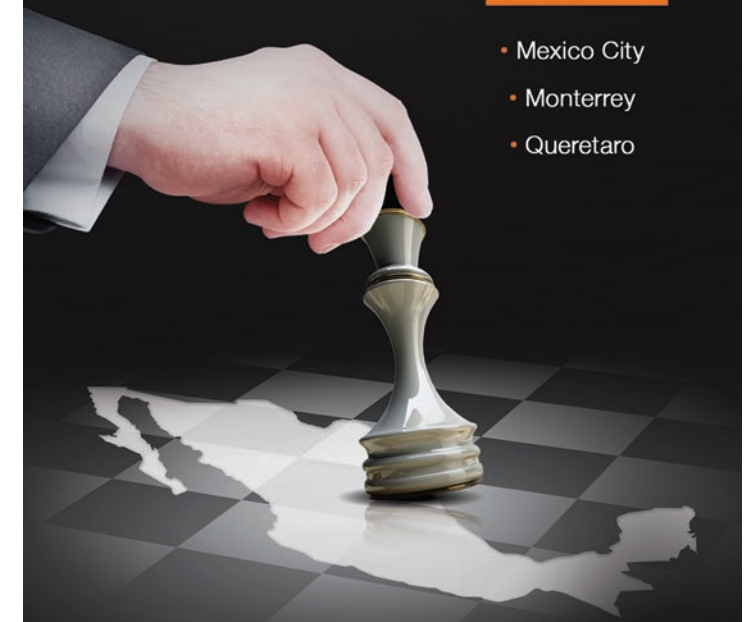
Mexico's reforms have created new game rules for the electricity industry where private investment had insofar been somehow restricted. This, along with the existing macroeconomic stability, strength of domestic market and free trade agreements, has created new wide-range investment and business opportunities in Mexico. ☺

*\*Note: This information may have had a recent update.*

Your strategic allies  
for legal and business  
solutions in **Mexico**



- Mexico City
- Monterrey
- Queretaro



[www.basham.com.mx](http://www.basham.com.mx)  
[basham@basham.com.mx](mailto:basham@basham.com.mx)



facebook.com/BashamRingeyCorrea  
@BashamLegal



ALTERNATIVE  
MEANS  
OF DISPUTE  
RESOLUTIONS

ELSA ORTEGA  
Partner at Ortega  
& Gómez Ruano

Thanks to the recent amendments in the energy sector in Mexico, it is now possible for private companies to participate in the exploration and extraction of hydrocarbons (oil and gas). Such activity was formerly reserved to Petróleos Mexicanos (PEMEX) as previous State monopoly.

Private companies will now be able to participate in this sector through exploration and extraction contracts with the Mexican government, represented by the National Hydrocarbons Commission (CNH). This participation is permitted either individually, or by entering into partnerships or associations with other private entities, or with State productive companies (including PEMEX).

The new legal framework allows the involvement of non-Mexican entities in this sector requesting only that they act through commercial companies incorporated under Mexican laws.

One important factor that investors take into account when considering whether to participate in these projects, is the manner in which any dispute will be settled.

The new Hydrocarbons Law, enacted in August 2014 (the “Law”), distinguishes two cat-

This administrative termination is never automatic. The Law provides a procedure that the NHC must follow in order to administratively terminate a contract, including the possibility for the contractor to assert its rights and provide evidence, as well as settle the cause of termination before the NHC’s decision.

Upon a decision of administrative contract termination, the contractor shall have the right to seek the settlement of any dispute related to the causes of the termination before Mexican federal courts. Disputes in this subject matter may not be settled by arbitration.

The explanation is that, although private parties may now participate in exploration and extraction activities, under the Mexican Constitution, hydrocarbons continue to be owned by the State. Moreover, the ultimate purpose of the government’s authority to administratively terminate a contract is to have the ability to recover without delay the contractual area assigned to the contractor. The Mexican Congress considered that arbitration could not ensure such immediate recovery.

Notwithstanding the aforementioned, the contractor could have the possibility of initiating an arbitration to claim the damages and lost profits resulting from an administrative termination that has been definitively annulled by federal courts.

**B.) Any other dispute may be settled in arbitration if the parties agree so**

For any other dispute deriving from or related with these contracts, including conflicts with respect to any additional cause for termination or contractual rescission, the Law allows that the parties agree on alternative dispute resolution mechanisms, including arbitration, provided that the applicable laws are the Mexican federal laws, the process be conducted in Spanish, and the arbitration award be rendered strictly according to the law and be obligatory and final for both parties.

An example of the practical use of these legal provisions is in sections 23 and 26 of the model License Contract for the Fourth Invitation to Bidding on Deep Waters CNH-R01-L04/2015 (whose bidding process is still ongoing) at <http://ronda1.gob.mx/104-ap-contratos/>.

*Note: This editorial must be considered as a guide and not as legal advice or a defined opinion on specific facts, which must be analyzed in respect of particular circumstances.*

DISPUTE RESOLUTION  
IN THE NEW  
hydrocarbons  
exploration



egories of disputes with their corresponding dispute resolution mechanisms:

**A.) Disputes relating to the causes of administrative contract termination listed in article 20 of the Law must be settled by Mexican federal courts**  
The Law provides a list of seven causes considered serious under which the CNH could decide to administratively terminate a contract. This list is limited, and the causes are considered extreme cases, i.e. if the contractor fails to commence activities or suspends them for a period longer than 180 days.

Marabis

desarrolladora

MEXICO'S CENTER FOR BUSINESS & INDUSTRY

Industrial Developer and Construction Company

• Design and construction services

• Build to Suit for Lease / Own

• Available building for lease

• Delivery on time by work schedule

• Lump sum

• Prime Industrial Infrastructure

• Abundant labor force

IRAPUATO • ABASOLO • COMONFORT

80% OF THE AUTOMOTIVE INDUSTRY IS WITHIN  
250 MILES FROM THE STATE OF GUANAJUATO

GUANAJUATO

HINO, GM, VOLKSWAGEN, FORD

HONDA, TOYOTA, MAZDA

SAN LUIS POTOSI

BMW, GM, FORD

AGUASCALIENTES

DAIMLER, NISSAN, RENAULT

JALISCO

HONDA

79 Clients

39 - Japan

11 - Germany

11 - USA

15 - Mexico

1 - Spain

1 - China

1 - Switzerland

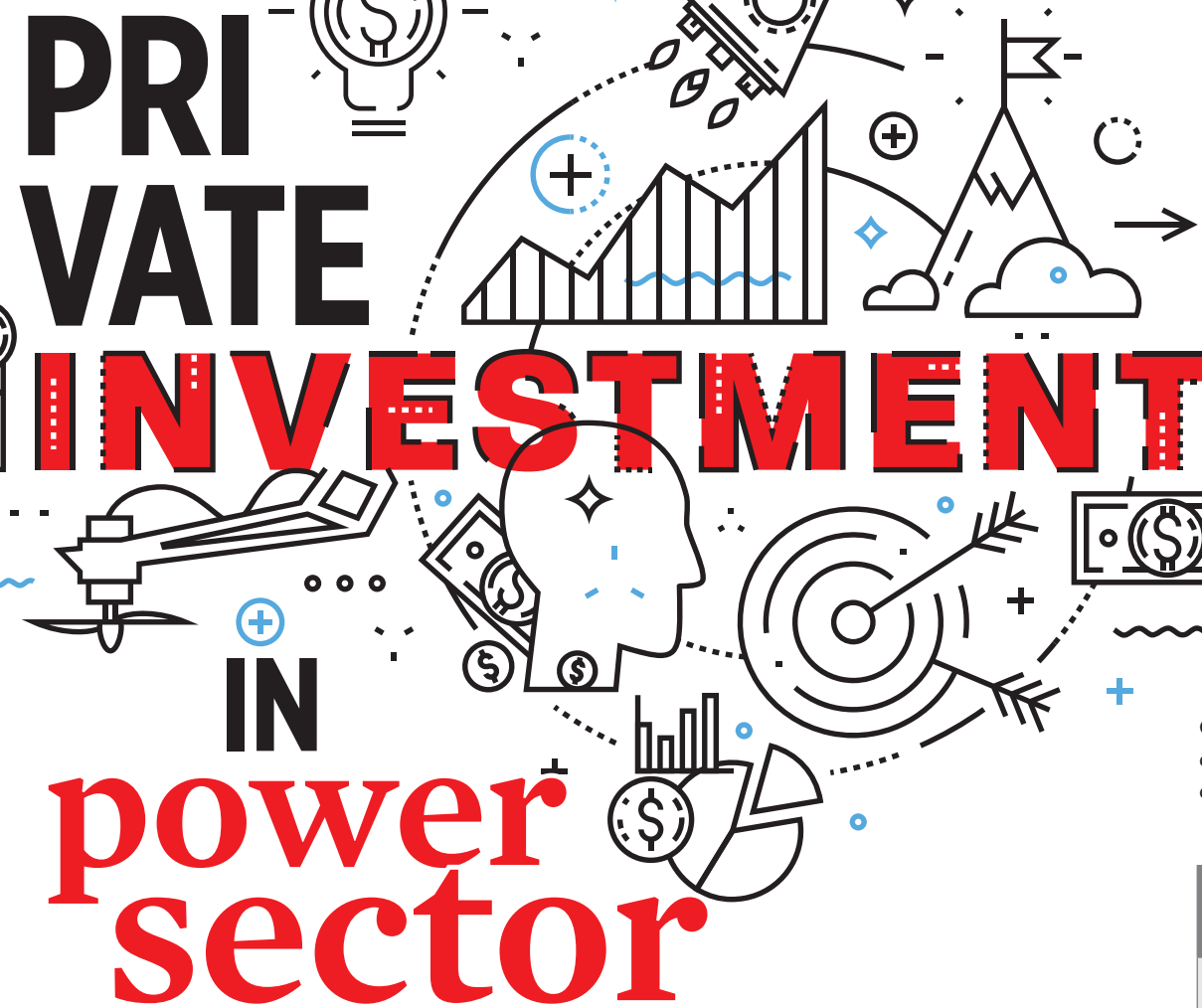
www.marabis.com

info@marabis.com



A MORE  
COMPETITIVE  
ELECTRICITY  
MARKET

MARIANO ORNELAS  
AND FERNANDO ERAÑA  
Of Counsel and Partner  
at SOLCARGO



# PRIVATE INVESTMENT IN power sector

Until 2013, the generation, transmission, distribution and marketing of power was considered “strategic” and thus reserved to the State, through the Comisión Federal de Electricidad (CFE). Private parties were only permitted to participate in the generation in limited number cases and never with the intent of providing utility services.

Following amendments to the Federal Constitution, a comprehensive Energy Reform was enacted to permit private investment in the power sector, creating a Wholesale Electricity Market (WEM), which kicked off on January 28th, 2016. The Energy Reform includes a new Electricity Industry Law (Law) effective as of August 12, 2014, and other secondary legislation.

The first important change for the power sector is that such industry is no longer considered a strategic activity, thus, private parties are free to participate in power generation

and marketing and in any activities that have not been expressly reserved to the State under the amended Article 27 of the Constitution: Nuclear power, power transmission and distribution, and dispatch and operation of the National Electric System.

In this regard, we’ve outlined the highlights of the Mexico’s new power sector:

**1.** Legal separation of each activity (from generation to retail).

**2.** A new competitive Wholesale Electricity Market conducted by the Mexican System Independent Operator, named National Power

Mexico’s power  
sector now offers  
a number of short-term  
business investment  
opportunities

Control Center (CENACE). The main components, products and characteristics of the WEM may be identified in the following chart:

Market (product)	Characteristics
ENERGY AND ANCILLARY SERVICES	<ul style="list-style-type: none"><li>• Cost-based</li><li>• Two settlements: Day Ahead and Real Time. Hour Ahead in a second stage.</li></ul>
CAPACITY	<ul style="list-style-type: none"><li>• Zonal requirements</li></ul>
CLEAN ENERGY CERTIFICATES	<ul style="list-style-type: none"><li>• Starting on 2018, obligation for the load side (suppliers, qualified users and load points) set by the Energy Regulatory Commission (CRE).</li><li>• Issued and supervised by the CRE.</li><li>• Penalties for non-compliance</li></ul>
FINANCIAL TRANSMISSION RIGHTS	<ul style="list-style-type: none"><li>• Tenders</li></ul>
INTERRUPTIBLE LOAD	<ul style="list-style-type: none"><li>• End user shall be subject to the requirements set by CENACE.</li></ul>

**3.** The Law sets forth the following categories of Wholesale Market participants: (i) Generators (>0.5 MW require a permit); (ii) Suppliers (Types: Basic, Qualified and for Emergencies); (iii) Marketers; and (iv) Qualified Users (>1 MW of aggregate consumption by August 12, 2016).

**4.** The electric grid remains under the control of CFE, nevertheless, the Law allows CFE to enter into “association” Private-Public Partnership (PPP), Joint Ventures (JV) among others, with investors in order to build and operate transmission grid and distribution networks.

**5.** The Law foresees Grandfather rights, thus, those who held an “old regime” permit for self-supply, cogeneration, small production, independent power production or to import and export power, may continue operating as in the old regime.

**6.** The Law sets forth new provisions that regulate the social impact of power projects (new legal regime), specifically in local and indigenous communities.

**7.** CFE is transformed into a state productive company, split in subsidiaries: Several power companies one for each area: Transmission, Distribution, Basic Supplier, Qualified Supplier, Fuels and Gas (named “CFEnergia”) and CFE Internacional. None of its assets shall be privatized.

With these reforms, Mexico’s power sector now offers a number of short-term business investment opportunities, namely:

**1.** The first long term power auction called by CENACE, regarding the supply of capacity, power and clean energy certificates for the “Basic Supplier” (CFE), in order to sign Power Purchase Agreements (PPA) with a term of 15 or 20 years. The auction is currently taking place.\*

**2.** During the second quarter of 2016 an international tender shall take place regarding to the building and operating of a 600 km transmission power line with a value of USD\$1.2 billion in order to transport wind and hydroelectric power from the south to the center of Mexico, which shall be conducted by the CFE.

**3.** The WEM is open, thus new power transactions are available, such as Generation selling power to Qualified Supplier, Basic Supplier or direct to the WEM; Qualified suppliers marketing power to qualified users; among others.

**4.** New services, like energy management for qualified users or energy management for assets. ☺

\*Note: This information may have had a recent update.



PROMISING  
DEVELOPMENT  
OF PROJECTS

EDMOND GRIEGER  
Partner at  
Von Wobeser y Sierra

# INVESTING IN THE Mexican renewables market

**O**n August 2014, Mexican Congress reached the approval of the reform minutes to the secondary legislation derived from the constitutional energy bill that came into force on December 21st, 2013. This reform, among others, regulates the electricity industry, geothermal energy, as well as the new legal regime for the state owned Federal Electricity Commission (CFE), and gives rise to a new chapter in the country's energy sector.

In this manner, the modern history in the sector transits from a nationalism with a fierce governmental control over the energy resources to a scheme being very close to a free market that will be operated and controlled by the corresponding regulatory bodies of the State entitled to do so in the power and hydrocarbons sector.

## RECENT DEVELOPMENTS IN THE ELECTRICITY SECTOR

Throughout the past 18 months we have seen remarkable developments in the power sector including renewables, allowing private investors to actively participate in most stages of electricity generation, commercialization and supply. Potential challenges are mainly of a legal nature, as relevant laws and multiple regulations and

administrative guidelines for the power sector, have just been passed. It is very interesting to see how all these administrative guidelines are shaping the recently created wholesale electricity market which will provide interesting business opportunities to generators, suppliers, electricity brokers and end consumers.

Currently, power generation is predominantly based on fossil fuels. We expect a growth in the renewables, cogeneration and combined cycle generation projects due to the opening market and non-discriminatory regulations. So far we have seen increased attention in solar, wind and cogeneration energy projects. A very interesting investment opportunity is the new mid and long term tenders that are being called by the National Power Control Center (CENACE), which is the governmental regulatory body responsible for the control of the national electricity system. These tenders are aimed for national and foreign electricity generation project developers to offer energy, capacity, Clean Energy Certificates (CEL's) and associated products for the purchase by the CFE.

## MEXICO'S ENERGY TRANSITION ACT

In sync with tendency and preference that has been given to the development of renewable energy in more developed countries, the Mexican Congress passes on late December 2015th a new Energy Transition Act which purpose is to regulate the sustainable use of energy and the obligations of the electricity industry in matters of clean energy and the reduction of emissions, maintaining the competitiveness of the productive sectors.

## LOCATION IS ESSENTIAL FOR PROJECTS IN THE POWER SECTOR

It is important to analyse locations where investors engaging energy projects will have the necessary economic and social conditions to successfully carry out their projects. A large amount of these projects are engaged in rural communities, where the social factor plays a big role and must be assessed adequately and in parallel to the economic, legal and environmental aspects.

## DEVELOPMENTS GOING FORWARD

Energy reform is arguably one of the most ambitious legal agendas of the Mexican government in the past decade. In the midterm, it will accelerate economic growth and foreign investments in renewable projects. We are currently witnessing the aforementioned first steps of foreign and national private investors, and we expect those developments to speed up within 2016 and afterwards. As laws have just recently been passed or implemented, their application is being tested. ☺

CERVANTES  
SAINZ



**CERVANTES SAINZ is a full service law firm** actively engaged in a dynamic and complex domestic and international practice.

The Firm has prestigious lawyers with many years of experience, who ventured to form and achieve an innovative style of organization. Its rapid and constant growth reflects the dynamic nature of a vital and healthy developing law firm.

We represent clients in a broad spectrum of transactional and litigious matters. Our clients range from some of the world's largest companies to individuals and small businesses. The client and practice variety matches with the diversity of our lawyers.

### The values and philosophy that drives us and the special attributes that make us stand out from others are:

- ♦ We emphasize high responsiveness to clients by providing prompt, personal service, we develop intimate knowledge of each client's needs and objectives.
- ♦ We are dedicated to providing creative solutions and fresh approaches to sophisticated transactions and complex litigation. Our deal-makers and litigators possess vast knowledge, strategic thinking and the broadest array of innovative problem-solving techniques for an optimum, lasting outcome.
- ♦ We have developed a "one-firm" culture: a spirit of teamwork and exchange knowledge and support among practice areas throughout the Firm. We are organized as focused, client-based teams rather than the large departments of more traditional law firms.
- ♦ We offer our clients a prompted access to authorities, as a consequence of our close and excellent relationship with most governmental agencies.
- ♦ We are well-positioned to provide legal services to meet the changing needs of our clients on a 24/7 basis.

For more information about our Firm, please write to  
[info@cervantessainz.com](mailto:info@cervantessainz.com)

[www.cervantessainz.com](http://www.cervantessainz.com)





# OPEN ACCESS TO ELECTRICITY MARKET

DANIEL SÁNCHEZ  
AND JOSÉ IGNACIO  
SEGURA ALONSO  
Partners at White and Case



## TERMS FOR THE STRICT LEGAL unbundling OF CFE

The Terms for the Strict Legal Unbundling of Federal Electricity Commission (the Unbundling Rules) were published in the Federal Newspaper (Diario Oficial de la Federación) (DOF) on January 11, 2016. The main purpose of those rules is to set the terms of strict legal separation required to foster the open access and the efficient operation of the electric sector, in such way that Federal Electricity Commission (CFE) will be allowed to participate in the market through independent entities to be incorporated and, hence, create economic value and profitability to the Mexican State.

### MAIN FEATURES STATED IN THE UNBUNDLING RULES:

#### 1. LEGAL SEPARATION; INDEPENDENT ACTIVITIES

CFE shall perform, activities independently from each other, under conditions of strict legal separation, through Productive Subsidiary Companies (EPS), such as the Generation, Transmission, Distribution, Basic Supply, Marketing different from Basic Supply and Provision of Primary Supplies.

Vertical separation between the activities in networks (transmission and distribution) and those activities related to the competitive market (generation and marketing). This separation assures that: (i) Generators and Suppliers shall have open access to the National Transmission Network and the General Distribution Network, and (ii) Open access is a key condition to eliminate the

barriers for the installation of new power plants and attract investments in the public sector.

#### GENERATION

- Through EPS, affiliates or any other type of association permitted by the CFE Law.[1]
- Except for certain cases, they will be barred from performing directly or indirectly any activity relating to Transmission, Distribution, Marketing or Provision of Primary Supplies.

##### » Horizontal separation

- Number of generators that assures an efficient operation, promote economies at scale and are subject to free competition.
  - They may only represent at the Wholesale Electric Market (WEM) those power plants which are administered by them.
- They may contract a producer to represent Power Plants administered by them before the WEM.

### Players will create economic value and profitability to the Mexican State

#### » Assignment of Assets and Contracts for Generation

- Ministry of Energy shall determine the assignment of Power Plants and Contracts to each CFE entity to make sure that they participate at the WEM with no market leverage either at national or regional levels.
- Provide that each has similar conditions of financial independence and profitability,

#### TRANSMISSION

##### » Vertical separation

- Through an EPS. These may form associations or hire with an EPS, Affiliate and private parties the financing, installation, maintenance, administration, operation and expansion of the National Transmission Network.

##### » Horizontal Separation

- At least 1 EPS.

**SM  
PS  
LEGAL**

"This is a complete firm with brilliant lawyers who work with urgency, diligence and passion. They are very reliable and very clear about what they can and cannot do. We're happy to pay for their services - they give a very complete performance."

"They do thorough work on a short timetable, they're easy to work with and exceptionally competent. SMPS Legal has lots of potential for growth."

- Chambers and Partners, 2016 -

"Responsive and committed"

"As a whole, the team ('a deep talent pool available 24/7') is noted for its 'professionalism and skill' and for the 'crafting and design of high value added legal transaction structures.'"

- Legal 500, 2016 -

CALGARY DALLAS MEXICO BOGOTA

SMPS Legal's offices  
Andrés Bello 10-402 Polanco, Mexico City, 11560  
+52 (55) 5282 9063 / info@smps.com.mx  
www.smpslegal.com



# OPEN ACCESS TO ELECTRICITY MARKET

## DISTRIBUTION

» Vertical separation

» Through EPS's created  
for Distribution purposes.

» Horizontal Separation

- At least 1 Distribution EPS that shall have 1 Business Unit for each of the 16 regional divisions of CFE in charge of providing the Distribution utility service.

## BASIC SUPPLY

- Through one EPS or Affiliates.
- In charge of supplying electric energy to retail users with a load less than 2 MW starting in 2016.

## MARKETING DIFFERENT FROM BASIC SUPPLY

Qualified Supply, Last Resource and Marketing not associated to Supply.

» Horizontal separation

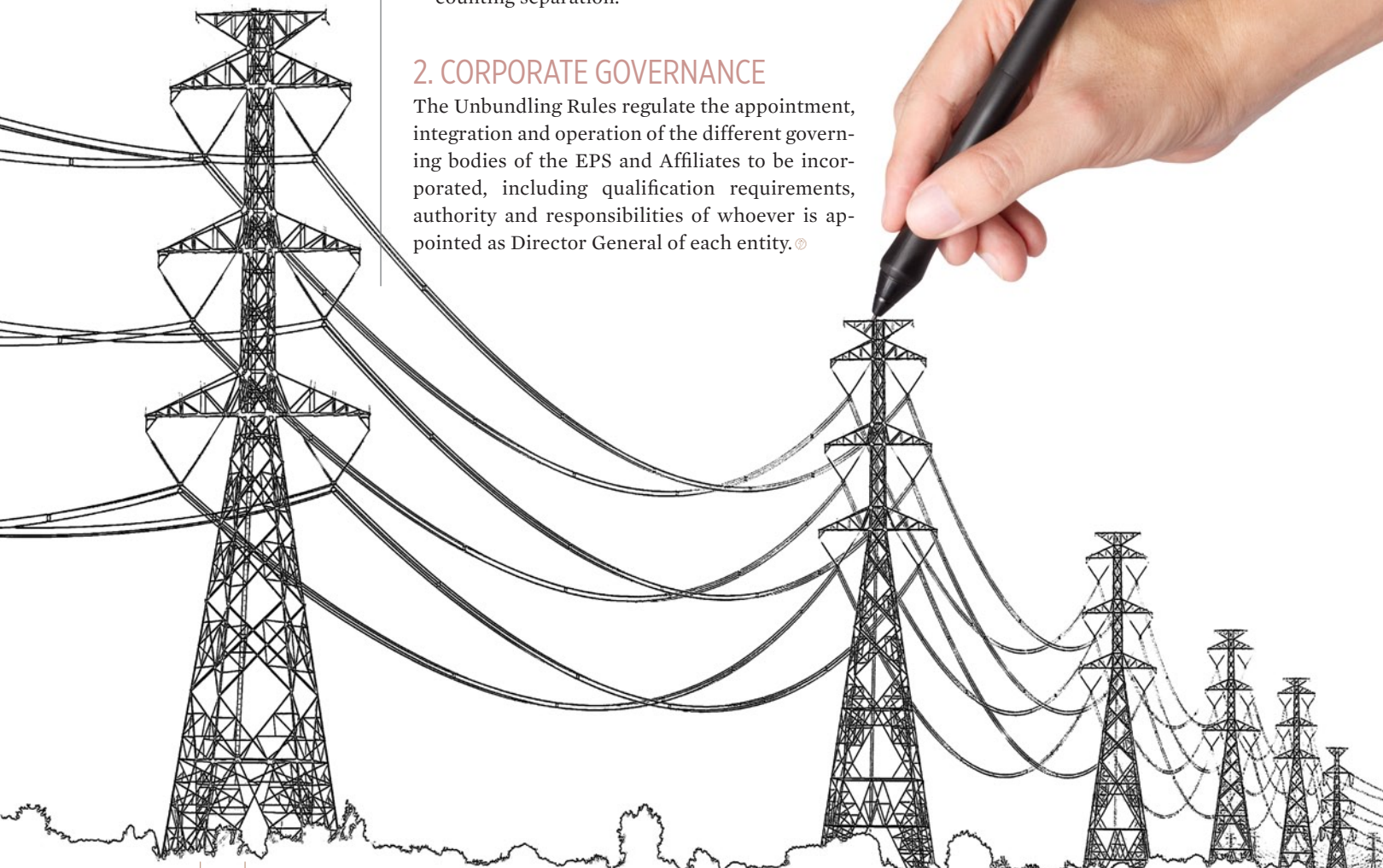
- If an affiliate performs more than one activity of marketing, the CRE may establish an accounting separation.

## 2. CORPORATE GOVERNANCE

The Unbundling Rules regulate the appointment, integration and operation of the different governing bodies of the EPS and Affiliates to be incorporated, including qualification requirements, authority and responsibilities of whoever is appointed as Director General of each entity. ☺

*Note: In this publication, White & Case means the international legal practice comprising White & Case LLP, a New York State registered limited liability partnership, White & Case LLP, a limited liability partnership incorporated under English law and all other affiliated partnerships, companies and entities.*

*This publication is prepared for the general information of our clients and other interested persons. It is not, and does not attempt to be, comprehensive in nature. Due to the general nature of its content, it should not be regarded as legal advice.*



# One&Only

## PALMILLA

### Los Cabos



## Sweet Family Escape

*Kids eat for free plus unlimited ice cream when staying 3 nights or more.*

One&Only Palmilla offers completely renovated rooms and suites; new dining options, including SEARED Steakhouse, created in collaboration with Chef Jean-Georges Vongerichten; a fresh menu and remodeled look to Agua by Larbi; a brand-new spa, fitness center, beauty salon and Barber and Blade—a men's grooming studio.

For Reservations contact your Travel Agent or

dial + 1 877 292 2802 (Toll free U.S.)

+ 1 954 809 2726 (Outside U.S.)

[Oneandonlypalmilla.com](http://Oneandonlypalmilla.com) / [reservations@oneandonlypalmilla.com](mailto:reservations@oneandonlypalmilla.com)

\*Terms and conditions: Available for individual bookings only on all room categories excluding Villa Cortez and Villa One. Certain terms & restrictions may apply. Blackout dates apply including but not limited to all major holidays. All normal booking, payment, cancellation procedures and policies apply. Min. 3 consecutive nights stay required. Not combinable with other promotions or offers. Travel by September 30, 2016. \*Kids (up to two kids, ages 0-11) eat free policy: Breakfast, Lunch and Dinner based on the Kids Menu, Valid only at Agua or Breeze restaurants. Snacks between meals are not included. Room upgrade and late checkout applicable only if available at time of check-in and checkout.



More than half of  
Mexico's territory is  
social property

only  
O'Gorman & Hagerman  
knows how to handle it



O'Gorman & Hagerman

REAL ESTATE, INFRASTRUCTURE AND AGRARIAN LAW

+52 (55) 9136-8700 | [www.ogorman.com.mx](http://www.ogorman.com.mx)