MEXICO'S NATIONAL ENERGY STRATEGIES

During November 2024, the Mexican federal government has presented two national public policy strategies for the energy sector:

- **On November 6, the President and the Secretary of Energy announced the National Strategy for the Electricity Sector, aimed at enhancing State planning, promoting equitable access to electricity (energy justice), and establishing clear rules to secure and increase private investment.**
- **On November 13, the National Strategy for the Hydrocarbons and Natural Gas Sector was also presented, focusing on the following objectives for Petróleos Mexicanos ("Pemex"): prioritize production for domestic consumption; maintain a reserves-to-production ratio of at least 10 years; increase petrochemical production for domestic industries and agriculture, and consolidate refining to achieve self-sufficiency in gasoline and diesel.**

In the upcoming months, these strategies must be implemented through legislative reforms, regulatory adjustments, and/or operational decisions, depending on the specific aspects involved. Below is a summary of the most relevant contents of both strategies, along with some initial considerations:

National Strategy for the Electricity Sector

Public Investment

To ensure reliability and continuity in the National Electric System, the strategy outlines a $23.4 billion investment plan by the Federal Electricity Commission ("CFE") for the 2024-2030 period: $12.3 billion for generation (~13,000 MW of capacity to be installed); $7.5 billion to reinforce the National Transmission Grid; and $3.6 billion for the General Distribution Grids, focusing on substations, transformers, and feeders. We expect that this infrastructure will be executed in an agile and transparent way, which would require the essential coordination across governmental agencies, as mentioned in the same strategy.

Private Investment

Private investment will be allowed to participate in up to 46% of power generation, adding between 6,400 MW and 9,550 MW of renewable energy by 2030, aimed to meet nearshoring demand for clean energy and competitive prices. The strategy also reaffirms compliance with the Grid Code and establishes a 30% energy backup requirement, which may serve as a benchmark for mandatory battery energy storage systems. Additionally, legacy self-supply schemes will need to migrate to other legal frameworks, such as paying a "transparent" transmission rate rather than the wheeling fee established under the 2008 legislation.

Utility-Scale Generation and the Electricity Market

As to utility-scale generation, long-term producers will be allowed to deliver energy and capacity to CFE. "Mixed" producers, with a minimum 54% of State investment, will also be permitted. In addition, it is expected that there will be generators for the electricity market, which will have to meet reliability and backup requirements. Regarding the latter, the strategy signals the continuation of the electricity market despite the new constitutional limitation on the "public service of electricity", though its operation conditions may deteriorate if CFE's corporate reintegration includes absorbing CENACE.

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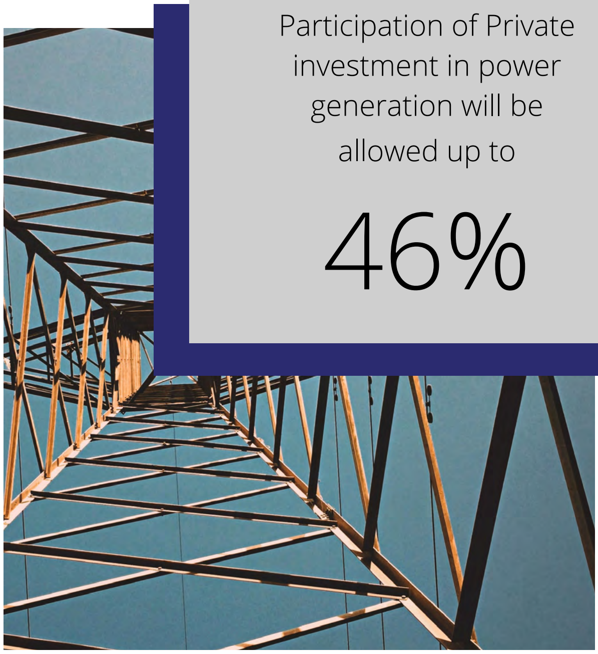


On-Site Generation

Private participation through onsite generation for self-consumption is also addressed by the strategy. The threshold for permit-exempt generation is proposed to increase from 0.5 MW to 0.7 MW. Simplified procedures would apply for isolated supply projects between 0.7 MW and 20 MW that do not inject surplus into the grid, favoring their development particularly in new industrial parks. Although the thresholds could have been more ambitious, these measures are a positive step and open significant opportunities for this kind of projects.

Regulation

The strategy aims to ensure the "technical independence of regulators," such as the Energy Regulatory Commission (CRE), despite its proposed status change from a coordinated energy regulator under the upcoming constitutional reform on organizational simplification. While CCN welcomes the emphasis on technical independence, it is hoped that the CRE will at least remain a decentralized body under the Ministry of Energy, with five commissioners, as it was before the 2013–2014 reform. The strategy also proposes simplifying procedures via a single-window system—a long-discussed goal that faces challenges due to the distribution of legal authority among various agencies.

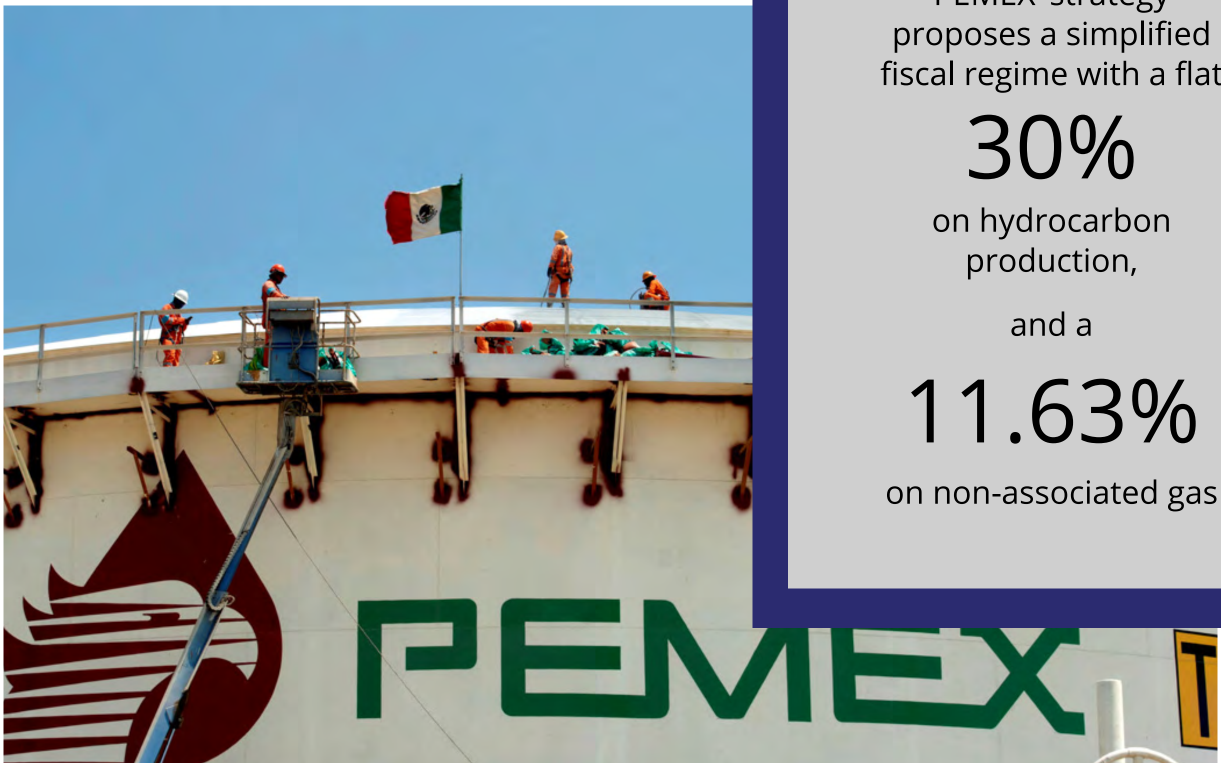
National Strategy for the Hydrocarbons and Natural Gas Sector

Tax Regime and Efficiency

In response to declining production and Pemex's substantial debt, the strategy proposes a simplified tax regime with a flat 30% rate on hydrocarbon production, and 11.63% in the case of non-associated gas. The government estimates this will enable Pemex to recapitalize, reduce its debt, and invest in strategic projects. Additionally, Pemex plans to adopt austerity and efficiency measures, including its consolidation into a single corporate entity to achieve savings of 50 billion pesos. However, this approach could result in cross-subsidies between different activities within the value chain.

Oil and Natural Gas

The strategy sets a goal of maintaining oil production at 1.8 million barrels per day, focusing on strategic fields like Zama and Trion, with potential mixed-participation projects. It also aims to



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increase natural gas production from 3.8 to 5 billion cubic feet per day, emphasizing reductions in methane flaring and leaks. Looking downstream, unfortunately the strategy does not address critical regulatory challenges in the natural gas market, such as ensuring effective open access to transportation pipelines, particularly those used by CFE to import gas from Texas.

Refined Oil Products

The government intends to optimize refineries and meet specific processing targets at the Olmeca and Deer Park facilities, aiming to boost domestic production of gasoline, diesel, and jet fuel by 34%. Plans also include expanding fuels' storage capacity and improving logistics to lower costs and combat the illegal market. Notably absent is any reference to the potential role of private companies in developing new storage terminals, several of which were affected during the previous administration.

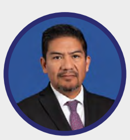
Petrochemicals, Fertilizers, and Sustainability

Pemex will pursue strategic initiatives in petrochemicals, such as reactivating the Cangrejera complex and developing mixed projects where Pemex retains ownership. In fertilizers, it is expected to increase production of ammonia and carbonic anhydride. Remarkably, Pemex would implement projects on renewable energy, cogeneration, lithium, and green hydrogen as part of a sustainability plan focused on emissions' reduction, water conservation, and soil restoration. This constitutes an interesting shift for Pemex toward energy transition efforts, following the path of most international oil companies. However, these initiatives are expected to materialize in the medium to long term, contingent on improved financial conditions.oil companies. However, these initiatives are expected to materialize in the medium to long term, contingent on improved financial conditions.

At CCN, we have expert energy law attorneys who can provide guidance on understanding the implications for your projects as these strategies are implemented.

José María Lujambio
jmlujambio@ccn-law.com

Antonio Riojas
ariojas@ccn-law.com.mx



Omar López
olopez@ccn-law.com.mx

Isaac Olguin
olguin@ccn-law.com.mx