



Mexico's New Electricity Market Guidelines

On February 24, 2015, the Mexican Ministry of Energy submitted, to the Federal Commission for Regulatory Improvement (*Comisión Federal de Mejora Regulatoria*, "COFEMER"), draft Guidelines (the "Guidelines") to be implemented for Mexico's electricity market. The draft Guidelines will be open to public comments in a public consultation forum for 20 business days, prior to publication in the *Federal Register*, at which time they will become valid and enforceable.

The Guidelines are defined as a generally applicable administrative provision and contain the principles of design and operation relative to the wholesale electricity market. Further, they articulate the rules and procedures market participants are required to follow.

The Ministry of Energy will carry out the implementation of the electricity market and initial Guidelines. However, the Ministry of Energy will transfer control of the electricity market to the National Center for Energy Control (*Centro Nacional de Control de Energía*, "CENACE"), which will be under the supervision of the Market Surveillance Unit (*Unidad de Vigilancia del Mercado*) of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) after the market is established.

The Guidelines are divided into 10 chapters providing the following information:

1. The implementation procedures of the different markets.
2. General provisions to be followed by market participants and CENACE.
3. Regulations to be followed for the sustainability of trust in the system, operational procedures in emergencies, minimum communications to be carried out between market participants and CENACE.
4. Special schemes for operating small electrical systems.
5. Market operations and related services.
6. Operative planning.
7. Long-term markets.
8. Parameters to be registered by electric power plants to provide a unity in market surveillance, and compliance with credit requirements.
9. Management of credit for market participants, restriction, suspension, and termination of contracts due to financial capabilities.
10. General guidelines for measuring the quality of invoicing.

The wholesale electricity market will be comprised of several components, which this *Commentary* summarizes below:

- Day-ahead market and real-time market for energy and related services.
- Power market.
- Clean energy certificates market.
- Mid-term auctions for energy.
- Long-term auctions for power, clean energy and clean energy certificates.
- Auctions for financial rights of transmission.

Day-Ahead Market and Real-Time Market

The Guidelines provide that the markets will be implemented in two separate phases. However, additional phases may be added at a later time, if the Ministry of Energy or CENACE determines they are required. The timeline for establishing these day-ahead and real-time markets is also provided in the Guidelines. The timeline contemplates a testing period beginning in September 2015, followed by the first phase, which contemplates actual market operations beginning in December 2015, and the second phase—introducing more open market operations—beginning in 2018.

During the first phase of the day-ahead market and real-time market, the following provisions, among others, will apply:

- No virtual offers will be permitted.
- Only import and export of energy transactions with a fixed program will be accepted in the day-ahead market.
- No recourses for controllable demand in the economic dispatch will be permitted.
- Gradual prices of scarcity may be applied through demand curves for reserves.
- Marginal prices of the day-ahead market and real-time market will be the lesser of the prices resulting from the dispatch program and maximum prices established in the market regulations.
- Offers in the real-time market may only vary from the offers in the day-ahead market for changes in the available capacities of producers.
- CENACE will provide biweekly invoices.

During the second phase of the day-ahead market and real-time market, the following provisions, among others, will apply:

- Virtual offers will be permitted, if prior validation was obtained from the market surveillance unit.
- Day-ahead and real-time markets will be complemented by hour-ahead markets.
- CENACE will provide weekly invoices.
- Import and export of energy transactions with fixed or dispatchable programming will be accepted in the day-ahead and hour-ahead markets.

Power Market

Similar to the day-ahead and real time markets, the Guidelines contemplate the operation of the power market to be implemented in two phases. A preliminary testing period will begin in October 2015. The test period will be followed by the first phase starting in November 2015, and the final second phase commencing in January 2017.

The first phase of the power market will have the following characteristics:

- The maximum price of power will be established in a simplified value.
- The closing price of power will be taken equally as the maximum price.
- The net price of power will be established as a simplified value.
- Power will be bought up to the amount required at such prices; in the event there is power available in excess of such quantity, the purchases will be prorated among the producers.

The second phase of the power market will have the following characteristics:

- The maximum price of power will be based on a complete analysis of the installed power stations.
- The closing power market price will be based on the offers received by the market participants.
- The net price of power will be based on an ex-post calculation of the rents to the reference producer, based on the real results of the day-ahead market.

- The amounts of purchases assigned to producers will be determined in function of competitive offers.

Clean Energy Certificates Market

The market for clean energy certificates will be implemented in a single phase in 2018, based on the terms established by the Energy Regulatory Commission for the calculation of the clean energy certificates to be granted to each entity and the corresponding obligations derived therefrom. Further, the Energy Regulatory Commission will determine the manner in which these Certificates will be traded, represented, and evidenced.

Mid-Term Auctions for Energy

Mid-term energy auctions are auctions in which basic suppliers and other entities responsible for baseloads may enter into hedging agreements with producers and sellers for electric power with an effective term of three years. These auctions will be implemented and started in a single phase, not including the market testing period beginning in September 2015. Actual market operations will commence in October 2015 (for contracts whose effective term begins in 2018).

Long-Term Auctions for Power, Clean Energy, and Clean Energy Certificates

Long-term energy auctions are auctions in which basic suppliers and other entities responsible for baseloads may enter into hedging agreements with producers for power and clean energy with an effective term of 10 years. Similar to mid-term energy auctions, long-term energy auctions will be implemented in a single phase, with prior market testing beginning in September 2016. Actual market operations will commence in October 2016.

Auctions for Financial Rights of Transmission

Financial transmission rights grant their holders the right and obligation to collect or pay the difference resulting from the values of the components of marginal congestion to the local

marginal prices between an origin knot and a destination knot. They may be acquired through assignments (if holder had rights prior to the enactment of the Guidelines), auctions, or funding for the expansion of the network. They will be made available to the public in two phases, with a preliminary phase for direct assignments of Financial Transmission Rights to commence in August 2015. The first phase for the auction of Financial Transmission Rights will be carried out yearly, commencing in September 2015. This first phase contemplates contractual effective terms of one year, three years, and 10 years. Following the first phase, the second phase will commence in January 2017 and will hold auctions on a monthly basis by introducing monthly contractual terms.

The Guidelines will have the highest hierarchy among the regulations for the wholesale electricity market after the Law of the Electric Industry. The Ministry of Energy, CENACE and the Energy Regulatory Commission have yet to issue additional regulations to further clarify the Guidelines. Such regulations may include:

Market Practices Manual. Intended to establish the principles for calculations, instructions, rules, examples, and procedures to follow in the administration, operation, and planning of the wholesale electricity market. Each chapter in the Guidelines would be further detailed in the Market Practices Manual.

Operative Guides. Intended to establish the formulas and procedures that, due to their complexity and specificity, are contained in documents other than the Market Practices Manual.

Criteria for Operative Procedures. Intended to establish specifications, technical notes and operative criteria required for the implementation of the Guidelines, the Market Practices Manual, and the Operative Guides, in the design of software for every day operations.

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