

Fuels Storage Public Policy

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PRACTICES Energy, Power and Natural Resources, Mexico, Mexico Energy Reform, Oil and Gas

Mexico maintains a minimum strategic storage inventory of crude oil and refined oil products, such as gasoline, diesel, and jet fuel, to guarantee market supply for a determined period of time. Under Article 80 Section II of the Hydrocarbons Law, the Ministry of Energy (“SENER”) has the authority to issue public policies to determine the required strategic storage volumes.

On December 12, 2017, SENER published a Fuels Storage Public Policy (*Política Pública de Almacenamiento Mínimo de Petrolíferos*) (“Storage Policy”), whose purpose is to have sufficient inventory of gasoline, diesel, and jet fuel in the country on a regional and market oriented basis within Mexico to reinforce fuel supply in emergency situations, and to foster the construction of new storage infrastructure.

The Storage Policy establishes two main obligations:

1. To report on a weekly basis to SENER the production, imports, exports, sales, and storage volumes of the following oil products: gasoline, diesel, jet fuel, and fuel oil. This obligation must be satisfied by importers, exporters, storage permit holders, marketers, and distributors. In emergency situations, when declared as such by SENER, these reports must be delivered on a daily basis.
2. To obligate marketers and distributors to maintain a minimum storage inventory to supply fuels to gasoline stations and final users. During the first 15 days of December 2019, the marketing and distribution permit holders must report to the Energy Regulatory Commission their existing inventories to determine their storage obligations for 2020. Retailers will not be subject to this obligation.

To establish the days of minimum storage obligation, Mexico has been divided into eight regions, based on import logistics processes, transportation infrastructure, and onshore and maritime storage facilities. The eight regions are the following:

1. Northwest: Baja California, Sonora, Sinaloa and Nayarit.
2. North: Chihuahua and Durango.
3. Northeast: Coahuila, Nuevo Leon, Tamaulipas and San Luis Potosí.
4. West: Zacatecas, Aguascalientes, Jalisco, Guanajuato, Michoacan and Colima.
5. Central: Queretaro, Hidalgo, Tlaxcala, Puebla, Morelos, State of Mexico, and Mexico City.
6. Gulf of Mexico: Veracruz and Tabasco.
7. South: Guerrero, Oaxaca and Chiapas.

8. Southeast: Campeche, Yucatan and Quintana Roo.

The minimum storage obligation will be determined on a regional basis and will enter into force in January 2020 for all regions. Between January 2022 and 2025, the storage obligation will increase gradually according to the following chart:

| Region | 2020 | | | 2025 | |
|----------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Minimum Inventory (Days) | Minimum Inventory (Days) | Quarterly Average (Days) | Minimum Inventory (Days) | Quarterly Average (Days) |
| Northwest | 5 | 8 | 9 | 11 | 13 |
| North | 5 | 8 | 9 | 11 | 12 |
| Northeast | 5 | 8 | 9 | 10 | 12 |
| Central | 5 | 8 | 9 | 10 | 12 |
| West | 5 | 8 | 9 | 11 | 13 |
| South | 5 | 9 | 10 | 13 | 15 |
| Gulf of Mexico | 5 | 8 | 9 | 10 | 12 |
| Southeast | 5 | 9 | 10 | 13 | 14 |

SENER will implement a mechanism to allow marketers and distributors with excess inventories to sell such inventories to other obligated parties through financial storage tickets. Obligated parties may satisfy their minimum storage obligation with tickets acquired from other marketers and distributors regardless of the region where they obtained the tickets.