

Mexico readies for power auction amid uncertainty

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With the inauguration of Mexico's new government still three months away, developers, investors and lenders have been left wondering what role the private sector will be asked to play in the country's power industry under leftist president-elect Andrés Manuel López Obrador (AMLO).

And amid this market uncertainty, Mexico's energy regulatory commission CRE is gearing up to award power generation, capacity contracts and certificates of clean energy (CELs) in the country's fourth long-term electricity auction since the [energy reform in 2013](#).

The auction is scheduled to take place before AMLO takes the oath of office on 1 December (2018). Pre-qualification will start in September, and contracts are due to sign on 14 November.

It means that developers will make offers for new projects without fully knowing what lies in store for Mexico's electricity sector. AMLO and his team have long opposed the energy reforms that opened the country's oil & gas and power sectors to private and foreign companies.

No projects have been cancelled yet due to this political uncertainty, and many banks are (cautiously) looking to finance greenfield developments currently out to market. But there are projects struggling to agree long-term PPAs with private offtakers, with many large energy consumers reluctant to tie themselves to long-term obligations.

And with so many projects looking for offtakers, competition is set to be very high in the upcoming electricity auction.

At the same time, the amount of power offered by state-owned Comisión Federal de Electricidad (CFE) to buy energy is much lower than in previous auctions, according to a person familiar with the matter.

The fourth auction

Rules announced in March (2018) established CRE as the entity responsible for authorizing the call and the bidding rules – a role previously played by Mexico's energy secretariat SENER in the three previous auctions in [2015](#), [2016](#) and [2017](#).

Winning projects will be awarded 15- and 20-year contracts to provide electricity, capacity and CELs to CFE and large energy consumers.

Like in the third auction in 2017, projects will be awarded through a clearing house. This has brought an additional layer of uncertainty to the auction since the new company does not have credit history or ratings.

Another potential constraint could be power prices. In the third auction, prices were low to a point at which commercial international institutions [questioned the feasibility of financing](#) the projects. The average price per MWh was \$20.57.

Prices are expected to stay between mid-\$20s and low-\$30s per MWh at the fourth auction.

Key dates for the bidding process:

| Activity | Date |
|---|------------------------|
| Submission of pre-qualification requests for sale offer | 5 and 6 September |
| Hand out of guarantees | 8 October |
| Emission of pre-qualification records | 25 October |
| First phase to present economic offers | 31 October |
| Second phase to present economic offers | 5 November |
| Results of the auction and assignment of contracts | 14 November |
| Signing of contracts | 28 February (deadline) |

New policies

As the fourth auction approaches, the incoming administration has been outlining some of its policy objectives for the power sector. It intends to increase the generation capacity of the CFE, and has also said it aims to prioritise hydroelectric projects.

José Antonio Prado, a partner at Holland & Knight, told *IJGlobal* that CRE has recently been modifying the tariff formula for basic supply, transportation and distribution services, which can affect PPA payments. The final methodology is not expected to be finalised until H1 2019.

“CFE has announced it will review contracts for power agreements, to check how they were awarded and what its benefits are. The market is nervous about what would be the trend after these revisions,” said Prado.

Meanwhile, a banker has said their institution is still financing energy projects in Mexico, but only the ones awarded in the second power auction. The bank is not looking at financing any projects from the third auction, however, as prices were too low.

It is not only bankers who are watching power prices closely.

The incoming government has announced it will review electricity prices, freezing the tariffs, which would be annually increased according to inflation.

It is not yet clear whether industrial consumers would also be impacted – and so no long-term private offtake agreements are likely to close in Mexico until the new policies have been confirmed.

NAFTA

AMLO’s administration looks set to differ from the outgoing government over how to handle talks with the US and Canada about the North American Free Trade Agreement (NAFTA) and its impact on the energy sector.

Historically, energy has not been included in the negotiations because the Mexican state had held a domestic monopoly for roughly 70 years. But following president Enrique Peña Nieto's 2013 energy reform, the energy sector was expected to be included in the discussions.

The incoming president, however, wants to prevent a new chapter on energy investment from being included in the pact. Its inclusion would cement a North American energy integration (with Mexico as a big importer of US gas), but would also prevent the country from backsliding on the opening of its energy sector for foreign investments.

Although Mexico will keep the power auctions during the transition period, it remains unclear if it will move ahead with any new auctions for the oil & gas industry, due to AMLO's goal of strengthening state-owned Petróleos Mexicanos (Pemex).

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