




ENERGY REFORM KEY ELEMENTS




1. Consolidates the Nation's ownership on hydrocarbons and State guidance in the energy industry. The reform to articles 25, 27 and 28 of the Mexican Constitution reaffirms the Nation's ownership of hydrocarbons in the underground. Exploration and extraction of oil and natural gas, as well as planning and control of the national electric power system and the public service of electric power transmission and distribution, are established as exclusive and strategic State activities.



2. It includes a public and private investment model in the exploration and extraction of hydrocarbons. The State may perform oil and other hydrocarbon exploration and extraction activities through assignments granted to PEMEX, contracts signed with PEMEX on its own, with PEMEX associated with private entities, and with private entities on their own. There will be at least four types of contracts: services, profit sharing, production sharing, and licenses. State enterprises or private persons may report their expected benefits for these assignments and contracts for financial and accounting purposes.




3. It allows private investment and competition in activities of hydrocarbon transport and industrial transformation. Private persons will be able to participate in oil refining and treatment, as well as in transport, storage and distribution of oil, natural gas, gasoline, diesel and other oil products.




4. State guidance is strengthened in the electric power industry and investment barriers are eliminated. Power generation is opened to a constitutional level, establishing the same grounds for competition to all participants. In power transmission and distribution, contracting options are defined where the State may sign contracts with private persons in order to extend and


modernize our grids. State planning and operation control attributions are enhanced over the National Electric Power System.




5. Competition is introduced in the electric power industry to maximize its efficiency. The National Center of Energy Control (CENACE) is established as a public decentralized entity, which will be in charge of controlling the national power system, guarantee open and non-discriminatory access to the national transmission grid and distribution grids, and operate the electric power market.



6. It strengthens Mexican Petroleum (PEMEX) and the Federal Electricity Commission (CFE) by turning them into State Productive Enterprises, with technical, management and budgetary autonomy. Both enterprises will focus in creating economic value and increase Mexico's income, with social and environmental equality and accountability. PEMEX will have a new tax regime, and will incorporate the best practices in corporate governance. Workers are, and will continue to be, the main asset of PEMEX and CFE, and their labor rights will be respected at all times. Both enterprises are strengthened; they are not sold nor privatized.



7. A "Round Zero" is established to support PEMEX's investments. PEMEX will also be strengthened through a "round zero", where it can keep the most productive fields and the areas of exploration where it has made investments. PEMEX will prove the necessary technical, financial and execution capacities to explore and extract the hydrocarbons efficiently and competitively.



8. It creates the Mexican Fund of Petroleum for Stabilization and Development, which will be in charge of managing Nation's petroleum income. The Fund will secure

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Mexico's public finances stability and destine resources for: long-term savings, a universal pension fund system, science and technology, infrastructure for national development, scholarships, amongst others. The fund will be a public trust managed by Mexico's Central Bank, and its Technical Committee will have 4 independent board members, as well as the Governor of Mexico's Central Bank, the Secretary of Energy, and the Secretary of Finance whom will act as Chair.



9. It introduces new transparency, accountability and anticorruption mechanisms. The procedures for contract bids will be public and transparent. These contracts will have transparency clauses,

which will be available for consultation. Citizens will be able to verify payments to companies. There will be also external audits that will oversee the recovery of incurred costs and other accounting related to the operation of such contracts. Legal mechanisms will be established to prevent, identify and prosecute acts of corruption in the energy industry.



10. The National Hydrocarbons Commission (CNH) is strengthened, by granting it legal personality, technical and management autonomy, as well as budgetary self-sufficiency. CNH will perform public

biddings, sign and administer oil and natural gas exploration and extraction contracts. Its commissioners will be appointed by the Senate, from a three-candidate formula proposed by the President.



11. The Regulatory Energy Commission (CRE) is strengthened, by granting it legal personality, technical and management autonomy, as well as budgetary self-sufficiency. CRE will regulate storage,

pipeline transport and distribution of oil and petrochemical products. It will also assure the reliability and supply quality, and will establish wheeling tariffs to incentive efficiency in the electric power transmission and distribution grids. Its commissioners will be appointed by the Senate, from a three-candidate formula proposed by the President.



12. The Ministry of Energy is strengthened so it can define Mexico's energy policy, adjudicate assignments to PEMEX, and select the areas that can be subjected to oil and natural gas exploration

and extraction contracts. It will also design the contracts and the technical guidelines for their public bidding, as well as grant permits for activities of oil treatment and refining, and for processing natural gas. In electricity, it will do the planning for the electric power sector, monitor the sector's efficient operation, and determine the requirements for clean energies and reduction of polluting emissions.



13. It prioritizes activities in the energy sector. The reform establishes an organized coexistence between different activities in the Mexican surface and underground, in which the energy sector will have preference over

others. Mechanisms will be set to facilitate the coexistence of activities of the energy industry with those of other private entities or the State.



14. It promotes sustainability and environmental protection. The State will promote the environmental protection through sustainability criteria, establishing obligations for participants in the electric

power industry to generate with clean energies and reduce polluting emissions. A self-determining entity will be created to regulate and oversee activities in the hydrocarbon sector related to industrial safety and environmental protection.



15. It promotes national supply-chains and industrial development. Legislation will be required to establish percentages of national content in procurement, for assignments and contracts granted to public and private

enterprises. Private investment must promote the inclusion and development of national and local suppliers in the value chain of the entire industry.