

Mexico's Fourth Long-Term Power Auction: An Update on SLP-1/2018

Background

As part of Mexico's Energy Reform, on August 12, 2014, a new electricity law became effective. Prior to the law's enactment, the Mexican electric industry was governed by a restrictive legal framework that limited private sector participation and reserved most of the market for the state-owned Federal Electricity Commission (*Comisión Federal de Electricidad*, CFE). Now, the generation and wholesale of electricity takes place under a regime of free enterprise and open competition.

Power Auctions

Under the new electric industry regime, the National Energy Control Center (*Centro Nacional de Control de Energía*, CENACE), the regulatory agency managing the wholesale electric market, may call for competitive bidding processes in which (i) qualified users and power suppliers (including CFE-affiliate companies providing basic and qualified services) may present offers to purchase power, capacity and clean energy certificates (CELs, and along with power and capacity, the "Products"); and (ii) generation companies ("Generators") may present offers to sell Products. In this scheme, a power clearinghouse will be responsible for allocating offers to purchase and offers to sell, executing PPAs with both ends of the market.

To date, three auctions have been successfully completed. For reference purposes, the Third Long-Term Power Auction (2017) resulted in the

allocation of: (i) 5.49 TWh of power; (ii) 5.95 M CELs; and (iii) 593 MW of capacity.

Mexico's Third Long-Term Power Auction resulted in a power + CELs weighted average price of US\$20.57 MWh, one of the lowest on record, and a total estimated investment of US\$2.369 billion over the next three years.

Fourth Auction

On March 15, 2018, CENACE published the announcement of the Fourth Long-Term Power Auction, which will award PPAs with a term of 15 years (and 20 years in the case of CELs). On March 28, the Bidding Guidelines were published.

The Bidding Guidelines provide that market participants interested in purchasing Products must present a registration application and an offer to purchase before CENACE.

CFE Suministrador de Servicios Básicos, an affiliate entity of CFE, presented an offer to purchase (i) power in an amount up to 3,901,367 MWh/year; (ii) up to 3,901,367 CELs; and (iii) capacity in an amount up to 1,108.75 MW/year in the National Interconnected System (SIN), 220 MW/year in the Baja California System (BCA) and 79.05 MW/year in the Baja California Sur System (BCS).

Other market participants (including *Iberdrola*, *Menkent*, *Tuto Energy Trading*, *Servicios y Energía Mexico SYEM* and *FSE Suministradora Fénix*) also submitted offers to purchase Products, resulting in the following aggregate offers:

(i) power in an amount of 5,908,127 MWh/year; (ii) 5,908,127 CELs; and (iii) capacity in an amount of 1,679.0617 MW/year in SIN, 333.1622 MW/year in BCA and 119.7112 MW/year in BCS.

Mexico's Energy Regulatory Commission (*Comisión Reguladora de Energy*, CRE) has the authority to set maximum prices for Products acquisition through long-term auctions. Nevertheless, as in previous auctions, the CRE decided not to set maximum prices for the Fourth Long-Term Power Auction.

Generators interested in the sale of Products must submit a pre-registration application on or before **September 6, 2018**. This pre-registration application must include, among others, (i) proof of payment of applicable fees for participating in the auction, (ii) the delivery of a stand-by letter of credit as guarantee of offers submitted (SBLC), (iii) proof of financial capacity, (iv) experience in the electric power sector and (v) proof of the technical feasibility of the generating power centrals.

After pre-registration applications are submitted, CENACE will have 10 business days for their analysis, review and approval. Additional information from Generators may be requested. Results of pre-registration will be published on **October 26, 2018**.

It is important to mention that if the amount of Products offered by Generators is less than twice the amount of Products offered by purchasers, the regulatory agencies may reserve 32.54 percent of the offers to purchase for the next auction.

Pre-registered Generators must present their offers to sell on or before **October 31, 2018**, including only financial information therein.

The award of the PPAs will occur on November 14, 2018.

Clearinghouse

As mentioned above, a clearinghouse structure has been adopted for allocating buy and sell offers, executing PPAs with both ends of the market.

On April 27, 2017, CENACE assumed the functions of the clearinghouse on a temporary basis and until a private entity is awarded with a government contract as the operator of the clearinghouse.

In short, the clearinghouse will be a neutral agent, processing payments from purchasers and to awarded sellers and receiving and holding guarantees from both ends.

The clearinghouse has no financial responsibility before the parties, but specific procedures are established in applicable regulations to prevent damages to all parties caused by a failure of a buyer or seller to perform its obligations under the PPAs.

Applicable Regulations

- *Ley de la Industria Eléctrica*
- *Bases de la Licitación SLP-1/2018*
- *Bases del Mercado Eléctrico*
- *Manual de Subastas de Largo Plazo*
- *Manual de Registro y Acreditación de Participantes del Mercado*
- *Guía Operativa de la Cámara de Compensación para contratos asignados a través de Subastas de Largo Plazo*

Auction's Calendar

ACTIVITY	DATE
Publication of bidding rules	March 28, 2018
Publication of final version of bidding rules	June 1, 2018
Publication of final version of model contract	June 13, 2018
Deadline for pre-registration and sale offers	August 21, 2018
Publication of pre-registration certificates	October 26, 2018
Submission of economic proposals	October 31, 2018 November 5, 2018*
Bidding award	November 14, 2018
Contract execution	February 28, 2019

*Second phase

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