



“PUBLIC POLICY OF NATURAL GAS STORAGE”

EXECUTIVE SUMMARY

March, 2018

PUBLIC POLICY ON NATURAL GAS STORAGE

The Energy Reform - maintaining the directorship of the State - establishes the bases for the modernization of the Mexican energy industry through an institutional and regulatory framework based on principles of sustainability and transparency.

The new model for the Mexican hydrocarbons industry promotes the participation of private companies along the value chain of hydrocarbons to complement the participation of State productive enterprises.

First of all, The **Public Policy for Implementing the Natural Gas Market** in Mexico was a decisive step for the implementation of the Energy Reform in the natural gas sector. This public policy established the underlying basis to promote the development of a competitive natural gas market that contributes to the natural gas supply guarantee and energy security in the country. The next step for the development of the natural gas market is that the Ministry of Energy (Sener), in close communication with the industry, as well as with the Energy Regulatory Commission (CRE) and the National Natural Gas Control Center (Cenagas), publishes the **Public Policy on Natural Gas Storage** (Public Policy).

This instrument has the objectives of: i) establishing the incentives to have operative and strategic inventories to contribute with the guarantee of natural gas supply in the country, ii) make efficient use of existing infrastructure and iii) develop new storage infrastructure. Likewise, the Public Policy shall contribute to the publication of aggregate information of natural gas supply, demand and stocks, which will provide key elements for the best decision making of the economic agents in the market.

The Public Policy creates the following obligations:

- **The obligation to inform.** Permit holders must report periodically production volumes as well as transported, and stored volumes of natural gas.
- **The obligation to create strategic inventories.** Cenagas must maintain 45 billion cubic feet of natural gas as strategic inventory, equivalent to 5 days of national consumption, within the Mexican boundaries.
- **The obligation to have operative inventories.** While strategic storage is being developed, Cenagas, as manager of the Integrated Natural Gas Transportation and Storage System (Sistrangas), must carry out the necessary actions to have access to an operative inventory in the existing storage infrastructure of the country, to contribute to the stable natural gas supply for the users of its systems.

The permit holders of: (i) natural gas processing, (ii) management of integrated systems, (iii) natural gas transportation, which are not part of an integrated system, and (iv) natural gas storage will have the obligation to present weekly information from October 1, 2018.

In the event that the Coordination Council of the Energy Sector (CCES) declares an emergency situation, the permit holders shall report information on a daily basis.

Based on Article 80, section II of the Hydrocarbons Law, Sener and the CRE will establish the measures that the obligated parties must comply with in respect of this Policy, through General Administrative Provisions or the corresponding permits.

The obligation to manage the 45 BCF of strategic inventory of natural gas will be the responsibility of Cenagas, as manager and independent administrator of Sistrangas. The complete strategic inventory must be available by 2026 at the latest.

On this subject, Cenagas, following an instruction of Sener, will tender the construction and development by third parties of the storage infrastructure to constitute the natural gas strategic inventory, through one or more tenders of strategic projects, in accordance with Article 69 of the Hydrocarbons Law. In any case, this storage infrastructure must be located in national territory.

The progress of the storage infrastructure bidding program will be incorporated into the Sistrangas Five-Year Plan and its annual reviews, starting with the fourth annual review to be published during the first quarter of 2019 of the Sistrangas Five-Year Plan, to be published during the first quarter of 2019.

To have national coverage, Cenagas and other natural gas transport permit holders will evaluate and procure the development of required infrastructure to interconnect Sistrangas and the other transport systems.

It is fundamental that interconnections between Sistrangas and Ojinaga-El Encino, San Isidro-Guadalajara, Sasabe-Mazatlan and Mayakan systems will be developed. These interconnections will allow additional sources of supply for all regions and greater coverage of a natural gas storage facility in case of an emergency or grant commercial benefits to market participants.

The cost derived from the implementation of the Public Policy, consisting of: (i) storage infrastructure, only the corresponding to strategic storage, (ii) natural molecule for strategic storage, (iii) expenses incurred by Cenagas, fully justified and approved by CRE, must be transferred to all users of Sistrangas and open-access transport systems.

Cenagas and open-access transport permit holders will be obligated to charge in their respective tariffs, the amounts that cover the previously mentioned costs. The transport permit holders must transfer the amounts collected to Cenagas so that this center is able to make the corresponding payments.

Therefore, the costs will be socialized among all the transportation systems of the country in an efficient and equitable allocation that must be proposed by Cenagas and approved by CRE.

Cenagas will conduct the first bidding process for strategic storage infrastructure in 2018, which should be limited to economically unfeasible deposits for the extraction of hydrocarbons. This project must have at least 10 BCF of strategic storage capacity. Additionally, Cenagas will carry out a competitive process for the purchase of the required natural gas molecule seeking the best economic conditions.

The strategic storage can be used to response to a natural gas supply crisis and shortfalls in the natural gas supply in the different transport systems, including but not limited to Sistrangas. The authorization and instruction from Cenagas, in accordance with the rules approved by the CCSE, will be mandatory for the utilization of strategic inventory.

For this purpose, based on article 80, section V, of the Hydrocarbons Law, Sener will publish, with the prior opinion of the CCSE, no later than the second quarter of 2018, the Natural Gas Emergency Response Plan. This plan will be the instrument to rule the use of strategic inventories, among other aspects.

Additionally, to have a mechanism that allows maintaining a steady supply of natural gas in the integrated transport systems by compensating for imbalances that might put the operation of the integrated systems at risk. Cenagas, in its role of manager of the Sistrangas, must carry out the actions that allow access to operative inventory.

Consequently, Cenagas must use the existing natural gas storage infrastructure in the country through capacity reservation agreements with the liquefied natural gas storage terminals in the country.

Cenagas must inform Sener the general usage conditions of the operative inventories as well as the recovery mechanism of the costs incurred, prior approval of CRE. Also, Cenagas will evaluate and report annually the usage of the operative inventory in the Five-Year Plan as well as in its annual reviews, starting with the fourth revision of the Five-Year Plan, to be published during the first quarter of 2019.

Once the first infrastructure for natural strategic storage has been developed, Sener, with technical opinion of CRE, will evaluate the convenience of removing the obligation of Cenagas of holding an operative inventory, based on the amount of strategic and commercial storage of the country, as well as location among other factors.