

Legal Update

CFE and the Amended Terms of Strict Legal Separation

On March 25, 2019, Mexico's Ministry of Energy (SENER) published an amendment to the Terms of Strict Legal Separation (TESLs) of the Federal Electricity Commission (CFE), which were originally published on January 1, 2016, as part of the secondary regulation required by Mexico's energy reform.

The purpose of this amendment to the TESL is to align CFE's operation to the new administration's policy to prioritize cost reduction and economies of scale. This amendment allows CFE's subsidiaries and affiliates (CFE Subsidiaries) to share information, employees and other resources in order to increase efficiency. So, as of March 26, 2019, the following changes have come into effect:

1. The CFE Subsidiaries may coordinate their efforts to develop and implement technologies for operational cost reduction;
2. CFE's directors, committees, CEO and employees should guarantee the strict legal separation of CFE Subsidiaries, while prioritizing lower prices for the end user;
3. The development or operation of power plants could be coordinated among CFE Subsidiaries with some exceptions; and
4. The investments of CFE Subsidiaries will not be evaluated on their own merits but rather on their effects on the CFE group and their contributions to lower prices for end users.

Distribution and Transmission

Per the TESL amendment, CFE is no longer allowed to enter into alliances with private parties for the development of transmission or distribution infrastructure. However, as this restriction is provided by regulations, SENER preserves its authority, provided by law, to approve alliances with third parties.

A relevant change provided by the TESL amendment is that CFE Distribución is now allowed to trade energy through an independent business unit, subject to a separate accounting system.

Generation

Power generation subsidiaries (GenCos) can share information and employees, and four existing GenCos can now consolidate their activities into one.

Temporary provisions allow asset and PPA reassignment among GenCos. Proposals related to these types of reassignments should be

submitted by the CFE CEO to SENER by May 25, 2019.

To effectively implement the TESL amendment using the reassignment of assets, other regulations and corporate governance documents issued by SENER and the CFE Board of Directors must be amended.

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