

Client Alert

Global Transactions Practice Group

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Development of Competitive Natural Gas Market in Mexico

Mexico has prepared a plan for the development and implementation of an open and competitive marketplace for natural gas (Implementation Plan). The hope is that the Implementation Plan will result in a fully competitive Mexican natural gas market by sometime in 2018. The Secretary of Energy has recently published the Implementation Plan for public comment, in a document entitled “*Política Pública para la Implementación del Mercado de Gas Natural.*”

The Implementation Plan builds on Mexico’s dismantling of the vertical integration of the natural gas value chain, which has been controlled by for some 75 years by *Petróleos Mexicanos* (Pemex). As a consequence of the “de-integration” of Pemex, the *Centro Nacional de Control del Gas Natural* (CENAGAS) now owns and controls the national natural gas pipeline system. Unlike Pemex, CENAGAS will not itself use pipeline capacity as a shipper; instead, pipeline capacity will be made available on an “open access” basis and rights to capacity will be awarded through competitive bidding processes. The institution of an “open access” requirement and the development of a robust secondary market in natural gas pipeline capacity in the U.S. have proven successful in transforming the world’s largest natural gas market into a vigorously competitive one; it is clear that Mexico is taking many of its cues in the planned restructuring of its natural gas industry from the U.S. experience.

Firm capacity contracts will be offered to third parties through an open-season process (*Temporada Abierta*) to assign available capacity to prospective shippers. This process is intended to ensure continuity in supply and encourage development of natural gas infrastructure in Mexico. Initially, Pemex and the *Comisión Federal de Electricidad* (CFE) will have the right to reserve capacity in CENAGAS’s pipeline network to satisfy their production, processing and electrical generation requirements, similar to Pemex’s ability to retain certain upstream assets in round zero of the upstream oil and gas sector’s liberalization. It is, unfortunately, unclear how much pipeline capacity will be reserved in this manner for use by Pemex and CFE, and therefore unclear how truly “open” the newly granted access to the national pipeline grid will be, at least initially. Over time, a program through which Pemex will gradually cede its contracts will in theory encourage the entrance of new market participants.

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Under the Implementation Plan, private companies will be permitted to construct, own, and operate midstream infrastructure, and all pipeline owners must offer open access to their pipeline systems if they offer services to third parties. Opening the further development of Mexico's gas pipeline network to participation by private companies is intended to encourage development of infrastructure connecting natural gas supply to demand, and to promote the development of the new infrastructure which will be needed to accommodate demand growth. This development, in turn, will provide assurances to natural gas producers and processors in Mexico that their supply will have a market.

For Mexico's emerging natural gas market to operate effectively, the participants will require relevant and reliable information. The Implementation Plan calls for the creation of an electronic database and bulletin board system for transportation capacity as well as the development and publication of price indices for hubs in the natural gas system. This information will assist in efficient management of natural gas transportation on the pipeline system and in evaluating and identifying infrastructure opportunities to improve the efficiency of the pipeline system.

The Implementation Plan envisions that, by sometime in 2018, Mexico's natural gas market will be fully competitive, such that (i) natural gas pricing will be left entirely to market forces; (ii) Pemex will have ceded its market-dominant role; (iii) liquid pricing points will have been established at various points on the national gas transmission grid; and (iv) a secondary market in pipeline capacity will have been established. All of this, of course, assumes that over the course of the next 24-30 months the number of participants in Mexico's natural gas market will increase dramatically, and that these new participants will succeed in quickly gaining market share. This has proven to be challenging in other emerging natural gas markets (such as those in the Canadian Maritime provinces of New Brunswick and Nova Scotia), and it will be critical to the success of the Implementation Plan that the major incumbent players, Pemex and CFE, willingly make way for new natural gas market entrants.

Additional information can be found at the following link:

<http://www.gob.mx/sener/articulos/presentacion-a-consulta-de-la-politica-publica-para-la-implementacion-del-mercado-de-gas-natural-un-proceso-estrategico>

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