

CRE ESTABLISHES THE PROCEDURE FOR REGULARIZATION AND CONTINUITY IN APPLICATIONS FOR THE ASSIGNMENT OF HYDROCARBON PERMITS

JANUARY 2024

EXECUTIVE SUMMARY:

- On January 12, 2024, Agreement No. A/080/2023 was published, by which the Energy Regulatory Commission established the procedure to regularize the obligations unfulfilled by hydrocarbon permit holders and guarantee the continuity of the service for the benefit of the public interest.
- The Agreement focuses on allowing the CRE to continue with its regulated activities, order the market, and protect the interests of end users.
- The Agreement is applicable to those permit holders who voluntarily wish to regularize non-compliance or offer to transfer their permit.



On January 12, 2024, Agreement No. A/080/2023 (the "Agreement") was published in the Federal Official Gazette ("DOF" for its acronym in Spanish) by which the Energy Regulatory Commission ("CRE" for its acronym in Spanish) establishes the procedure to regularize the obligations unfulfilled by permit holders and guarantee the continuity of the service for the benefit of the public interest, in the attention of requests for the assignment of permits for the sale of petroleum products, Natural Gas or Liquefied Petroleum Gas to the public through a service station for specific purposes, as referred to in Article 53 of the Hydrocarbons Law.

The purpose of the Agreement is to establish an efficient regularization mechanism for oil and gas permit holders. It focuses on allowing the CRE to continue with its regulated activities, order the market, and protect the interests of end users.

The Agreement is applicable to those permit holders who voluntarily wish to regularize non-compliance or offer to transfer their permit if they comply with the requirements established in the Hydrocarbons Law ("LH" for its acronym in Spanish). If this is not the case, it is emphasized that the CRE will retain its supervisory and

sanctioning powers, including the revocation or fine of permit holders who act in an irregular manner.

In accordance with the Agreement, the assignment of permits or regulated activities, as set forth in Article 53 of the LH, requires the prior authorization of the CRE. In order to obtain this authorization, it is necessary that the permits are in force, the assignor has complied with all obligations, and the assignee meets the requirements to be a permit holder. In addition, assignment requests must be processed through a permit modification request, following the procedure established in Article 48 of the Regulation of Hydrocarbons.

Under the Agreement, it is emphasized that the LH, the Regulations, and the title of the permit establish the obligations of the permit holders in the regulated activities. The analysis of the Hydrocarbons Unit reveals that most of the permit holders with pending assignment requests have failed to comply with the regulatory obligations. Among the most common non-compliances are:

- (i) Lack of insurance agreements.
- (ii) Omission of annual reports on compliance with Mexican Official Standards.
- (iii) Failure to pay the annual supervision fee for the fiscal year corresponding to the date on which the request for modification by assignment of the Permit is submitted, as well as for the other previous fiscal years with debts.
- (iv) Making of assignments without the corresponding authorization.

These defaults are considered infractions under the LH, which grants the CRE the power to impose administrative sanctions, such as revocation or fines, in accordance with articles 56 and 86 of the LH.

The regularization procedure includes steps such as the notification of the adherence procedure, the statement of allegations by the permit holder, and the accreditation of compliance with the sanction. An exceptionality is established for regularization, limiting its benefit to a single occasion for each permit. The assignment of permits in succession cases is also addressed, ensuring the legal appointment of executors or heirs to comply with the obligations.

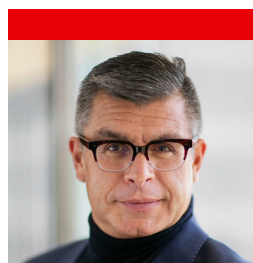
In addition, in situations in which the assignment of the permit is authorized under the Agreement, a new assignment will only be possible after a period of five years from the notification of the document certifying compliance with the corresponding sanction. This approach is intended to ensure the continuity of the regulated activity and prevent speculation and improper practices that could affect users.

Finally, the initiative imposes strict requirements for the assignment of permits, highlighting the need to comply with regulatory obligations. It also underscores the CRE's ability to impose sanctions in the event of non-compliance, promoting accountability and transparency in the sector. The temporary restriction on new assignments seeks to prevent speculation and improper practices.

In summary, the Agreement reflects the CRE's commitment to effective regulation and protecting the public interests in the hydrocarbons sector.

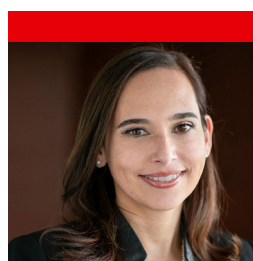
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