

2025 Energy Reform – Oil and Gas Sector

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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 midstream and downstream activities of the oil and gas sector. Particularly, the new Hydrocarbons Sector Law (“LSH”) and the Biofuels Law (“LBC”). In previous communications, we have addressed legislation in the electricity sector, the Comisión Federal de Electricidad, on energy planning and transition, the National Energy Commission, Petróleos Mexicanos (“PEMEX”), upstream activities in the oil and gas sector, and other areas of the energy industry.

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 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, with some of them remaining with a new quasi-regulator, the National Energy Commission (“CNE”).

Midstream and Downstream Activities (Title Third of the LSH)

The institutional reorganization of regulated activities impacted the midstream and downstream activities mainly on the bifurcation of regulatory powers, with all permitting for crude oil activities being transferred to SENER, while CNE, the new agency, regulates natural gas and refined products, except import of products which SENER will keep control of.

Permits

Consequently, the following activities are subject to obtaining a permit from SENER:

- a) Treatment, refining, import, export, transportation, storage, and commercialization of petroleum;
- b) Import and export of natural gas;
- c) Import and export of refined products; and
- d) Import and export of petrochemicals.

The following activities are subject to obtaining a permit from the CNE:

- a) Processing, liquefaction, regasification, compression, decompression, transportation, storage, distribution, commercialization, and retail sale of natural gas;

- b) Formulation, transportation, storage, distribution, commercialization, retail sale, and self-consumption dispatch of refined products;
- c) Transportation, storage, and commercialization of petrochemicals; and
- d) Management of integrated systems.

As noted above, key changes to the permit regime compared to the previous legislation include:

- All permits related to petroleum activities will now be granted by SENER (previously, transportation, storage, and commercialization activities were under the jurisdiction of the CRE);
- The explicit incorporation of the requirement to obtain a permit for the import of natural gas under SENER's jurisdiction (while the previous law referred to import and export permits for hydrocarbons in general, sector regulations did not establish the obligation to obtain a prior permit for natural gas imports);
- SENER will grant import and export permits for petrochemicals;
- The permit for natural gas processing will now be issued by CNE (previously issued by SENER); and
- The inclusion of formulation and self-consumption dispatch of refined products as activities requiring a permit from CNE.

Weekly Reporting Obligations

Permit holders will be required to submit weekly reports on volumetric controls, measurement, quality, commercial operations with customers and suppliers, and any other information necessary for oversight and statistical purposes.

Additionally, all federal agencies possessing information related to the supervision and compliance of permit holders must share such information with SENER. Commercial, banking, tax, or fiduciary confidentiality protections will not apply in these cases.

Supervision, Oversight, and Verification Powers

The confidentiality protections related to commercial, banking, tax, and fiduciary matters will not apply to SENER or CNE in the exercise of their supervision and verification powers.

These authorities may coordinate with PEMEX or any other federal agency, as well as with authorities at all levels of government, to ensure that regulated activities are conducted in a manner that does not harm public or social interests.

The following situations allow SENER or CNE to impose, as a precautionary measure, the immediate provisional suspension of a permitted activity until the causes for suspension are addressed:

- a) Failure to immediately prove the legal origin of the product;
- b) Indications of harm to the final user;
- c) Indications of product adulteration;
- d) Indications of practices that encourage illicit markets, smuggling, or any other related crime; and
- e) There are indications that, as a result of the permitted activities, human life or health, public safety, the environment, the security of facilities, or public property may be endangered.

Permit Application Evaluation

A key consideration in the new legislation is that the permitting of projects will be contemplated with a series of criteria, including consistency with the public policy dictated by SENER, whereas the previous regime only required compliance with technical and economic requirements and specifications to be eligible to obtain a permit. In that regard, various criteria must be considered in the evaluation of permit applications referred to in Title Third, including the project's location, volumes, local and regional demand, the project's impact on the proper development of the relevant market, and its alignment with the binding planning criteria incorporated into public policy



Permits Terms and Conditions

The terms and conditions of the permit for the commercialization of hydrocarbons, refined products, and petrochemicals must include, at a minimum, the following activities and obligations:

- I. Acquiring products from commercialization permit holders, who may also hold permits for petroleum refining, natural gas processing, formulation, and importation;
- II. Selling products to permit holders for export, commercialization, distribution, retail sale, and final users; and
- III. Contracting or managing transportation, storage, and distribution services through pipelines as necessary to conduct their activities.

The terms and conditions of the permit for the distribution of natural gas and refined products must include, at a minimum, the following activities and obligations:

- I. Acquiring products from commercialization permit holders;
- II. Selling products to retail sale permit holders or final users; and
- III. Providing services for receiving, storing, transporting, and, where applicable, conducting such products.

The terms and conditions of the permit for the formulation of refined products must include, at a minimum, the following activities and obligations:

- I. Specifying the products authorized for formulation under the permit, including, among others, gasoline for final blending with fuels, diesel with biodiesel, and jet fuel with bio-jet fuel;
- II. Ensuring that refined products resulting from formulation comply with the specifications established in the applicable Official Mexican Standards ("NOMs"); and
- III. Submit to CNE, among other documents, the one specifying the type, origin, quality, volume, and proportions of the components to be blended; the document listing the quality and volume of the product or products once the formulation has been carried out in the

permitted facilities; the flow diagram of the main processes involved in the permitted facilities; and the document describing the formulation process, including all related infrastructure.

Additionally, these permits must include obligations regarding supply security, submission of information for supervision and statistical purposes, and compliance with applicable guidelines concerning relationships with affiliated entities or consortium.

Permit Termination, Expiration, and Revocation

New grounds for permit revocation have been introduced, including:

- a) Failure to submit the information required by SENER or CNE for supervision and statistical purposes;
- b) Failure to have the equipment and software necessary for volumetric controls, or, having such equipment, failing to keep it operational at all times, altering, disabling, or destroying it;
- c) Failure to have volumetric controls for hydrocarbons or refined products;
- d) Repeated failure to generate or maintain reports on volumetric control information for hydrocarbons or refined products;
- e) Falling under any of the scenarios described in Article 69, penultimate paragraph, of the Federal Tax Code ("CFF"), which include, among others: (i) having outstanding or determined tax liabilities (that are neither paid nor secured); (ii) being registered in the Federal Taxpayer Registry but classified as unlocatable; (iii) having committed a tax offense; (iv) having been granted a tax debt forgiveness; and (v) having used invoices for non-existent transactions for tax purposes without proving the materialization of such transactions; and
- f) Being definitively listed under Article 69-B, fourth paragraph, of the CFF (which refers to taxpayers issuing invoices for non-existent transactions) or having a shareholder or partner included in such a list.

The grounds for termination and expiration, as well as the procedures for temporary occupation, intervention, revocation, and suspension to safeguard the interests of

the Nation, remain substantially similar to those established in the previous law.

Integrated Systems

SENER will be the competent authority to approve the creation of Integrated Systems and to determine the incorporation of new infrastructure into them.

For reasons of social and public interest, State-Owned Companies and their subsidiaries will be given priority in capacity allocation for new transportation projects, capacity expansions in existing infrastructure, and transportation capacity assigned by system operators in the systems they manage.

Open Access

Regarding the obligation of permit holders providing transportation and distribution services via pipelines, as well as storage services, to offer open and non-unduly discriminatory access to their facilities and services, an exception has been established for State-Owned Companies and their subsidiaries. As a result, these obligations will no longer apply to these entities.

Additionally, energy self-sufficiency and national interests have been introduced as additional criteria that SENER must consider when issuing public policies necessary to ensure reliable supply and open access to cross-border natural gas pipelines.

Product Alteration and Adulteration

Import permit holders will bear joint and several fiscal liability for other regulated activities associated with imports.

Quality NOMs

The Quality NOMs for Hydrocarbons, Refined Products, and Petrochemicals will be issued by SENER, while their verification and oversight will be carried out by CNE.

Authorization for Cross-Participation

The authorization for cross-participation remains under the same terms as established in the previous legislation, except that it will now be granted by SENER, subject to the favorable opinion issued by the competent authority on economic competition matters.

Additionally, the economic interest group of the State-Owned Companies is explicitly excluded from the obligation to obtain this authorization.

Volumetric Controls

The following obligations are established with respect to volumetric controls for permit holders:

- I. Having the necessary equipment and software to maintain volumetric controls, along with certifications proving their correct operation and functionality, as well as with reports issued by a testing or assay laboratory that determine the type of hydrocarbon or refined product in question, the calorific power of natural gas and the octane rating in the case of gasoline.
- II. Maintaining volumetric controls for hydrocarbons or refined products.
- III. Recording information daily and generating monthly reports on volumetric controls.

Failure to comply with these obligations may result in the temporary restriction or cancellation of digital seal certificates required for issuing Digital Tax Receipts via the Internet (CFDIs).

Sanctions

The provisions regarding sanctions have been adjusted, granting SENER the majority of sanctioning powers, while CNE and SHCP retain a more limited scope of authority.

Additionally, the penalty amounts previously established have been increased, and certain conducts related to exploration and extraction have been eliminated. New grounds for violations have also been introduced, including non-compliance with assignments, relating to the new contractual models, and the obligation to submit a social impact assessment.

Saving Provisions

The LSH came into effect on March 19, 2025, i.e., the day after its publication in the Federal Register, thereby repealing the 2014 Hydrocarbons Law.

Until new regulations are issued or existing ones are modified, the regulatory framework established by SENER, CRE, and CNH before the LSH took effect will remain in force, as long as it does not conflict with the new law.

Within 180 days from the LSH's effective date, the applicable regulations on First-Hand Sales and asymmetric regulation imposed on PEMEX and its subsidiaries must be repealed. Additionally, within the same period, PEMEX's VPM contracts and those of its subsidiaries must transition to Marketing Contracts.

The Federal Executive has a period of 180 days from the date the LSH comes into effect to issue its Regulations.

Regarding applications, authorizations, and permits, the following saving provisions is established:

- Applications for authorization, approval, or permits submitted prior to the law's entry into force will be processed in accordance with the legal provisions in effect at the time of their submission.
- Assignments and exploration and production contracts granted or executed before the law's enactment will remain valid under the terms and conditions under which they were granted.
- SENER has a period of 180 days to execute the necessary amendment agreements related to exploration and production contracts that were executed either in partnership or individually by PEMEX Exploración y Producción, due to the legal transformation of PEMEX into a state-owned company and its subsequent restructuring. As a result, the new entity will hold the status of Contractor or participating company.
- Authorizations and permits previously granted by SENER, CNH, or CRE for activities in the hydrocarbons industry will remain valid under the terms in which they were granted.
- Persons engaged in the importation of natural gas must apply for and obtain the corresponding permit from SENER, in accordance with the order issued for this purpose by SENER and the Ministry of Economy.
- The granting of formulation permits will not begin until the NOMs regarding the quality specifications of permitted blends are issued, the necessary quality infrastructure for

compliance evaluation is in place, and SENER issues the corresponding declaration.

Biofuels Law

This new law repeals the 2008 Law on the Promotion and Development of Bioenergy, and reorganizes bioenergy activities in the spirit of the constitutional reforms previously referred to.

The National Energy Transition Strategy must include goals for biofuel production, such as short-term goals for the direct use of biomass as fuel, as well as the production, storage, transportation, marketing, distribution, and public sale of biofuels.

In terms of permits and authorizations, it is established that:

- The Ministry of Agriculture and Rural Development (SADER) will grant permits for the production of biomass for the production of biofuels from sugarcane or sorghum, subject to the existence of surplus inventories of domestic production to satisfy national consumption.
- SENER will grant permits for the production, import, export, storage, transportation, marketing, distribution, and sale to the public of biofuels, and authorizations for scientific research. Biofuels for aircraft at aerodromes will only be sold to air carriers, air operators and third parties for activities other than aeronautics that have authorization from the Ministry of Infrastructure, Communications and Transportation.

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