



Mexico's new Energy Transition Law: key points

Energy Alert

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By: Marcelo Páramo Fernández

In recent years, the international community has reached a consensus about the need to take action against global warming by reducing or cutting carbon emissions from fossil fuels.

In this context, on December 24, 2015, the Federal Official Gazette in Mexico published the decree issuing the new Energy Transition Law (*Ley de Transición Energética*). The Energy Transition Law aims to regulate the sustainable use of energy and articulate the electric industry's obligations regarding the country's need to transition to using clean energies and cutting polluting emissions, while at the same time maintaining Mexico's productivity and competitiveness on the world stage.

The Energy Transition Law is particularly relevant since it repeals any other previously enacted piece of legislation on energy transition and sustainable electric production in Mexico. Hence, the new law becomes the cornerstone of Mexico's legislation on clean energy. It provides a new regulatory framework that allows all energy sector participants to coordinate long-term efforts to reduce polluting emissions, and to do so at a lower cost.

The Energy Transition Law establishes that the Ministry of Energy, through the Clean Energy Goals and Energy Efficiency Goals, will promote power generation via clean energy sources to allow industry to comply with standards established in Mexico's General Climate Change Law and Electric Industry Law. Companies incorporated in Mexico as well as

multinationals with operations in Mexico must comply with the law's Clean Energy Goals and Energy Efficiency Goals.

The Clean Energy Goals are minimum percentage targets relating to the total generation and consumption of clean energy electricity in Mexico. **The Energy Efficiency Goals** place new sets of obligations on manufacturers of products (such as household appliances or windows).

The Mexican government will promote the legal, regulatory and economic conditions that will help companies comply with the Clean Energy Goals. Participants in the electric industry in general, whether state-owned or private companies, are obliged to contribute to compliance with the Clean Energy Goals. **These goals are applicable to both electricity producers and consumers.**

One of the main vehicles for enforcing the Clean Energy Goals is the Clean Energy Certificate. The new law requires companies to acquire Clean Energy Certificates. The Ministry of Energy is to establish, under economic viability conditions, companies' obligations for the acquisition of Clean Energy Certificates, while the Energy Regulatory Commission will verify compliance with the Clean Energy Goals and establish the corresponding administrative regulations. The Clean Energy Certificates are conceptually new to Mexico and are envisioned to work this way: electricity producers and large consumers of electricity that rely heavily on fossil fuels purchase the certificates from the government, which in turn invests those funds either in developing clean energy projects in regions where it is not currently available or in expanding existing projects. The Clean Energy Certificates will launch in 2018.

So far, the first step taken under the law in terms of the Clean Energy Goals is to establish an energy matrix diversification program, requiring companies to produce clean energy with specific goals of 25 percent clean energy production for 2018, 30 percent by 2021 and 35 percent by 2024.

The Energy Efficiency Goals will be established by the National Program for the Sustainable Use of Energy, issued by an agency of the Ministry of Energy. In contrast to the Clean Energy Goals, the Energy Efficiency Goals will be recommendations, not requirements.

Finally, some other governmental agencies with relevant roles under the new Energy Transition Law are the National Council for Science and Technology, which will create the new Mexican research centers for the development of clean energies, and the Ministry for the Environment and Natural Resources, which will design and apply the legal framework for the prevention and eventual remediation of pollution generated by greenhouse gasses produced by the electric industry. Furthermore, the Energy Transition Law establishes the Energy Transition Information System, which will register, systematize, update and make available to the public all the information regarding sustainable use of energy in Mexico.

Given the structural modifications set out in the Energy Transition Law, both electricity producers and consumers may want to structure plans for compliance with the new Mexican regulatory framework.

Find out more by contacting the authors.

Learn more about our Energy practice worldwide by contacting any of our Energy Sector global leaders:

Robert J. Gruendel

Joseph Tato

Francesco Novelli

For more information about our work in Latin America, please contact either of the co-chairs of our Latin America practice:

Juan Picón

Eduardo J. Gallástegui Armella

AUTHORS



Marcelo Páramo Fernández

Partner



Mexico City | T: +52 55 5261 1800
marcelo.paramo@dlapiper.com
