

# Mexico's Energy Sector: Trends and opportunities

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**Baker & McKenzie**



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Economy of Texas-Mexico

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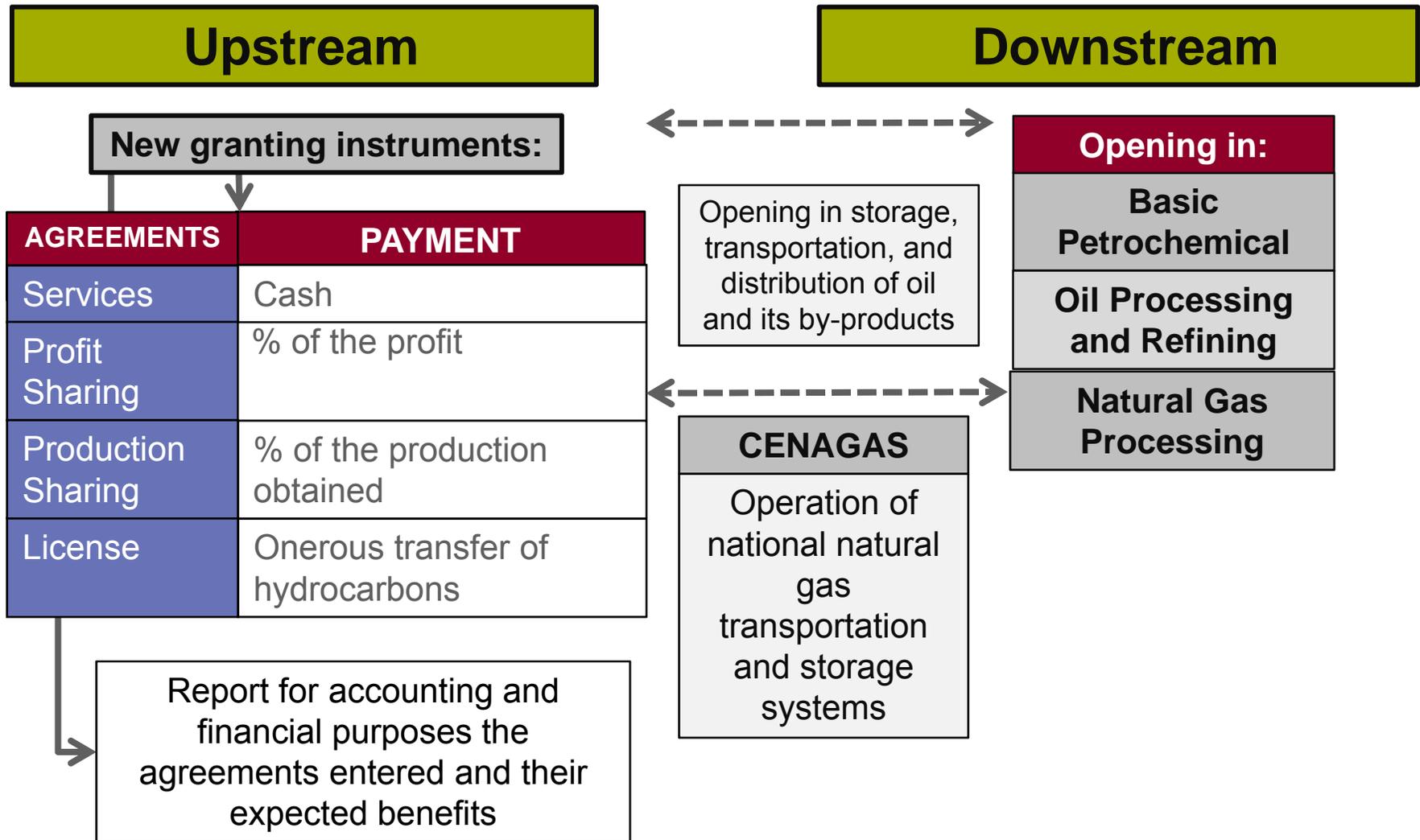


## Mexico's New Energy Industry: Current expected investments

- **Opportunities for private and public investment that add to approx. 50 Billion USD**
  
- **Hydrocarbons**
  - 1<sup>st</sup> Bid: 2.7 Billion USD
  - 2<sup>nd</sup> Bid: 3.1 Billion USD
  - 3<sup>rd</sup> Bid: 1.1 Billion USD
  
- **Natural Gas Transportation**
  - Pipeline network expansion: 13 Billion USD
  
- **Power Sector**
  - Generation: 24 Billion USD
  - Transmission: 4.5 Billion USD

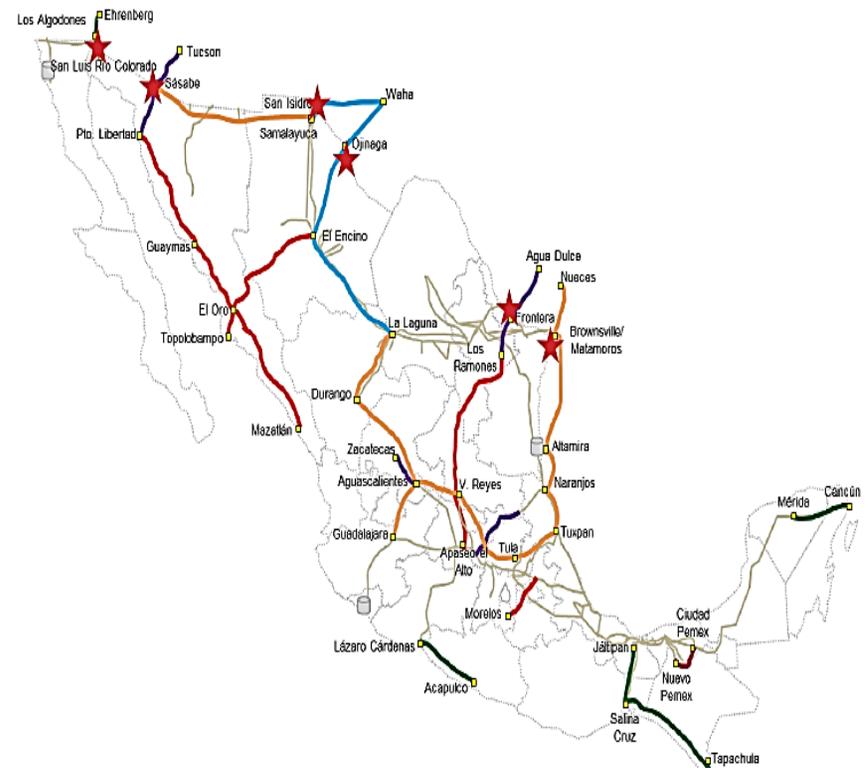
# Hydrocarbons Sector

# New Oil & Gas Market Framework



# Mexico's Natural Gas Midstream Sector

- New permits granted by CRE
- NGTS to expand 84% in length by 2018
- Estimated investment: 13 Billion USD
- New pipelines:
  - 7 concluded
  - 6 in construction
  - 5 awarded
  - 7 in bidding process



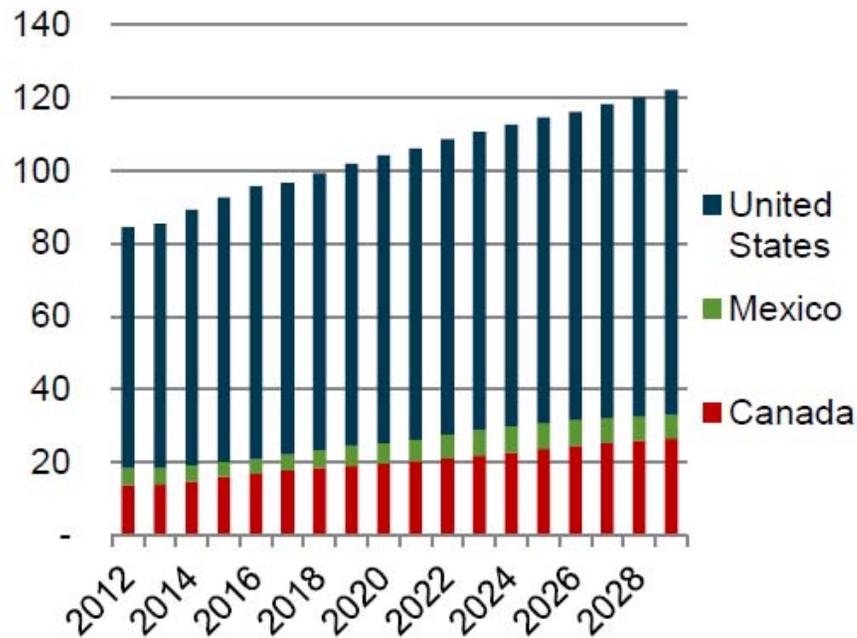


# Mexico's Natural Gas Production and Demand

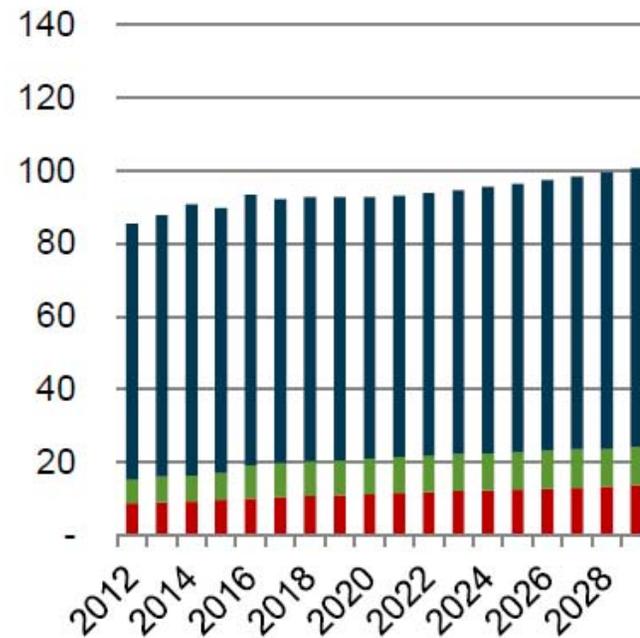
- Natural gas demand is expected to grow at a faster rate, driven by increased demand for natural gas in the electricity sector
- CFE will increase natural gas pipeline import capacity from the United States to supply combined-cycle power plants
- Increased pipeline capacity will also help provide natural gas to the industrial sector and to Pemex, allowing Pemex to switch from fuel oil to natural gas in some of its refinery processes, and to install cogeneration (electricity-steam) plants in the future
- After reaching its peak in 2016, Mexico's projected imports will decrease as a result of increasing domestic production but will remain high

# Natural Gas Production and Demand

**Natural gas production**  
billion cubic feet per day



**Natural gas consumption**  
billion cubic feet per day

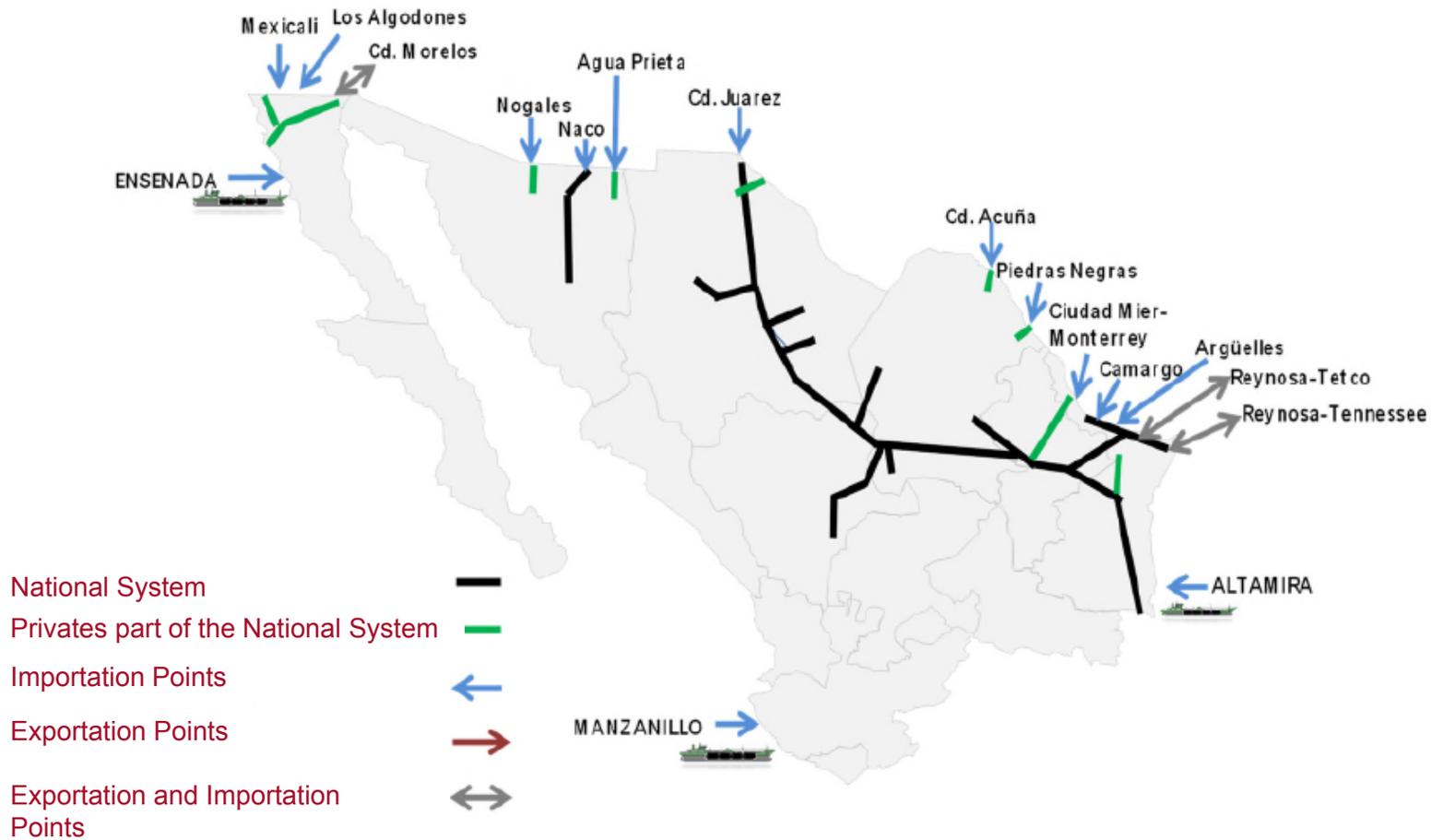


Source: SENER

# Mexico's Business Opportunities: Natural Gas Midstream Sector

- **Transportation, storage and distribution of natural gas**: allowed to private parties prior obtaining permit from CRE
- **Refining of natural gas**: allowed to private parties prior obtaining permit from SENER
- **Compression, liquefaction, decompression, regasification of natural gas**: allowed to private parties prior obtaining permit from CRE
- **Exportation and importation of natural gas**: allowed to private parties prior obtaining permit from SENER
- **Trading and retailing of natural gas**: allowed to private parties prior obtaining permit from CRE

# Current Natural Gas Exportation and Importation Points



Source: SENER

# New Importation Infrastructure for Mexico

## – Nueces-Brownsville Gas Pipeline (TX):

- will transport natural gas from the south of Texas and will help to meet the requirements of natural gas in the Eastern, Central and Western regions of Mexico
- tendered in accordance with US' process through a Request for Proposal (RFP) and called by CFE
- will be interconnected on the Mexican side with the Sur de Texas – Tuxpan (Marine) gas pipeline



### Relevant Facts:

Estimated Investment: **1,550 million** U.S. dollars

Capacity: **2,600 MMSCFD**

Length (approx.): **225 km**

Final Docs Publication: **July 17, 2015**

Proposals Filing: **April 18, 2016**

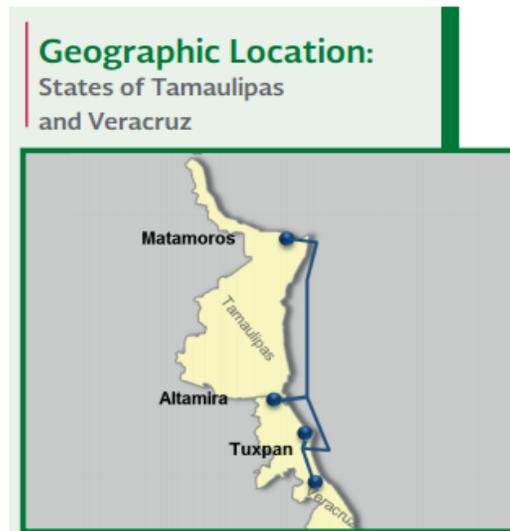
Awarding of Contract: **May 13, 2016**

Commercial Operation: **September 2018**

# New Importation Infrastructure for Mexico

## – Sur de Texas – Tuxpan (Marine) Pipeline:

- will transport natural gas from an underwater route in the Gulf of Mexico, from the south of Texas, USA to Tuxpan, Veracruz and will supply natural gas to the CFE's power generation plants located in the States of Tamaulipas and Veracruz, as well as the Eastern, Central and Western regions of the country
- to be interconnected to Nueces – Brownsville gas pipeline (currently being tendered) and to Tuxpan – Tula gas pipeline (awarded to Transcanada)
- will supply natural gas to new power generation plants, as well as those currently operating with fuel oil, which will be converted to use natural gas as their base fuel

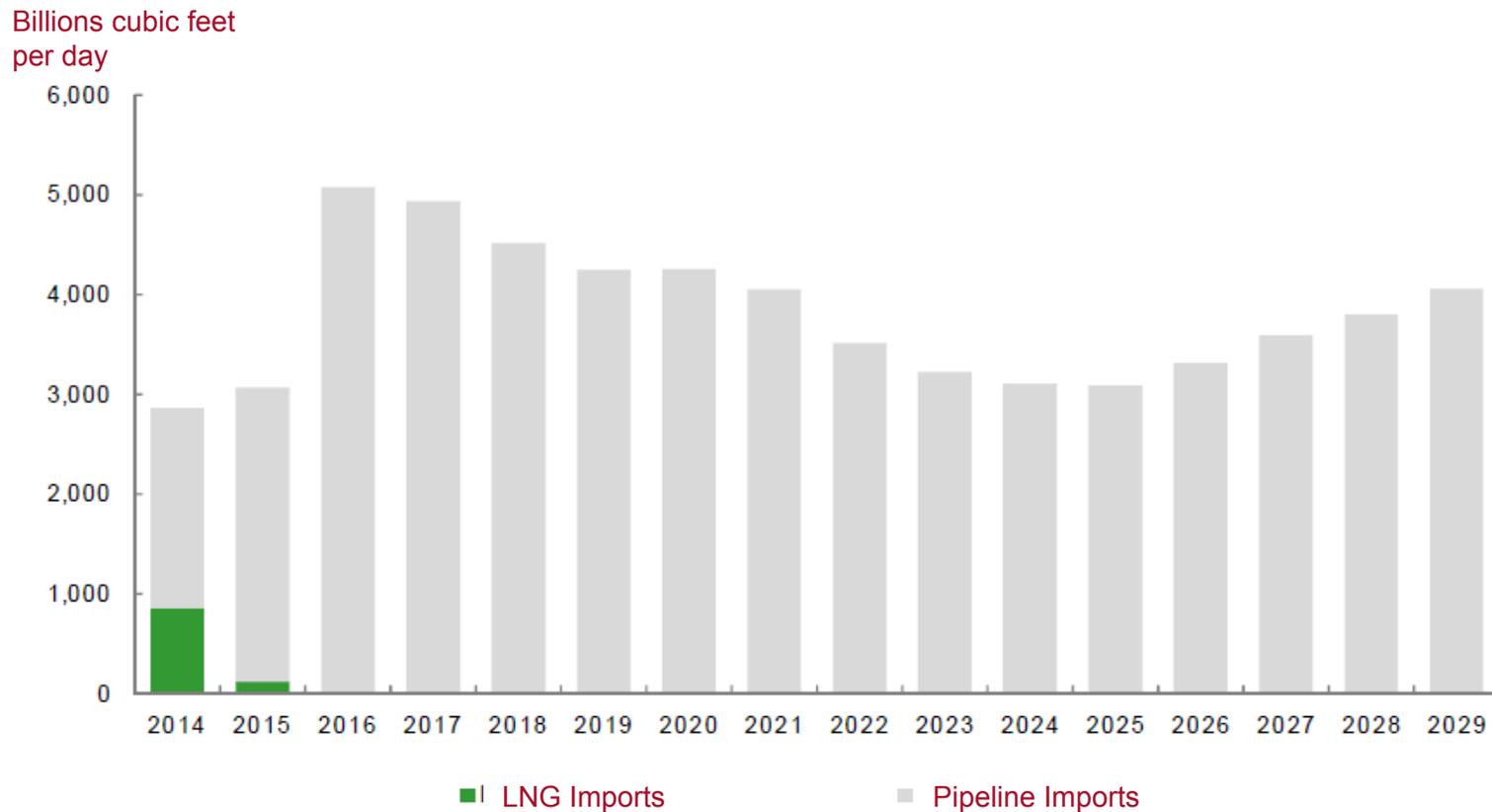


### Relevant Facts:

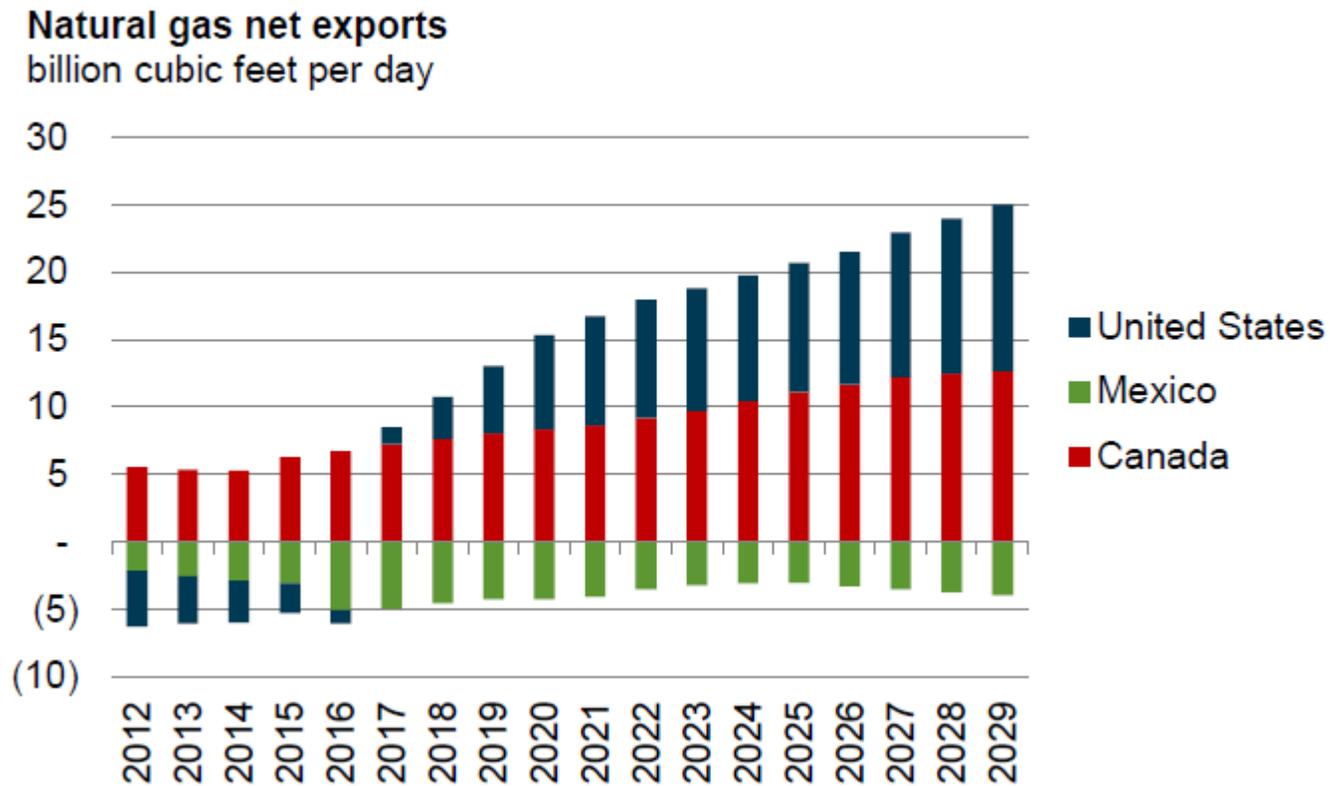
Estimated Investment: **3,100 million** U.S. dollars

Capacity:	<b>2,600 MMSCFD</b>
Length (approx.):	<b>800 km</b>
Pre-bid Docs Publication:	<b>August 28, 2015</b>
Final Docs Publication:	<b>October 7, 2015</b>
Proposals Filing:	<b>April 22, 2016</b>
Awarding of Contract:	<b>May 2016 (TBD)</b>
Commercial Operation:	<b>September 2018</b>

# Mexico's Natural Gas Imports: Outlook

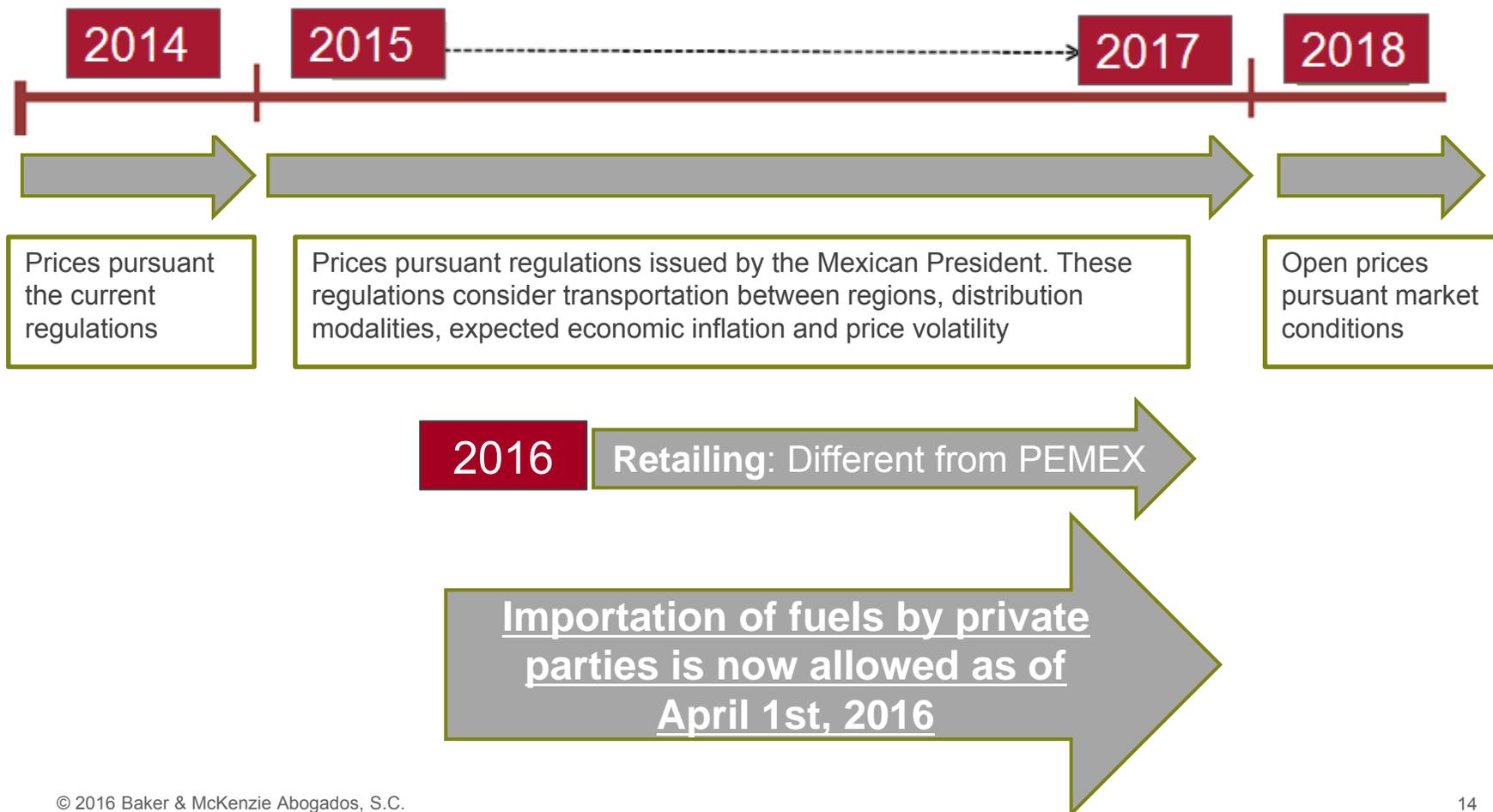


# Natural Gas Exports: Outlook



Source: SENER

# Mexico's Fuel markets



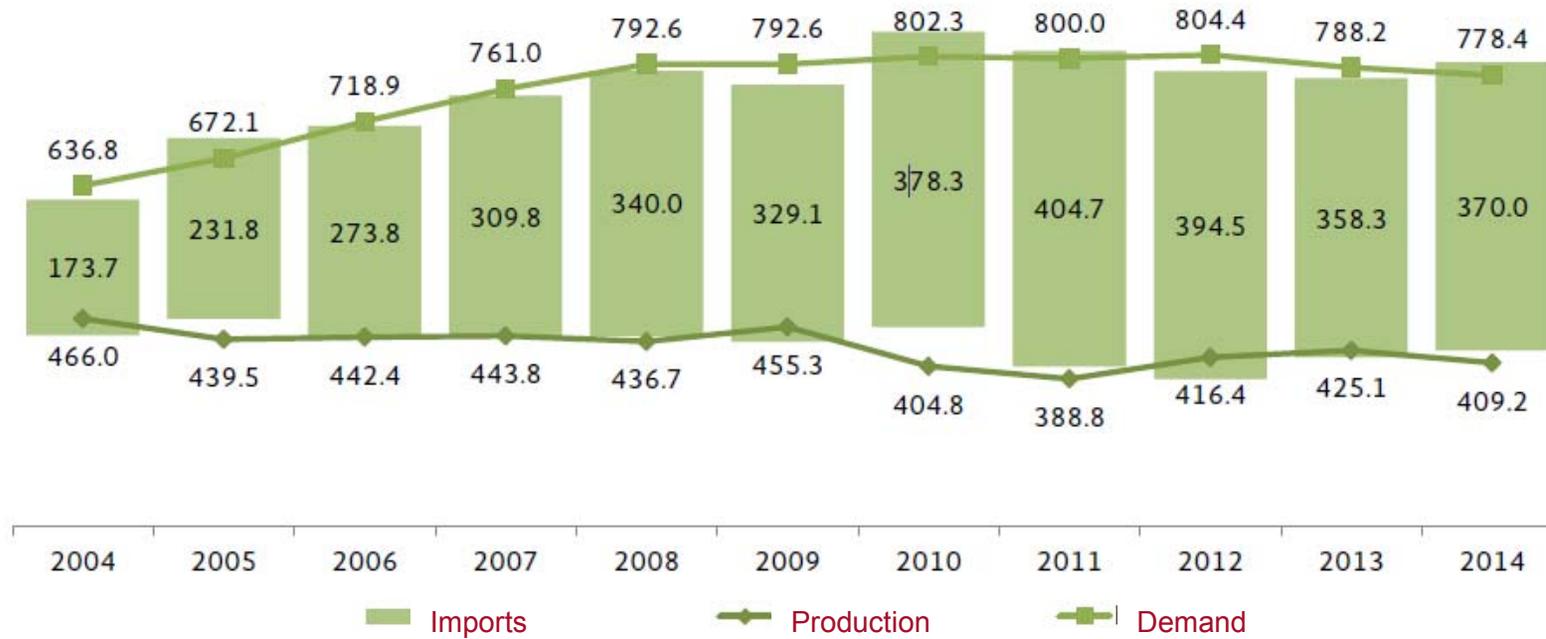


# Mexico's Business Opportunities: Midstream and Downstream Sector

- **Transportation, storage and distribution of gasolines and diesel:** allowed to private parties prior obtaining permit from CRE
- **Exportation and importation of gasolines and diesel:** allowed to private parties prior obtaining permit from SENER
- **Trading and retailing of gasolines and diesel:** allowed to private parties prior obtaining permit from CRE

# Production, demand and imports of gasolines in Mexico

Thousands of daily barrels



Source: SENER

# Mexico's Imports of gasolines: Outlook



Source: SENER

# Mexico's Production and exports of diesel



Source: SENER

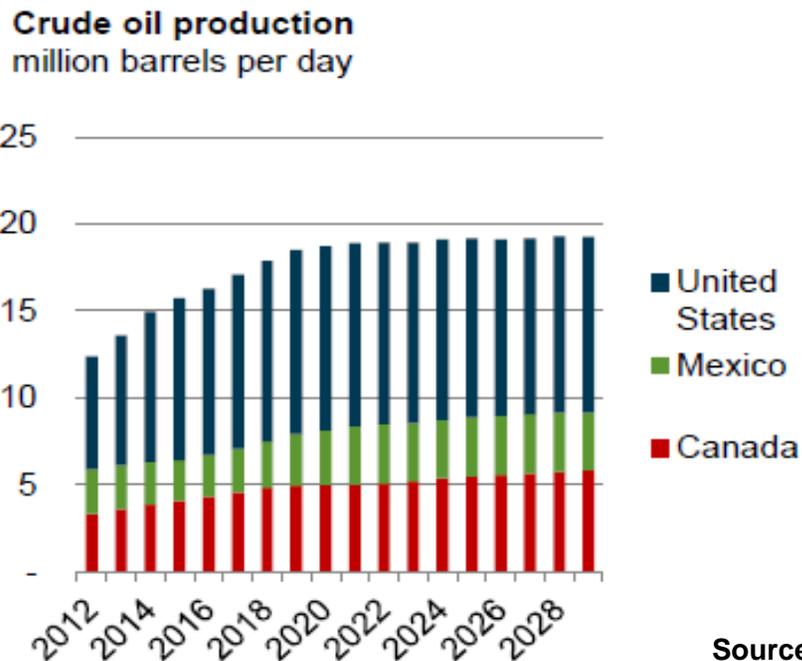
# Mexico's Imports of diesel: Outlook



Source: SENER

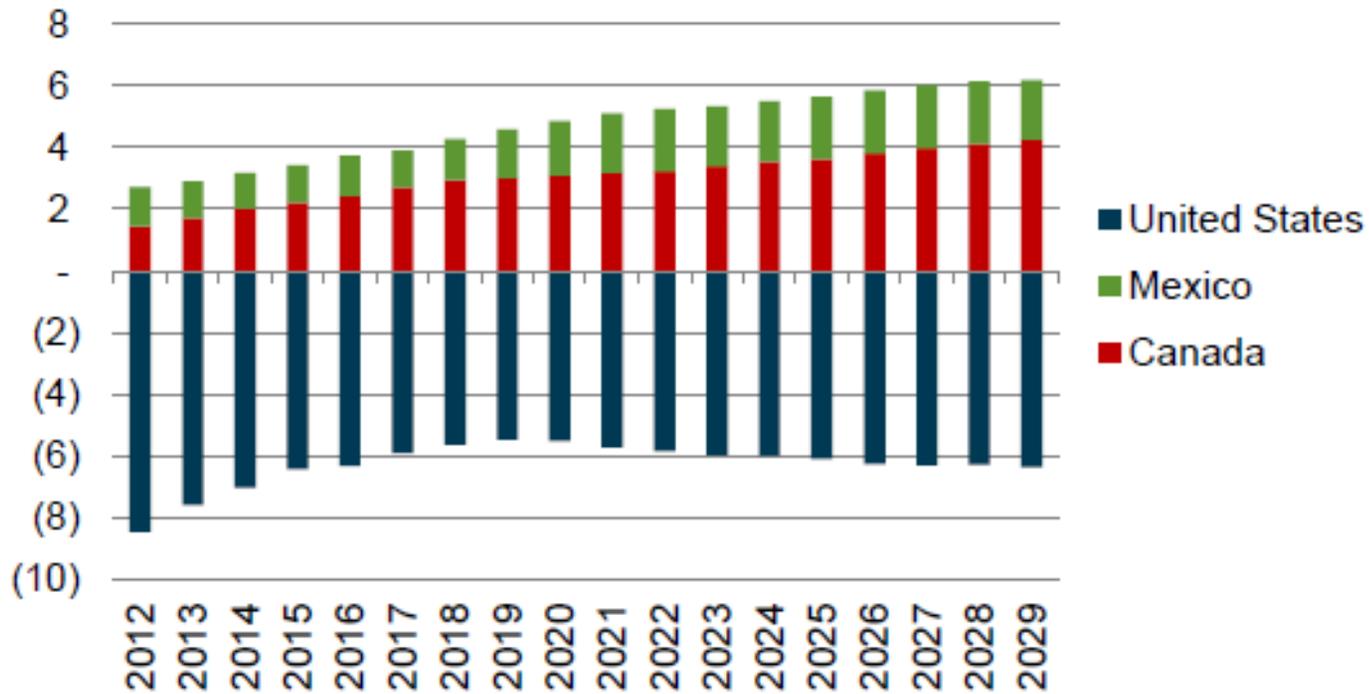
# Mexico's Upstream Sector

- Energy Reform removed barriers that previously restricted oil and gas production to Pemex, resulting in an increase in production for the following years
- Mexico's production expected to increase from 2.5 million b/d in 2013 to 3.3 million b/d in 2029, with production peaking in 2026 at 3.4 million b/d



# Crude Oil Exports: Outlook

**Crude oil net exports**  
million barrels per day



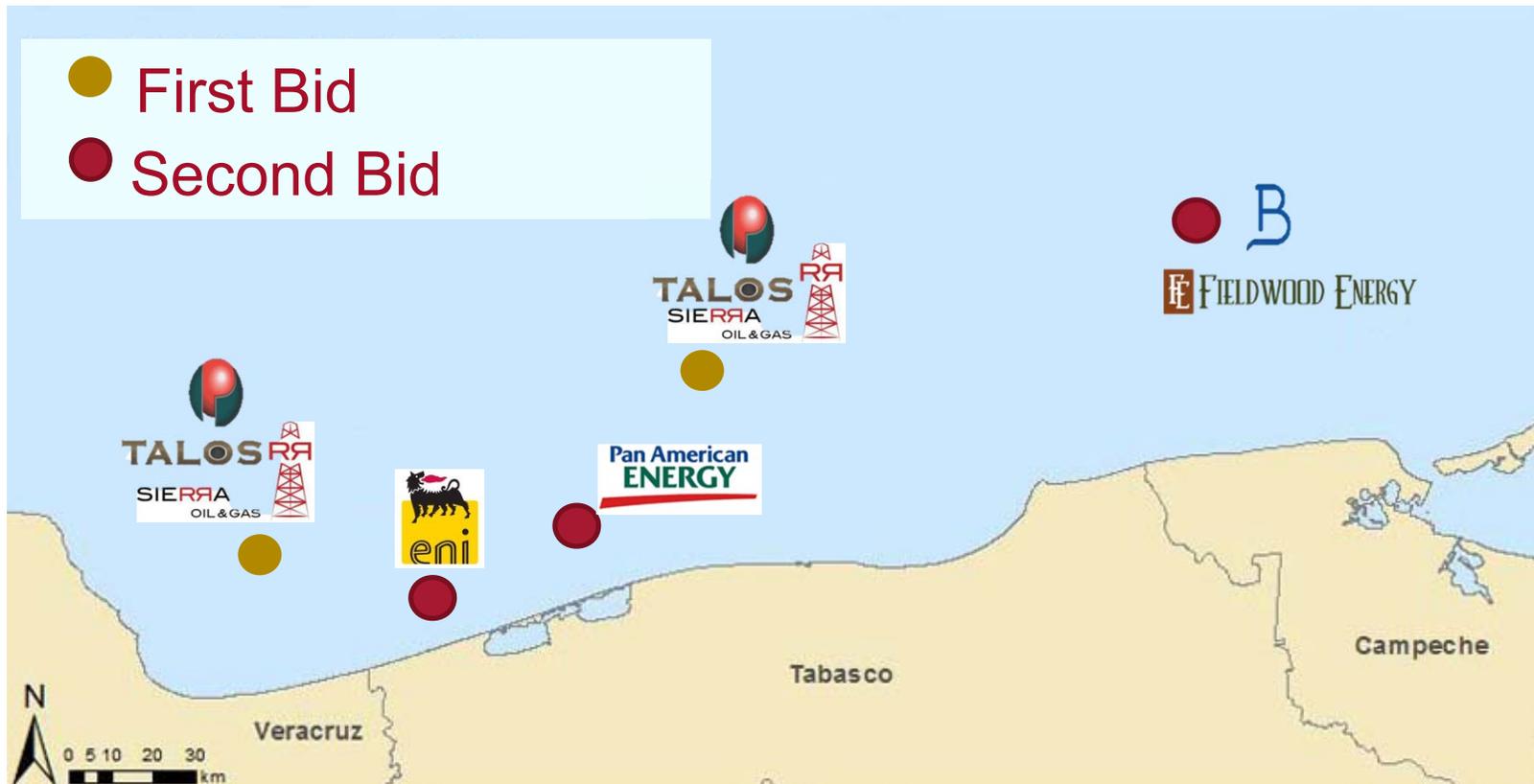
Source: SENER

# Mexico's Round 1 for the O&G Sector

- 169 blocks; 109 exploration and 60 extraction
- Reserves 2P of 3.8 and 3P of 14.6 Bboe
- Expected yearly investments of USD \$8.5 Billion between 2015 and 2018

AREAS	FIELDS
Deep Waters	Perdido
	South
Chicontepec and non-conventionals	ATG (Gulf Tertiary Oil)
Onshore, shallow waters and extra-heavy oil	Pit, Pohp, Alak, Kach and Kastelan
Non-conventional gas	Sabinas

# Round 1 – First Bid and Second Bid



# Round 1 – Third Bid

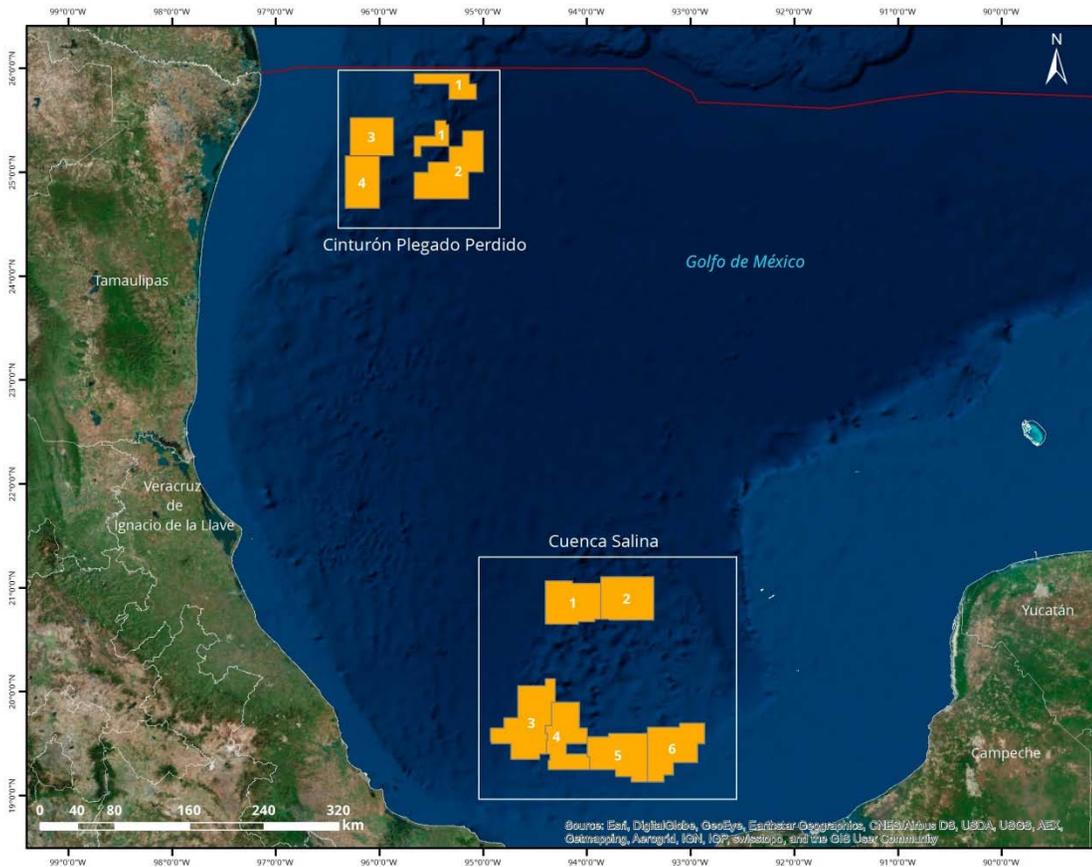


- 25 license contracts awarded on December 15, 2015

## Winners (among others):



# 4<sup>th</sup> Bid (Deep Waters)



Location	Area	Area (Km2)	Main Hydrocarbon
Perdido Area	1	1,678.00	Superlight oil
	2	2,976.60	Superlight oil
	3	1,686.90	Light oil
	4	1,876.70	Superlight oil
Cuenca Salina	1	2,381.10	Light oil
	2	2,411.20	Light oil
	3	3,287.10	Light oil
	4	2,358.70	Heavy oil
	5	2,573.20	Light oil
	6	2,605.50	Extra-heavy oil

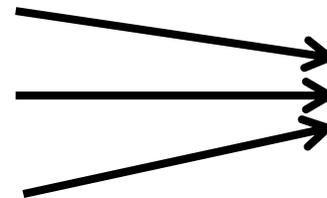
Possible Players:



## Round 1 – 4th Bid (Deep waters)

Who may participate?

- Mexican Companies
- Foreign Companies
- State Productive Companies



Jointly  
or individually

Companies  
may be part  
of 1 or more  
consortium  
or A in P

**Proposals shall be  
submitted for each  
contractual area**

**Documents  
shall be submitted  
in Spanish\***

# Relevant Tender Requirements

- **Data Room Access**: \$38,500,000.00 Mexican Pesos (approx. \$2,152,150.00 US Dollars)
- **Registration in the Tender**: \$280,000.00 Mexican Pesos (approx. \$15,652.00 US Dollars)
- Bid guarantee (Letter of credit) of \$3,000,000.00 USD. A bid guarantee shall be submitted per proposal

Operator		Non-Operator
<b>Technical Requirements</b>	<b>Financial Requirements</b>	<b>Financial Requirements</b>
-Experience as operator in at least 1 E&P offshore project in deep waters with a water depth larger than 1,000 meters, in the period 2011-2015	-Equity of at least 2 Billion USD; <u>or</u>	-Equity of at least 250 MM USD
-CAPEX investment in E&P projects that jointly sum at least 2 Billion USD	-Minimum value of 10 Billion USD for total assets and a credit rating of investment grade issued on 2015-2016	
-Experience in matters of industrial safety and environmental protection during the last five years, such as OHSAS 18001 (Safety) and ISO 14001 (Environment)		

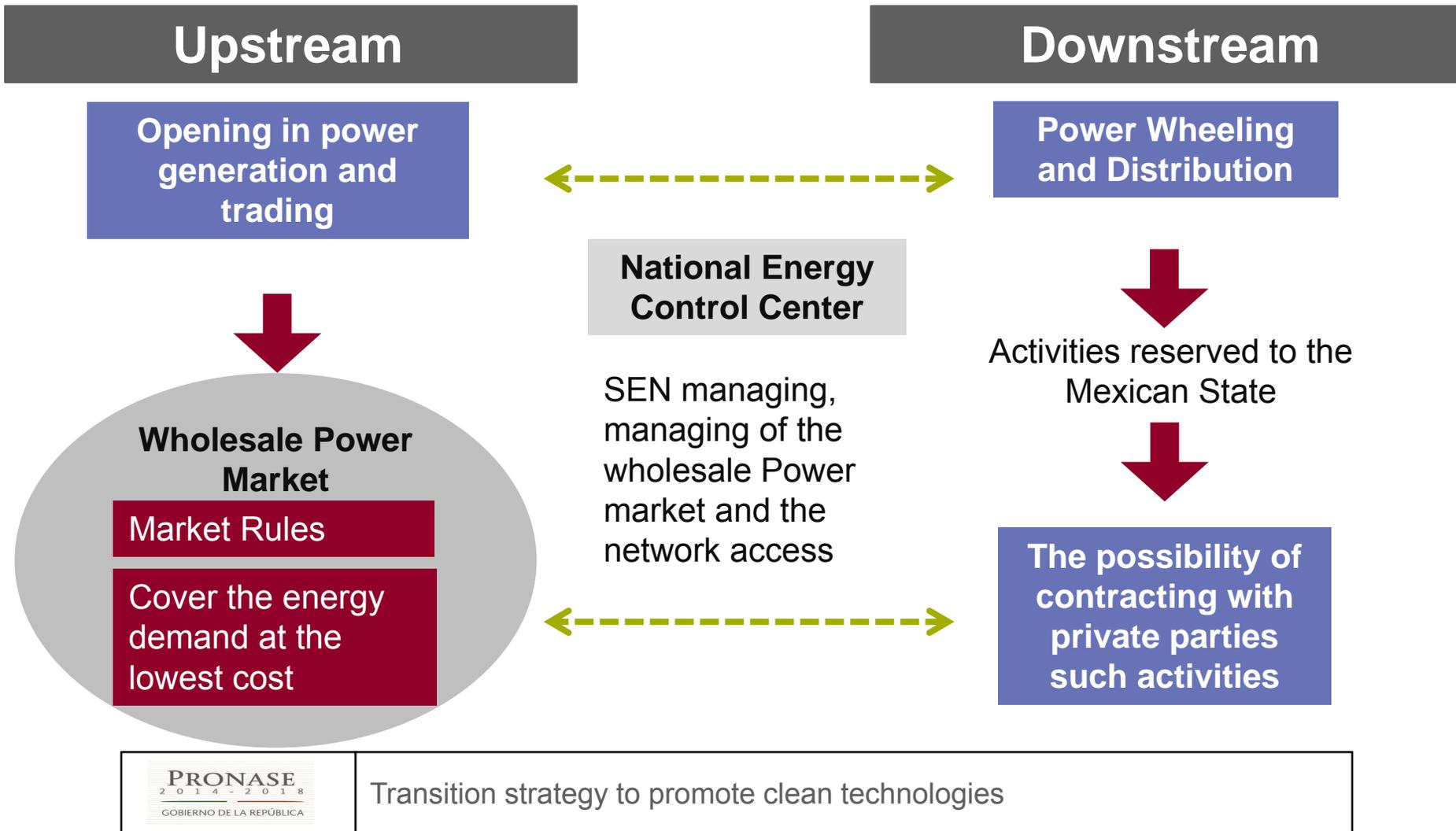


## Relevant Contract Requirements

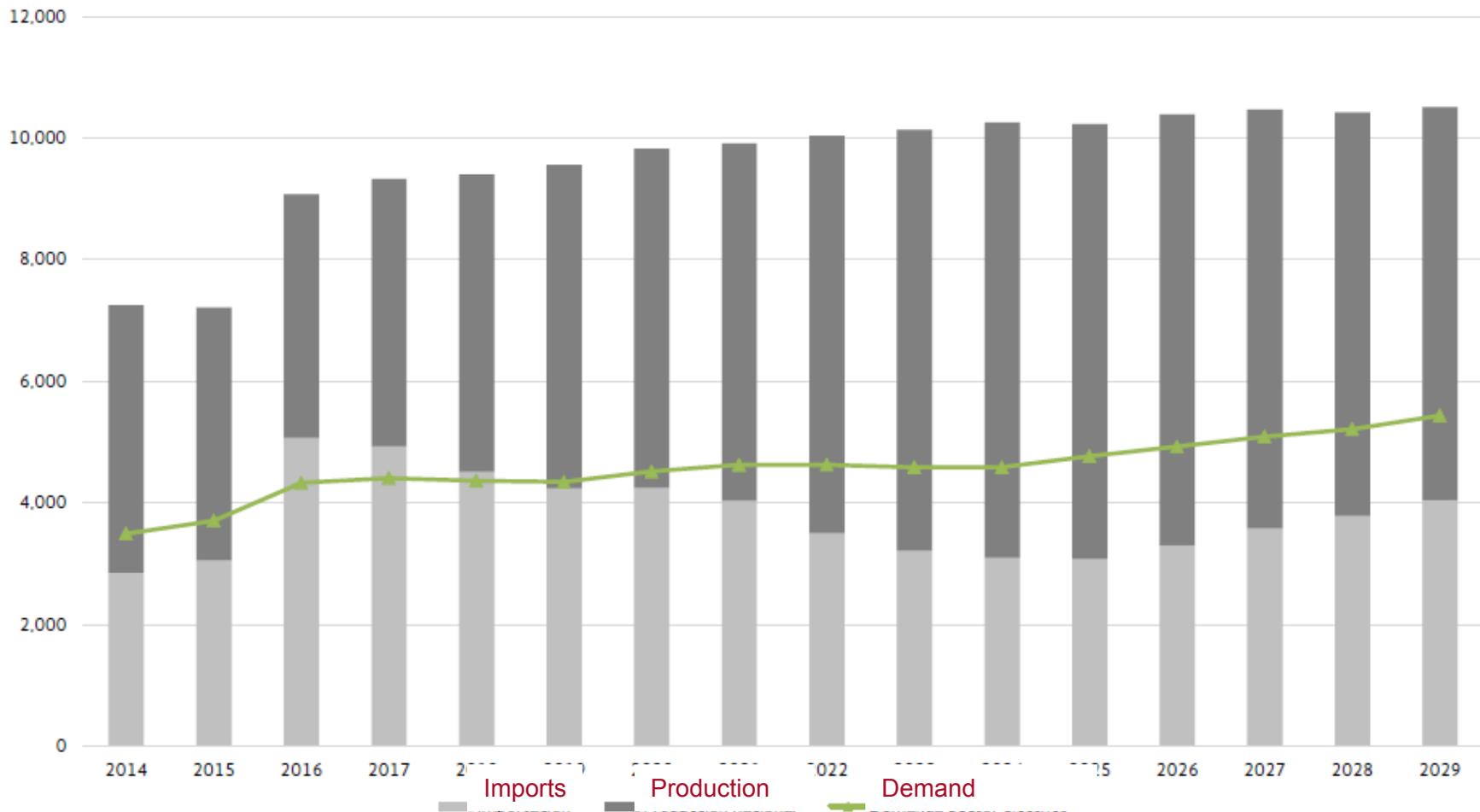
- It may only be executed with State Productive Companies and companies that comply with the following:
  - Mexican companies with exclusive corporate purpose: the exploration and production of hydrocarbons
  - Not listed on the optional tax regime for groups of companies referred under Chapter IV, Title II of the Income Tax Law

# Power Sector

# Power Sector after the Energy Reform



# Production, demand and imports of power in Mexico: Outlook

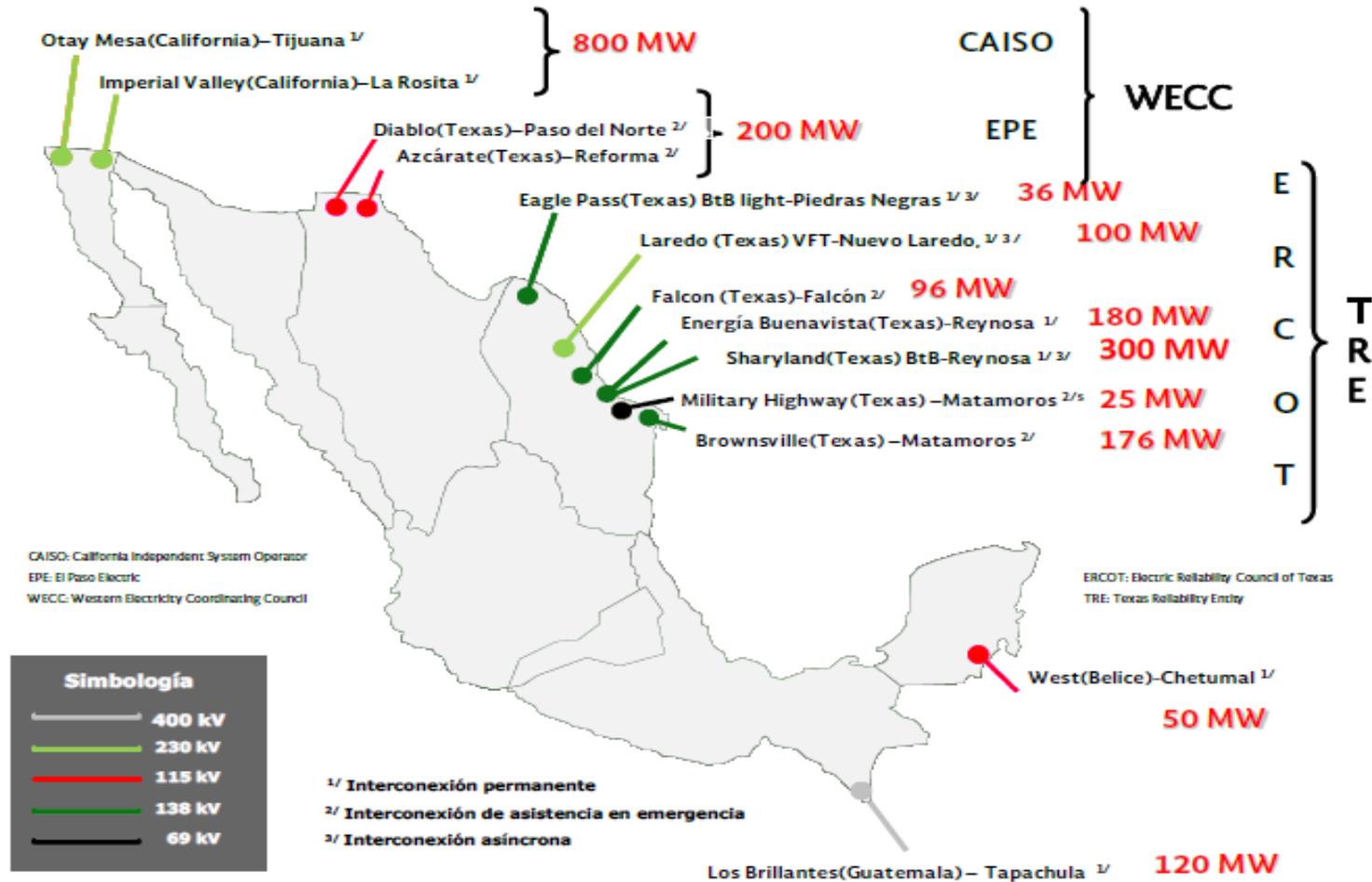


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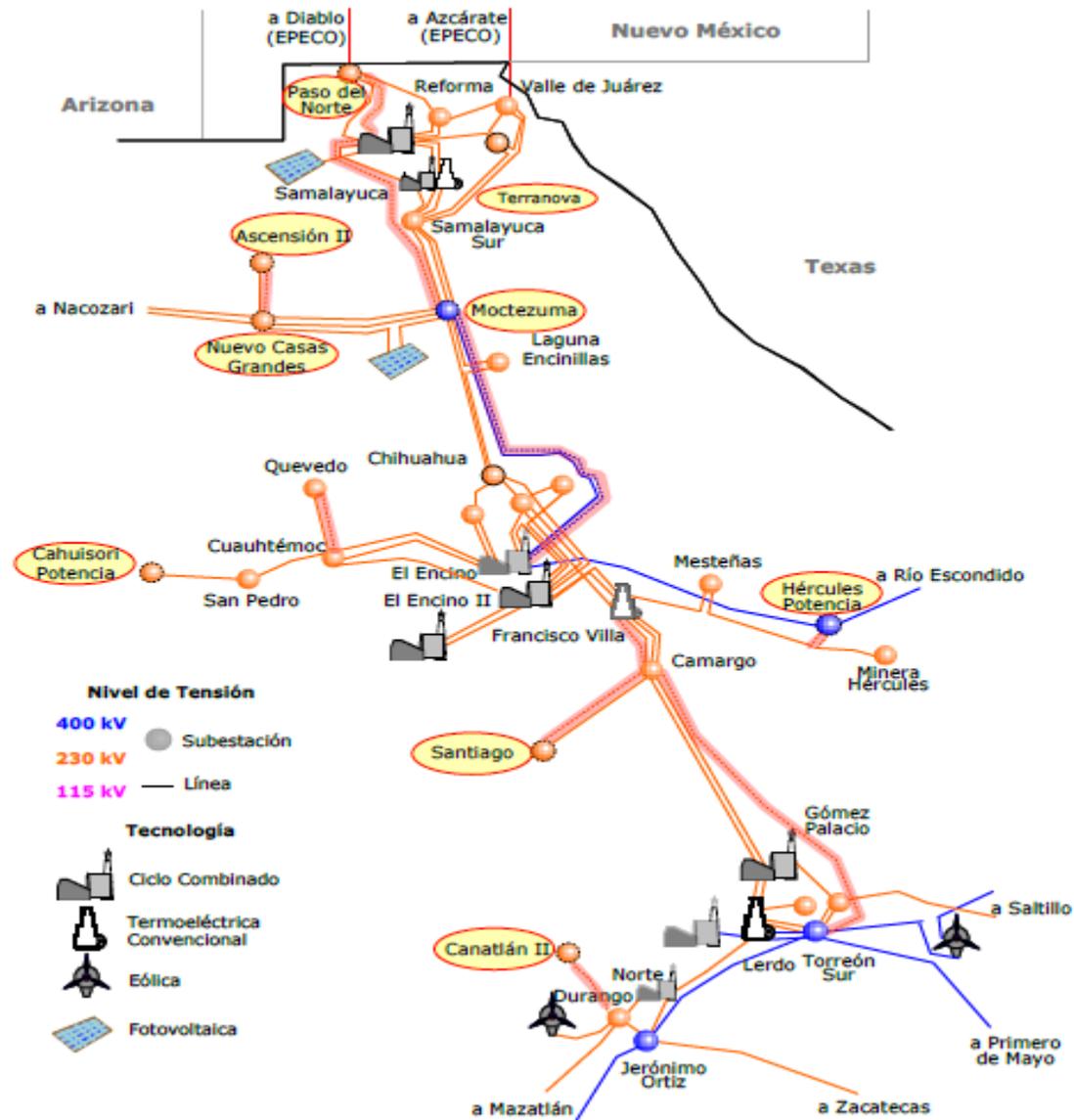
# Mexico's Business Opportunities: Import of power

- **Exportation and importation**: require authorization from CRE (granted for up to 30 years)
- **Isolated Supply**: Mexican companies may generate or import power for self supply or exportation without using the National Transmission and Distribution Lines prior obtaining permit from CRE (companies non-participating in the market)
- **Transactions under the market**: Companies participating in the market may import or export power and related services (*servicios conexos*) to or from the wholesale power market as long as the origin or destination is a site interconnected to the Mexican National Power System

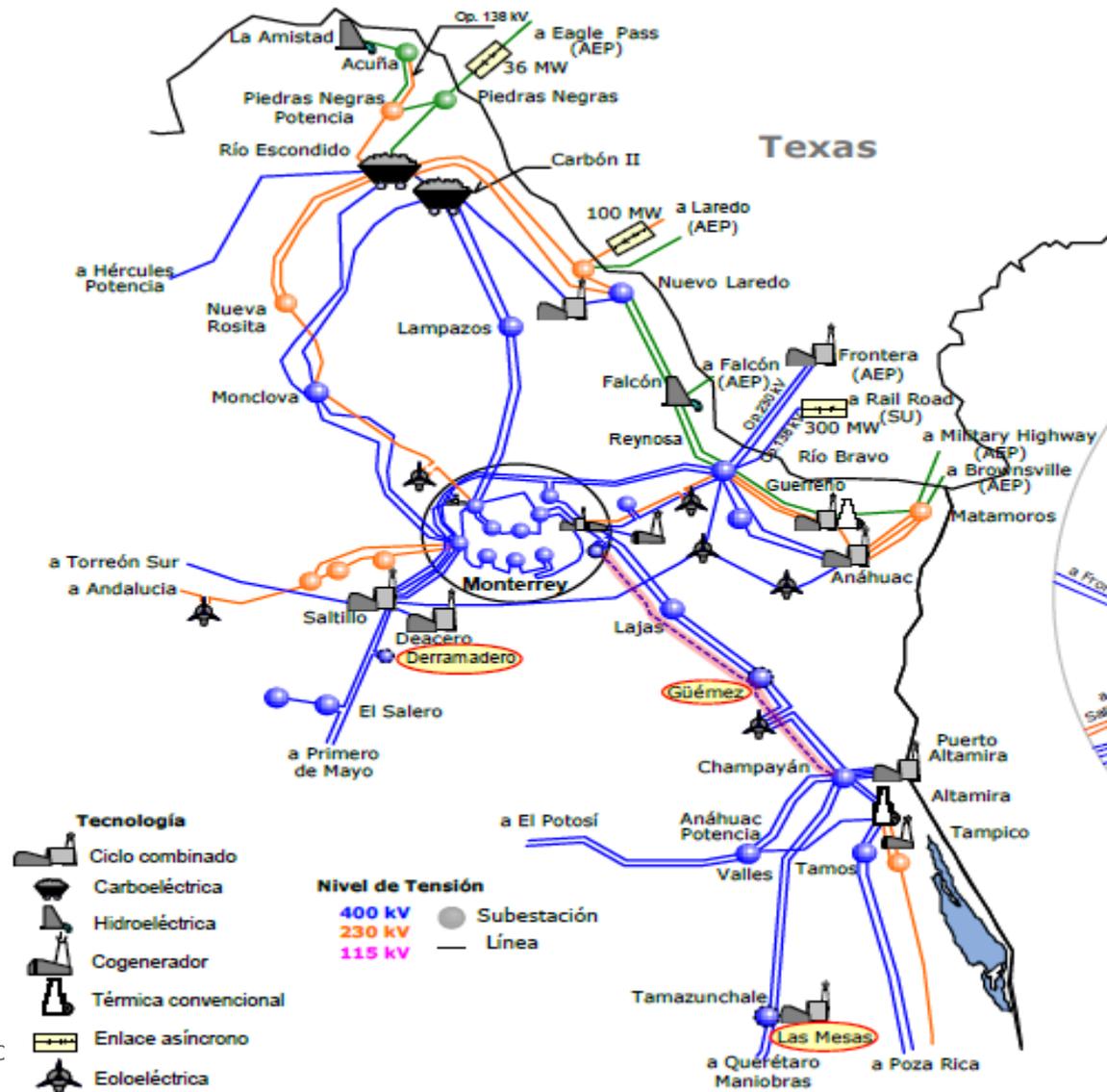
# Mexico's Current Import/Export Infrastructure



# New Infrastructure for the North Region 2016-2014



# New Infrastructure for the Northeast Region 2016-2024



# Thank You

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