

### National Strategy for the Electricity Sector

Mexico City, November 21, 2024

Based on the recent amendments to articles 25, 27 and 28 of the Mexican Constitution<sup>1</sup>, the federal government presented its "National Strategy for the Electricity Sector" (the "Strategy").

The presentation of the Strategy has two main objectives of the federal government. First, it seeks to highlight the efforts made during the administration of former President Andrés Manuel López Obrador and the need to carry out energy infrastructure works to meet the country's future demand and to take advantage of the opportunity represented by nearshoring. Second, it intends to send a message to attract private investment in the electricity sector, identifying opportunities and establishing clear rules. It is expected that the content of the Strategy will be reflected in the secondary laws that will be issued or modified in the following 180 days.

#### I. Axes

The Strategy is divided into four main axes:

1. Reinforcing the Planning of the National Electricity Sector: Planning is considered key to promoting the development of the electricity sector with the State as the governing body of energy policy. This policy will seek, among other things, to promote the energy transition to renewable energies.
2. Energy Justice: The aim is to ensure that electricity rates do not exceed inflation, as well as to implement support programs and schemes for social and community purposes.
3. Reliability and Safety of the National Electric System: The Federal Electricity Commission (*Comisión Federal de Electricidad*) ("CFE") will oversee the reliability, safety and continuity of the National Electric System through, among others, the establishment of technical, operational and strategic actions of a preventive nature, the execution of an annual maintenance program for power plants to optimize economic resources and the timely acquisition of fuel inventories.

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<sup>1</sup> See: <https://www.galicia.com.mx/links/publicacion?p=932>.

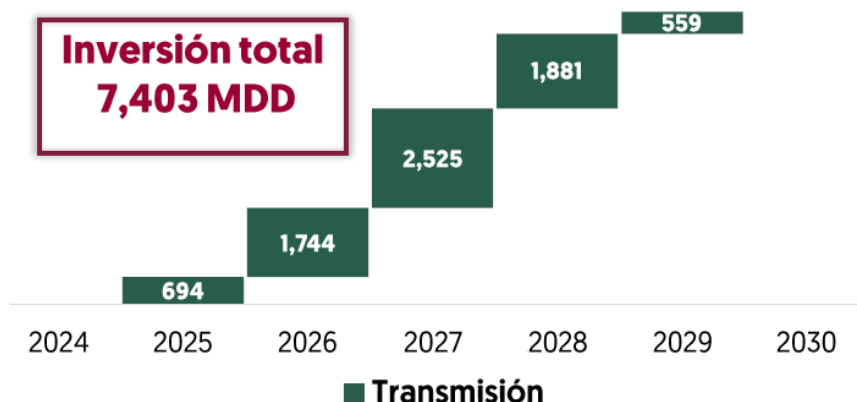
4. Clear Rules to Ensure and Increase Private Investment: Forms and limits of participation of private investment are described.

The Strategy is based on the premise that by 2030, the country's electricity demand will increase significantly to reach 64,979 MW. To meet the larger demand, the federal government developed a "2025-2030 Expansion Plan" that supposedly considered, among other things, the Gross Domestic Product by sector, development poles (including the opportunity for nearshoring), fuel prices, and population growth and the number of users. Unfortunately, the "2025-2030 Expansion Plan" has not been made public, although, as provided for in the Strategy, it considers different scenarios in which renewable energies could represent from 32% to 45% of the country's installed generation capacity.

For the same period, the Strategy considers an aggregate investment by CFE of approximately \$23.4 billion Dollars, which will be allocated to three main areas:

- Generation: \$12.3 billion to add 13,024 MW of generation capacity.
- Transmission: \$7.4 billion for reinforcement of infrastructure (9,750 MVA, 5,582 MVar, 6,261 km-C) in the National Transmission Network (*Red Nacional de Transmisión*) to allow the interconnection of new projects and meet domestic demand.
- Distribution: \$3.6 billion for the incorporation of substations, transformers and feeders.

In transmission, the investment profile seeks to address reinforcement works in the Northern System (composed of the Northern, Northeastern, Northwest, and Baja California Regional Control Offices) for an approximate amount of \$3.9 billion Dollars (2,375 MVA, 4,925 MVar, 3,445 km-C) and in the Southern System (composed of the Central, Eastern, Western, and Peninsular Regional Control Offices) for the amount of \$3.5 billion Dollars (7,375 MVA, 657 MVar, 2,816 km-C). The investment will be made in stages as follows:



At this point, the Strategy does not explain how CFE intends to finance the multi-million Mexican Peso investments required, nor does it provide any kind of guarantee of their execution. This will be an important factor to inform in order to trigger private investment in the sector.

## II. Rules for Private Participation

The Strategy defines news forms of participation by individuals in the electricity sector:

1. Limit of Participation: Private parties will be able to participate with a percentage of up to 46% in electricity generation. In terms of the Strategy, this means that, by 2030, private parties will be able to add renewable energy generation of between 6,400 MW and 9,550 MW, which is equivalent to an investment of between \$6 and \$9 billion Dollars. Private parties' participation will be conditional on certain energy transition scenarios, and, in the case of renewable energies, it is established that private parties must maintain 30% of storage to contribute to the reliability of the National Electric System.

The Strategy is not clear with respect to the measurement of the percentages that will correspond to CFE (54%) and to private individuals (46%). On the one hand, within CFE's 54%, the Strategy clearly recognizes the generation of the 13 recently acquired Iberdrola power plants, even though these are neither owned nor operated by CFE. On the other hand, it is silent as to whether the 54% of CFE includes the generation of independent power producers that operate under the now overridden Public Electricity Service Law ("LSPEE"), at least while the respective contracts remain in force, some of which begin to expire as of 2025. The strategy also fails to explain if the contracts entered into by CFE Suministrador de Servicios Básicos, a subsidiary of CFE, as a result of the three long-term auctions provided for in the Electric Industry Law ("LIE") are also considered in CFE's 54%.

On the other hand, as regards to the percentage of back-up power (30%) required for private projects, the Strategy suggests that this requirement will be applied “as a matter of course” to all new renewable energy generators. Ideally, the regulation issued for this purpose should delegate this decision to the National Energy Control Centre (“CENACE”), which oversees the operation of the National Electric System, and the determination of the infrastructure works for the interconnection of power plants.

2. Exempt Generators and Self-Consumption: The strategy emphasizes the aim of encouraging isolated consumption and distributed generation by establishing new limits and rules for exempt generators and for self-consumption:

- a. Exempt Generators: Households and small businesses would benefit by increasing the generation of electricity for personal consumption to 0.7 MW (previously 0.5 MW), without the need for a permit.
- b. Self-consumption without surpluses: Production centers and industrial parks will be allowed to generate electricity for self-consumption on site from 0.7 MW and 20 MW. Power plants that utilize their production under this scheme will not be able to sell their surpluses to the grid, as such, it would seem that they will not be able to interconnect to the National Transmission Network or to the General Distribution Networks (*Redes Generales de Distribución*) as currently permitted by article 23 of the LIE for power plants that allocate part of their production for isolated supply purposes.

Since this new generation model requires isolating the generating power plant from the National Electric System, the reason for limiting the generation capacity to 20 MW is not clear. This condition could rule out the use of this model for facilities that require large volumes of electricity, such as data centers or large industrial parks.

- c. Self-Consumption with Connection to the Grid: Generators that need to connect to the National Transmission Network or the General Distribution Networks will be allowed to supply companies for their self-consumption. These generators must pay rates for the use of CFE’s transmission infrastructure.

3. Private Participation Schemes

- a. Long-Term Contracts: Private generators may enter into long-term contracts with CFE for the commitment of generation capacity and the sale of energy. These

contracts are expected to have similar characteristics to those entered into by the CFE under the independent production modality under the LSPEE.

- b. Mixed Producers: CFE will be allowed to participate in mixed generation projects (public-private) in which CFE will participate in the investment with a percentage of at least 54%.
- c. Generators for the Wholesale Electricity Market: Private generation will continue to be permitted through the Wholesale Electricity Market. This generation will be subject to compliance with reliability and backup requirements and must be carried out in accordance with a certain National Energy Plan.

### **III. Other relevant topics**

In addition to the above, the Strategy addresses the following issues:

1. Administrative Simplification: In order to facilitate the participation of private investment in the electricity sector, the Strategy proposes the development of a “one-stop shop” and the establishment of an administrative simplification strategy with the inter-institutional participation of the industry’s authorities and regulators (Ministry of Energy (“SENER”), the Energy Regulatory Commission (“CRE”), CENACE and the Ministry of Environment and Natural Resources, among others) in order to reduce the number of procedures, timeframes and costs. The Strategy ensures that the regulators, as reorganized under new legislation, will have their technical independence guaranteed.
2. Self-supply: The Strategy establishes that generators that currently operate under the figure of self-supply (*autoabastecimiento*), under the LSPEE and protected by the LIE, must migrate their operation to the schemes regulated by said law. This change is not new, since the previous government sought to eliminate this modality, accusing it of being illegal and of benefiting from subsidized transmission rates (*porfeo*). It will be necessary to understand the process that the federal government seeks to implement to achieve this migration, which must be agreed upon with the generators who operate under permits validly issued by the CRE. If the intention of the federal government is to force migration by decree, it is anticipated that the generators that operate in this modality, which are many, will initiate legal actions to protect their interests, arguing, among others, the retroactive application of a new regulation to their detriment. Ideally, the federal government and CFE should reconsider this idea since the positive efforts of the Strategy could be affected by a wave of claims from investors who might be interested in participating under the new regulation.

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