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### **Normative framework for hydrocarbon exploration and extraction plans**

On April 12, the Federal Official Gazette published the Guidelines regulating exploration plans and development plans for extraction of hydrocarbons (“Guidelines”), aimed at expediting the presentation, evaluation and approval of such plans.

The Guidelines, in force as of April 13, repealed the Guidelines regulating the presentation, approval and supervision of exploration plans and development plans for the extraction of hydrocarbons, published on November 13, 2015, and left without effect several related agreements.

The most relevant aspects of the guidelines are as follows:

#### **I. Purpose**

The Guidelines regulate the presentation, approval, modification, monitoring and supervision of Exploration Plans and Development Plans for the Extraction of Hydrocarbons in terms of the Hydrocarbons Law (“HL”), as well as the evaluation, pilot, work and transition programs and their budgets, and are compulsory for oil operators (“Operators”) who undertake or intend to carry out hydrocarbon exploration or extraction activities in Mexico.

#### **II. General obligations for Operators**

Operators must obtain the approval of the National Hydrocarbons Commission (“Commission”) of the following programs:

- a) Evaluation Program
- b) Pilot Program
- c) Work and Budget Program, where provided in the contract
- d) Transition Program

They must also obtain the authorization of the Commission or competent authorities for the following:

- a) National content compliance program
- b) Where appropriate, evaluation of the secondary or enhanced recovery program
- c) Programs for the utilization of associated natural gas and measuring mechanisms

### **III. Exploration Plan and Development Plan for Extraction. General rules.**

Requests for approval of plans must include the technical-economic information described in the annexes issued along the Guidelines and will be resolved by the Commission within a period no longer than 85 calendar days, extendable for 8 working days upon request of the Operator. In case of prevention to rectify the information, such deadline will be suspended until data is delivered correctly. In the absence of a resolution, it will be understood in favorable terms.

Operators may request approval for the modification of a plan as long as any of the scenarios provided for in the Guidelines to that end have actualized. Such approval is necessary for the execution of modifications. The Commission will decide on the request during the following 35 working days, extendable for 5 more days. In case of prevention, deadline will be suspended until the information is rectified. Absence of resolution will be considered as issued in favorable terms.

The Guidelines set out criteria that the Commission shall take into account when assessing the Exploration Plans and Development Plans for Extraction, as well as the circumstances under which modifications are appropriate.

As for Work and Budget Programs, Operators must comply with terms provided in contracts and assignments and, in the absence of a deadline, the Guidelines provide the conditions for their delivery, as well as the scope of their content. They also define those cases in which Work and Budget Programs may be modified, and cases in which a request for approval or simply a notice to the Commission is required.

### **IV. Relevant aspects of the Exploration Plan**

#### **Elements y modification**

The Exploration Plan must include, among other elements:

- a) Assessment of hydrocarbon potential, where the purpose of the plan is to estimate hydrocarbon volumes in undiscovered accumulations, as well as to identify exploratory opportunities in the contractual or assignment area.
- b) Incorporation of reserves when conducting exploratory studies for the identification of exploratory prospects.
- c) Characterization and delimitation, where there is a discovery in the contractual or assignment area that has to be evaluated or reassessed in order to determine whether the discovery may be commercial.

The Guidelines provide the framework for the modification of the Exploration Plan, the request that Operators must submit and criteria for determining if it is appropriate.

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### **Reserve incorporation / characterization and delimitation**

In the event of a discovery, the Operator must notify the Commission, which must confirm it. Similarly, the Operator shall apply for approval of an Evaluation Program, without prejudice to the continuation of activities of the Exploration Plan. As a result of the Evaluation Program, the Operator will report the size, extent, volume and productive potential of the discovery. Any Operator who intends to carry out early production activities should request approval of a Transition Program from the Commission.

### **Declaration of commercial discovery**

On the basis of the evaluation, the Operator shall inform the Commission if the discovery may be considered commercial and, where appropriate, the intention to develop it. The area of development will be approved in the resolution on the Development Plan for Extraction and must include the discoveries declared as commercial.

## **V. Relevant aspects of the Development Plan for Extraction**

### **Elements and modification of the Development Plan for Extraction**

The plan must detail activities to maximize the recovery factor and the attainment of the largest volume of hydrocarbons in the long term under economically viable conditions, as well as efficient handling and measurement of hydrocarbons and the use of natural gas.

Operators who, during the development for extraction, require executing exploration activities, must also submit the Exploration Plan, provided that the contract or assignment allows for it.

To ensure the continuity of the production of hydrocarbons in assignation areas where a contract migration is requested, operators shall submit a Development Plan for Extraction compatible with such migration.

As with the Exploration Plan, the Guidelines set forth the requirements to modify the Development Plan for Extraction, and the conditions under which it may proceed.

### **Transition Programs**

The Guidelines provide for three types of Transition Programs to ensure continuity of hydrocarbon production:

- a) Transition Program related to a migration process in assigned areas for which a migration to contract is requested.
- b) Transition Program associated to a bidding process for exploration and extraction.
- c) Transition Program linked to an Evaluation Program allowing the Operator to carry out early production activities.

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The Guidelines lay down the requirements for such programs, the criteria for their evaluation and rules for their approval.

### **VI. Unconventional Deposit Plans**

Unconventional Deposit Plans may cover part or the totality of the exploration process and involve the following:

- a) Evaluation of hydrocarbon potential in undiscovered accumulations and identification of areas of interest.
- b) Incorporation of reserves, in case of exploratory studies that aim to identify areas that may be drilled within the areas of interest.
- c) Characterization in an unconventional deposit, in case of a discovery that needs to be evaluated to determine if it is commercial.

Operators may carry out early production activities during the implementation of the Exploration Plan of Unconventional Deposits provided that they have been included in the submission of such plan.

In this case, the Guidelines also set forth the requirements for modifying the plan, as well as the conditions for it to proceed.

#### **Reserve incorporation / characterization and delimitation**

In the event of a discovery in an unconventional deposit, the Operator must notify the Commission and request for approval of a Pilot Program to determine its commerciality.

Operators may carry out the early production during the implementation of the Pilot Program as long as it has been considered in the presentation of such program and exclusively in wells drilled under it.

Once the Pilot Program is completed, Operators shall submit an evaluation report specifying the dimensions, extension, volume and productive potential of the discovery.

#### **Declaration of commercial discovery**

Based on the results of the Pilot Program, the Operator must inform the Commission whether the discovery should be considered commercial. The development area will be approved when the Commission settles the Development Plan for the Extraction of Unconventional Deposits and will include the evaluated discoveries.

Regarding the extraction in unconventional deposits, the Guidelines provide for the elements of the Development Plan, the scenarios in which it may be modified and the requirements for the Transition Programs, where appropriate.

### **VII. Monitoring, supervision and sanctions**

Operators should report to the Commission on the activities considered in the plans and programs, on a monthly or quarterly basis, as the case may be in accordance with the Guidelines.

The Commission shall evaluate the performance of Operators observing the compliance variables provided for in the Guidelines and may, where appropriate:

- a) Issue preventive or corrective measures.
- b) Request additional information.
- c) Convene meetings to discuss the imposition of measures.

In the event of infringements of the Guidelines, the penalties provided for in the HL and its regulations shall apply, without prejudice to any other applicable sanctions.