Coalbed Methane Regulation

January 2009
Reforming the Mining Law (June 26, 2006)

The reform of the Mining Law defined coalbed methane, the gas associated with mineral coal fields, as mineral or substance.

This legal reform implies the recovery of this type of gas to improve safety during the exploration of coal. In addition, the new law meant that if the gas associated with coal fields can be distinguished from the gas associated with oil, it can be concessional.
Main elements: definition

Definition of associated gas to coal

“Gas associated with deposits of coal mainly formed by methane, genetically linked to the process of formation of coal, and that is trapped inside the layers of coal.”

This means, according to the Mining Law, that concessions for private agents can be granted for the use and utilization of coalbed methane.
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<th>SENER Faculties</th>
<th>SE Faculties</th>
<th>Joint Faculties</th>
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<td>Issue, deny or cancel permissions for the recovery and utilization of coalbed methane</td>
<td>Verify the implementation and verification of works</td>
<td>Develop policies for recovery and utilization of coalbed methane</td>
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<tr>
<td>Allow, deny or cancel associations of concessionaires for the recovery and utilization of gas;</td>
<td>Conduct inspections;</td>
<td>Establish the terms and technical conditions for the recovery and utilization of gas</td>
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<td>Issue general administrative arrangements subject to permissions for the recovery and utilization of coalbed methane</td>
<td>Check the measurements of the volumes of gas used or recovered.</td>
<td>Set terms and conditions of transport, storage and processing</td>
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<td>Issue contracts to deliver gas to Pemex. Establish terms and conditions;</td>
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<td>Assess the feasibility of projects for recovery and utilization of gas;</td>
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<td>Establish terms and methodology for payment for the delivery of Gas.</td>
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<td>Solution of complaints against actions of PEMEX</td>
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Main elements: Regulatory Framework

The regulatory model of the industry can be summarized as follows:

Regulatory model for the recovery of coalbed methane
Granting of mining concessions

The Ministry of Economy, according to the Mining Law, is empowered to compete and give mining concessions.

It was agreed that the Ministry of Energy will participate in this process, when deposits of coalbed methane exist, in order to give consistency to the national energy policy.
Authorization for association in order to use and recover coalbed methane
Gas delivery contract between the concessionaire and PEMEX

- PEMEX must prepare an annual report on complaints received.
Technical guidelines and Mexican Official Standards (MOS)

Main elements: Regulatory Framework

Guidelines

Technicians

and official

standards

works

Concessionaire must deliver:
- Exploratory Program
- Development Program

Terms and conditions

Official standards

Execution of works

Issue the guidelines of the works and use of coalbed methane

SENER

SE
Inspection and verification work

Main elements: Regulatory Framework

- **Inspection and** Verification
- Suspends the construction works and installations;
- Temporally closes, fully or partially, works or installations;
- Ensures chemicals, materials, equipment, accessories, processing facilities;
- Disables substances, materials, equipment and accessories; and
- Orders the dismantling of the facilities.

**Inspection and Request**
- Application Support
- If the work of installation is dangerous, **SENER** can penalize
  - **Sanctions**
    - Suspends the construction works and installations;
    - Temporarily closes, fully or partially, works or installations;
    - Ensures chemicals, materials, equipment, accessories, processing facilities;
    - Disables substances, materials, equipment and accessories; and
    - Orders the dismantling of the facilities.

**Inspection and Concessionaire**
- According to established guidelines
  - **Yes**
    - Continues to operate
  - **No**

**SENER**
- Inspection request

**SE**
- Inspection

**Concessionaire**
Inspection and Verification

Duties of Verification Units:

I. Verify compliance with the Mexican Official Standards and applicable laws.
II. Others established in the Regulations.

NOTE: Monitoring Unit will be responsible for the accuracy of opinions issued.

Sener

The Concessionaire chooses a Verification Unit

Verification of compliance with Mexican Official Standards (MOS)

Duties of Verification Units:

I. Verify compliance with the Mexican Official Standards and applicable laws.
II. Others established in the Regulations.

NOTE: Monitoring Unit will be responsible for the accuracy of opinions issued.

Penalties for failure to comply with the MOS

Suspends the construction works and installations;
Temporal closes, fully or partially, works or installations;
Ensures chemicals, materials, equipment, accessories, processing facilities;
Disabuse substances, materials, equipment and accessories; and
Orders the dismantling of the facilities.
Permission for transportation, storage and processing

Coalbed methane is considered a mineral substance until it complies with the Official Standards for Natural Gas. Therefore, the regulation related to transportation, storage and processing of gas is a shared responsibility between SENER and SE.