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## LEGAL UPDATE

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September, 2015

### GUIDELINES OF THE ELECTRIC MARKET

On 8 September 2015, in accordance with the third transitory article of the Electric Industry Law ("LIE", for its acronym in Spanish, "*Ley de la Industria Eléctrica*"), the Ministry of Energy published the Guidelines of the Market (the "Guidelines", "Bases del Mercado"), as the general administrative provisions which establish the principles for the design and operation of the so-called Wholesale Electricity Market ("MEM", for its acronym in Spanish, "*Mercado Eléctrico Mayorista*"), including those provisions related to the auctions referred in the LIE.

The Guidelines are part of the Rules of the Market and define the rules that all market participants ("PM") as generators, traders, suppliers, non-supplier traders or qualified users, as well as the competent authorities must comply with, and the procedures they must follow in order to maintain the proper management, operation and planning of the MEM. Pursuant to the Guidelines, which will subsequently be supplemented by guidelines of market practices, operational guidelines and criteria and operating procedures, the various participants of the electricity industry will be able to carry out activities which are now open to private participation, due to the so-called Energy Reform that took place in late 2013, and which were legislated and regulated through the LIE and its regulations (such activities include, among others, transactions of sale of electricity and related services, power, financial transmission rights and clean energy certificates).

The Guidelines were classified into 19 blocks and contain a comprehensive list of topics that define the way in which the National Energy Control Center ("CENACE" for its acronym in Spanish "*Centro Nacional de Control de Energía*") and the PM will carry out activities within MEM. Such blocks were classified as follows:

- **Guideline 1.** Establishes the nature of the guidelines and briefly describes their content; this block indicates the stages and the expected terms for the implementation of the MEM; additionally, this section establishes the structure of the Rules of the Market, as well as how the same will develop.
- **Guideline 2.** It contains the list of defined terms and the meaning of each one of them; this block also establishes certain basic rules of interpretation.
- **Guideline 3.** Sets the procedure for those parties interested in participating in the MEM to be registered as PM and to be certified to carry out transactions therein. In addition to the execution of the corresponding agreement with CENACE, in order to perform transactions within the MEM, it is essential that all PM duly guarantee the obligations assumed before CENACE.
- **Guideline 4.** Describes in detail how all PM should guarantee compliance with the corresponding obligations assumed before CENACE regarding their participation in the MEM. This block also indicates the instruments that may be used as insurance and the mechanisms that CENACE will use to manage the risk of default on obligations of any PM.

- **Guideline 5.** Describes the conditions of access to the National Electric Grid ("SEN", for its acronym in Spanish "*Sistema Eléctrico Nacional*"). This block sets forth the criteria for the interconnection of power plants and the connection of loading centers, as well as the procedures for the transfer of assets between all PM.
- **Guideline 6.** Establishes the criteria for CENACE to determine the offer of cost of opportunity for certain limited energy units, based on the analysis of the optimal use of its resources. Such offers shall be sent by the representatives of limited energy resources to CENACE in the Short-Term Energy Market (as such term is defined in the LIE).
- **Guideline 7.** Sets forth the principles and rules to be followed for the establishment of special schemes for the operation of small electrical systems which integrate the SEN as well as for the control area of Baja California and for the interconnected system of Baja California Sur.
- **Guideline 8.** Describes the basic models used in the MEM, including the physical grid model representing the electrical parameters and topology of the grid elements and business model of the market, which will adjust the physical grid model to the requirements of unit allocation, the generation dispatch and operation of the MEM. In this block the invoicing model that complements the business model of the MEM, adding power stations and loading centers, which are indirectly modeled and not individually included in the physical grid model, is included.
- **Guideline 9.** Includes a detailed description of the supplies required for the operation of the Short-Term Energy Market (as such term is defined in the LIE) as well as the offers for the sale and purchase of energy and related services, virtual offers, bilateral transactions and import/export transactions and the calculation of opportunity costs. This block also includes a description of the forecasts used by CENACE.
- **Guideline 10.** Describes in detail the operation of the Short-Term Energy Market (as such term is defined in the LIE), including the regulation of bequeathed interconnection agreements (as such term is defined in the LIE) and related services included in this market. This block also includes aspects of coordination of the MEM and the natural gas market, taking into account, among other factors, the feasibility of obtaining firm gas supply and transport, and the availability of reprogramming availability and scheduled maintenance in the supply and transport of gas.
- **Guideline 11.** Describes the operation of the Market for Power Balance.
- **Guideline 12.** Describes the market for clean energy certificates, which will seek to ensure the installation of generation capacity to meet the minimum requirements of the Energy Regulatory Commission ("CRE" for its acronym in Spanish "*Comisión Reguladora de Energía*").
- **Guideline 13.** Describes financial transmission rights, which will be acquired through assignment (bequeathed), auctions or by funding the expansion of the grid.
- **Guideline 14.** Describes medium and long term auctions, which will allow the participation of those entities responsible for freight who intend to purchase, under this mechanism, electric coverage agreements for electricity, power and clean energy certificates. A medium-term auction will be held annually for the coverage of electricity and power for the next three years and a long-term auction will be held annually for agreements for the coverage of power, electricity from clean

energy resources and clean energy certificates. The delivery of such products will begin three years after the auction takes place and will last for fifteen or twenty years.

- **Guideline 15.** Describes the terms of access to information in the MEM.
- **Guideline 16.** Describes the characteristics that tax metering systems must comply with (invoicing quality), including responsibilities concerning installation, verification and maintenance, as well as for the acquisition, processing and delivery of metering records from settlement processes, which is essential to carry out the settlement of all transactions carried out within the MEM.
- **Guideline 17.** Describes the procedures to be carried out by CENACE to issue the corresponding payments to all PM, thus maintaining the accounting of the MEM on a balanced basis.
- **Guideline 18.** Describes the responsibilities that the authorities responsible for the surveillance of the MEM, the monitoring unit and the independent monitor of the MEM will have regarding performance monitoring, including the verification of offers made by the PM. This block refers to the Code of Conduct to be observed by PM, carriers, distributors and CENACE.
- **Guideline 19.** Establishes the corresponding procedures for the restriction or suspension of participation in the MEM for those who fail to comply with their obligations, and for the termination of contracts with PM. This block also describes the procedures for the settlement of disputes between CENACE and carriers or distributors, or between the PM and carriers or distributors.

Finally, we consider that, with the publication of these Guidelines, our country sets an essential component of the legal framework that will govern the new Mexican electric industry.

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