

**Energy Reform 2025: The new rules of the game.**

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Since the approval of the 2014 energy reform, the energy sector in Mexico (the “Sector”) has become a major focus of interest and political discussion in the country by allowing private investment in both the electricity industry and the oil and hydrocarbons industry.

It is well known that the previous federal government attempted to reverse such reform and close the energy sector, by halting the issuance of permits and the famous bidding rounds for hydrocarbon contracts, even proposing an initiative to amend existing laws, which ultimately did not pass. However, in October 2024, a constitutional reform was enacted that modified articles 25, 27 and 28 of the Political Constitution of the United Mexican States. This reform aimed to reaffirm the country's control over strategic sectors such as energy, oil, and hydrocarbons, to establish access to electricity as a fundamental right focused on social welfare and to strengthen the role of public companies as drivers of national development.

The new energy reform has generated high expectations among investors, Sector participants and society in general, as it aims to strengthen public companies, create new opportunities in renewable energies, and develop strategic infrastructure.

On March 18, 2025, a decree was published in the Official Gazette of the Federation (*Diario Oficial de la Federación*) that amended and redefined the regulatory framework for the Sector (the “Reform”). This Reform went into effect on March 19, 2025.

**Impact on Regulatory Framework**

The new energy reform resulted in the following modifications to the Sector's legal framework:

<b>Topic</b>	<b>New Laws</b>	<b>Reformed Laws</b>	<b>Repealed Laws</b>
Electricity Sector	Electricity Sector Law		Electricity Industry Law
Hydrocarbons Sector	Hydrocarbons Sector Law		Hydrocarbons Law
PEMEX and CFE	State Public Company Law, PEMEX.  State Public Company Law, CFE		PEMEX Law  CFE Law
Biofuels	Biofuels Law		Law for the Promotion and Development of Bioenergetics
Revenues from Hydrocarbons		Hydrocarbons Revenue Law	
Sector Regulation Agencies	National Energy Commission Law		Law of Coordinated Regulatory Agencies in the Energy Sector

Mexican Oil Funds		Law of the Mexican Oil Fund for Stabilization and Development	
Geothermal energy	Geothermal Law		Geothermal Energy Law
Organization and Planning	Energy Planning and Transition Law	Organic Law of the Federal Public Administration	Energy Transition Law

The main changes include: (1) the transformation of Petróleos Mexicanos (“PEMEX”) and the Federal Electricity Commission (“CFE”) into state-owned public companies (formerly “productive” companies), (2) the reorganization of the electricity and hydrocarbons sectors which will now be regulated by two different legislations, as the Electricity Industry Law and the Hydrocarbons Law are repealed, and (3) the disappearance of the Energy Regulatory Commission (“CRE”) and the National Hydrocarbons Commission (“CNH”) to make way for a new regulatory commission derived from the Ministry of Energy (“SENER”).

### **PEMEX and CFE: state-owned public companies**

In 2014, CFE and PEMEX were designated as “state productive companies”, a term used to define such entities as government entities owned by the State, with technical, operational, and management autonomy. They operate under their own legal framework to generate income and contribute to the country's economy. As state-owned productive companies, they were expected to compete through their subsidiaries to maximize efficiency and revenue.

The Reform has redefined CFE and PEMEX as “public state companies”, which are parastatal public entities created and controlled by the federal government with the primary purpose of meeting social and economic needs, rather than to generate profit. Since they are state-owned public companies, the Reform determines that the activities carried out by CFE and PEMEX cannot be deemed monopolistic, as they provide essential public services for the country.

The new legislation regulating CFE and PEMEX allows both entities to carry out some of their activities through subsidiaries, which are those in which CFE or PEMEX, as applicable, directly or indirectly participate in more than 50% (fifty percent) of their capital stock, whether Mexican or foreign. The subsidiary companies are not parastatal entities, their legal nature and organization is in accordance with private law and their creation, merger, spin-off or liquidation must be authorized by the board of directors of CFE or PEMEX, as applicable.

### **Electricity Sector**

The electricity sector includes the activities of generation, storage, transmission, distribution and commercialization of electric energy, as well as the planning and control of the National Electric System, the operation of the wholesale electricity market (“WEM”), and the supply of primary inputs for the electricity sector.

The new Electricity Sector Law (“LSE”) aims to reinforce the CFE as the leading entity in the electricity generation in Mexico. The planning and control of the National Electric System, along with the public services of electricity transmission, distribution and basic supply, are strategic areas exclusive of the State that the CFE must perform directly, meaning private participation in these areas is prohibited. Other activities undertaken by the CFE can be carried out directly or through subsidiary companies, companies in which it holds a minority stake, directly or indirectly, or through any type of partnership or alliance that is not contrary to law.

Previously, under the 2014 reform, rules for the dispatch of electricity were defined based on cost, prioritizing the cheapest options (*economic merit*), and mandatory auctions were implemented for basic service providers, with the idea of offering lower tariffs to small and medium-sized consumers. Now, the LSE replaces this practice and grants a preferential right to the supply by CFE, forcing at least 54% (fifty-four percent) of its energy to be injected into the National Electric System each year, ensuring its position as a key player in the market. In addition, the practice of auctions is in danger of disappearing, as they will no longer be mandatory under this new legislation.

The generation of electricity in power plants can be carried out by the State, by private parties on their own, or jointly in mixed investment schemes, in the terms established in the LSE. Energy generation can be carried out through three figures:

- a) Distributed generation, which has now increased its permitted capacity without the need to obtain a permit for its operation, changing from 0.5 Megawatts (“MW”) to 0.7 MW;
- b) Self-consumption, meaning the production of a power plant with a capacity equal to or greater than 0.7 MW; either isolated when the production is intended exclusively for own consumption on site, or interconnected in power plants with a capacity between 0.7 and 20 MW, in which case a generation permit must be obtained through a simplified procedure; and
- c) Generation for the WEM, being the production of electric energy and associated products from a power plant with a capacity equal to or greater than 0.7 MW destined for commercialization through the mechanisms contemplated in the WEM, which requires a permit granted by the CNE.

Power plants may be developed jointly between the State and private individuals, whether by: (i) long-term production plan, (ii) mixed investment plan, and (iii) any other plan determined by the corresponding regulations or provisions.

The long-term production plan is characterized by the fact that it does not require state investment and allocates all the energy generated exclusively to the CFE without being able to commercialize its surplus capacity with third parties. The CFE represents these projects in the WEM and at the end of the contract, the transfer of assets to the CFE is optional and free of cost. On the other hand, a mixed investment plan requires the CFE to have at least a 54% (fifty-four percent) stake in the project, it may preferentially acquire the energy generated, and any surplus may be marketed through it in the WEM, in accordance with the established contracts and regulations.

The activities of export and import of electricity require authorization from SENER. For the provision of the electricity supply service, permission from the CNE is required in the form of supplier, in the understanding that the basic supply corresponds only to the CFE.

All permits and contracts previously granted under the now-repealed Electricity Industry Law and the Electric Power Public Service Law will remain in force until their expiration date.

### **Hydrocarbons Sector**

The hydrocarbons sector includes, among others, the activities of hydrocarbon exploration and extraction, surface exploration and reconnaissance, and oil processing, refining, import, export, marketing, transportation and storage.

Under the new Hydrocarbons Sector Law (“LSH”), the main mechanisms for the exploration and extraction of hydrocarbons (upstream activities) are maintained, meaning the assignments and contracts for these activities. However, the LSH introduces significant changes to how PEMEX and private parties can participate through three different models:

- a) Assignments for self-development, granted by SENER and where PEMEX operates alone and can enter into service contracts with individuals under schemes that allow it to achieve greater productivity and profitability;
- b) Assignments for mixed development, also granted by SENER, which enable PEMEX to partner with private companies through a mixed contract where PEMEX must maintain at least a 40% (forty percent) stake while retaining exclusive rights over the assignment; and
- c) Contracts for the exploration and extraction of hydrocarbons, which, in contrast to the well-known bidding rounds during the six-year term of former President Enrique Peña Nieto, are provided in exceptional cases when PEMEX expressly communicates to SENER that it has no interest or capacity for their development through the assignments set forth in paragraphs a) and b) above. These contracts include the existing modalities of services, utility and shared production or licenses, and would be entered into through tenders that will be handled by SENER, which must previously issue the corresponding guidelines.

Surface reconnaissance and exploration may be carried out by PEMEX, any other state-owned public company, or any person with prior authorization or permission from SENER. Now, all import and export operations of oil, natural gas, petroleum products and petrochemicals will also require a permit from SENER. The activity of formulation of petroleum products (or blending) is also introduced, which will allow the mixing of fuels with additives or biofuels in authorized facilities.

### **Creation of the National Energy Commission**

The CRE and the CNH, which are both commissions responsible for issuing operating permits in their respective industries, will cease to exist to operate under a single entity named the National Energy Commission (“CNE”). This Reform introduces a new distribution of responsibilities for the electricity and hydrocarbons sectors, now divided between SENER and the newly formed CNE.

SENER will now take full control over the administrative, technical, and economic regulation of hydrocarbons exploration and extraction, this includes granting assignments and tenders for exploration and extraction contracts, overseeing these activities, determining public policies, and providing technical oversight for the sector. Regarding other activities within the industry, SENER will retain authority over all crude oil operations, as well as the import and export of natural gas, petroleum products, and petrochemicals, and will be responsible for issuing permits related to these activities.

The CNE is a decentralized body of the SENER, with technical and operational independence, whose powers include: the issuance of authorizations and administrative acts that may be required, keeping a registry system of permits, authorization or acts issued on energy activities, the supervision of the WEM, the granting, modification, termination and supervision of permits for (i) generation and commercialization of electric energy, (ii) processing, liquefaction, regasification, compression, decompression, transportation, storage, distribution, commercialization and sale of natural gas to the public, and (iii) formulation, transportation, storage, distribution, commercialization and sale of petroleum products to the public.

The new energy reform in Mexico represents a significant change in the regulation of the sector. The State's role in the energy industry is reinforced by introducing new frameworks for private participation

in hydrocarbons and electricity, all under strict regulatory oversight, maintaining the State's priority in strategic sectors without completely excluding private investment. Through this Reform, the government aims to guarantee energy accessibility, strengthen energy sovereignty and the country's social welfare, and facilitate organic simplification.

The Reform became effective on March 19, 2025 and will begin a transition period in which the Federal Executive must continue implementing the corresponding regulations, provisions and guidelines that complement the laws published with the Reform and which will better detail the operation of certain activities of the Sector.

JATA's legal team is prepared to address and resolve any questions you may have regarding the Reform.

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