



2015: Year of changes and opportunities in the Mexican energy sector

Gerardo Bazán G.
Enero 2015

Content

1. 2013-2014: Structural reforms
2. Energy sector development
3. New energy strategy and general objectives
4. Architecture of the new energy sector
5. First considerations and observations
6. Opportunities and challenges
7. Conclusions and recommendations

1. 2013-2014: Structural reforms



Energy



Telecommunications



**Economic
Competition**



Finance



Tax



Labor



Education



**Criminal
Procedure**



Appeal Law



**Political
Electoral**



**Global
modernization
of the national
economy**

1. 2013-2014: Structural reforms



Energy

➔ **Attract Investments**

➔ **Economy**

➔ **Modernize energy sector**

➔ **Social development**

Environment

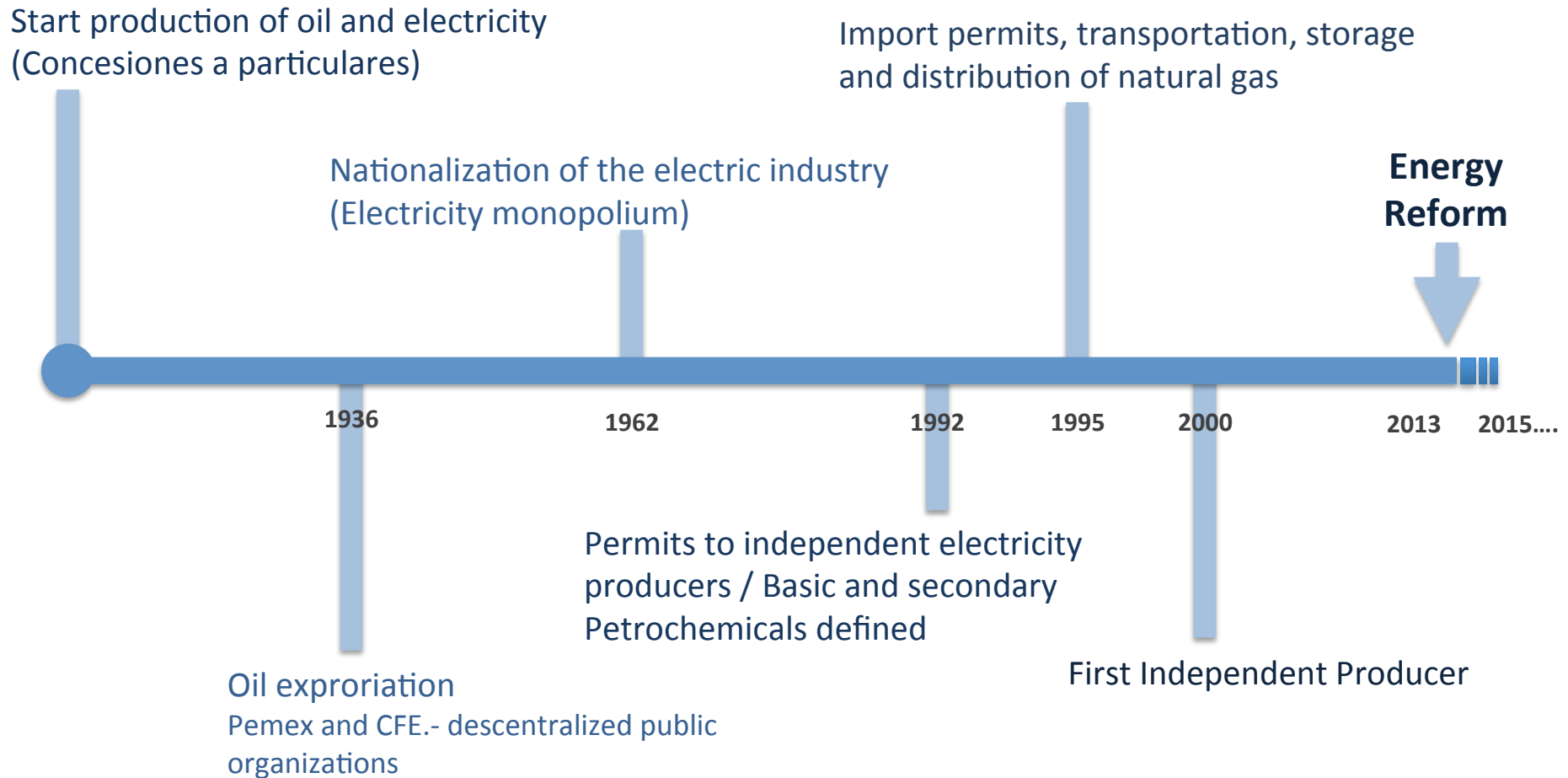
➔ **Competitiveness**

Transparency

➔ **Industrial capacity and productivity**

2. Energy sector development

Evolution of the energy sector



2. Energy sector development

Efectiveness vs. Efficiency Dicotomy

Efectiveness



- 98 % of the population has access to electricity and fuel
- 8th Crude oil export country
- 6th Electric company in the world



Not efficiency

- High fiscal dependence on oil exports
- High subsidies on electricity and automotive fuels
- Weak financial results of Pemex and CFE
- Rapid oil production declination
- Growing fuels imports
- Structural limitations in refining and petrochemical production

3. New energy strategy and general objectives



Energy



Attract Investments



Modernize energy sector



Boost economic development



Reduce energy prices



Reduce financial, geological, environmental risks



Develop long-term savings (Fondo Mexicano del Petróleo)



Restitution rates of proved oil and gas reserves > 100%



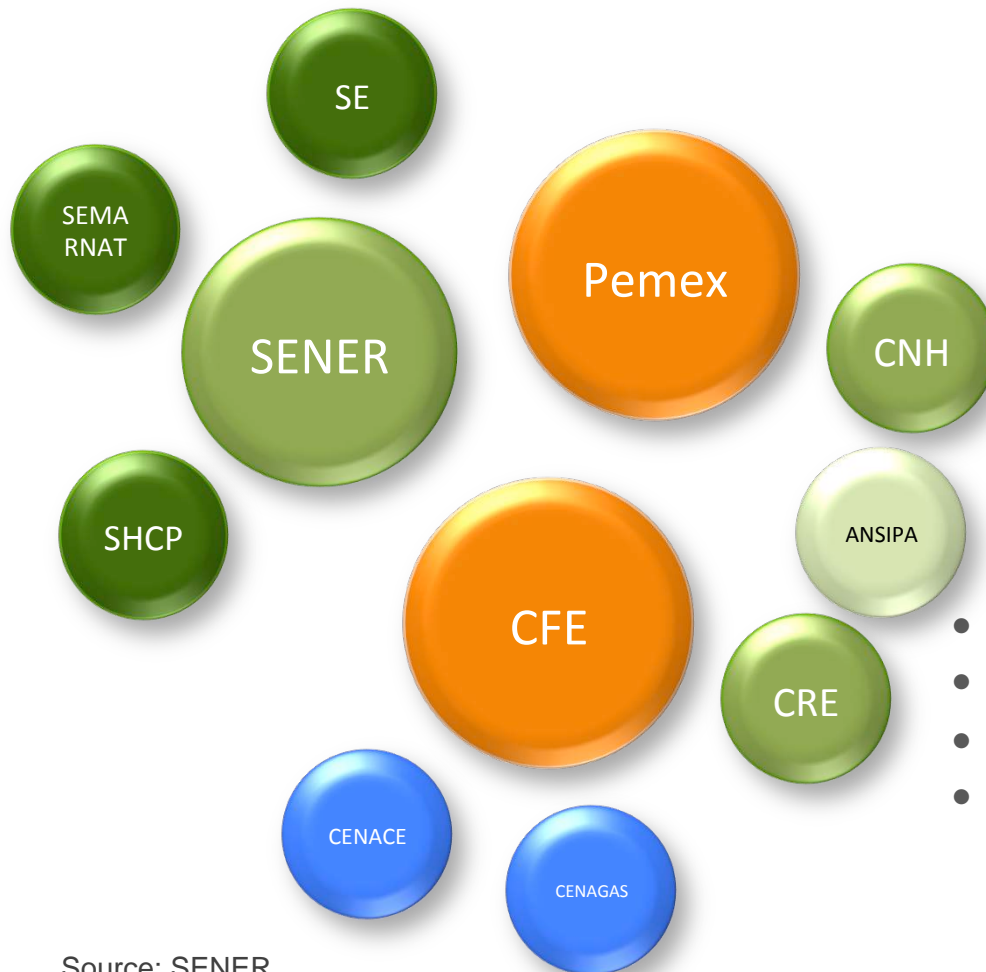
Oil production (2018) > 3Mbd

- Private participation in hydrocarbons
 - ✓ Exploration and exploitation
 - ✓ Transformation
 - ✓ Transportation, storage, distribution and commercialization of refining products

- Private participation in electricity (wholesale market)
 - ✓ Generation
 - ✓ Distribution and commercialization

4. Architecture of the new energy sector

2015



- Clear division role of the state
- Pemex and CFE are transformed into productive companies
- Strengthen the Ministry of Energy
- National Agency of Industrial Safety and Environmental Protection
- National Centre of Natural Gas
- National Centre of Power Control



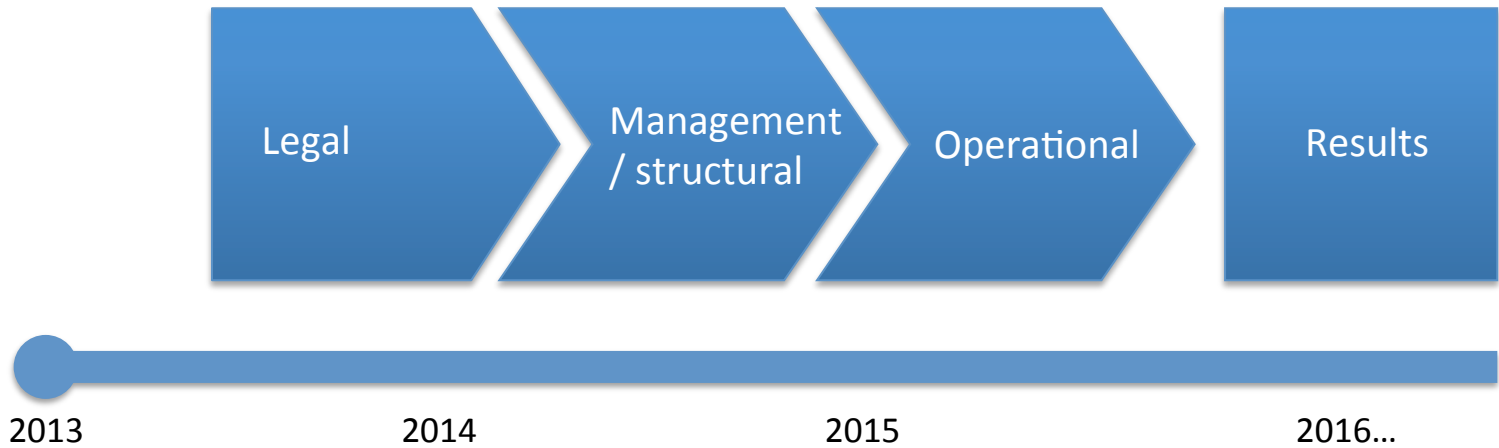
- Transparency and corporate governance
- International efficiency standards
- Effectively combat corruption
- Boost development with social responsibility and environmental protection

4. Architecture of the new energy sector



Energy Reform

Instrumentation process



5. First considerations and observations


- Too strong optimism in the energy reform
- Too ambitious goals (natural gas and crude oil production)
- Growing dependence on (imported) natural gas / less diversified energy portfolio
- Uncertain future for LNG investments
- Overestimated non conventional hydrocarbons potential (EIA redefinition of shale gas potential and regions)
- High vulnerability to changes in international markets
- Electricity and oil prices reduction by decree rather than by market behavior

6. Opportunities and challenges

- Mexico is still a country with low levels of energy consumption
- Infrastructure is a key element for economic growth
- Energy sector is one of the main beneficiaries of structural reforms
- Clear opportunities in transportation, power and renewables
- Europe has a long relation with the Mexican energy industry

7. Conclusions

- Unprecedented change in the energy sector.
- Mexican society is playing an important role so that the problems affecting the country hopefully will be diminished.
- Private companies should conduct a detailed assessment of the social environment and the risks involved, and thereby develop their strategies, taking into account the participation of local communities.
- The energy reform has opened new fields of opportunity in every area in the Mexican energy sector.
- The first step has been taken and Mexico are looking forward to building long-term relationships with major energy companies and service worldwide.

The background features a large, abstract geometric design. A dark blue triangle occupies the bottom right corner, extending towards the top right. A lighter blue, semi-transparent triangular shape overlaps the top edge of the dark blue triangle, creating a layered effect. The rest of the background is white.

Gerardo Bazán G.
Enero 2015