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PRATT'S

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REPORT



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Mexican Ministry of Energy Announces First Bid for Electric Transmission Lines under the Energy Reform

*By Ariel Ramos, Lilia Alonzo, and Aldo A. Jáuregui**

For the first time, the Mexican Ministry of Energy will tender a private transmission line, with an approximate investment of \$1.1 billion, which will connect the isolated system of Baja California with the National Interconnected System. The authors of this article discuss the project.

For the first time, the Mexican Ministry of Energy will tender a private transmission line, with an approximate investment of US\$1.1 billion, which will connect the isolated system of Baja California with the National Interconnected System. Among other benefits, the interconnection of these systems will ensure energy availability in the Baja California peninsula, strengthen the energy exchange with North America and allow the integration of renewable energy in the region. The formal call was launched with the first draft of the bidding terms and contract in January 2018, the proposals will be presented in July and the bid decision will be announced in September.

BACKGROUND

Mexico's National Electrical System ("SEN") is composed of four electrical systems:

1. National Interconnected System ("SIN")—The country's largest electric grid, which goes from Puerto Peñasco, Sonora, to Cancún, Quintana Roo;
2. Baja California Electric System ("BC")—Electrically isolated from the SIN but interconnected to the electrical system of the western United States;
3. Baja California Sur Electric System ("BCS")—Electrically isolated

* Ariel Ramos is a partner in Mayer Brown's Global Energy Group and Banking & Finance practice focusing his practice on transactions related to power, oil and gas, finance, energy-related infrastructure, EPC, and Mexican energy reform. Lilia Alonzo is a senior associate at the firm and a member of the Global Energy Group advising clients on oil and gas, power, and corporate matters with a focus on Mexico. Aldo A. Jáuregui is an associate at the firm and a member of the Global Energy Group and Banking & Finance practice structuring, negotiating, and documenting strategic mergers, acquisitions, and joint ventures, as well as advising clients in the development and financing of complex infrastructure. Resident in the firm's Mexico City office, the authors may be reached at aramos@mayerbrown.com, lalonzo@mayerbrown.com, and ajauregui@mayerbrown.com, respectively.

from the SIN and BC; and

4. Mulegé Electric System (“SEM”)—Electrically isolated from the SIN, BC, and BCS.

REGULATORY FRAMEWORK

Mexico’s energy reform established, among other things, that the public sector is in charge, exclusively, of planning and controlling the SEN, as well as of the public service of transmitting and distributing electrical energy.

However, the new model provides that the Nation, through the Ministry of Energy or the carriers, can enter into contracts with individuals to carry out, on behalf of the nation, the financing, installation, maintenance, management, operation and expansion of the infrastructure necessary to provide the public transmission service.

PURPOSE OF THE PROJECT

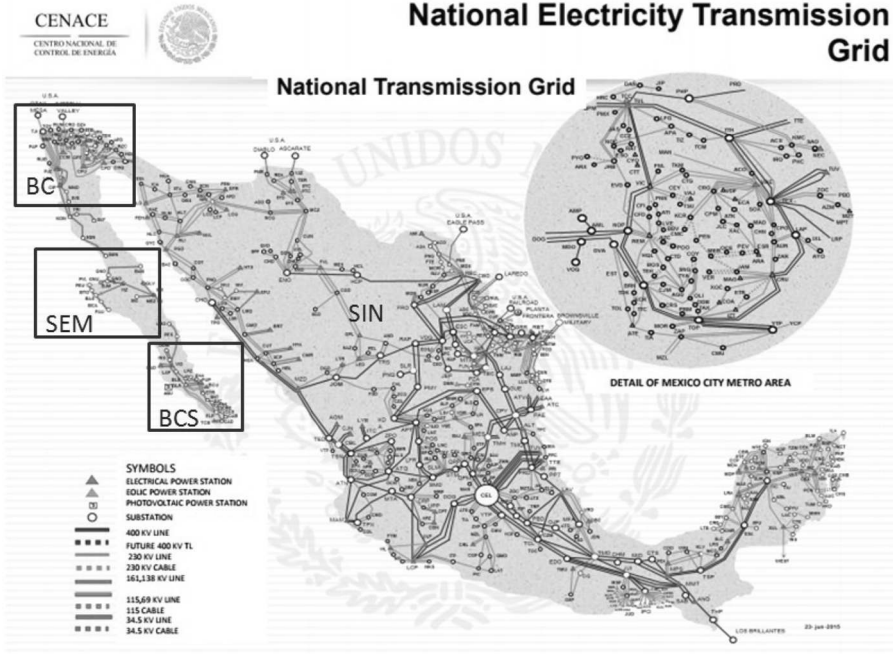
- Develop the infrastructure necessary to guarantee, in the short and medium term, the supply of electricity to the isolated systems in the peninsula of Baja California.
- Incorporate new projects using renewable energy, especially wind and solar, into the SEN.

DESCRIPTION OF THE PROJECT

- Connecting the BC with the SIN through a direct current link between the SE Cucapah in the Mexicali area and the Seri in the Hermosillo area.
- Creating a point-to-point direct current connection that will operate in a bipolar form with a capacity of 1,500 MW, at a voltage level of ± 500 kV, with an estimated length of 700 km.
- Constructing two converter stations with HVDC VSC technology adjacent to SE Cucapah and Seri, as applicable.

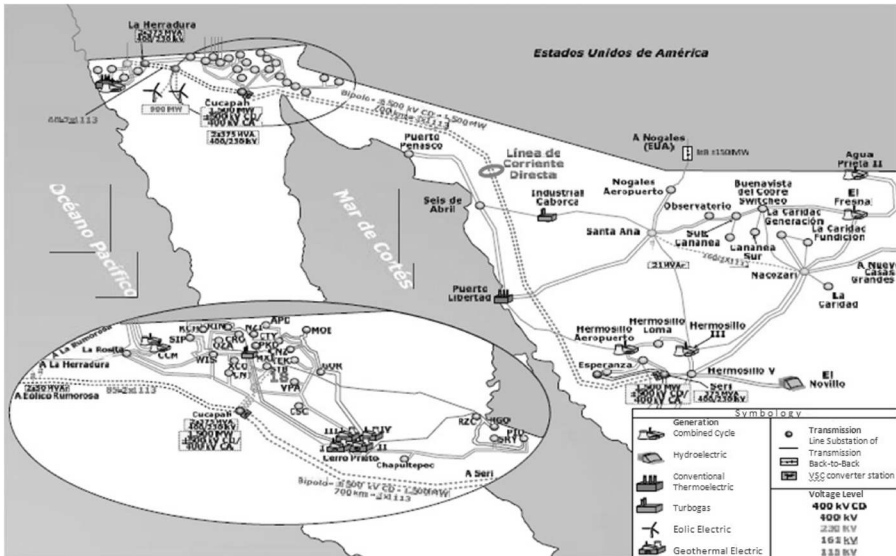
BID

- The contract would be awarded through an international public bid called by the Ministry of Energy.



- Under the DFBOT model (Design, Finance, Build, Operate, and Transfer), a private contractor would design, finance, construct, and operate the necessary infrastructure for a pre-established period.
- The Ministry of Energy would define the minimum design and functionality specifications based on the regulations approved by the Energy Regulatory Commission (“ERC”).
- The investment ratio would be sponsors at 20 percent and financiers at 80 percent.
- First, the technical proposals submitted by the prequalified parties would be evaluated, and then the envelopes with the economic proposals of the bidders whose technical proposals were accepted would be opened.
- The bidder that requests the lowest regular annual contract payment would be the winner.

FIRST BID FOR ELECTRIC TRANSMISSION LINES



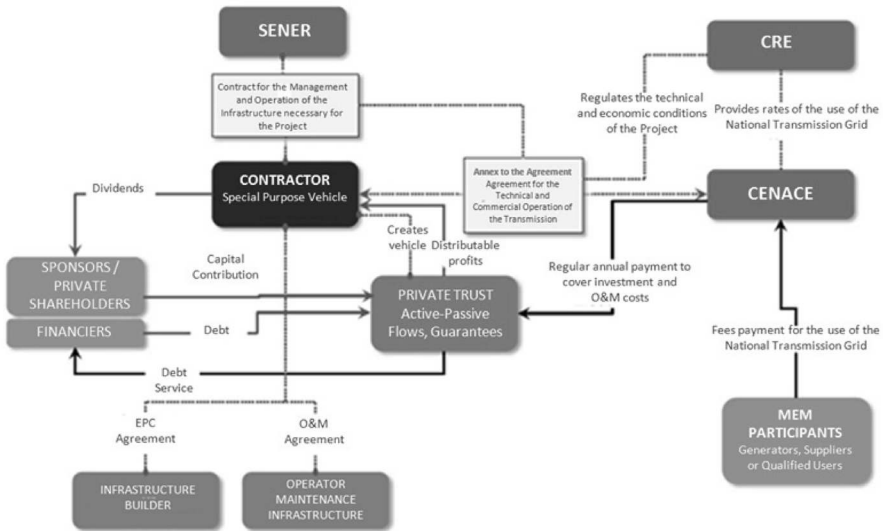
CONTRACT

- Term: 30 years as of the execution of the contract.
 - Contractor’s main obligations:
 - Development stage: Creating a trust where the contractor would be the settlor and the Ministry of Energy would be the beneficiary and in which all cash flows related to the project, as well as the physical assets necessary for the rendering of the services, would be contributed to the trust.
 - Operation stage: Performing the maintenance and operation activities of the infrastructure and equipment of the transmission line to comply with the service indicators provided in the Contract.
- Contractor’s main rights: Receiving from the National Energy Control Center (“NECOCE”) the regular annual contract payment requested in the economic proposal, with which it would cover its operational costs, pay debt service to its financiers and recover its capital investment. Such payment would be subject to an annual readjustment based on the increase of the Mexican NCPI.

STRUCTURE

- The regular annual contract payment would be paid monthly by NECOCE, according to the revenues collected by this body from the electricity market participants, who pay a regulated tariff approved by the ERC.

- Note that NECOCE employs tools for the management and administration of income risk, including a working capital fund and guarantees requested from market participants.



PROPOSED CALENDAR

ACTIVITY	DATE
Publication of Call and Terms	January 2018
Registration of Interested Parties	Until June 2018
Registration of Prequalified Participants	Until July 2018
Questions and Clarifications	Until July 2018
Submission of Technical and Economic Proposals	August 2018
Resolution of Technical and Economic Proposals	September 2018
Bidding Award	September 2018
Contract Execution	November 2018