

# Sharing best practice

## INTERVIEW WITH PEDRO JOAQUÍN COLDWELL

SECRETARY OF ENERGY, UNITED MEXICAN STATES



**PEDRO JOAQUÍN COLDWELL**

graduated with a BA in Law from the Universidad Iberoamericana, and in 1974, after a brief period teaching, was elected to the State Congress of his home state, Quintana Roo. In 1979 he was elected to the Mexican Congress, becoming Governor of the State of Quintana Roo two years later, and following that, Senator for the State. He also served as Mexico's ambassador to Cuba. He has held numerous key posts in the Institutional Revolutionary Party (PRI), and was appointed Secretary of Energy in 2012.

**The Government's energy reform programme is arguably the centrepiece of its strategy for transforming Mexico. What makes this piece of legislation so crucial, in layman's terms?**

President Enrique Peña Nieto and the Mexican Congress have carried out the most significant energy reform in recent decades. It is a comprehensive reform that includes considerable changes in relation to both the hydrocarbons and electricity sectors.

On the one hand, the hydrocarbons industry will finally have access to the capital and cutting-edge technology that will enable Mexico to tap its deep-water deposits and unconventional fields, and to secure additional resources from the recovery of mature fields, which were not previously commercial. These new resources will help to reverse the decline of the oil sector and the shortages of natural gas that have been affecting the country over the past decade.

On the other hand, the changes to the electricity industry are not minor either, given that a wholesale electricity market will be created, in which private and public companies will participate under equal conditions on a level playing field.

The high energy tariffs that Mexico had before the Energy Reform limited competitiveness in the industrial, services and agricultural sectors. Now, they will be able to use electricity at more competitive prices and Mexican families will have more affordable electricity bills, so it is no exaggeration to say that the Energy Reform is an unprecedented event in the history of our country.

It is also important to emphasise the state's commitment to transparency and accountability. All public works contracts will be granted through open and transparent public tenders, whose guidelines, stages and selection criteria will be implemented with clear rules, available to all members of society and to interested investors.

With this reform, the state companies will be transformed and strengthened; the sector's regulatory agencies will be granted technical autonomy and enforcement capacity; local content requirements will be included to promote Mexican industry; the protection of the environment will be safeguarded; the production of electricity from cleaner energy sources will be incentivised; the rights of land owners will be respected and they will enjoy the benefits; all of this within a framework of transparency that will give certainty to all participants and to society as a whole.

**Will Round 1 of the international bidding process still proceed as planned, or will some of the more capital-intensive areas, such as shale and deep-water acreage be held back until the international conditions improve?**

The bidding round schedule that we have proposed gives us enough room for manoeuvre to make decisions in an opportune manner and in accordance with the interests of the Mexican State. The order in which the bidding rounds will be announced is strategic; in other words, we will first allocate the fields with least risk of extraction, over which we have the greatest level of knowledge, or those which require fewer technical and financial resources.

We have set out a course for attracting new investments; however, the Mexican hydrocarbons industry operates within a global market in which multiple factors intervene and which, right now, is going through a challenging period which obliges companies to be more selective about the countries and areas in which they invest.

Our country enjoys a stable democracy and will benefit from a better institutional and legal framework by incorporating a greater degree of transparency, stronger regulatory bodies and clearer and more stable rules for competition and the efficient functioning of markets. We are confident that these new conditions, combined with a highly diversified portfolio of blocks and areas for exploration and production, will be key factors in attracting investors.

**Whilst international oil executives are keen to praise the undoubtedly impressive progress made so far, few feel that the published draft of the production-sharing contract for shallow water acreage is sufficiently attractive in its current form. What more can be done, in your view, to improve its competitiveness?**

The Mexican Government is open to analysing all serious proposals in order to offer the best possible contract to all interested companies. Nevertheless, we must always seek a balance between protecting the interest of the State and issuing a contract that is attractive for investors.

The contract model published last December was a first draft, intended to generate feedback from the industry in the following months. For this reason, the bidding guidelines allowed a reasonable time frame in order to work with the industry and experts before publishing the second draft and the final contract.

At present, we are working on improving key contract law provisions in order to fully clarify several relevant topics. For instance, the inclusion of a cure period on a contractual breach that could lead to an administrative termination of the contract, and that such a decision must be taken by the board of the National Hydrocarbon Commission (CNH). Another example is the time frame that the CNH has in which to approve exploration or development programmes, after which, if there is no explicit resolution, they would be deemed to be approved.

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**In mid-December, you attended a meeting with officials from Canada and the United States to coordinate energy policy and promote market integration – the first such meeting in seven years, and a sign of North America’s growing importance in the global oil market. Do you see North America emerging as an energy superpower and potential counter-weight to OPEC? What lessons can Mexico learn from the experiences of its NAFTA partners?**

In the meeting held on December 15, 2014, NAFTA members identified opportunities to promote common strategies on energy efficiency, infrastructure, innovation, renewable energy, unconventional energy sources, energy trade, and responsible resource development. Our aim was to advance an energy agenda that can enhance our shared views on economic prosperity and environmental performance.

As a result of our discussions, we identified strategic areas for trilateral cooperation in our energy sectors. Even though our energy markets are well integrated, we can still do much more to share publicly available energy data and information, responsible best practices for the development of unconventional hydrocarbons, as well as modern and more resilient energy infrastructure.

North America is one of the most promising regions in the world, because of the great energy potential of its partners. Mexico’s new model and policies for the industry welcoming private and public investment for the benefit of our energy sector, enhanced by our trilateral cooperation, opens promising horizons for sustainable technological development and innovation, advanced regulatory frameworks, a specialised workforce, and energy-efficient goods and services.

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**What are the main pillars of the new electricity regime, and how well has it been received by local and international investors so far?**

Mexico’s power system will follow the best practices of many electricity

systems that have operated in a market regime for many years. The main pillars of these regimes are:

Competition, where it is technically possible: In the new Mexican power sector, competition is to be allowed and fostered in every activity and product where it is technical feasible. This will allow us to reduce costs for consumers.

Modern regulation on natural monopolies. Transmission and distribution networks will be subject to a specific regulatory regime, which will guarantee open access to every player and proper incentives for cost reduction.

A level playing field. Under the new regime, public and private participants will be able to participate in the market, having the same rights and obligations.

Independence of the System Operator. For the new regime to succeed, it is crucial for CENACE – the new system operator – to be independent. Besides operating the market, CENACE will have important duties such as elaborating and proposing to the Energy Secretariat the transmission network expansion plan, and proposing to the regulator, the Energy Regulatory Commission (CRE), changes to the market rules when they do not work properly for the system.

Local and international potential players have been very throughout in all the Energy Reform, providing continuous feedback on the needs of the sector, making this a more comprehensive reform. In these interactions, potential participants have found that this model is capable of satisfying the country’s needs, while opening opportunities to private and public investors.

**The UK is a strategic partner for Mexico in the energy sector. We share common views on a number of global energy challenges**

Winds of change: by 2024, 35% of Mexico’s energy will come from renewable sources



The Mexican oil industry operates within a global market which, at present, is going through a challenging period

Balls of steel: implementing Mexico's energy reform in the current climate is not without its challenges

**As part of the reform package, Mexico has set itself the goal of generating 35 per cent of its sources from clean energy by 2024. Which sources in particular do you expect to make up the bulk of this capacity, and what incentives are you putting in place to encourage investment in these?**

The Energy Reform comprehensively transforms the electricity sector, in which three elements stand out that will promote clean energies:

Firstly, the new Electric Industry Law establishes the obligation of creating a wholesale market of electricity, which can be accessed by clean energy producers.

Secondly, the obligation of having a minimum percentage of clean energies, through the Certificates of Clean Energies, with which we promote that the portfolio of clean energies in the country reaches the target established for 2024 – i.e. that 35 per cent of our energy will come from non-fossil sources.

And thirdly, to promote a resource of which Mexico has an extraordinary endowment, a specific law was designed for the promotion and use of geothermal energy.

In relation to research and technological development, the Ministry of Energy has taken a series of measures, amongst which are mechanisms for international cooperation to promote the development of innovation in the country and the creation in 2014 of the Mexican Centres for Energy Innovation (CEMIEs) in solar, wind and geothermal energy. By the of this year, we expect to have two additional CEMIEs: in bioenergy and oceanic energy.

**Energy – and oil and gas in particular – is high on the agenda of President Peña's State Visit to the United Kingdom in March. To what extent has the UK offered advice and assistance to the Mexican Government in this area, and what opportunities do you see for deepening bilateral cooperation?**

The UK is a strategic partner for Mexico in the energy sector. We share common views on global energy challenges such as climate change mitigation and the transition to a low-carbon economy. Both countries are committed to the responsible and sustainable development of the energy industry, and we share a common interest in training highly-skilled human resources for these purposes.

As an example of our key partnership, the UK has granted financial and technical assistance to Mexico through the Prosperity Fund, which has enhanced activities in areas such as energy efficiency, energy transition and climate change mitigation.

Our relationship with the Department of Energy and Climate Change of the UK is very close, through several high-level international mechanisms such as the Clean Energy Ministerial (CEM) and the International Renewable Energy Agency (IRENA), amongst others. Mexico will host the Sixth Clean Energy Ministerial meeting in May 2015, where we expect to welcome a high-level British delegation.

The opportunities to deepen our bilateral cooperation cover the entire energy sector. Firstly, our joint collaboration can enhance the development of the hydrocarbon industry through responsible and sustainable international best practices. Additionally, we are keen to support each other on the enhancement of a progressive and integrated energy policy, including areas such as electricity markets and energy efficiency.

Given our unprecedented energy reform, we are strengthening our regulatory bodies, where the British experience can be greatly beneficial to foster capacities in regulation of the hydrocarbon and power sectors. Our new energy model also calls for the enhancement of a qualified workforce, so we will aim to closely collaborate with the UK on the development of technical capacities on research, innovation, science and technology, as well as in the education and training of specialised human resources for exploration, production, industrial transformation, transportation, storage and distribution of hydrocarbons. **F**



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