

## Mexico Energy Chatter

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### Mexico's natural gas dilemma goes public

A colorless and odorless flow coming from the US to Mexico has become one of the most important and positive economic links between the two nations over the past two decades. Now, natural gas transporter Esentia Energy Development is going public, strengthening a business that has grown due to the abundant supply of cheap gas produced in the US, and lack of it in Mexico. The company, formerly known as Fermaca, announced plans for an initial public offering (IPO), seeking to raise about US\$610 mn, following the recent success of the IPO of the airline Aeroméxico.

Natural gas imports from the US to Mexico have risen from 333 mn cubic feet in 1990 to 2.34 bn in 2024, while Mexico's domestic production has dropped 60% over the same period. Pemex once supplied enough gas for industry and power generation (then mostly reliant on heavy fuel oil), but the US fracking and shale boom on the Gulf Coast rapidly undercut Mexico's competitiveness. Rather simply put, the US has way too much gas, and fortunately a lot of it has found its way south of the border. This has been hugely positive for supply and cost of Mexico's electricity, and thus the country's industrial competitiveness.

Esentia and a few others such as TC Energy, Semptra Infraestructura, and Grupo Carso, have reshaped Mexico's gas pipeline network over the last 20 years. Founded by Mexican businessmen Fernando and Manuel Calvillo, and backed by Swiss PE Partners Group, Esentia took longer to consolidate its business compared with its Canadian and US peers, betting on a route to western Mexico while others rapidly linked the Permian Basin to the northwest.

Its pipeline system bears a clever name, Wahalajara, linking Waha, Texas, and Guadalajara through Chihuahua, Durango, Aguascalientes, San Luis Potosí, and Jalisco. Prices at Waha have fallen and now align closely with those of the Permian Basin, supporting Esentia's economics.

The company's projections assume that Mexican gas production will remain insufficient to meet domestic demand and that the country will continue relying on imports for at least the next 35 years, until renewables begin to take a significant share in electricity generation. "We are strategically positioned to benefit from Mexico's growing dependence on natural gas imports from the United States", Esentia said in its preliminary IPO prospectus filed with the Mexican stock exchange in June.

Esentia's growth plan focuses on strengthening its existing Wahalajara corridor rather than expanding elsewhere, since most transporters depend on contracts with CFE. CFE represents 83% of Esentia's transport capacity, according to the filing.

All major transporters earn a return on their investments through long-term contracts to move gas purchased by CFE in the US for power generation in Mexico. In 2019, then-president Andrés Manuel López Obrador forced a renegotiation of those contracts. The final deal extended contract terms at fixed rates, which many analysts viewed as ultimately favorable to the companies on a present value basis, and in some cases brought CFE in as a partner in the energy infrastructure projects, allaying risk and aligning incentives. While the manner in which the deal was struck created unease (the President threatening to cancel legally valid contracts, then negotiated a new accord to claim a political victory), the result was continued investment in gas pipeline throughout his administration, arguably one of the (few) successes in the energy sector over that time.

With President Claudia Sheinbaum prioritizing investment in CFE under a new legal framework that strengthens CFE's role in the power market, energy infrastructure companies with long-term CFE contracts such as Esentia are poised to benefit. Hence the move to IPO, raise capital, and continue to grow their business.

Some analysts worry about geopolitical risk: any US move to impose tariffs or disrupt the natural-gas trade would hit both Mexico's economy and Texas producers. But such concerns overlook the complete co-dependency between the two countries when it comes to gas. The politically powerful Texan energy producers need Mexico to buy its excess gas, as otherwise they would literally have to burn much of it up, both losing a huge revenue source and increasing costs. Mexico needs low gas costs from US imports to maintain electricity prices where they are, and keep CFE solvent. With both countries standing to lose so much from a change to the status quo, it is difficult to conceive of a scenario when a rational politician would tinker with the current model. Hence the decision that the market will be receptive to an IPO.

## **American complaints keep piling up**

In less cheerful energy developments, some US lawmakers from both parties are once again calling on the Trump administration to escalate pressure on Mexico over its energy policy. A bipartisan bill in the House urges the White House to launch a dispute panel under the USMCA, alleging that Mexico's favoritism toward Pemex and the CFE violates free-trade commitments. Texas Republican Jodey Arrington, one of the bill's sponsors, described it as giving President Trump full congressional backing to defend US energy producers. The legislation has drawn support from key industry bodies such as the American Petroleum Institute, the American Clean Power Association, and the US Chamber of Commerce, all of which complain of long delays in import permits, excessive regulatory red tape, and administrative bias toward Mexico's state firms.

Still, it is worth treating much of this with some skepticism and as political grandstanding. Lawmakers cannot themselves activate trade disputes under USMCA rules. Only the executive branch has that authority, and for now, there is little evidence that Trump's trade team intends to turn political rhetoric into legal confrontation when it comes to energy. The US Congress regularly introduces "message bills" designed more to make a statement to voters and above all donors than to produce immediate policy action. With the 2026 USMCA review approaching, energy hawks in Washington want to appear vigilant in defending US interests, particularly those in energy-dependent Texas, but the real target audience is domestic, not Mexico City.

Industry groups' support for the initiative should also be seen in context. API and others are keenly aware that loud political advocacy often works as an effective negotiation tactic, but are not expecting arbitration. Their aim is to gain some leverage over Mexico's regulators, to nudge the Energy Ministry and CRE toward faster import approvals or renewals, rather than to see the bilateral relationship sink into a formal trade dispute. A revived case could carry significant uncertainty for US gas exporters, pipeline operators, and investors already integrated in Mexico's energy system.

The Biden administration formally requested consultations under USMCA's dispute mechanism in mid-2022 but never pushed it to the arbitration stage. That stalemate reflected a view in the Biden administration that escalation carried more costs than benefits. Mexico's policy posture under the López Obrador administration and now under President Sheinbaum continues to privilege CFE and Pemex, but international operators have by now mostly adapted to that reality.

Thus, this renewed push to punish Mexico's energy policies looks more like domestic positioning than a prelude to a big fight over energy. The Trump administration is clearly more focused on bringing investment back to the US by putting tariffs on sectors like cars, then making investment in Mexico more profitable and secure for US companies. It is worth remembering that when Trump negotiated USMCA in his first administration he actually removed some investment protections (outside energy) in NAFTA for US companies operating in Mexico, arguing that the US government needed to promote investment in the US, not Mexico.

### **In other energy news...**

- Energy Secretary Luz Elena González defended President Claudia Sheinbaum's energy policy, arguing that the 2013 reform was "a complete failure", while noting that the current administration is not restricting private participation in power generation. Speaking before the Senate Energy Committee, González said the government is giving both public and private investment "long-term viability" under a new state-led model that provides legal certainty. She emphasized that energy planning and control must remain in state hands to restore reliability to the power system, while private participation will be allowed through mechanisms such as distributed generation, self-supply, and mixed projects. She further said the goal is to raise clean energy's share from 24% to 38% within five years while ensuring system stability, adding that Pemex is showing signs of recovery and that CFE "is not bankrupt," as it operates on its own financial mechanisms without direct budgetary support.
- Pemex has failed to pay carbon taxes in the Mexican states where it operates refineries, according to Mexico2, a subsidiary of the Mexican Stock Exchange. The company is reportedly protected by legal injunctions in Guanajuato and Tamaulipas, despite its refineries being among the largest local polluters. In Salamanca, the Antonio M. Amor refinery is responsible for nearly 90% of sulfur dioxide emissions, while in Tamaulipas, Pemex has challenged a MXN 2.8 bn green tax imposed in 2021 on its Francisco I. Madero refinery. Although Pemex claims in its 2024 Sustainability Report that it has no pending environmental sanctions, the Supreme Court has upheld the constitutionality of carbon taxes multiple times. Experts warn that starting in 2026, companies listed on Mexico's stock market will be required under IFRS standards to disclose carbon tax liabilities and climate-related risks, making such exemptions increasingly transparent.