

CLIENT ALERT

INITIATIVE FOR REFORMS TO VARIOUS LAWS IN THE ENERGY SECTOR

On February 4, 2025, the President of Mexico presented to the Senate an initiative to reform several laws in the energy sector (the “Initiative”). The Initiative is the result of the constitutional reform of October 31, 2024, which amended Articles 25, 27, and 28 of the Political Constitution of the United Mexican States to recognize the concept of state prevalence in the energy sector, as well as to transform the Federal Electricity Commission (“CFE”) and Petróleos Mexicanos (“PEMEX”) into state-owned public companies (*empresas públicas del Estado*).

The Initiative, which implies substantial changes in the regulatory framework of the energy sector, proposes the issuance of eight new laws and the amendment to three existing laws. These proposed laws and amendments are summarized below.

I

Law of the Federal Electricity Commission

This law aims to consolidate the CFE as a state-owned public company (*empresa pública del Estado*), with an integrated structure and a special regime in terms of austerity, public contracting, budget and accounting, debt, assets, and sustainability. The proposed law establishes that the CFE shall aim to ensure energy justice for the people of Mexico and the sustainable development of activities related to the generation, storage, transmission, transformation, distribution, commercialization, and supply of electricity, as well as the provision of internet and telecommunications services.



The law provides that the CFE will be managed by a Board of Directors and a General Director, and that it will have, in addition to the committees already provided for in the current law, a Sustainability Committee and a Subsidiary Companies Committee. The law also sets forth that the CFE may establish subsidiary companies, direct and indirect majority-owned subsidiaries, and other companies and associations with minority participation, all constituted in accordance with Mexican or foreign private law, for the development of its activities. According to the Initiative, the current productive subsidiary companies of CFE (*empresas productivas subsidiarias*) would disappear as part of the process of the organic restructuring of the CFE into a single state-owned public company.

The activities of transmission, distribution, and basic supply are assigned to the CFE, which must carry them out directly and not through subsidiary companies. These activities are considered strategic and exclusive to the State, and the CFE will have the obligation to provide the public electricity service continuously, universally, accessibly, reliably, and safely. The law also establishes that only the CFE may provide the basic supply, clarifying that this activity does not constitute a monopoly, and that for this purpose, the CFE may acquire energy through direct contracts with any generator or through competitive mechanisms organized by the National Energy Control Center ("CENACE").

The law grants a period of 45 calendar days following the installation of the new Board of Directors of the CFE for the General Director to present to the Board his proposal for the organic restructuring scheme of the CFE. Once the proposal is received, the Board of Directors has a period of up to 45 calendar days to approve it.

II Law of Petróleos Mexicanos

This law aims to consolidate PEMEX as a state-owned public company (*empresa pública del Estado*), with an integrated structure and a special regime similar to that of the CFE. The proposed law establishes that PEMEX aims to ensure energy justice for the people of Mexico and the sustainable development of activities related to the exploration and extraction of hydrocarbons, as well as refining, petrochemicals, transportation, storage, distribution, and commercialization of hydrocarbons and their derivatives.

The law provides that PEMEX will be managed by a Board of Directors and a General Director, and that it will have, in addition to the committees already provided for in the current law, a Sustainability Committee and a Subsidiary Companies Committee. The law also stipulates that PEMEX may establish subsidiary companies, direct and indirect majority-owned subsidiaries, and other companies and associations with minority participation, all constituted in accordance with Mexican or foreign private law, for the development of its activities. According to the Initiative, the productive subsidiary companies of PEMEX (*empresas productivas subsidiarias*) would disappear as part of the process of the organic restructuring of PEMEX into a single state-owned public company.

The law provides that the activities of PEMEX are not monopolistic and grants PEMEX preference in the determination and selection of assignments for exploration and extraction, as



well as the choice of the scheme for their development, whether independently or in collaboration with the private sector. This aims to promote collaboration with the private sector to complement PEMEX's capabilities and financing.

The law proposes to strengthen the operational and fiscal conditions of PEMEX through the creation of the Welfare Oil Tax (*Derecho Petrolero del Bienestar*), a simplified fiscal regime that reduces the tax burden of PEMEX. Additionally, the law aims to strengthen the State's participation in the petrochemical industry and the production of free fertilizers for the benefit of the people and the most vulnerable farmers in the country.

III

Law of the Electric Sector

This law aims to regulate the electric sector more broadly, covering the activities of generation, transmission, distribution, commercialization, and supply of electricity, as well as the operation of the wholesale electricity market and the granting of permits and authorizations. The law recognizes the concept of state prevalence provided for in the Constitution, in the continuity, accessibility, security, and reliability of the public electricity service. The law also introduces the concept of energy justice, with the aim of improving the living conditions and energy well-being of the Mexican people, especially in rural and marginalized areas.

The proposed law establishes an economic dispatch of power plants, subject to the safety and reliability conditions of the National Electric System ("SEN"), and that the State must maintain at least 54% of the average energy injected into the grid, in a calendar year, which must be achieved in the operation of the wholesale electricity market with the economic dispatch of load, subject to reliability and safety restrictions. The law does not clarify how this prevalence is implemented, nor who exercises it, which creates uncertainty for the dispatch of private generators. We estimate that the secondary regulation derived from the Electric Sector Law will provide more detail on this prevalence, dispatch, and other associated issues.

If approved in its terms, the law would allow the following modalities for private participation in generation:

1. Self-consumption, similar to the isolated supply scheme regulated by the current Electricity Industry Law, which may refer to plants that are interconnected to the national electric system or not. The self-consumption of plants between 0.7 MW and 20 MW may have a simplified procedure to obtain the generation permit subject to the guidelines issued by the National Energy Commission ("CNE").
2. Distributed generation is allowed up to 0.7 MW instead of the 0.5 MW provided under the current Electricity Industry Law.
3. Cogeneration.
4. The development by private parties of plants for the wholesale electricity market without the participation of the State. These must be contemplated in the Electric Sector Development Plan (PDSE) to obtain their generation permit and all current rules for obtaining authorization from CENACE for interconnection still apply.

5. Private parties may develop plants with the participation of the State in any of the following schemes:

a) Long-term production. In this scheme, the State does not contribute capital for the development of the plant, which must be included in the binding planning of the Ministry of Energy. The production of energy and associated products is exclusively for the CFE, which will have an option to acquire the plant at the end of the contract at no cost to the CFE.

b) Mixed investment. In this scheme, the CFE must have a direct or indirect participation in the project of at least 54% and may, but is not obliged to, acquire the energy and associated products from the plant. The contracts that these plants enter into with third parties must include the provisions that will be required by the rules issued by the Ministry of Energy.

c) Any other scheme defined by the Regulation or the general provisions issued by the Ministry of Energy.

The law, if approved, would repeal the Electricity Industry Law, as well as the terms of strict legal separation of the CFE referred to in that law. However, it is expected that the CFE will implement an operational and functional separation of its generation activity for the purposes of its participation in the wholesale electricity market.

The transitional regime of the Electric Sector Law states that the permits and contracts granted under the Electricity Industry Law, including its transitional articles, will be respected until the end of their term, but establishes a clear prohibition on any extension thereof. According to the Initiative, the permits and contracts granted under the terms of the Public Electricity Service Law, which form the regime known as "legacy" provided for in the transitional articles of the Electricity Industry Law, will also be respected. However, the proposed law states that the Ministry of Energy must promote that self-supply and cogeneration companies (*autoabasto y cogeneración*) operating under the current legacy regime migrate to the figures provided by the Electricity Sector Law. If they wish to participate as a generator in the wholesale electricity market, they must migrate the entire capacity, so the option to migrate partially would no longer be available. The partners of self-supply and cogeneration companies operating under the legacy regime can unilaterally withdraw their load centers from a self-supply or cogeneration company and the corresponding legacy interconnection contract, to receive basic or qualified supply.

IV Hydrocarbons Sector Law

This proposed law aims to regulate the hydrocarbons sector in a broader sense, covering the activities of exploration and extraction, refining, petrochemicals, transportation, storage, distribution, and marketing of hydrocarbons and their derivatives, as well as the granting of permits and authorizations.

The law proposes to encourage the participation of private entities in the exploration and extraction of hydrocarbons through mixed development schemes, in which PEMEX will have a majority participation and can choose the type of contract or association that best suits PEMEX. The law also provides that the Ministry of Energy may grant licenses (*asignaciones*) to PEMEX for the exploration and extraction of hydrocarbons, with preference over any other interested party, and that these licenses may be modified or revoked for reasons of public or national interest.

The law proposes to strengthen the operational and fiscal conditions of PEMEX through the creation of the Welfare Oil Tax (*Derecho Petrolero del Bienestar*), a simplified fiscal regime that reduces its tax burden. Additionally, the law aims to strengthen the State's participation in the petrochemical industry and the production of free fertilizers for the benefit of the people and the most vulnerable farmers in the country.

The law strengthens controls on the traceability of hydrocarbons through new permits and the imposition of joint liability on importers. The law also regulates the hydrocarbons, natural gas, and LP gas market, and grants powers to the CNE to define the rates and conditions of transportation, storage, distribution, and commercialization services for these products.

V Law of Planning and Energy Transition

This law aims to strengthen the planning and stability of the energy sector under the direction of the Ministry of Energy. The law creates the Energy Planning Council as the supreme coordination body and establishes the National Energy Information System, which will integrate data from public and private sector entities. The law also recognizes the concept of energy justice, with the goal of reducing inequalities in access to and use of energy, and seeks to ensure access to reliable, affordable, safe, and clean energy to meet basic needs and reduce impacts on health and the environment. To this end, the proposed law seeks to promote the inclusive participation of indigenous peoples in the productive chain of energy projects.

The law establishes the following planning instruments:

1. National Energy Transition Strategy. It is the guiding instrument of national energy policy in the medium and long term.
2. Plan for Energy Transition and Sustainable Energy Use (PLATEASE). It is the new plan that establishes the activities and projects derived from the actions established during the Strategy. Among other things, PLATEASE sets goals for clean energy, energy efficiency, and reduction of energy poverty.
3. Electric Sector Development Plan (PDSE). It replaces PRODESEN as the binding planning instrument and guide for public investment and orientation of private investment in the electric sector with a 15-year horizon. It is prepared by the Ministry of Energy, with support from CFE, CENACE, and CNE.
4. Hydrocarbons Sector Development Plan (PDSEH). It replaces the Five-Year Plan for Hydrocarbon Exploration and Extraction as the binding planning instrument and guide for public investment and orientation of private investment in the hydrocarbons sector with a 15-year horizon. It is prepared by the Ministry of Energy, with support from PEMEX and CNE.

The law proposes sources of financing and investment for the energy transition and reduction of energy poverty, which come, in addition to the Federal Expenditure Budget, from the wholesale electricity market, the Mexican Petroleum Fund, financial and economic instruments available for public works and services, and private contributions. Special funds will be established for Energy Transition, Sustainable Use, Universal Energy Access, and Energy Justice.

The law proposes a voluntary certification and recognition process to promote excellence in energy efficiency. The Ministry of Energy can enter into voluntary agreements with productive sectors to reduce energy intensity in their activities.

The law grants powers to the Ministry of Energy and the CNE to carry out verification, inspection, and surveillance visits. Sanctions are established for users and entities that do not comply with the provisions of the law.

VI

Biofuels Law

This law aims to regulate and promote the sustainable development of biofuels and grant powers to the Ministry of Energy, the Ministry of Agriculture and Rural Development, the Ministry of Environment and Natural Resources, and other government entities to coordinate policies, programs, and actions related to biofuels. The use of organic waste and the sustainable production of biomass on marginal lands are encouraged, with a view to ensuring food self-sufficiency and incentivizing the production, commercialization, and use of biomass as biofuel, with the purpose of reducing pollutant and greenhouse gas emissions.

The law classifies biofuels into three types: first-generation biofuels, which are obtained from food crops; second-generation biofuels, which are obtained from agricultural, forestry, or urban waste; and third-generation biofuels, which are obtained from microalgae or biotechnology.

The law establishes that the Ministry of Energy will be the competent authority to grant permits for the production, import, export, storage, transportation, distribution, and commercialization of biofuels, as well as to establish technical specifications and blending percentages with fossil fuels. The law also provides that the Ministry of Energy may issue biofuel certificates, which certify the origin, quality, and energy content of the biofuels, and which may be used to comply with clean energy obligations.

The law proposes fiscal, financial, and market incentives to promote the development of biofuels, as well as mechanisms for inter-institutional coordination and social participation to ensure the environmental, social, and economic sustainability of biofuel projects.



VII Geothermal Energy Law

This law aims to update the legal framework for the exploitation of geothermal resources in the country and seeks to trigger the development of projects that are currently stalled. The law introduces a Registration mechanism for the Exploration Permit, aiming to facilitate the use of these resources for electricity generation. The law also recognizes the various uses of geothermal resources, such as urban heating, drying of agricultural and industrial products, balneology, aquaculture, and food preservation. The proposed law also seeks to facilitate private participation in the exploration and exploitation of these resources through a simplified regulatory framework.

The law defines geothermal resources as the natural heat of the subsoil and the fluids that transport or store it, which can be used for electricity generation or other uses. The law establishes that geothermal resources are the property of the nation and that their exploitation requires a permit granted by the Ministry of Energy.

The law provides that the Ministry of Energy may grant exploration and exploitation permits for geothermal resources, after registering the application in the Public Registry of Geothermal Resources. The law also establishes that the Ministry of Energy may assign geothermal resources to the CFE or PEMEX, with preference over any other interested party, and that these assignments may be modified or revoked for reasons of public or national interest.



The law proposes to simplify the requirements and procedures for obtaining exploration and exploitation permits, as well as for the interconnection of geothermal plants to the SEN. The law also provides that permits may be transferred, assigned, or encumbered, with prior authorization from the Ministry of Energy.

The law grants powers to the Ministry of Energy and the CNE to regulate, supervise, and sanction the activities of geothermal resource exploitation, as well as to promote technological development, scientific research, and training in geothermal energy.

VIII Law of the National Energy Commission

This law aims to create the CNE, a technical body sectorized to the Ministry of Energy, with technical and operational independence, management, and decision-making. The CNE will have, among other things, the power to grant electricity generation permits, define the tariffs for transmission, distribution, and basic supply services, and regulate the tariffs for hydrocarbons, natural gas, and LP gas, as well as the granting of permits for transportation, storage, pipeline distribution, and commercialization of these products. The CNE will also issue technical and economic regulations in the energy sector.

The law provides that the CNE will be composed of a General Director and a Technical Committee, which will resolve matters within its competence. The Technical Committee will be composed of the head and two undersecretaries of the Ministry of Energy, two CNE officials, and three energy experts appointed by the head of the Federal Executive.

The law establishes that the CNE will have the following powers, among others:

1. Grant electricity generation permits, as well as authorize the general technical specifications proposed by CENACE, required for the interconnection of new power plants and the connection of new load centers, and authorize the charges for conducting interconnection and connection studies.
2. Issue and apply the tariff regulation to which transmission and distribution services, the operation of CFE as a basic service provider, the operation of CENACE, and the final tariffs of the basic supply must adhere.
3. Determine general administrative provisions that include, among others, the calculation methodologies, criteria, and bases for determining the compensations required by the electricity sector law, as well as authorize and issue the models of the contracts required according to their applicable provisions.
4. Issue, review, adjust, and update the bases of the wholesale electricity market and monitor its operation and the determinations of CENACE to ensure its efficient functioning and compliance with the rules of the wholesale electricity market.
5. Grant clean energy certificates and issue regulations to validate their ownership.
6. Define the tariffs for hydrocarbons, natural gas, and LP gas, as well as grant permits for the transportation, storage, pipeline distribution, and commercialization of these products.
7. Issue technical and economic regulations in the energy sector, as well as resolve disputes that arise among participants in the energy sector.



IX

Amendments to Existing Laws

The Initiative also proposes the amendment of three existing laws, with the aim of harmonizing them with the new regulatory framework. These amendments refer to the Hydrocarbons Revenue Law, the Mexican Petroleum Fund for Stabilization and Development Law, and the Organic Law of the Federal Public Administration.

The amendment to the Hydrocarbons Revenue Law aims to establish the Petroleum Right for Well-being, a simplified fiscal regime that reduces PEMEX's tax burden and will apply to the assignments granted by the Ministry of Energy. This right will consist of a fixed compensation of 20% on the value of the extracted hydrocarbons, to be paid monthly. This right will replace the shared utility rights, extraction rights, exploration rights, and hydrocarbon utilization rights currently applied to PEMEX.

The amendment to the Mexican Petroleum Fund for Stabilization and Development Law aims to establish that the Fund will receive the revenues derived from the Welfare Oil Tax (*Derecho Petrolero del Bienestar*), as well as the revenues derived from contracts and assignments for the exploration and extraction of hydrocarbons. The Fund's purpose will be to manage these revenues and transfer them to the Federal Treasury, the Budgetary Income Stabilization Fund, the Hydrocarbon Extraction Fund, and the Scientific Research and Technological Development in Energy Matters Fund.

The amendment to the Organic Law of the Federal Public Administration aims to establish that the Ministry of Energy will be responsible for the planning and conduct of national energy policy, as well as the granting of assignments and contracts for the exploration and extraction of hydrocarbons, and the supervision and evaluation of their compliance. Additionally, it establishes that the Ministry of Energy will be responsible for the planning and conduct of national policy on energy transition, sustainable energy use, and energy justice, as well as the development and monitoring of the corresponding planning instruments.

Impact and Implementation of the Initiative

The Initiative is expected to have a significant impact on national energy policy, as its objectives include promoting the use of energy resources for the well-being of the people and not as tools for private speculation, reinforcing energy sovereignty by reducing dependence on foreign imports of hydrocarbons and fuels, and promoting Mexico's energy self-sufficiency.

At the same time, it encourages the generation of clean energy and investment in transmission and distribution infrastructure to contribute to the stability and reliability of the National Electric System.

Once approved in the Senate, the Initiative will be sent to the Chamber of Deputies for discussion and approval, so that once approved by both chambers, the Initiative can be published and come into force. The President has expressed interest in having the new laws approved and published within the first quarter of 2025.

It is important to note that beyond the promulgation of these laws, the implementation of the reform will require the preparation and adjustment of various regulations, rules, and operational manuals by the Ministry of Energy and other sector authorities.

If you require more information about the Initiative, its expected impacts, or any related issues in the sector, our Energy and Infrastructure Projects group is at your disposal.

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