

## Energy Alert

September 14, 2015

### Guidelines for Mexico's Wholesale Electricity Market

On September 8, 2015, Mexico's Ministry of Energy (SENER) published the Electricity Market Guidelines (the "Guidelines") in the *Federal Official Gazette*. The Guidelines define and specify rules and procedures for the administration and operation of the Wholesale Electricity Market (the "Market") in Mexico. SENER prepared a draft of the Guidelines in February 2015; however, the final Guidelines published last Tuesday include valuable input from users, private companies and the Federal Electricity Commission.

#### Overview of the Guidelines

The Guidelines are divided into 19 sections and cover various aspects of the Market structure and operation, including the following:

- registration and accreditation of market participants, which is required in order to conduct transactions within the Market
- guarantees that market participants will be required to provide to ensure the performance and fulfillment of their obligations pursuant to the Guidelines
- provisions regulating access to the National Electric System, as well as the transfer of assets
- components of the short-term energy market, including general aspects of the offers for sale and purchase of electricity, virtual offers, bilateral transactions and offers from power plants, among others
- operation of the short-term energy market, including Day Ahead Market, Real Time Market and the rules controlling coordination with the natural gas market
- components and procedures for the operation of medium- and long-term auctions
- rules governing surveillance of the Market, which will be performed by an Independent Market Observer and a Market Surveillance Unit
- handling of breaches and resolution of disputes, including the procedures for suspension or restriction of a market participant's activities in the Market.

#### Key Aspects of the Guidelines

Under the Guidelines, the Market will be operated by the National Center for Energy Control (CENACE), and Market participants will be able to enter into agreements with CENACE to purchase and sell electric energy, related services, power, clean energy certificates and other relevant products. Participants may enter into these agreements as generators, marketers, suppliers, nonsupplier marketers or qualified

users. The implementation of the Market will be accomplished in several phases, some of which will begin as early as September 2015 (a testing phase) and others that will be delayed as far as 2018 or 2019.

Some of CENACE's obligations pursuant to the Guidelines are:

- plan and control the operation of the National Electric System pursuant to the provisions of Guideline 6, the Network Code and operational provisions issued by the Energy Regulatory Commission (CRE)
- report any monopolistic practices among market participants, any attempts by the participants to manipulate the Market or any other condition that may evidence lack of competition
- inform the Independent Market Observer and the Market Surveillance Unit if it detects any practices or actions that compromise the effectiveness of the Market
- inform CRE regarding any adjustments or amendments to the Guidelines that are necessary to fulfill the objectives of the Electricity Industry Act.

The Guidelines allow participants to purchase and sell energy and related products and services in two submarkets, known as the Real Time Market and the Day Ahead Market. The Hour Ahead Market will be available between 2017 and 2018.

Pursuant to the Guidelines, agreements for purchase and sale of power and energy with a term of up to three years shall be awarded to authorized market participants via medium-term auctions. Power and cumulative energy purchase and sale agreements with a term of up to 15 years, as well as agreements for the sale of clean energy certificates with a term of up to 20 years, shall be awarded via long-term auctions. Basic suppliers, qualified suppliers, last recourse suppliers and qualified users are the entities allowed to participate in the auctions.

The Guidelines also contemplate a coordinated effort between the gas sector and the electricity sector, although market participants are not released from applicable penalties should natural gas be unavailable to a participant at any given time, unless the participant's particular circumstances fall within the scope of the exceptions contemplated by the Guidelines.

Importantly, the Guidelines lay the foundation for the purchase and sale of clean energy certificates. Participants will be able to sell clean energy certificates at any price, but CENACE will not allow any participant to make a sale offer that surpasses the actual number of certificates in such participant's possession, pursuant to CRE's records.

The Guidelines are a significant step in the restructuring of Mexico's energy sector, which is aimed at creating an efficient, reliable and competitive electricity market, thereby improving the quality of the service for the benefit of the country and its consumers. These Guidelines will, in turn, give rise to the creation of rules and regulations containing procedures, manuals and processes that are essential to the operation of the Market.

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