

Suspension / Non-Authorization Decision for Preoperational Tests for Wind and Solar PV Power Plants in the National Electric System

Mexico City, May 4, 2020

National Center of Energy Control Resolution to secure the efficiency, quality, reliability, continuity and safety of the National Electric System

On May 1, 2020, the National Center of Energy Control (*Centro Nacional de Control de Energía*) ("CENACE") published certain resolution in the public domain area of the Market Information System (*Sistema de Información del Mercado*) (the "Resolution") whereby, based on the contingency resulting from the preventive actions to mitigate and control the health risks associated with the SARS-CoV2 (COVID-19) virus epidemic as well as an alleged reduction in energy consumption, and in order to strengthen the reliability of power supply, CENACE determined the implementation of a series of actions and strategies for the operational control of the National Electric System (*Sistema Eléctrico Nacional*) ("SEN"), which are further defined in the Sole Annex attached to the Resolution (the "Technical Annex").

Among the actions to be implemented by CENACE, it is important to highlight that, as of May 3, 2020, preoperational tests of wind and solar photovoltaic power plants, either currently undergoing preoperational tests to reach commercial operation or yet to start such process, will be suspended.

The considerations of the Technical Annex attached to the CENACE Resolution make reference to certain failures in the National Interconnected System (*Sistema Interconectado Nacional*) that resulted in generation outages or power supply interruptions. Some of the failures/events described in such technical annex occurred in 2019, that is, before the COVID-19 epidemic. In terms of the Resolution, CENACE expressly states that intermittent generation from wind and solar photovoltaic power plants affects the reliability of the SEN as well as the sufficiency, quality and continuity of the power supply, and further establishes that generation facilities with such technologies do not provide any electricity grid inertia nor primary frequency response.

The Resolution has some deficiencies that should be clarified. For example, the Resolution does not define a specific term during which preoperational tests for wind and solar photovoltaic power plants will be suspended or not subject to authorization. Moreover, the Resolution is not clear either on which are the types of tests that will be suspended or not authorized – although it is inferred from the Resolution that all kinds of tests prior to commercial operation date will be restricted. Likewise, it seems that the action adopted by CENACE consisting of suspending or not authorizing preoperational tests for power plants with these technologies applies generally throughout the SEN without making any distinction among specific transmission regions, influence areas or specific interconnection points, and without elaborating on any reasons or causes. Finally, CENACE does not propose any solution to the situation that it intends to address through the Resolution, thus, there is actual concern for wind and solar photovoltaic facilities that are currently under development about the feasibility of starting preoperational tests and reaching commercial operation.

The Resolution includes, among others, the following actions and strategies:

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- i. The instruction of operation of the National Transmission Grid (*Red Nacional de Transmisión*) within its design capacity;
- ii. The operational limits of the main “transmission corridors”, based on the availability of generation assets, will be operated at magnitudes determined without depending of Remedial Action Schemes (RAS)¹;
- iii. Under an operational condition where there are not enough generation resources in certain zone, region or electric system that integrates the SEN, transmission limits determined based on RAS will be activated;
- iv. In order to control voltage regulation and reduce the opening of transmission lines, as well as to add electricity grid inertia and currents for short circuit failures, “must run” power plants will be used in certain regions of the SEN;
- v. In those isolated electric systems within Mexico (*i.e.*, the Baja California Interconnected System, the Baja California Sur Interconnected System and the Mulegé Interconnected System²), with integrated wind and solar photovoltaic power plants, actions and strategies (not defined in the Resolution) will be implemented for strengthening the sufficiency, quality and continuity of the power supply; and
- vi. Scheduled licenses in the National Transmission Grid will be assessed in order to determine their feasibility, dates and hourly periods for purposes of maintaining the reliability of the SEN without depending on RAS upon an N-1 contingency (failure of one element or equipment within the grid).

The legal, financial and technical effects, implications and consequences of the implementation of the Resolution are still uncertain but they are expected to impact negatively the development of intermittent renewable energy facilities, particularly, as a result of the suspension of the preoperational tests of those wind and solar photovoltaic power plants that, due to their advanced stage in terms of investment and construction, have already commenced with the testing period to reach commercial operation in the National Transmission Grid or were in the process to start them. These potentially affected projects include merchant power plants and several projects awarded with power hedging agreements in the long-term auctions tendered by CENACE, as well as some projects under the (grandfathered) self-supply scheme.

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¹ Remedial actions include curtailing/tripping generation, underfrequency load shedding, tripping transmission lines, curtailing/tripping generation due to low frequency and undervoltage load shedding.

² It is considered a Small Electric System (*Pequeño Sistema Eléctrico*).