Mexican energy sector reform and prospects for North America

Presentation by Jeffrey Phillips
Project Director and Energy Lead – Dawson Strategic

@Energy_Dawson

CSG/CSG West 2014 Conference
August 9, 2014
Overview

• Review of energy reforms
• Opportunities and challenges
• Fundamental changes in Mexican energy supply have potential to solidify a North American energy bloc
Highlights of Reforms

• Reforms open up hydrocarbons and electricity sectors to private investment
• End 75-year monopoly of state-owned Petróleos Mexicanos (PEMEX)
• PEMEX transformed into “State Productive Enterprise”
• Increased capacity for independent regulators
Highlights of Secondary Legislation

• Budgetary autonomy for independent regulators
• Local content requirements → palatable to foreign investors
• PEMEX to have more financial and operational freedom
The reforms have moved quickly

President Nieto proposes an overhaul of Mexico’s energy industry to allow private companies profit-sharing contracts.

Congress begins to draft and debate secondary laws.

Secondary legislation is presented to Congress as a package of 21 bills.

Mexican government plans to hold a first tender round by this time. PEMEX would compete equally alongside foreign companies.

**Timeline of Energy Reforms**

- **02-12-2012**: Mexico’s three main political parties sign the *Pacto por México*, an agreement that seeks to accomplish a broad set of reforms (e.g. education, energy, security) previously obstructed by political gridlock.
- **12-08-2013**: President Nieto signs into law the reforms to the energy sector. The Bill calls for amendments to Articles 25, 27, and 28 of the national Constitution and adds 21 ‘transitional articles’ outlining the regulations to be implemented.
- **20-12-2013**: PEMEX provides the energy ministry with a list of upstream assets that it wants to keep as part of the “Round Zero” process.
- **01-02-2014**: The *Secretaría de Energía* (Ministry of Energy) and the *Comisión Nacional de Hidrocarburos* (CNH – the Hydrocarbons Commission) will rule on PEMEX proposals.
- **21-03-2014**: 30-04-2014
- **09-2014**
- **Mid-2015**
Benefits for Mexico

• Influx of foreign capital and technology to unlock undeveloped reserves
• Continued source of revenue for the state
• Mexican government expects: jobs, GDP rise, lower electricity costs
The need for reform is clear
Optimism for Mexico

“Mexico is finally beginning to unlock its true potential as an economic powerhouse.”
- Larry Fink, Chairman and CEO of BlackRock (July 2014)

“...Mexico clearly witnessed a miracle of political productivity...”
- General David H. Petraeus, Chairman of KKR Global Institute (July 2014)

Sources: Market Realist (2014) and Houston Chronicle (2014)
Opportunities for the United States and Canada

• US/Can companies can bring technology and capital
• Regulatory cooperation and lessons learned
• Mid- and downstream opportunities: pipelines and services
Increasing U.S. gas exports to Mexico

Source: Oil & Gas Journal
Looking ahead to renewables

• 2012 Climate Change Law

• Favourable conditions to expand wind and solar
Real Challenges
The North American energy picture

• Canada → oil sands, LNG exports
• US → shale gas & tight oil, energy self sufficiency
• Mexico → reversal of declining oil production, shale gas development
Shale gas as foundation of North American energy bloc

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Shale gas*, tcf</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>1,115</td>
</tr>
<tr>
<td>2</td>
<td>Argentina</td>
<td>802</td>
</tr>
<tr>
<td>3</td>
<td>Algeria</td>
<td>707</td>
</tr>
<tr>
<td>4</td>
<td>US</td>
<td>662</td>
</tr>
<tr>
<td>5</td>
<td>Canada</td>
<td>573</td>
</tr>
<tr>
<td>6</td>
<td>Mexico</td>
<td>545</td>
</tr>
<tr>
<td>7</td>
<td>Australia</td>
<td>437</td>
</tr>
<tr>
<td>8</td>
<td>South Africa</td>
<td>390</td>
</tr>
<tr>
<td>9</td>
<td>Russia</td>
<td>285</td>
</tr>
<tr>
<td>10</td>
<td>Brazil</td>
<td>245</td>
</tr>
</tbody>
</table>

World total: 7,299

*Technically recoverable shale gas resources
Source: EIA

Source: Oil & Gas Journal
Shale gas plays in North America

Source: U.S. EIA
Summary

• Reforms are a significant development for Mexico and beyond
• Developments in Mexico reinforce the shift in the continental energy supply picture
• Need to strengthen North American energy cooperation
Thank you!

jphillips@dawsonstrat.com
Phone: (+1) 416-875-2031
Twitter: @Energy_Dawson
Web: www.dawsonstrat.com