Energy Reform in Mexico: An Update on CNH’s Role under the New Framework

Dr. Guillermo C. Dominguez-Vargas
Commissioner

Houston, Texas, January 31st, 2014
Contents

• Introduction.

• The 2013 Energy Reform and CNH.

• CNH, NPD and ANH comparison.

• SENER, CNH & PEMEX Roles

• CNH Challenges.
• On November 28th, 2008, was published the last Energy Reform.
• This Reform established:
  1. The creation of the National Hydrocarbons Commission (CNH)
  2. The implementation of the Integrated Contracts for E&P.
  3. Appointment of four Professional Advisors for the PEMEX Board.
• Under this last Reform, PEMEX has done three Bid Rounds for Integrated Contracts for E&P, including one for six areas in Chicontepec.
Mexico

Oil and gas reserves (3P), 1955-2013*

Billion of boe

Source: Dr. GCDV with information from PEMEX Anuario Estadístico 2011 and Memoria de Labores 1965-2011.

*As of January 1st of each year

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Mexico

Oil and gas reserves*

Billion of boe

Proven
13.868

Probable
12.306

Possible
18.356

1P = 13.868

2P = 26.174

3P = 44.530

Investment, technology, personnel and time

Source: PEMEX,
*As of January 1st, 2013
Mexico Oil Production 1960-2013*

Source: Dr. GCDV with information from PEMEX Anuario Estadístico and Memoria de Labores 1965-2012.
*2013: Average Jan-Nov

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Natural Gas Production*

- **Chiapas-Tabasco started production**
- **Golfo de Campeche Started production**
- **Discovered of Sabinas’ Basin**
- **Southern Region started production decline**
- **Southern Region fields reactivation**
- **Burgos Project**
- **Veracruz**
- **Cantarell 6.363**

Source: Dr. GCDV with information from PEMEX Anuario Estadístico and Memoria de Labores 1965-2012.

*2013: Average Jan-Nov
Imports & Prod. of Natural Gas 1993-2012*

Billion cubic feet per day

*Includes imports of LNG
Source: SIE, SENER (Balance of Natural Gas)
Mexico

Gasoline Demand vs. Production 1960-2013 *

Thousands barrels per day

Source: Dr. GCDV with information from PEMEX Anuario Estadístico and Memoria de Labores 1965-2012. SIE
*2013: Average Jan-Nov
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• On December 20th, 2013 the President enacted the amendments to the Mexican Constitution in order to allow private national or international companies to participate in the oil industry.

• The amendments are related to Articles 25, 27 and 28 of the Constitution. It also includes 21 Transitory articles, where the Mexican Congress outlines the main aspects planned for the Secondary Regulation.
Transitory IV.
Type of Contracts.

Mexico can offer four types of contracts:

a. Services contracts
b. Profit Sharing Contracts
c. Production Sharing Contracts
d. License Contracts
Companies that subscribe a contract with Mexico may report for accounting and financial purposes the corresponding contract and its expected benefits.

However, it has to be stated that petroleum and all solid, liquid or gaseous hydrocarbons in the underground are property of the Nation.
Transitory VI.
Round Zero

Within a period of 90 days, PEMEX must submit for the consideration of the Ministry of Energy the adjudication, through assignments, of the areas in exploration and the fields in production that is able to operate.

For this, it must prove it has the technical, financial and execution ability to explore and extract hydrocarbons in an efficient and competitive way.
Transitory X. CNH Functions

The CNH will provide technical advisory to the Ministry of Energy; responsible to concentrate geological and operative information; will give the authorization for superficial exploration. Also, it will be responsible for the bidding processes, assignment of winners and subscription of contracts for the activities of exploration and extraction of solid, liquid and gaseous hydrocarbons.

It will be in charge for technical administration of assignments and contracts; the supervision of extraction plans that maximize productivity in the field, and the regulation for exploration and production.
Mexican Congress will adapt the legal framework, so CNH will become a coordinated energy regulatory body, with legal personality, and technical and management autonomy.

It also established the creation of the National Center of Hydrocarbons Information under CNH.
Transitory XIII. Removal and reappointment of Commissioners

The Commissioners of CNH can only be removed from their positions for serious causes stipulated for that effect; they can be newly designated one time for a second period.

The current Commissioners will complete the periods for which they were appointed.

To appoint new Commissioners, the President will submit three candidates for consideration by the Senate.
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## Comparing Attributions of ANP, NPD and CNH

<table>
<thead>
<tr>
<th>Activity</th>
<th>Brazil ANP</th>
<th>Norway NPD</th>
<th>Mexico CNH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical and Autonomous Body of the Ministry of Energy for E&amp;P</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Establish the National Energy Policy</td>
<td>✓</td>
<td>✗</td>
<td>Assist</td>
</tr>
<tr>
<td>To provide technical advisory to the Ministry of Energy</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>To concentrate geological and operative information of the E&amp;P</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The authorization of the exploration activities for the oil industry</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The performance of the public bidding process</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
# Comparing Attributions of ANP, NPD and CNH

<table>
<thead>
<tr>
<th>Task</th>
<th>Brazil (ANP)</th>
<th>Norway (NPD)</th>
<th>Mexico (CNH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment of winners and subscription of the contracts of the public bidding process</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The technical administration of the assignments and contracts</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The supervision of extraction plans</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Establish the Regulation for the E&amp;P</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The supervision of HSE</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
</tr>
</tbody>
</table>

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The Ministry of Energy (SENER) will establish, direct and coordinate energy policy, adjudication of assignments to PEMEX and selection of the areas. The design of contracts and regulate the bid process.

CNH will be the advisor of SENER, will gather the G&G data, authorize the exploration, conduct the bidding rounds, assignment of winners and subscription of contracts; the technical administration of assignments and contracts and the supervision of the extraction plans.
PEMEX shall be converted to State productive enterprise and is is going to be able to receive assignments and celebrate contracts.

PEMEX will participate in public bidding processes on the same terms that all the other companies.

PEMEX can propose to SENER to migrate the assignments to contracts. In this case CNH will perform a public bidding process on those cases where PEMEX decides to have partners.
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For the next years CNH will face additional challenges:

1. The development of deepwater fields on the GoM.

2. To increment the Recovery Factor of Mature Fields in Mexico.

3. The development of Shale Gas Fields.
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