



**13th Annual Latin American
Energy Conference
Institute of the Americas**

LNG Regulatory Issues

**La Jolla, California
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Comisión Reguladora de Energía**

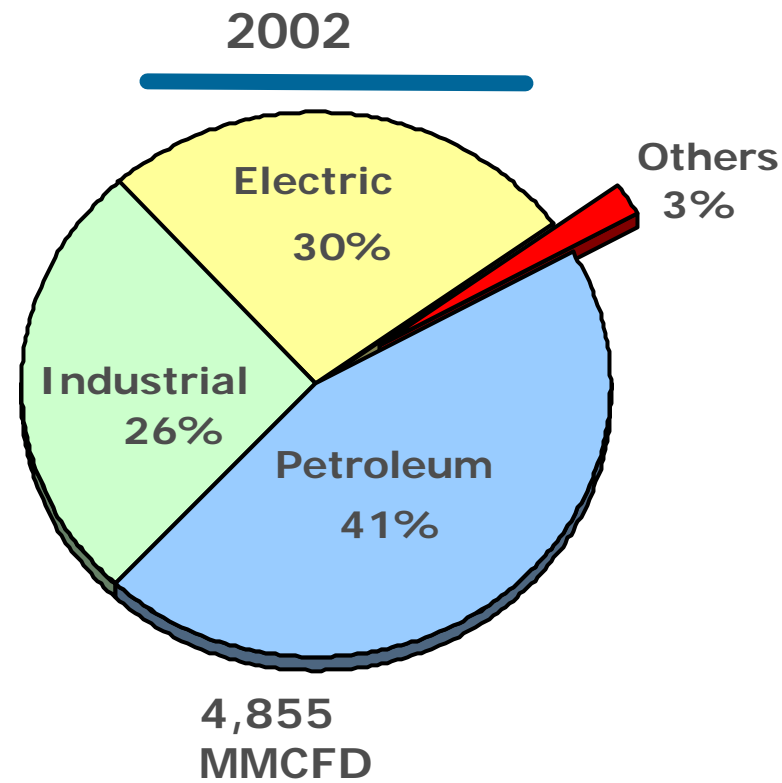
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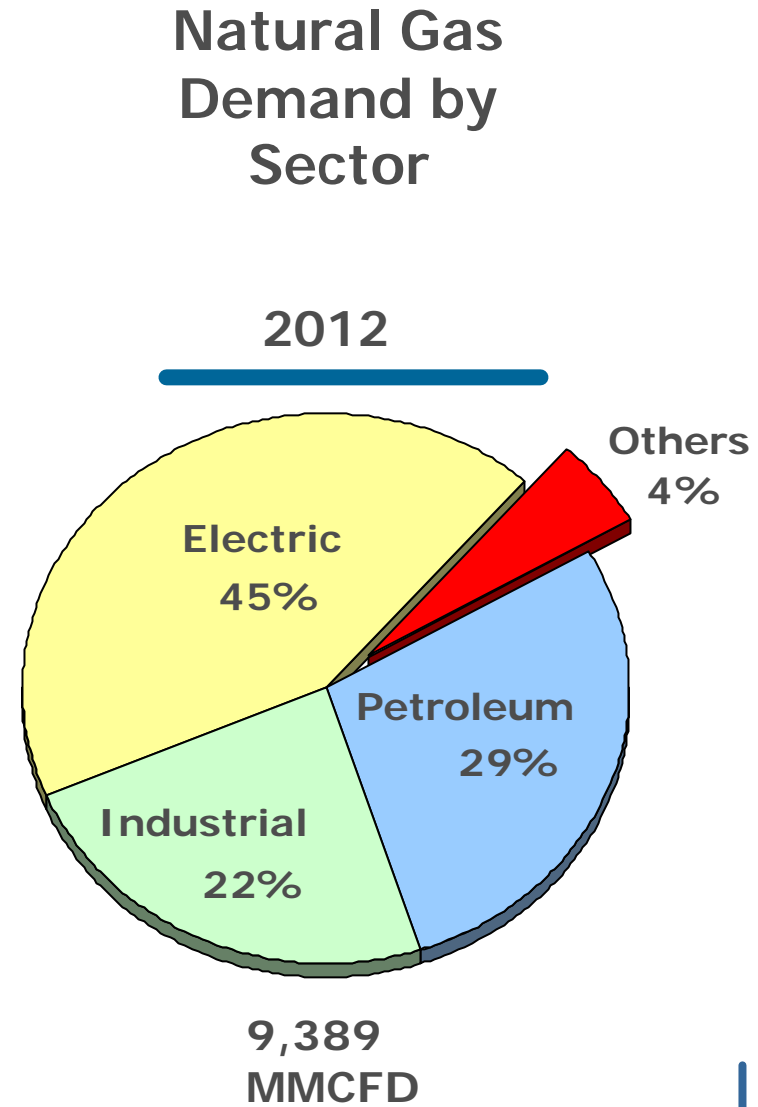
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I. Why LNG?

Natural Gas Demand Drivers

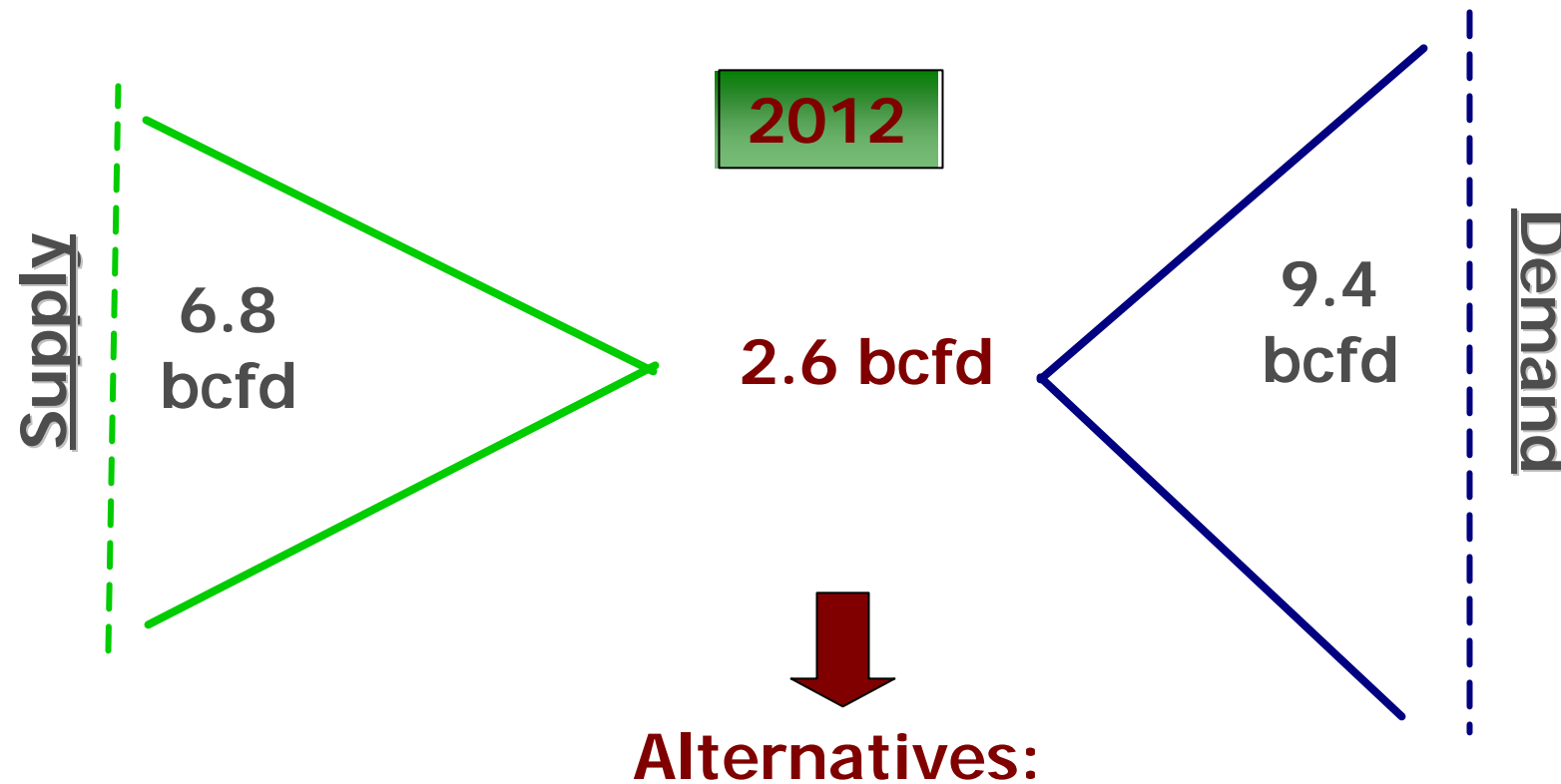


Source: Energy Prospective, Ministry of Energy, 2002



...Natural Gas Demand Drivers

Demand for natural gas will exceed national production



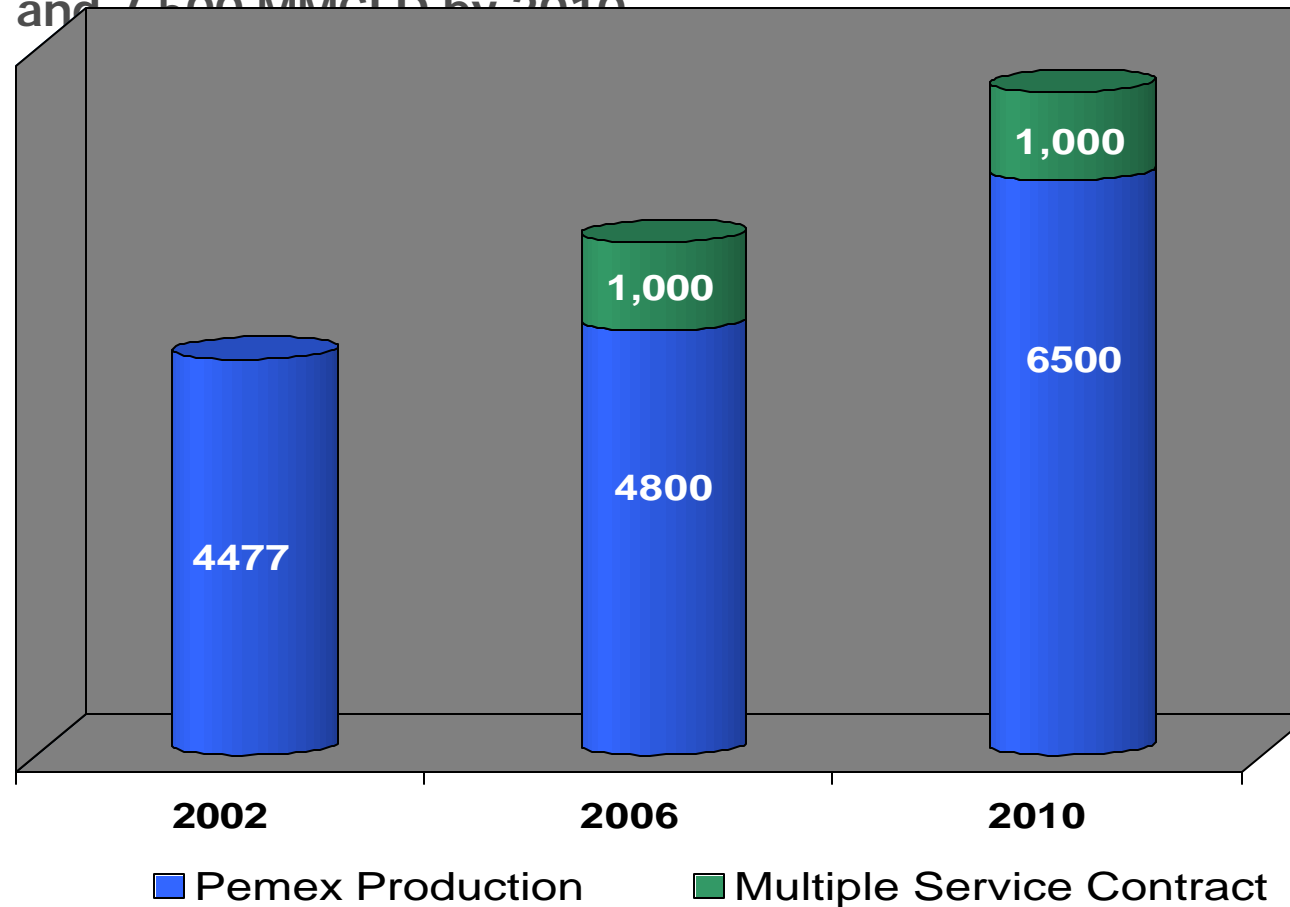
Source: Energy Prospective, Ministry of Energy, 2003-2012

1) Efforts to increase natural gas production in Mexico



Mexico is currently producing 4.5 BCFD

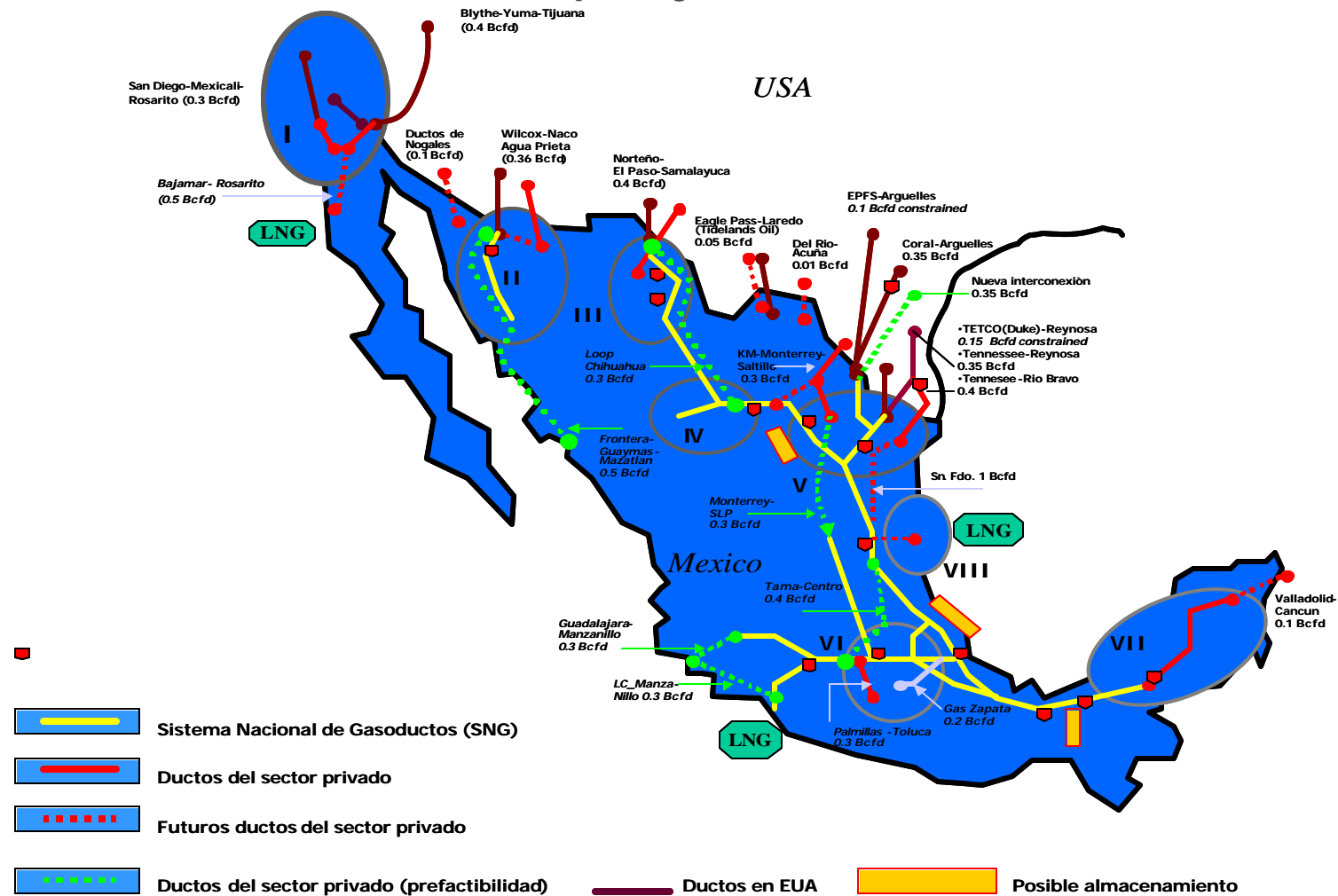
With Multiple Service Contracts & Strategic Gas Program, Pemex estimates that production will increase to 5,800 MMCFD by 2006 and 7,500 MMCFD by 2010.



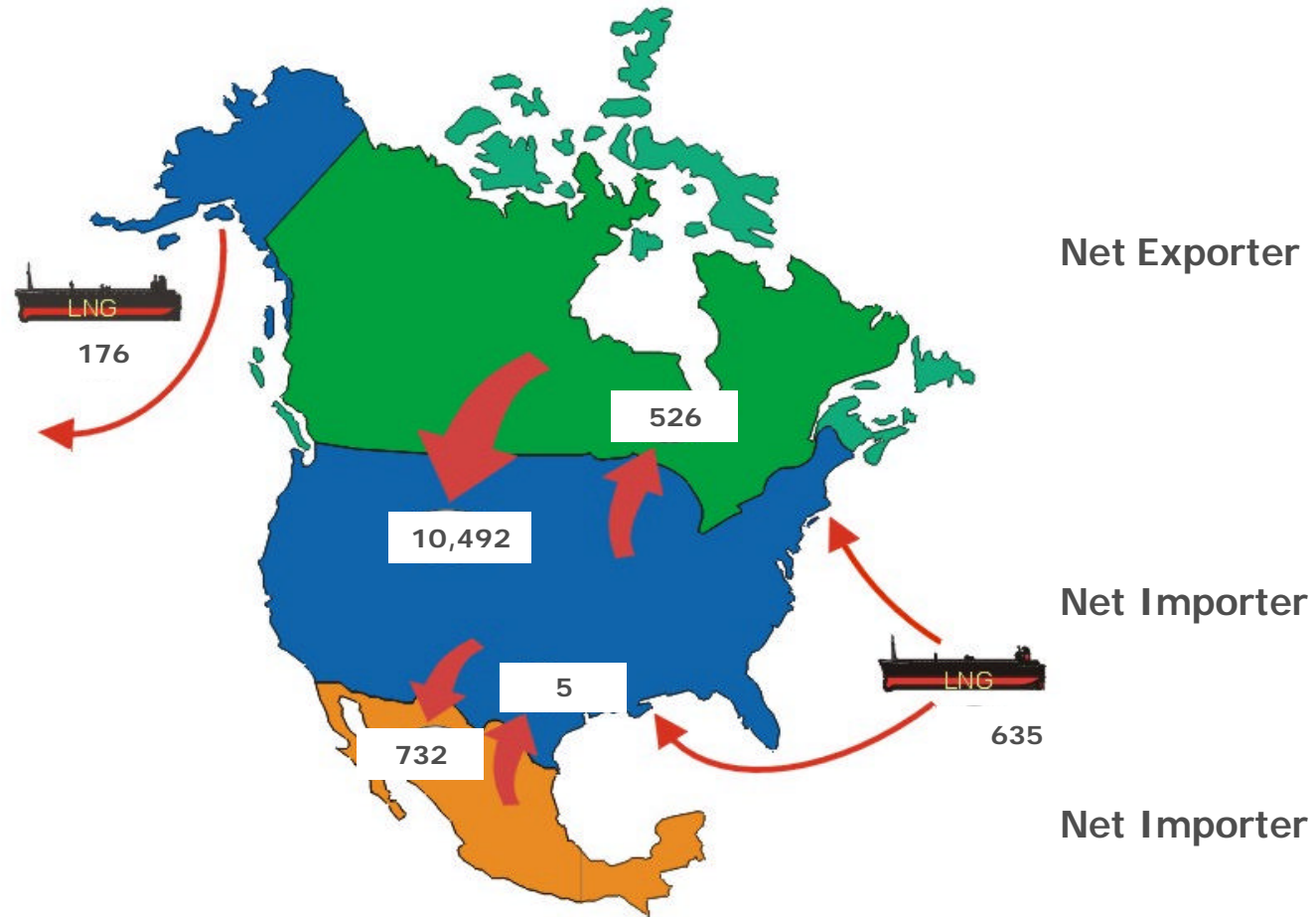
*Source: PEMEX Gas, Business Plan, 2002

2) Pipeline Interconnection Infrastructure

Interconnections between Mexico and the U.S. amount to 3.3 bcf/d of cross-border firm capacity.



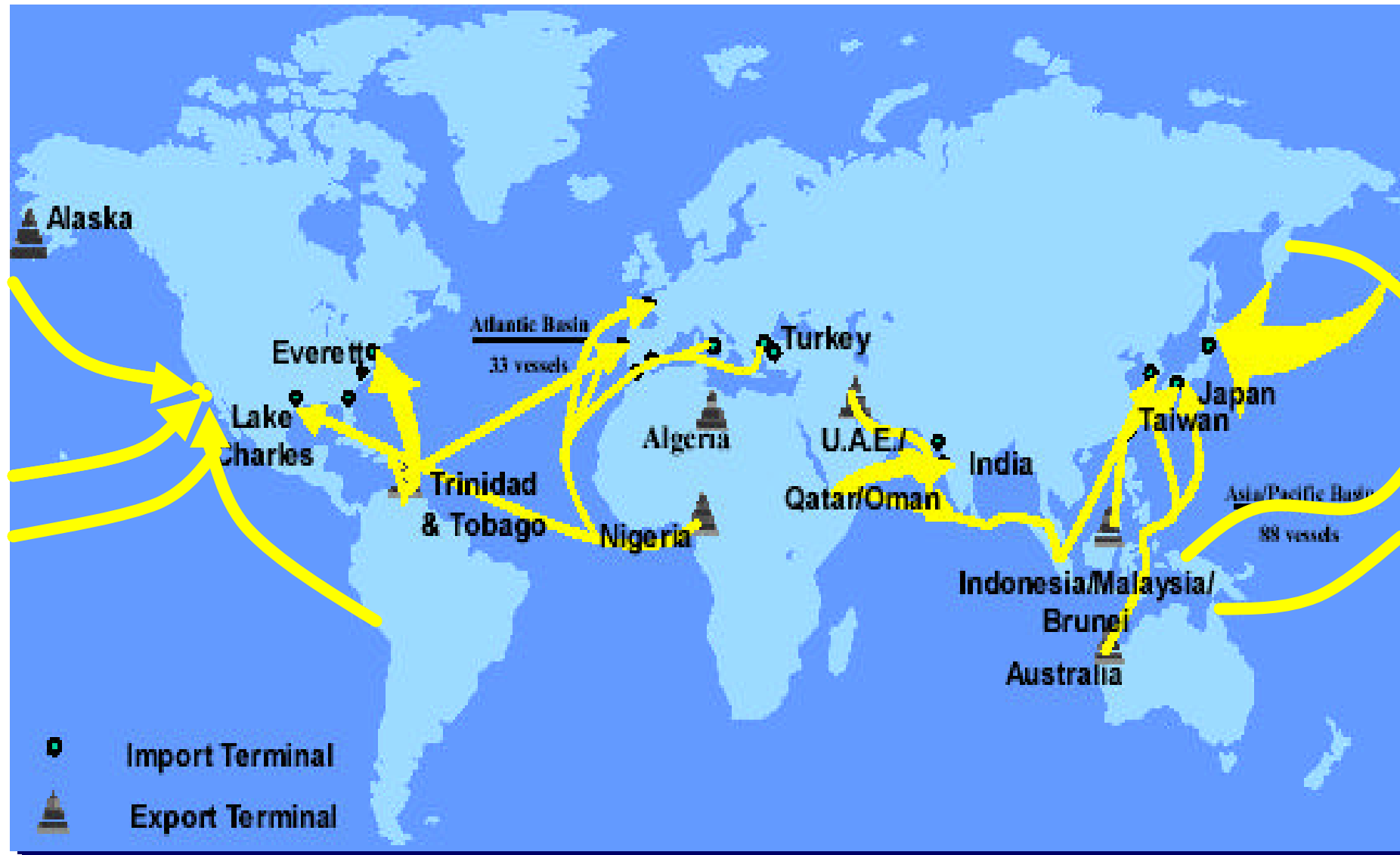
2) ...Pipeline Interconnection Infrastructure



Natural gas imports and exports
(2002, mcf/d)

Source: U.S. DOE-EIA, Annual Energy Review 2002

3) Development of LNG Receiving Terminals



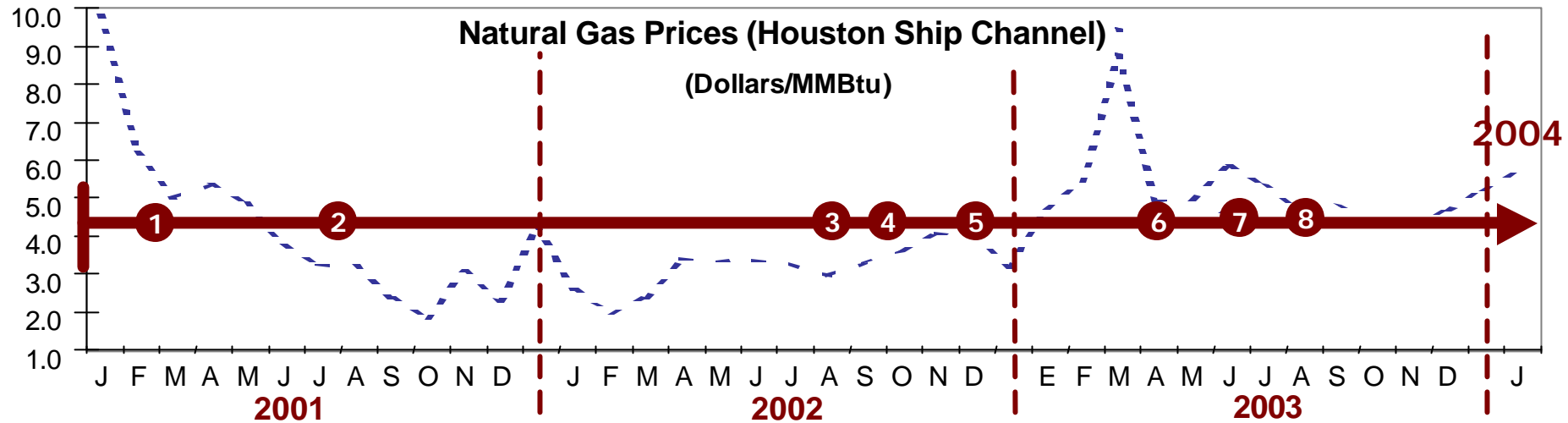
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II. LNG Projects in Mexico

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Where we Stand

LNG Projects in Mexico



- 1 Spring 2001 – Prices reached 9.84 USD/MMbtu and companies expressed their interest to build LNG Terminals in Mexico
- 2 Autumn 2001 – CRE developed the regulatory framework for LNG Terminals in Mexico
- 3 August 2002:
 - CRE published NOM-EM-001-SECRE-2002
 - CRE issued a guide for permit applications
 - Marathon Permit Application
- 4 Sep, Oct & Nov 2002 – CRE received 4 more application permits (Sempra, Shell - Baja & Altamira-, Chevron - Texaco Onshore)
- 5 By December 2002 CRE is evaluating 5 proposals
- 6 April 2003 -Marathon was granted the first LNG storage permit in Mexico
- 7 July 31, 2003 – CRE granted 2 LNG storage permits to Shell, one for Baja California and the other for Altamira
- 8 August 7, 2003 – CRE granted a LNG storage permit to Sempra Energy

LNG in Mexico

- **Two types of projects**
 - Bid driven (i.e. Altamira)
 - Market driven (i.e. Baja California)
- **Regulatory Objectives:**
 - Safety
 - Open Access
 - Cost-Based Tariffs
- **Several authorizations required**

LNG Storage Permits Granted



LNG Storage Permits in Mexico

Over the last 6 months, the CRE granted 4 permits to build and operate LNG receiving facilities in Mexico

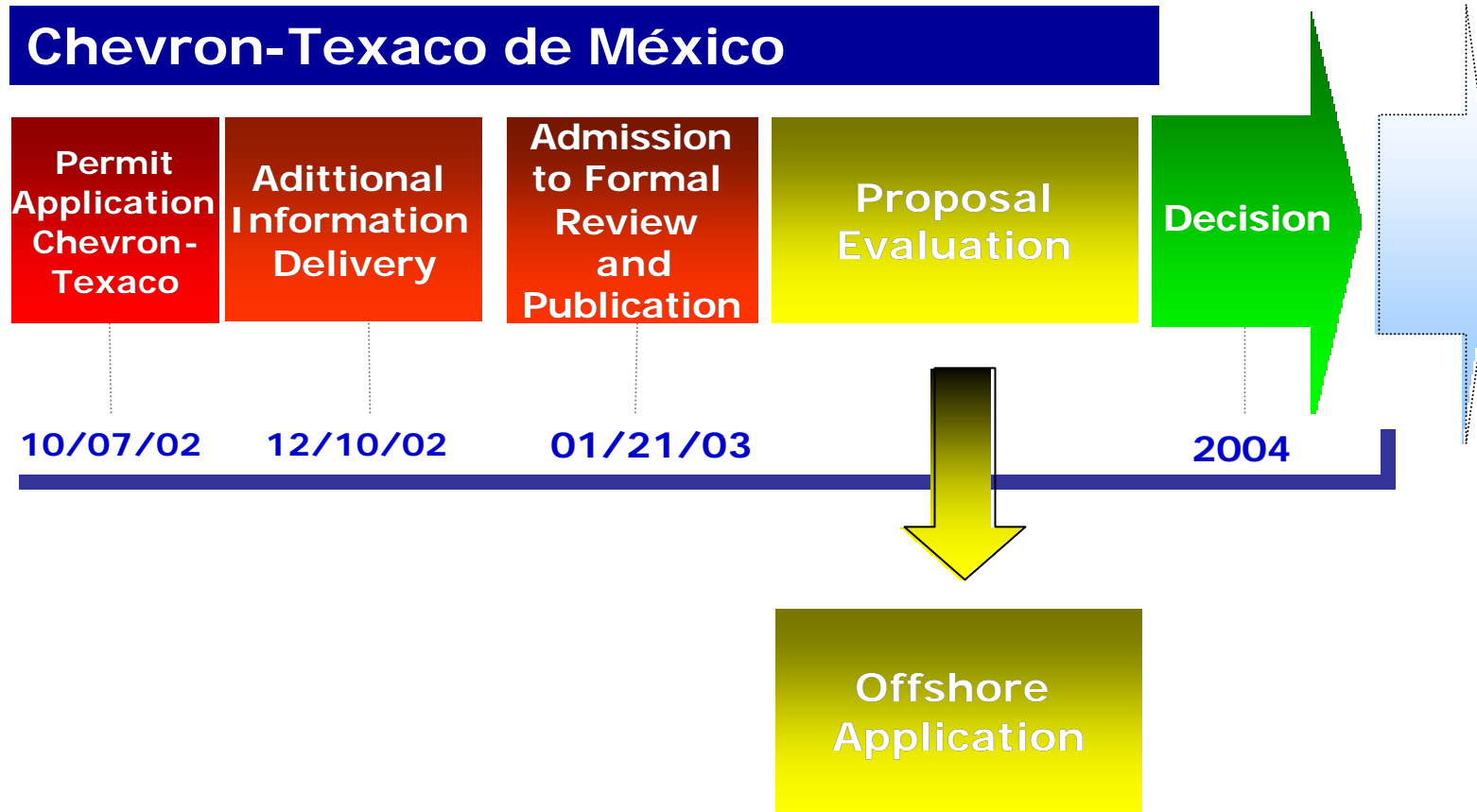
- ✍ Three are located in Baja California and one in the Gulf of Mexico
- ✍ Potential total firm regasification capacity could be 3.6 bcf/d and peak regasification capacity of 4.3 bcf/d
- ✍ Projects could begin operations in 2006 and 2007
- ✍ Open Access requirement on non-contracted capacity
- ✍ Storage and regasification tariffs based on cost of providing service
- ✍ Projects will diversify sources of gas and help stabilize prices
- ✍ Full containment tanks
- ✍ Investment commitments, up to 2.4 Billion USD

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Next Steps

Offshore LNG Application

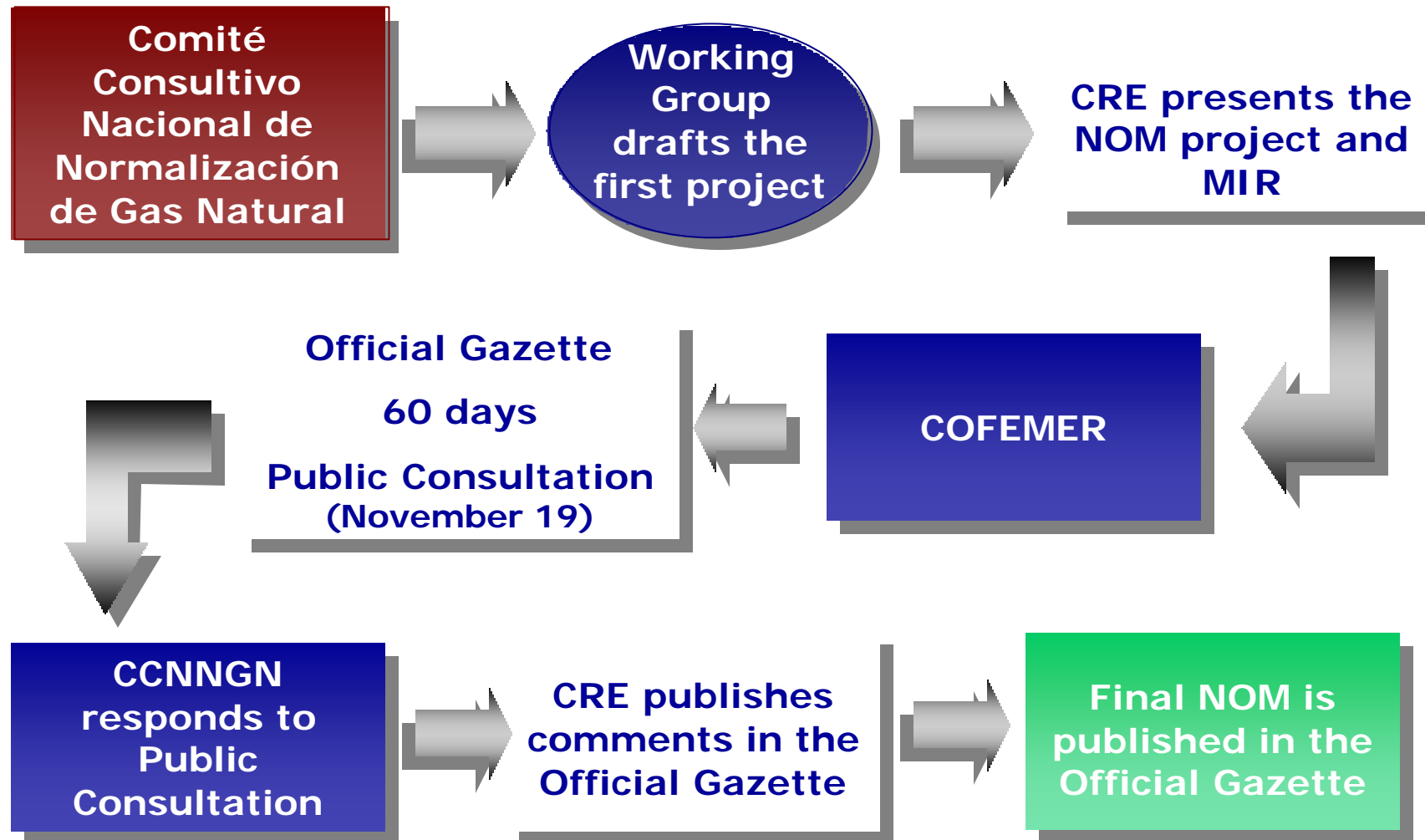
- On July 29, 2003 ChevronTexaco submitted a modification regarding the site for the LNG storage facility to place it in the Pacific Ocean, nearby the Coronado Islands



Other Possible LNG Storage Terminals



NOM-013-SECRE-2003 for LNG Plants

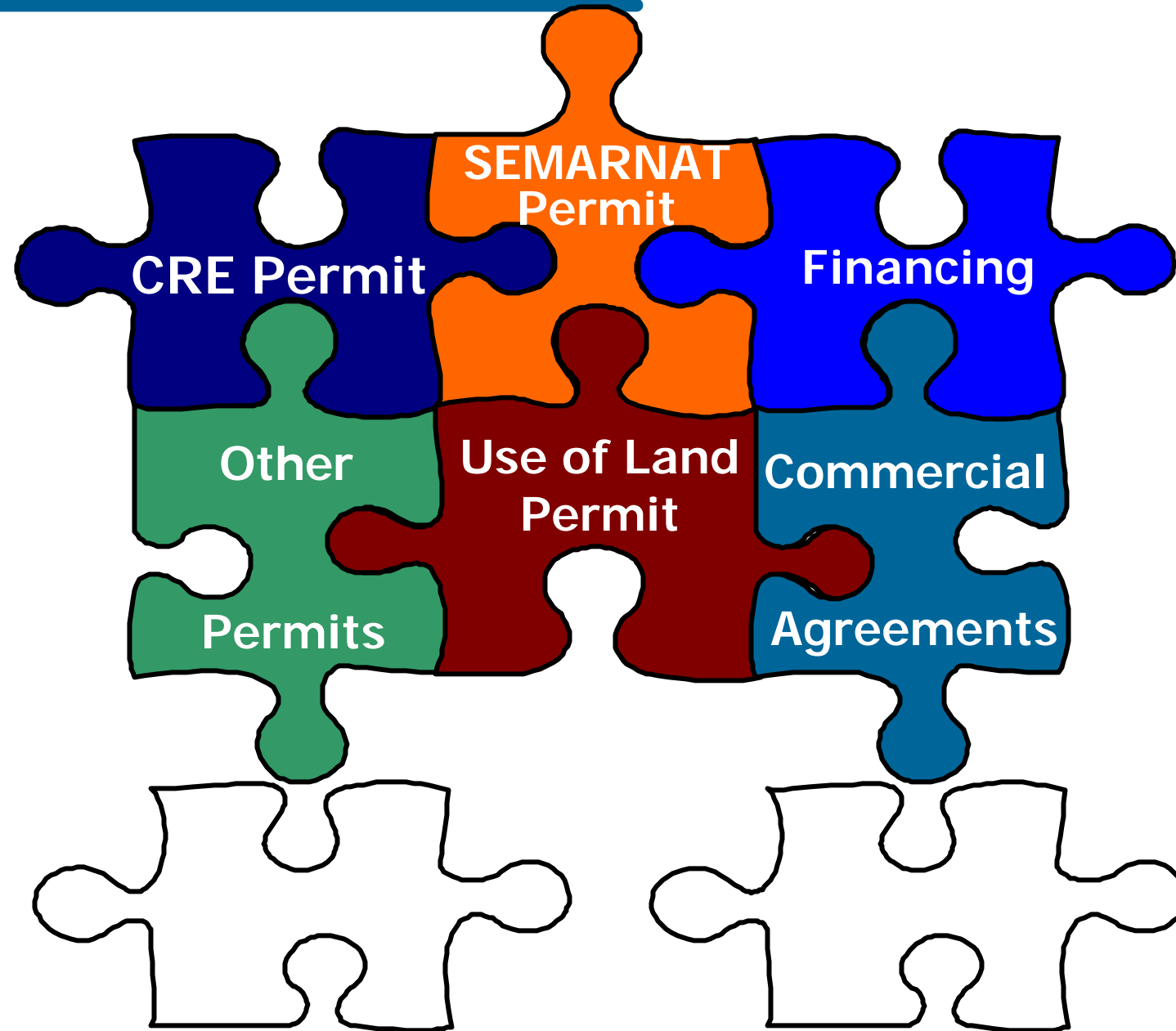


Regulation for Storage Permits

Applicants must include among others:

- **Technical description of the project**
- **Technical, administrative and financial capability of project**
- **Description of safety methods and procedures for the operation and maintenance of the system**
- **Non-discriminatory General Terms of Service**
- **Information on Potential Supply sources**
- **Justification of potential demand**
- **Compliance with NOM**

Regulated Activities



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III. Lessons Learned

Lessons Learned

- Mexico has to increase its natural gas supply
- LNG storage projects will diversify the sources of natural gas and help stabilize prices
- The regulatory framework has to adapt permanently to provide stability and certainty to investors
- No project is alike
- Educate, Educate, Educate

www.cre.gob.mx