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.

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.
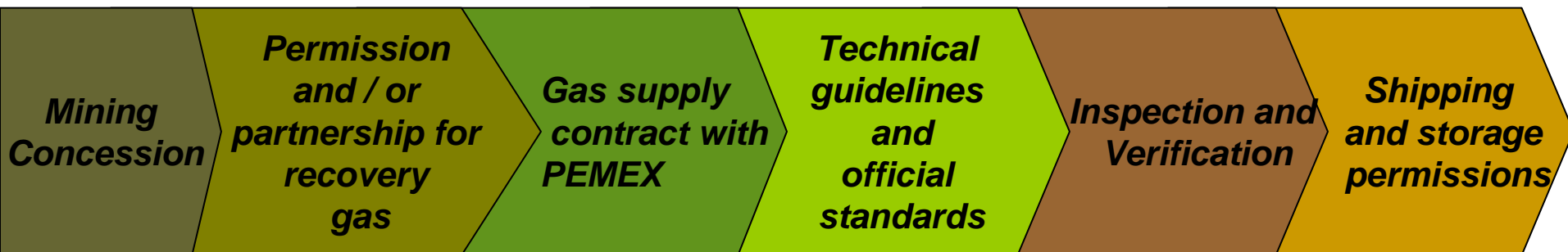
Main elements: SENER Faculties

SENER Faculties	SE Faculties	Joint Faculties
Issue, deny or cancel permissions for the recovery and utilization of coalbed methane	Verify the implementation and verification of works	Develop policies for recovery and utilization of coalbed methane
Allow, deny or cancel associations of concessionaires for the recovery and utilization of gas;	Conduct inspections;	Establish the terms and technical conditions for the recovery and utilization of gas
Issue general administrative arrangements subject to permissions for the recovery and utilization of coalbed methane	Check the measurements of the volumes of gas used or recovered.	Set terms and conditions of transport, storage and processing
Issue contracts to deliver gas to Pemex. Establish terms and conditions;		Assess the feasibility of projects for recovery and utilization of gas;
Establish terms and methodology for payment for the delivery of Gas.		Develop basis for tenders of gas concessions
Solution of complaints against actions of PEMEX		

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

Regulatory model for the recovery of coalbed methane

Mining Concession → *Permission and / or partnership for recovery gas* → *Gas supply contract with PEMEX* → *Technical guidelines and official standards* → *Inspection and Verification* → *Shipping and storage permissions*
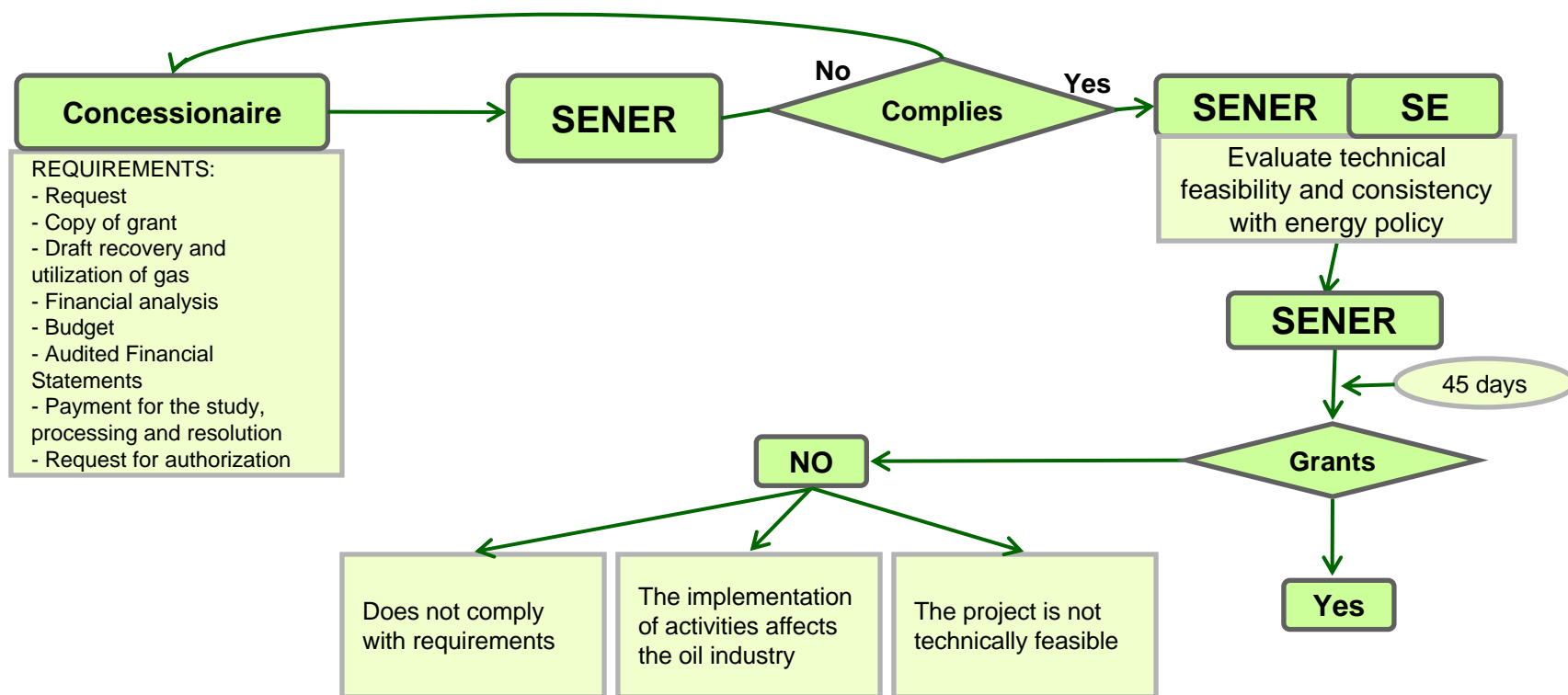
Mining Concession

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.

Permission and / or partnership for Recovery gas

Concessionaire

REQUIREMENTS:
- Request
- Copy of grant
- Draft recovery and utilization of gas
- Financial analysis
- Budget
- Audited Financial Statements
- Payment for the study, processing and resolution
- Request for authorization

SENER

No ◆ **Complies** ◆ Yes

SENER | **SE**

Evaluate technical feasibility and consistency with energy policy

SENER

45 days

Grants

NO

Yes

Does not comply with requirements

The implementation of activities affects the oil industry

The project is not technically feasible

Authorization for association in order to use and recover coalbed methane

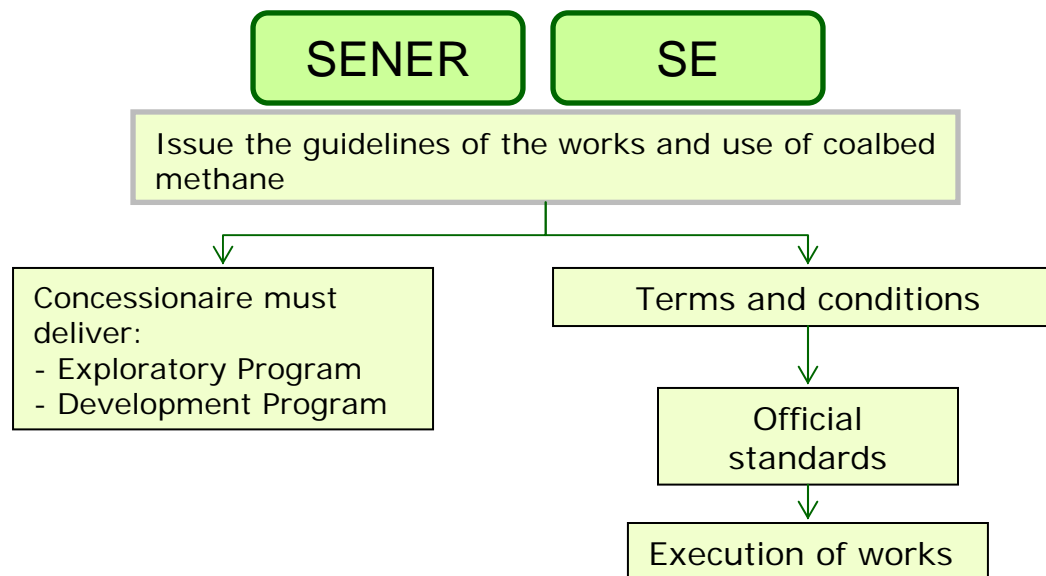Gas delivery contract between the concessionaire and PEMEX
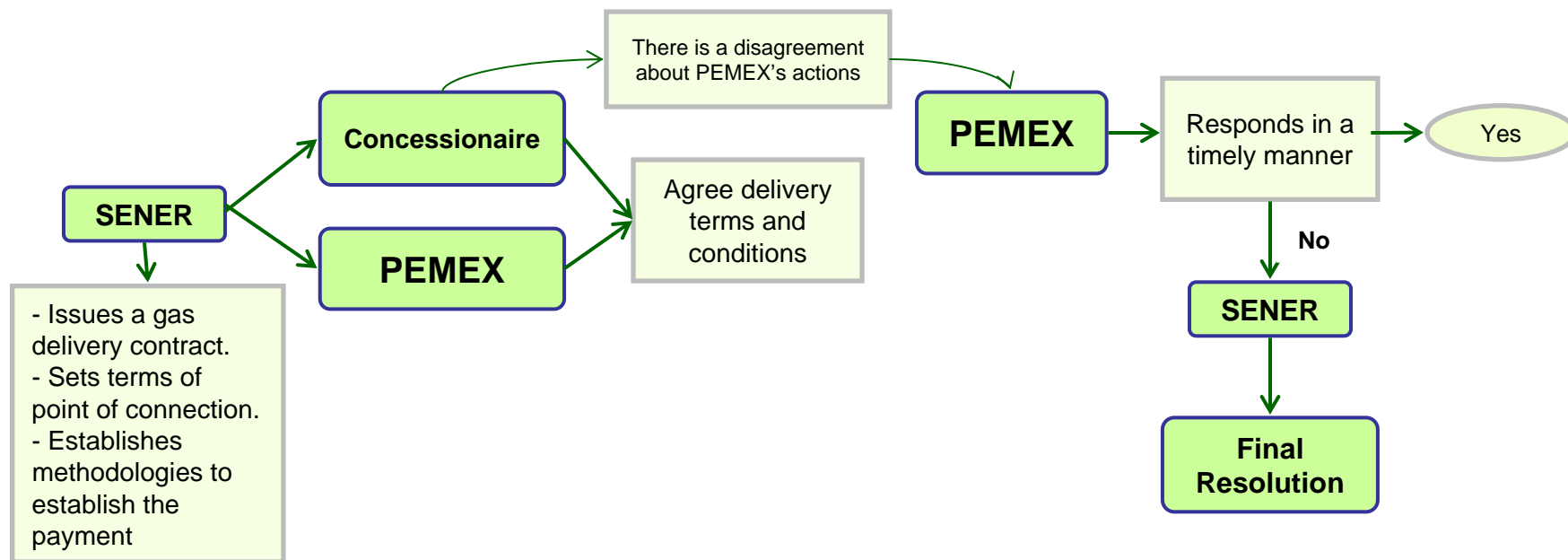
PEMEX must prepare an annual report on complaints received.

Main elements: Regulatory Framework

Guidelines Technicians and official standards works

Technical guidelines and Mexican Official Standards (MOS)

SENER   SE

Issue the guidelines of the works and use of coalbed methane

Concessionaire must deliver:
- Exploratory Program
- Development Program

Terms and conditions

Official standards

Execution of works

Main elements: Regulatory Framework

Inspection and verification work

SENER → *Inspection request* → SE → *Inspection* → **Concessionaire**

SE → *Application Support* → SENER

Concessionaire → **According to established guidelines**

According to established guidelines → *No* → If the work of installation is dangerous, **SENER** can penalize

According to established guidelines → *Yes* → Continues to operate

If the work of installation is dangerous, **SENER** can penalize → *Sanctions* →

Suspends the construction works and installations;
Temporal closes, fully or partially, works or installations;
Ensures chemicals, materials, equipment, accesories, processing facilities;
Disablse substances, materials, equipment and accessories; and
Orders the dismantling of the facilities.

Main elements: Regulatory Framework

Inspection and Verification

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, accesories, processing facilities;
Disablse substances, materials, equipment and accessories; and
Orders the dismantling of the facilities.

Shipping and storage permissions

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.