

2025 Energy Reform – Oil and Gas Sector

PEMEX and Upstream Activities

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On March 18, 2025, President Claudia Sheinbaum published in the Federal Register (“DOF”) the Decree enacting a package of implementing legislation concerning the Mexican energy industry (the “Decree”). This communication focuses on the portion of the Decree related to the oil and gas sector. Particularly, the new Hydrocarbons Sector Law (“LSH”), the Law on the State-Owned Company, Petróleos Mexicanos and the Biofuels Law (“LBC”), as well as the amendments to the Law for the Mexican Petroleum Fund for Stabilization and Development (“LFMPED”) and Hydrocarbons Income Law (“LISH”) (originally published on August 11, 2014). In previous communications, we have addressed legislation in the electricity sector, energy planning and transition, the National Energy Commission, and other areas of the energy industry. Because the enacted laws did not substantially vary from the original bills, we limit to discussing the oil and gas laws. Due to the extension of the changes, this first section addresses the upstream sector and the reorganization of Petróleos Mexicanos (“PEMEX”).

As we noted in previous communications, the primary objective of the Decree is to harmonize the implementing legislation with the constitutional reform published on October 31, 2024, regarding strategic areas and companies, as well as the constitutional reform published in the DOF on December 20, 2024, regarding administrative simplification.

These constitutional reforms introduced, among other changes, the following:

- The transformation of the Federal Electricity Commission (“CFE”) and PEMEX into State-Owned companies with a vertically integrated structure, establishing that their assets will not be considered monopolistic and eliminating value creation as the main purpose of the companies, being social development their main goal;
- the designation of lithium exploitation as a strategic area exclusively controlled by the State;

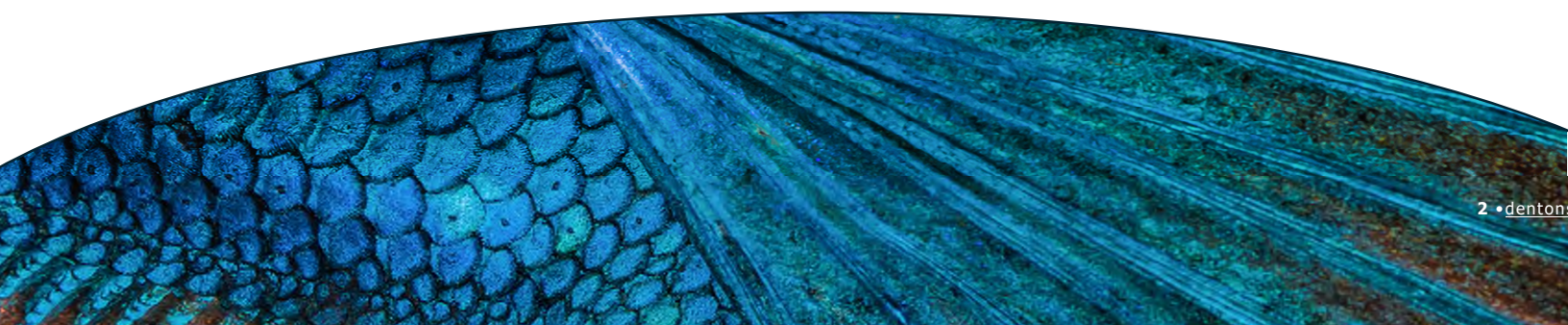
- the establishment of CFE’s predominance in electricity generation and the prohibition of profit in the provision of essential services;
- the requirement that energy sector planning be binding under the authority of the Ministry of Energy (“SENER”);
- the establishment of the State-provided internet service as a new strategic area;
- the framework for the dissolution of the Energy Regulatory Commission (“CRE”) and the National Hydrocarbons Commission (“CNH”), transferring most of their functions to SENER.

The reform establishes a new regulatory structure for the hydrocarbons sector, consolidating certain functions of the CRE and CNH into the new National Energy Commission (“CNE”) and assigning various regulatory powers from these entities, mostly those formerly in the CNH, to SENER.

PEMEX’s Organization and Rules

PEMEX is transformed from a State-owned company, a special regime created by the energy constitutional reform of 2013, to an entity of the Federal Public Administration sectorized under the SENER, with technical, operational and management independence, legal personality and own assets.

PEMEX is governed under a special regime in respect of affiliates, salaries, acquisitions and procurement, assets, administrative responsibilities, budget and accounting, debt and sustainability. Nevertheless, public and private law (civil and commercial) may be applicable to its activities, depending upon the nature of the acts, if such provisions do not oppose to the special regime.



The mandate of PEMEX includes all the segments and activities of the oil and gas sector. However, it is relevant to note that private companies may enter the sector within the rules established by the new energy laws.

The business of PEMEX will be directed and managed by a board of directors and a Director General. The board will be integrated by eight directors. Five directors from the Federal Public Administration, and three independent directors nominated by the President and ratified by two thirds of the Senate, following a ratification process. These independent directors will be appointed for a five-year term, will not be public servants, and should have no conflict of interest.

PEMEX will perform exploration and extraction activities directly. Other activities may be performed through affiliates and subject to the LSH. For being considered an affiliate, PEMEX has to hold more than fifty percent of capital stock. Affiliates are entities that are governed by the law of incorporation but will follow the Development Program of PEMEX.

The board of directors will issue general policies for PEMEX to hold minority stakes in commercial companies, national and foreign, including those that will require to be previously approved by the board.

PEMEX and affiliates will prepare a sustainability program to reduce the environmental impact of their activities, and will seek the reduction of gas emissions through the use of renewable and clean energies, the transition to a low-carbon economy, compliance to international treaties in which Mexico is party to, and the monitoring of the progress to achieve the sustainability goals.

The disputes in which PEMEX is involved as a party or third-party are subject to federal venue, and shall not grant sureties that are normally demanded to parties, even in judicial proceedings. PEMEX may agree to alternative dispute resolution mechanisms (including commercial arbitration) under Mexican commercial laws and international treaties. For international transactions, PEMEX may agree to apply foreign law and be subject to the jurisdiction of other courts.

Hydrocarbons Sector Law

General Aspects

In terms of public policy, the regulation of activities referred to in the LSH must adhere to and contribute to the objectives and actions of the National Development Plan and the public policy determined by the SENER.

Additionally, SENER will have a hand in providing public policy for the energy sector, and all project development will need to adhere and be consistent with the plans. It is expected that the regulators, and permitting activities, will be subject to that planning. This plan is required to be in accordance with the LSH and the Energy Planning and Transition Law. This planning must take into account:

- I. Promoting energy justice, energy transition and efficiency, sustainability, and the development of clean and renewable energies;
- II. Preserving national energy sovereignty and security while ensuring that the population has access to fuels of the highest quality and at the lowest possible price; and
- III. Encouraging the expansion and modernization of sector infrastructure, considering aspects such as security, efficiency, and operational sustainability.

Upstream Activities

The legal framework for the upstream activities has been updated to reflect the constitutional reforms of 2024 in energy. The main features in the upstream activities are the role of PEMEX in the market, and the allocation of authority to SENER that was formerly invested in the CNH.

Assignments for Own Development, Assignments for Mixed Development

SENER will have the authority to grant the Assignments to PEMEX for Own Development ("ADP"), and for Mixed Development ("ADM"), in that order of priority. The board



of directors of PEMEX may communicate to SENER the lack of interest or capability, and in such case, SENER may grant Contracts for Exploration and Extraction ("E&E Contracts").

PEMEX may waive Assignments with the authorization of SENER. In that case, PEMEX will return the area in good condition, without charge, payment, or compensation. Likewise, PEMEX may request the amendment of an ADP for an ADM, with prior authorization from its board of directors.

PEMEX may enter into service contracts with private parties to comply with its obligations imposed in the ADMs, by using models that allow the highest productivity and profitability for the project.

SENER may revoke an ADP for causes such as not starting activities or suspending activities for a period of lengthier than 365 calendar days, continuously, and according to the respective exploration or development plan for extraction, unless notifies or obtained authorization from SENER.

PEMEX will submit for approval the terms and conditions for an ADP, including the area, force period, technical, operational, and financial capabilities, contract model, as well as the type of contracting procedure to select the participants.

The ADMs may have one or more private parties. Any of the parties may act as an operator. PEMEX may not assign its rights over the ADM, nor make economic contributions. These ADMs shall be subject to private law, whether commercial and civil, depending upon the nature of the acts.

The revenues that arise from the production volume of the ADM will cover, firstly, the tax obligations of the ADM. Secondly, the recovery of costs up to an equivalent of thirty five percent (35%) of the income obtained. Exceptionally, the board of directors may approve up to forty percent (40%). Finally, the revenues obtained from the volume will be distributed according to the agreed percentage, but PEMEX will keep at least forty percent (40%).

Contracts for Exploration and Extraction. Alliances and Associations

Exceptionally, SENER may enter E&E Contracts for hydrocarbons following the guidelines to be issued for a specific bidding procedure. SENER and the Ministry of Finance and Public Credit ("SHCP") will shall issue separate guidelines for the tender process. These guidelines will have the prior opinion of the competition authority. SENER will elaborate the E&E Contract models.

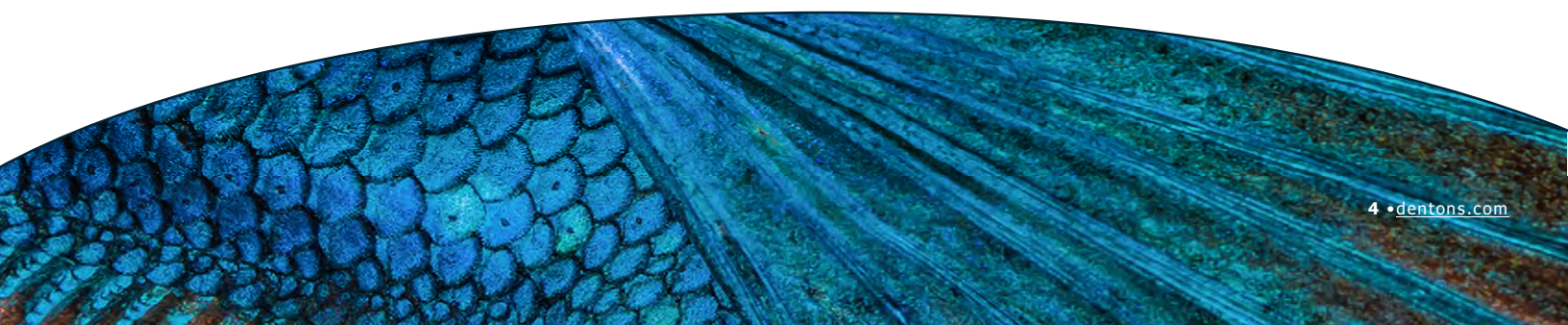
SENER may include PEMEX's participation in an E&E Contract in the tender rules, which will be mandatory in areas where it has the possibility of finding cross-border deposits, in which it must participate with at least twenty percent (20%) of the project's investment.

The LSH allows that E&E Contracts establish alternative dispute resolution mechanisms and arbitration clauses, according to Mexican law and international treaties to which Mexico is a party to. Neither SENER nor the contractors will be subject to foreign laws, so the arbitration procedure must apply Mexican federal laws, with venue in Mexico City, and in Spanish. The award shall be binding and final for both parties and shall be issued in strict law.

PEMEX may enter into alliances or associations to participate in tenders for E&E Contracts. In this case, SENER will previously authorize the execution of alliances or associations in cases where PEMEX does not have the corporate and management control of the contractor or the control of the operations of the contractual area. Notwithstanding, PEMEX will not be able to enter contracts with private parties for public-private partnerships for exploration and extraction activities.

SENER, at the request of the Mexican Petroleum Fund for Stabilization and Development, will contract PEMEX or an affiliate to market the State's hydrocarbons obtained from the E&E Contracts.

SENER may administratively terminate the E&E Contracts for various reasons. The most relevant causes of termination are:



I. Failure to initiate or suspend the activities of the exploration or development plan for extraction without notice or extension issued by SENER,

II. Failure to comply with the minimum work commitment,
III. The partial or total assignment of the operation or rights without prior authorization,

IV. The occurrence of a serious accident occurs due to fraud or negligence that causes damage to facilities, fatality and loss of production,

V. Making false statements or provide incomplete information to SENER, SHCP or the Ministry of Economy,

VI. Failure to comply with a final resolution that is not subject to appeal (res judicata), and

VII. Failure to pay the quotas to the State.

Other provisions

The information obtained from the activities of Reconnaissance and Surface Exploration, as well as Exploration and Extraction, belongs to the Nation, and the assignees, contractors and authorized parties may use it for commercial purposes, subject to the regulation of SENER.

Authorization of SENER is required for the drilling of exploratory, deepwater and ultra-deepwater wells and those used as design models.

The head of the Executive Branch, at the proposal of SENER, may establish safeguard zones to prohibit hydrocarbon exploration and extraction activities.

Titleholders of mining concessions may request direct award for the exploration and extraction of natural gas for self-consumption contained in and produced by the mineral coal seam.

Hydrocarbons Revenue Law

The amendments to the LISH establish that the Contract Value for Condensates, Natural Gas and Oil is determined at Base Condition, that is, the pressure and temperature at which the volumes of oil and condensates are measured,

which are a pressure of 101.325 kiloPascals (1 atmosphere) and a temperature of 15.5556 degrees Celsius (60 degrees Fahrenheit).

The models of participation in tenders for E&E Contracts include the possibility of having an association in participation in terms of the General Law of Business Organizations.

It is also established that SENER will publish, within 20 calendar days following each year, the update of the calculation parameters of Annex 3 of the current contracts that provides for structural adjustments to the hydrocarbons market.

With respect to the income from the Assignments, the petroleum duty for welfare is established to be reported every last day of March, with monthly provisional payments every 25th of the month, with different rates for: (1) Non-Associated Natural Gas and its condensates from land areas, maritime areas with a water tension of less than five hundred meters and in the Chicontepec Paleochannel, (2) Non-Associated natural gas and its condensates, and (3) hydrocarbons other than Non-Associated Natural Gas.

Finally, the obligation to report quarterly investments, costs and expenses for the year for each extraction field is added, in the months of April, July, October and January.

Law of the Mexican Petroleum Fund for Stabilization and Development

The amendments include the revenue of the orders and resolutions of unification as assets of the fund.

On the other hand, the independent directors may not be shareholders, partners or owners, officers, directors, legal representatives or significant advisors of any assignee, contractor or participant in a Mix Contract derived from an ADM, in the two years prior to their appointment, nor have pending litigation with any assignee or contractor on the day of their appointment.

The Fund will coordinate with SENER to obtain the technical and operative information for complying with its purpose.



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