

Energy Reform 2025 – Electricity Sector

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On January 29, 2025, President Claudia Scheinbaum submitted to the Senate a major bill for the enactment of a package of new secondary laws concerning the Mexican energy industry, and a series of amendments to other related laws (the "Bill"). This newsletter focuses on the part of the Bill relating to the electricity sector, in particular the new proposed Law of Comisión Federal de Electricidad ("LCFE") and Electricity Sector Law ("LSE"). In subsequent newsletters we will address the matter related to the hydrocarbons sector and other areas of the energy industry.

The main purpose of the Bill is to harmonize the secondary laws concerning the energy industry with the constitutional reform published in the Federal Register ("DOF") on October 31, 2024, regarding strategic areas and companies, and the constitutional reform published in the DOF on December 20, 2024, regarding administrative simplification.

These constitutional reforms provided for the following changes, among others:

- the transformation of Comisión Federal de Electricidad ("CFE") and Petróleos Mexicanos ("Pemex") into State-owned public companies, with a vertically integrated structure, establishing that their activities will not be considered monopolistic;
- establishing the exploitation of lithium as an exclusive strategic area of the State
- establishing the prevalence of CFE in the generation of electricity and the prohibition of profit in the provision of essential services;
- establishing that the planning in the energy sector will be binding, under the leadership of the Ministry of Energy ("SENER")
- establishing the internet service provided by the State as a new strategic area;
- establishing the basis for the Energy Regulatory Commission and the National Hydrocarbons Commission to cease to exist, transferring their functions to SENER.

Law of Comisión Federal de Electricidad

The purpose of the new proposed LCFE is to regulate the organization, administration, functioning, operation, control, evaluation and accountability of CFE, as a State-owned public company, as well as to establish its special regime. The following are some of its most important aspects:

- CFE, as a State-owned public company, will be an entity of the Federal Public Administration sector under SENER, with technical, operational and management independence, legal personality, special regime and its own assets, whose purpose is to procure energy justice for the people of Mexico and the sustainable development of the activities of generation, storage, transmission, distribution, marketing and supply of electricity, as well as to contribute to the provision of internet and telecommunications services with the Mexican State.

The essence of CFE will be to comply with its social responsibility and guarantee the continuity, accessibility, safety and reliability of the electricity utility service and its activities do not constitute monopolies.

- CFE will directly provide the electricity transmission and distribution utility service and will directly perform the basic supply and marketing activities. In addition, CFE may carry other activities necessary for the fulfillment of its purpose, in Mexico or abroad, directly or through affiliates, companies in which it has a minority interest or by entering into contracts, agreements, alliances, associations or any legal act, with individuals or legal entities of the public, private or social sectors, domestic or international, which may include any of the terms permitted by applicable law.

- With respect to activities related to transmission and distribution in particular, CFE may enter into contracts with its subsidiaries or with individuals to carry out, among others, the installation, maintenance and expansion of the



necessary infrastructure. It may also carry out such activities in association or alliance with third parties, through affiliates or companies in which CFE has a minority interest or other forms of association.

- CFE will be managed and administered by:
 - A Board of Directors composed of the heads of SENER (who presides and has a casting vote), the Ministry of Finance and Public Credit ("SHCP"), the Ministry of Environment and Natural Resources, the Ministry of Science, Humanities and Technology, the General Director of Pemex, two independent board members proposed by the President and ratified by the Senate, and one board member appointed by CFE's workers.
 - A General Director, responsible for the management, operation, functioning and execution of CFE's objectives, in accordance with the strategies, policies and guidelines approved by the Board of Directors. The General Director will be appointed by the President.

In addition, several committees of the Board of Directors are contemplated (including new committees for Affiliates and Sustainability), and a special pricing committee composed of two representatives of SHCP and a representative of SENER, which shall issue a favorable opinion regarding the prices of the products and services produced or rendered by CFE.

- The Auditing Committee, an Internal Auditor and an External Auditor will be responsible for monitoring and auditing CFE and its affiliates. Each of the Internal Auditor and the External Auditor will be headed by a person appointed by the Board of Directors, at the proposal of the Auditing Committee. The Federal Superior Auditing Office will have authority to audit CFE and there will be an Examiner appointed by the Minister of Anti-Corruption and Good Governance, who will evaluate the performance of CFE, its Board of Directors and its committees, and will submit an annual report to the House of Representatives.

- A special regime is established for CFE regarding affiliates, remuneration and austerity, acquisitions, leases, services and works, assets, administrative responsibilities, budget and accounting, debt, and sustainability:

- Affiliates will be those companies in which CFE has an interest of more than 50%, which may be incorporated under Mexican or foreign law. Such affiliates will not be parastatal entities and their creation, merger, spin-off or liquidation shall be authorized by the Board of Directors, at the proposal of the Chief Executive Officer.
- In matters of acquisitions, leases, contracting of services and works, the proposed LCFE establishes that the Law of Acquisitions, Leases and Services of the Public Sector and the Law of Public Works and Related Services will not be applicable and the corresponding procedures will be governed by the provisions issued by the Board of Directors, in accordance with the guidelines established in the LCFE itself. The acquisitions, leases and contracting of services and works will be awarded through open bids, except in the exceptional cases established by the LCFE.
- The acts that are developed within the contracting procedures up to the time of the award, as well as the acts tending to the execution of the relevant contract will be of an administrative nature. Once executed, the contracts and all acts or aspects deriving therefrom are of a private nature and are governed by the commercial or private law.
- The acquisition of electricity and associated products will be governed by the mechanisms established in the LSE and the transactions carried out in the wholesale electricity market will be governed by the Market Rules and the specific regulations that regulate them.
- CFE's real estate, personal property and bank accounts will be subject to the public domain regime of the Federation and are therefore unseizable and not subject to adverse possession.

- CFE will have budgetary autonomy and will be subject only to the financial balance and the personal services spending ceiling approved by the House of Representatives, as well as the special budgetary regime set forth in the LCFE. CFE will not be subject to the General Law of Governmental Accounting, so international financial reporting standards shall be applied.

- CFE's public debt obligations will not be obligations guaranteed by the Mexican State. The Board of Directors will approve, at the proposal of the General Director, the general characteristics and policies for the contracting of direct and contingent public debt, subject to the rules established in this regard in the LCFE.

- CFE and its subsidiaries shall, among others, have a program to reduce the environmental impact of their activities, a regulatory compliance program and a Code of Ethics, shall contribute to the sustainable development and social welfare of the communities where they operate, and shall establish and implement due diligence measures in business or commercial agreements with third parties.

- CFE will be subject to the applicable laws regarding transparency and access to information, oversight and accountability and anti-corruption, in order to prevent, identify, investigate and punish acts or omissions that contravene them. In addition, the Board of Directors shall provide the necessary measures to make available to the general public, on a regular basis and through its website, updated information that allows the general public to know the financial, administrative, operational, economic and legal situation of CFE and its subsidiaries, as well as their risks, in accordance with the Securities Market Law and the administrative provisions applicable to securities issuers.

- Domestic disputes involving CFE will be subject to the jurisdiction of the Mexican federal courts and CFE is exempted from granting the guarantees required by law to the parties, even in cases of judicial disputes. However, CFE may agree to alternative means of dispute resolution, including arbitration clauses or commitments. In the case of legal acts or contracts that take effect or are executed outside of Mexico, CFE may agree to the application of foreign law, the jurisdiction of foreign courts in commercial matters and enter into arbitration agreements.

The subsidiary productive enterprises of CFE will be extinguished when the LCFE becomes effective and CFE will be subrogated in all their rights and obligations. Within 30 days following the installation of the Board of Directors, the Director General shall submit, for the approval of the Board of Directors, the program and scheme for the organizational restructuring of CFE, its Organization Statute and the necessary appointments.

Electricity Sector Law

The proposed LSE will have the purpose of regulating (i) the planning and control of the National Electric System ("SEN"), the electricity transmission and distribution public utility service, the basic supply and the operation of the Wholesale Electricity Market ("MEM") (as exclusive strategic areas and activities of the State), and (ii) the other activities of the electricity sector: generation, storage and marketing of electricity, and the supply of primary inputs for the electricity sector.

The following are some of the most important novelties and aspects of the proposed LSE:

General Aspects

The proposed LSE introduces the concept of Energy Justice (actions or strategies aimed at reducing energy poverty, social and gender inequalities in the use of energy and promoting regional development and shared prosperity through access to reliable, affordable, safe and clean energy and energy infrastructure to meet basic needs and reduce impacts on health and the environment), as an objective of the policy, planning, regulation and oversight of the electricity sector through SENER and the National Energy Commission ("CNE", the new regulatory body of the energy sector).

Profit (defined as the economic surplus after covering operating costs and guaranteeing resources for investment, modernization, expansion and Energy Justice) in the basic supply shall be avoided.

The proposed LSE reiterates the preference of the State over private parties in the generation and marketing activities and establishes that the planning of the electricity sector will be binding and shall guarantee such preference



of the State, in order to provide the people of Mexico with electricity at the lowest possible price.

SENER will be in charge of the energy policy and planning of the SEN. The planning of the SEN shall be conducted with policies of national security, Energy Justice, efficiency, sustainability, and taking into consideration the criteria of mitigation and adaptation to the climate change phenomenon encouraging the installation of sufficient infrastructure to meet the demand of the SEN. Such planning will be reflected in the National Energy Transition Strategy, the Energy Sector Program, the Electricity Sector Development Plan ("PLADESE", a document that will contain the medium and long term planning of the SEN, and brings together the binding programs for the installation and retirement of power plants, and for the expansion and modernization programs of the National Transmission Network ("RNT") and the General Distribution Networks ("RGDs")), the Hydrocarbons Sector Development Plan and the Plan for the Energy Transition and the Sustainable Use of Energy.

Regarding the prevalence of the State in generation matters, the State shall maintain at least 54% of the average energy injected to the grid in a calendar year; however, the State's prevalence shall be achieved within a MEM operation framework based on an economic dispatch of loads, subject to reliability and safety restrictions. The economic dispatch of loads is defined as the process whereby the generation, controllable demand and storage resources are scheduled to satisfy the demand, minimizing their variable production costs and satisfying the operational, reliability and safety restrictions of the SEN. The LSE is not clear about the mechanisms to achieve the prevalence of the State in the marketing of electricity.

All government levels shall contribute to the development of electric power generation, transmission and distribution projects, through procedures and coordination bases that expedite and guarantee the granting permits and authorizations within their scope of authority. SENER and the Ministry of the Environment and Natural Resources shall coordinate the administrative procedures for the issuance of permits and authorizations necessary for the execution of strategic projects within the terms established in the binding planning and for the fulfillment of the goals established in the Electricity Sector Development Program.

The proposed LSE considers the following figures for participation in the electricity sector:

- Transporter: State-owned public company (that is, CFE).
- Distributor: State-owned public company.
- Generators and Exempt Generators: State-owned public company or affiliate, private parties or mixed development projects that generate electricity for self-consumption or for the MEM.
- Basic Services Suppliers: State-owned public company that offers basic supply to all persons who request it (except qualified users), provided it is technically feasible and complies with the applicable provisions, under non unduly discriminatory conditions.
- Qualified Service Suppliers: State-owned public company or affiliate, private parties or mixed development projects that offer qualified supply to qualified users under conditions of free competition.
- Last Resort Suppliers: State-owned public company or affiliate, private parties or mixed development projects that offer last resort supply to the load centers of qualified users that require it and that are located in the areas where they operate, provided that it is technically feasible and complies with the applicable provisions, under conditions that are not unduly discriminatory.
- Marketers: State-owned public company or affiliate, private parties or mixed development projects that carry out the marketing activities provided for in Article 60 of the LSE. When they do not provide electricity supply services, they are called Non-Supplier Marketers.
- Market Participant Qualified Users: end-users of electricity registered as such with the CNE.
- Importers and Exporters.
- Electric Energy Storage Systems: systems of a State-owned public company or affiliate, private parties or mixed development projects that allow extracting electricity from an electric grid or energy source and storing it for its subsequent use or injection, which may offer energy and associated products to increase operational flexibility and contribute to the accessibility, reliability, quality, safety, efficiency and sustainability of the SEN, in accordance with the Market Rules; in the understanding that the same capacity or available energy shall not participate in more than

one service and shall be offered in its entirety to CENACE for the purposes of the efficient operation of the SEN. the Market Rules; in the understanding that the same capacity or available energy shall not participate in more than one service and shall be offered in its entirety to CENACE for the purposes of the efficient operation of the SEN.

The proposed LSE contemplates the establishment of regulated rates determined in accordance with the methodologies issued by the CNE for transmission and distribution services, the operation of the basic services supplier, the costs of the operation, research, updating and development services of the National Center for Energy Control ("CENACE"), and ancillary services not included in the MEM.

The activities of generation, storage, transmission, distribution, supply, marketing, planning and operational control of the SEN will be of public utility, when provided by the State, and are subject to public and universal service obligations in terms of the LSE. CENACE will be in charge of the operative control of the SEN, the operation of the MEM and access, when technically feasible, to the RNT and RGDs.

The generation, marketing and supply of primary inputs for the electricity sector shall be carried out independently of each other and under conditions of legal separation of their activities. Likewise, the marketing modalities shall be separated; however, the generation, marketing and supply of inputs carried out by CFE will not be subject to such legal separation rules (but they will maintain certain functional and operative separation for purposes of CFE's participation in the MEM).

The Ministry of Economy shall (i) define, with the opinion of SENER, strategies for the industrial promotion of local productive chains and for the promotion of direct investment in the electricity sector, with special attention to small and medium enterprises, and (ii) establish the methodology to measure the degree of national content in the electricity sector, as well as its verification, with the support of an independent third party or the authorities of the sector. SENER, with the opinion of the Ministry of Economy, may establish, in the contracts for the development of mixed investment projects and those resulting from the mechanisms for the allocation of energy and associated products entered by the participants in the electricity sector that, under the same circumstances, including equal price, quality and timely delivery, preference is given to the procurement of domestic goods, and the contracting of services of domestic origin.

The proposed LSE contemplates the temporary intervention of facilities by SENER to correct irregularities in the management or operation of any permit holder that may jeopardize the quality, reliability, continuity and security of the electricity supply. Likewise, the LSE establishes that in case of natural disaster, war, strike, serious alteration of public order or when there is an imminent danger to national security, the internal security of the country, the national economy or the continuity of the electricity supply, the Federal Government may take over the real estate and personal properties necessary for the electricity supply; in these cases, except in the case of international war or armed conflict, the affected persons shall be compensated by paying the damages and losses at their real value.

Generation

The generation of electricity may be carried out by the State, private parties by themselves or jointly through mixed investment schemes. For this purpose, the LSE establishes the following figures:

distributed generation, self-consumption and generation for the MEM:

- Distributed Generation;
- Self-consumption; and
- Generation for the MEM.

Power plants with a capacity equal to or greater than 0.7 MW require a permit from the CNE. Power plants with a capacity of less than 0.7 MW are Exempt Generators, do not require a permit and may only sell their electricity and associated products through a Supplier or use their production for their own consumption. Exempt Generators may also sell electricity and associated products through a Qualified Service Supplier, as long as the power plants do not share their metering with the load center of a basic supply user.

Power plants of any capacity that are intended exclusively for self-use in emergencies or during power outages do not require a permit.

All power plants with generation permits that participate in the MEM shall be represented by a MEM Participant Generator.



With respect to the production of their own power plants, Generators may carry out marketing activities, except for the electricity supply. The legal separation does not apply to such activities.

Distributed Generation

Distributed Generation is a modality of electricity generation in power plants with a capacity of less than 0.7 MW, which are interconnected in a distribution circuit that contains a high concentration of load centers in terms of the Market Rules, the applicable general administrative provisions. It does not require a permit from the CNE.

The electricity and associated products of Distributed Generation may be used for its own consumption or its sale under the terms of the LSE. Distributed Generation may sell electricity and associated products through the Basic Services Supplier, according to the contract models and calculation methodologies, criteria and bases to determine and update the applicable considerations that reflect the economic value that it produces to the Supplier (which will be issued by the CNE).

Self-consumption

Self-consumption is the production of a power plant with a capacity equal to or greater than 0.7 MW that is used to satisfy the own needs of the holder of the generation permit. The interconnected self-consumption in power plants whose capacity is between 0.7 and 20 MW may have a simplified procedure to obtain the generation permit in accordance with the guidelines issued by the CNE for such purpose.

Self-consumption may be isolated or interconnected and preferably with renewable energies. Isolated self-consumption will not be considered as electricity supply. Interconnected self-consumption will exist when the production of the power plant is destined for own consumption on site and is interconnected to the RNT or RGDs. In case of surpluses, these may be injected into the SEN without compensation or be sold if the following conditions are met:

In case of surpluses, these may be injected into the SEN without compensation or be sold if the following conditions are met:

- Having a valid generation permit and an interconnection contract;
- Selling surplus electricity and associated products exclusively to the State-owned public company, which has the power to acquire them through contracts, and in the case of being an intermittent generator and injecting energy, having its own backup through electricity storage systems or paying for it to the State-owned public company.
- The load centers in the isolated self-consumption and interconnected self-consumption modality that do not satisfy their electricity needs through their power plant, may be connected to the RNT or to the RGDs for the purchase of electricity and associated products, in the basic supply user, qualified supply user or Market Participant Qualified User modality, as long as the corresponding connection contract is executed and they are subject the Market Rules and other applicable provisions.

Generation for the MEM

Generation for the MEM is the production of electricity and associated products of a power plant with a capacity equal to or greater than 0.7 MW that is destined for its marketing through the mechanisms contemplated in the MEM, under the terms established in this Law.

Mixed Development Schemes

The LSE contemplates the development of power plants jointly between the State and private parties, through the following schemes:

Long-term production: Scheme for the development of generation projects that is subject to the binding planning of the electricity sector, without capital contributions by the State for the development of the project. The entire energy production and associated products are exclusively for State-owned the public company, who shall acquire such products as established in the corresponding contract. These power plants are represented in the MEM by CFE, they may not obtain another permit, be contracted in

another modality, nor market to third parties any excess capacity. The State-owned public company will have the option to acquire the project assets at the end of the contract, at no cost.

Mixed investment: Mixed investment is a scheme for the development of generation project in which the State-owned public company shall have a direct or indirect participation of at least 54% and may (but is not obligated to) purchase the energy and associated products produced. Mixed investment power plants may market their capacity to third parties.

Other schemes: The Regulations of the LSE or the general provisions issued by SENER may contemplate other mixed development schemes, which shall be subject to the binding planning programs issued by SENER and comply with the criteria and guidelines provided in the LSE, its Regulations and other provisions of the matter. The authorization, implementation and operation of these projects are conditioned to the strict compliance with the principles of reliability, continuity, accessibility, security and sustainability of the SEN and the MEM, in accordance with the LSE.

Exportation and Importation

The exportation and importation of electricity will require authorization from SENER.

Cogeneration

The generation for self-consumption or for the MEM may have the cogeneration modality. In these cases, the capacity of the authorized generation permit shall be only for the power that can be obtained using the thermal energy not used in the industrial processes associated with the cogeneration.

The capacity and energy produced by the cogeneration plants required to satisfy the steam needs of the indirect processes will be of mandatory dispatch, with the following limitations: (i) the capacity of the cogeneration power plant shall not exceed the thermal needs of the indirect process; (ii) mandatory dispatch is granted only to the electricity consumed in the establishment associated to the cogeneration; and (iii) others established by the Regulations of the LSE or the administrative provisions issued by SENER.

Transmission, Distribution, Interconnections and Connections

The general conditions for the rendering of the power transmission and distribution utility service will be issued by the CNE.

The Transporter and the Distributor shall carry out the expansion and modernization projects of the RNT and the RGDs included in the corresponding programs, prior instructions by SENER. They are required to interconnect to their grids the power plants whose representatives so request and connect to their grids the load centers whose representatives so request, under conditions that are not unduly discriminatory, when technically feasible and within the deadlines established for this purpose.

The connections or interconnections will be carried out once the connection, interconnection and reinforcement works determined by CENACE have been completed, which shall comply with the Mexican official standards and the applicable standards and specifications. In case the Transporter or the Distributor denies or exceeds the deadlines established for the interconnection or connection, the CNE shall determine whether there is a just cause for that and shall resolve in the matter.

For the interconnection of power plants and connection of load centers, CENACE is required, at least, to define the general technical specifications and the specific characteristics of the infrastructure required to carry them out, at the request of the representative of the power plant or load center.

The measurement of electricity, power, ancillary services and other associated products delivered and received by the power plants and load centers that are represented by Generators or Market Participant Qualified Users is governed by the Market Rules. The metering of the other power plants and load centers will be governed by the general conditions for the rendering of the electricity transmission and distribution utility service or, in their absence, by the Market Rules. The measurement of electricity, capacity, ancillary services and other associated products delivered and received in other points of the SEN will be governed by the Market Rules.

The transmission and distribution utility service is an exclusive strategic area of the State, so it has preference over any other activity that involves the use of the surface and subsoil of the land affected by them. For all legal purposes, such service is of public utility and the land necessary for the installation of the RNT and the RGDs will be subject to legal easement.

Upon agreement between the interested parties, the non-objection of CENACE and the favorable determination of SENER, the Transporter and the Distributor may agree on the acquisition of the Private Grids, so that they are integrated to the RNT and the RGDs, as applicable. Otherwise, and upon request of the owner and without objection from CENACE, SENER may determine that a Private Grid is transferred free of charge to the Transporter or the Distributor.

For purposes of the foregoing, CENACE shall verify the technical convenience of the integration of such grids, and the CNE shall verify that it strengthens the reliability of the SEN.

Marketing and Supply

Marketing activities only require a permit from the CNE when they involve the provision of electricity supply or the representation of Exempt Generators. The following activities are not considered marketing, so they do not require a Supplier permit or registration:

- The sale of electricity from an end user to a third party, provided that the electricity is used within a Private Grid, and
- The sale of electricity from a third party to an end user, as long as the electricity is generated from Distributed Generation within the facilities or Private Grid of the end user, and such facilities are located in the same property.

The CNE shall establish the requirements and minimum amounts of electric hedge contracts that the Suppliers shall enter into regarding the electricity and associated products that they supply to the load centers they represent and verify their compliance. Likewise, the CNE will establish the requirements that the Suppliers and the Market Participant Qualified Users, as the case may be, shall comply to acquire the capacity that allows them to supply the load centers they represent.

The Basic Services Supplier may enter into electric hedge contracts directly with any Generator and through competitive mechanisms for the acquisition of energy and associated products provided in the MEM, carried out by CENACE under the terms provided in Market Rules or in the regulation issued by SENER or the CNE for such purpose.

Qualified Users

The status of Qualified User is acquired through the registration in the corresponding registry in charge of the CNE, as long as the applicant proves that the load centers to be included in such registry comply with the required levels of consumption or demand set by SENER; however, end users may choose to maintain the status of basic supply users. Load centers that have been included in the registry of Qualified Users are required to maintain their registration for a period of at least 3 years from their registration.

Qualified Users may receive electricity supply and offer demand reduction and associated products resulting from their controllable demand, through a Qualified Service Supplier.

The persons who own the load centers that are supplied without the representation of a Supplier are called Market Participant Qualified Users. Except for the provision of electricity supply to third parties and the representation of third-party Exempt Generators, Market Participant Qualified Users may carry out all the marketing activities provided under the LSE.

Small Electric Systems

Small electric systems are those used to supply electricity to the general public, which are not permanently connected to the RNT or the RGDs and supply a demand of no more than 100 MW. SENER may authorize the terms and agreements under which the members of the electricity sector shall collaborate within the small electricity systems, to provide electricity supply under conditions of efficiency, quality, reliability, accessibility, continuity, safety and sustainability. The Market Rules may establish special schemes for the operation of small electric systems, as well as for the Interconnected System of Baja California and the Interconnected System of Baja California Sur. The operational control of such systems is under the authority of CENACE.

Electric Energy Storage Systems

SENER will determine, through the Regulations of the LSE and general administrative provisions, the terms, conditions and modalities in which the Electric Energy Storage Systems may participate in the activities of the electricity sector, as well as the necessary permits and requirements.

The CNE may establish and apply the methodologies to determine the consideration for the services that the Electric Energy Storage Systems provide to the grid and that are not included in the MEM, including ancillary services, and services for transmission and distribution that contribute to the quality, reliability, continuity, accessibility, efficiency, sustainability and security of the SEN, as well as the charges and rates methodologies applicable to those systems due to their characteristics and operation. Additionally, CENACE shall include in the Market Rules and Operating Provisions, guidelines regarding the Electric Energy Storage Systems within the MEM.

Infrastructure and Electricity Supply for Electromobility

Electromobility is understood as land transportation systems based on light and heavy vehicles with an electric traction system or a hybrid system that take energy from an electricity supply system and are used to transport people or physical products.

SENER may regulate, through the Regulations of the LSE and general administrative provisions, the infrastructure and supply of electricity necessary for electromobility purposes. The CNE may establish criteria for the interconnection of the infrastructure, the consideration for the supply of energy and the terms and conditions of use for electromobility purposes, among others.

Surface Use and Occupancy

The electricity sector is considered of public utility. The occupation or affectation of surfaces or the establishment of easements necessary will be applicable for the construction of transmission infrastructure projects and geothermal and hydraulic power plants or others, in accordance with the applicable provisions.

The proposed LSE establishes rules applicable to legal easements and the negotiation, execution and validation of contracts for the use, enjoyment or affectation of land, water, assets or rights necessary for the transmission utility service and geothermal or hydraulic power plants or others in accordance with the applicable provisions.

MEM

The proposed LSE establishes several provisions regulating the MEM. The MEM will be operated by CENACE and governed by the Market Rules issued by the CNE. Generators, Marketers and Market Participant Qualified Users will be able to carry out in the MEM, at least, transactions for the purchase and sale of electricity, ancillary services included in the MEM, capacity and other products that guarantee the availability of sufficient resources to satisfy the electric demand (including by way of import or export), financial transmission rights, clean energy certificates ("CELs") and other products, collection rights and penalties required for the operation of the SEN.

Any agreement, arrangement or coordination between MEM participants with the intention or effect of restricting the efficient functioning of the MEM shall be considered a monopolistic practice that must be reported to the Economic Competition Authority. On the other hand, SENER, the CNE, CENACE or any other person who considers that there are no conditions of effective competition in a market, shall request the Economic Competition Authority to carry out the corresponding analysis so that, if necessary, it can order the measures required to establish conditions of free competition and participation.

Clean Energies, Energy Transition and Decarbonization of the Electricity Sector

The proposed LSE defines clean energies in the same manner as the current Electricity Industry Law. SENER shall implement mechanisms that allow for the diversification of energy sources, energy transition, energy self-sufficiency, energy security and the promotion of clean energy sources, and shall establish instruments to measure and evaluate the decarbonization and the energy transition of the electricity sector and implement the other mechanisms required to comply with the policy on the matter. In addition, SENER may enter into agreements that allow the homologation of such instruments and mechanisms with the corresponding instruments of other jurisdictions.

The requirements for acquiring CELs shall be established as a proportion of the total electricity consumed in the load centers in accordance with the binding planning and reliability of the SEN. The granting of CELs to power plants will not depend neither on the ownership nor on the date of commencement of commercial operation of the power plants, so all power plants (including existing CFE power plants) that generate electricity from clean energies will be eligible to receive them. The granting of CELs in accordance with the new Planning and Energy Transition Law will be based on the level of actual emissions of each technology and each permit holder, also considering the use of backup and related and additional services for the operation of clean energy sources that are provided using fossil fuels and the annual operating data of the SEN.

The Suppliers, the Market Participant Qualified Users and the end users that are supplied by self-consumption will be subject to the compliance of the obligations for the energy transition and decarbonization established in the LSE, the Planning and Energy Transition Law and the regulations issued for this purpose by SENER.

Penalties

In addition to the penalties provided for in the current Electricity Industry Law (some of which are increased), the following new penalties are established:

- Fine from 17,000 to 162,000 times the daily value of the unit of measurement and updating for non-compliance with the terms and conditions established in the authorizations regarding social impact assessment.

- Fine of 348,000 to 1,032,000 times the daily value of the unit of measurement and updating for initiating the development of infrastructure without the definitive authorization of the social impact assessment.
- Fine of 3,500 to 19,000 times the daily value of the unit of measurement and updating for non-compliance with certain provisions related to contracts for the use, enjoyment, or affectation of land, water, assets or other rights.
- Fine of 10,000 to 162,000 times the daily value of the measurement and updating unit for including confidentiality clauses regarding the terms, amounts and conditions of the consideration, which penalize the parties for their disclosure, in contracts for the use, enjoyment, or affectation of land, water, assets or other rights, or not submitting those contracts before the District Judge or the Agrarian Unitary Court for their validation (in the latter case, the granting of the respective permit or authorization shall also be denied).

The penalty applicable to Qualified Users who do not register in the CNE's registry is eliminated, since such registration is considered optional under the new LSE.

Saving Provisions

The LSE will become effective the day after its publication in the DOF. On that date, the Electricity Industry Law and all provisions that are contrary to the LSE will be abrogated.

The MEM will continue operating in accordance with the applicable provisions in effect at the time of publication of the LSE, until new provisions are issued.

Within 180 days after the LSE becomes effective, the CNE shall review and update the regulated rates methodologies for the transmission utility service and the rates methodology and costs of the operation, research, update and development service of CENACE. Until the relevant updates are issued, the current provisions will continue to apply.

Once the LSE becomes effective, all permits, contracts or any instrument or administrative act issued under the Electric Power Public Utility Law ("LSPEE"), will continue being effective until the termination of their term, being governed in accordance with the terms under which they were granted and the provisions in effect at the time of their formalization. Those instruments shall not be extended once their effective term expires.

The holders of permits granted under the LSPEE and related contracts and agreements may request their migration to the figures contemplated in the LSE in accordance with the guidelines issued by SENER.

The members of a self-supply company or of an electricity cogeneration permit will be able to directly request the exclusion of their load centers from the respective permit and interconnection contract in accordance with the current provisions, as long as no new provisions are issued. If they are interested in participating in the MEM as Generators, they shall migrate all of their capacity to the generation figures of the LSE and enter into contracts subject to the Market Rules (i.e., the partial migration contemplated in the Electricity Industry Law is eliminated, as well as the period that permit holders had to reestablish their permits to the terms applicable under the LSPEE).

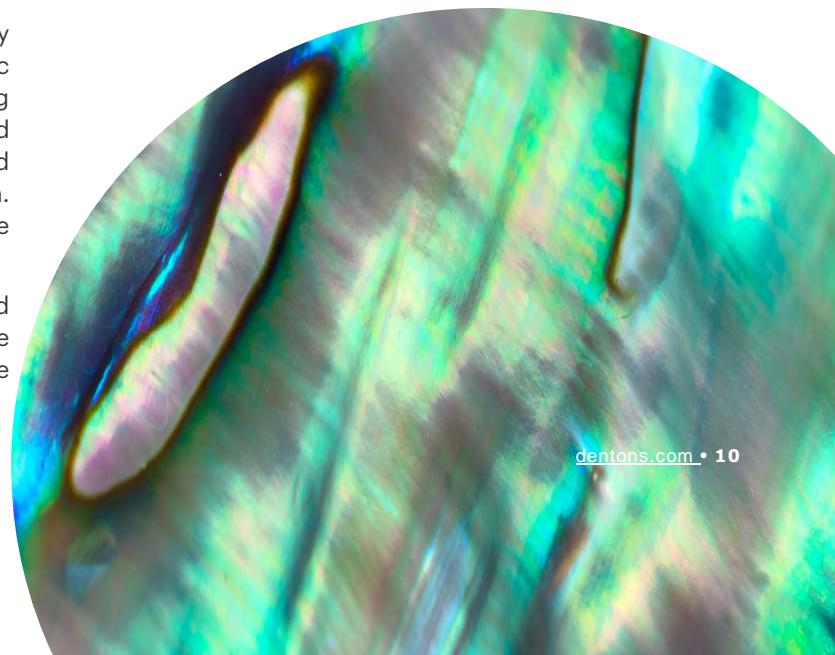
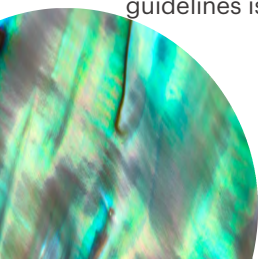
Load centers included in the interconnection contracts entered under the LSPEE will be able to exclude themselves from those contracts in order to receive basic or qualified supply in accordance with their interests.

All permits, contracts or any instrument or administrative act issued under the Electricity Industry Law will continue being effective until the end of their term, in accordance with the terms under which they were granted and the provisions in effect at the time they were formalized. Such instruments shall not be extended once their term has expired.

The holders of the permits, contracts or any other instrument or administrative act issued, may request their migration to the figures of the LSE, in accordance with the guidelines issued by SENER.

Applications for authorization, approval or permits received prior to the entry into force of the LSE shall be processed in accordance with the legal provisions in effect at the time they were received, but applicants may voluntarily submit the withdrawal of their applications that have not been resolved, in order to initiate a new procedure in accordance with the LSE.

The social impact assessment provided for in the Electricity Industry Law will continue to be in force the general administrative provisions corresponding to the Social Impact Assessment of the Energy Sector are issued.



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