

CNH PUBLISHES VARIOUS AGREEMENTS REGARDING HYDROCARBON EXPLORATION AND PRODUCTION

AUGUST 2023

EXECUTIVE SUMMARY:

- On August 2, 2023, the National Hydrocarbons Commission published various Agreements on the exploration and production (E&P) of hydrocarbons.
- The objective of said Agreements is to manage and oversee assignments and contracts for the E&P of hydrocarbons, as well as to promote the development of these activities for the benefit of Mexico.



On August 2, 2023, the National Hydrocarbons Commission ("CNH") published, in the Federal Official Gazette, the following Agreements related to hydrocarbon exploration and production (E&P):

1. *CNH.E.09.07/2023 Agreement establishing the General Criteria for the extension of exploration and evaluation period extensions stipulated in contracts for the exploration and production of hydrocarbons that are applicable.*
2. *CNH.E.09.06/2023 Agreement by which the National Hydrocarbons Commission interprets, for administrative purposes, Articles 27, 29, and 35 of the Guidelines regulating Exploration and Development Plans for Hydrocarbon Production (the "Guidelines").*

3. *CNH.18.03/2023 Agreement by which the National Hydrocarbons Commission interprets, for administrative purposes, Articles 65 and 65 Bis of the Guidelines regulating Exploration and Development Plans for Hydrocarbon Production.*

The purpose of these Agreements is to manage and oversee assignments and contracts for hydrocarbon E&P, as well as to promote the development of these activities for the benefit of the country.

RELEVANT ASPECTS

CNH.E.09.07/2023 Agreement

In the context of the applicable contracts and Guidelines, the CNH approved various extensions to the hydrocarbon E&P periods due to reasons that couldn't be attributed to the contractors.

These reasons include security issues, delays in government permits, and lack of drilling equipment, among others.

In this regard, to be considered for an extension, contractors must submit their request to the CNH 30 days prior to the expiration of the corresponding period. In cases where the expiration is less than 30 days away, the request can be submitted up to 5 business days after the publication of the Agreement.

The CNH will consider three main criteria for granting the extension:

1. The timely submission of the request.
2. The persistence of the reasons that prompted the initial extension or that are currently affecting petroleum activities.
3. The technical justification for the requested extension period.

These criteria will be crucial in determining whether the requested extension of the period is granted to the contractors or not.

CNH.E.09.06/2023 Agreement

The CNH.E.09.06/2023 Agreement interprets Articles 27, 29, and 35 of the Guidelines, and its significance lies in establishing deadlines and procedures for the approval and modification of work programs and budgets for hydrocarbon E&P contracts. These programs are essential for the proper planning and execution of activities related to hydrocarbon E&P in the country and for the benefit of the nation.

Thus, the CNH has decided to standardize the timelines specified in Articles 27, 29, and 35 in cases where modification requests for a plan or program and the approval of the second, subsequent work programs and budgets or their modifications are simultaneously submitted. In such cases, the work programs and budgets must adhere to the procedure and timelines established for the approval of the main modification.

This standardization of timelines aims to ensure consistency and efficiency in CNH's administrative processes related to hydrocarbon E&P activities, in accordance with the principles set forth in the Law of Coordinated Regulatory Agencies in the Energy Sector.

CNH.18.03/2023 Agreement

Finally, through CNH.18.03/2023 Agreement, the CNH provides an interpretation of Articles 65 and 65 bis of the Guidelines. Article 65 aims to allow petroleum operators with a transition program¹ to carry out preparatory activities for production, regardless of whether this program is based on an evaluation report or an initial evaluation report. The scope of the aforementioned Agreement is to promote the development of hydrocarbon E&P activities in Mexico, enabling petroleum operators to conduct early production² and preparatory production activities as part of their transition program, in accordance with the Guidelines.

Article 65 bis of the Guidelines seeks to align the content of the initial evaluation report with the evaluation report in order to establish the same conditions and equal treatment for petroleum operators, allowing them to engage in early production activities or preparatory production activities, regardless of whether they stem from an evaluation report or an initial evaluation report³.

In summary, these Agreements aim to enhance the operational environment, maximize the potential of hydrocarbon resources, and promote appropriate and beneficial development for the country in the field of hydrocarbon E&P.

¹ The transition program is a document in which the petroleum operator outlines activities related to production. These activities enable the undertaking of preparations for production, the maintenance of continuous operations, early production, and even the reevaluation of previously discovered and producing fields or reservoirs. This applies within an allocation or contractual area until the corresponding development plan for production is approved.

² Early production is the production of hydrocarbons that petroleum operators can exceptionally carry out during the transition program and, in some cases, in conjunction with the implementation of an evaluation program. This production continues until the development plan for production is approved.

³ It's important to highlight that the initial evaluation report is a document that enables petroleum operators to access a transition program for conducting early production or preparatory activities for extracting natural gas contained in coal. These petroleum operators are those involved in the E&P of said gas.

Relevant Links:

https://www.dof.gob.mx/nota_detalle.php?codigo=5697369&fecha=02/08/2023#gsc.tab=0

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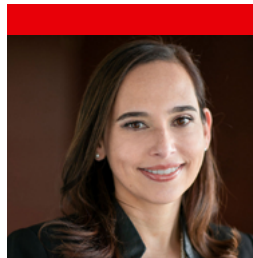
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