

Decree enacting several amendments to the Terms for the Strict Legal Separation of the Federal Electricity Commission

On March 25, 2019, the Energy Ministry (“SENER”) published in the Federal Official Gazette (“DOF”), the Decree enacting several amendments to the Terms for the Strict Legal Separation (“TESL”) of the Federal Electricity Commission (“CFE”) (the “Decree”), which aims to “promote the efficient operation of the electricity sector” and ensure CFE’s participation “in the energy industry sector in a competitive way”.

The Decree entered into full force and effect the next day following its publication in the DOF, i.e., on March 26, 2019

For better understanding, it is important to mention that the amended TESL were originally published in the DOF on January 11, 2016. Such TESL established the conditions for CFE to fulfill its obligation to carry out, independently, the activities of Generation, Transmission, Distribution, Marketing and Supply of Primary Products, through accounting, functional and structural separation between its Subsidiary Companies (“CFE Companies”).

In addition, the aforementioned resolution established the general provisions for the

allocation of assets among the various CFE Companies, as well as those related to their governance and independent operation, and the appointment of those responsible for administering the contracts, as well as those responsible of carrying out the corresponding reorganization process.

The main purpose of the TESL at the time of their publication was to promote the efficient operation of the electricity sector and open access to the National Transmission Network and the General Distribution Networks; that the new

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organization of the CFE makes easier for it to participate in a more efficient and competitive way in the energy industry, generating economic value and profitability for the Mexican State; and respecting the conditions of the contracts signed by the CFE in force as of such date.

As main considerations for the promulgation of the Resolution and amendment of the TESL, it is mentioned that the objective sought had not been achieved to date and that the reorganization of the CFE, derived from the TESL, increased the costs and reduced the efficiency of its operational and administrative management.

The Decree's main purpose is to modify and reorganize the current corporate structure and division of assets of the several CFE's Subsidiary Companies ("EPS") to address the operational and maintenance necessities of its generation plants to make their activities more efficient, according to the following:

Generation

Following the publication of the Decree, it is intended for those contracts and power plants that were conferred to the different EPSs in charge for the generation of electric power (also known as "GenCos"), to be reassigned or reorganized by SENER acting through the National Center for Energy Control ("CENACE") to ensure profitable conditions and generate economic value.

CFE will be the entity responsible for complying with the resolutions issued by SENER by which the contracts and assets are reassigned.

For this purpose, CFE will have a 60 calendar day term to submit to SENER the proposal for the reassignment of assets and generation contracts to the different EPS.

SENER is mandated to publish the final version of this proposal in the DOF. Once the publication of this final version is made, CENACE will have a term of 30 calendar days to effect the assets reallocation accordingly.

From an operational perspective, following the enactment of the Decree, the EPS in charge of generation activities are now

allowed to share information related to the operation, planning, maintenance and marketing strategy of the power plants under their control to other CFE's companies carrying generation or marketing activities, as well as to any individual or company carrying out similar activities, without any limitation, contrary to the prohibition to share information that was published in the 2016's version of the TESL.

Transmission and Distribution

The Decree provides that the EPS created to provide public energy transmission and the public energy distribution services (CFE Distribución) must maintain its operations in accordance with the provisions of Article 27 of the Constitution; however, the possibility of associating with other EPSs, CFE affiliates and/or third parties is now forbidden.

Distribution and Commercialization

The Decree also establishes a new exemption applicable to those EPS in charge of distribution for them to carry out, directly or indirectly, marketing activities so long as the costs are reduced and the operational efficiency of those services improved, taking advantage of economies of scale.

In this case, this arrangement must be formalized through a services contract and commercialization activities may be carried out through an independent Business Unit, subject to accounting separation from the rest of the distribution activity carried by such EPS.

Corporate Governance

Following the enactment of the Decree, the independent EPS's (i.e., those carrying generation, transmission, distribution, basic supply, marketing separate from basic supply and primary energy supplies provision activities), in addition to certain incentives already set forth in the 2016 TESL (i.e., the coordination to improve electric power generation and thermal efficiency), are now permitted to coordinate with other entities to reduce operational costs without detriment to the electrical system.

The Decree also establishes that the CFE Board of Directors, its director, employees and their committees "will guarantee the

effectiveness of the strict legal separation".

As part of the guidelines for the new TESL, the CFE's Board of Directors, its director, employees and its committees are obligated to:

01. Refrain from implementing strategies that may increase the energy marginal costs in the medium and long-term in the Mexican Wholesale Electricity Market ("MEM");
02. Evaluate each power project taking into account not only the impact for the investor but also the impact to the CFE in order to contribute to the decrease of purchase prices of the end-user, except for the transmission and distribution activities;
03. Align any strategy, guideline, policy or order that should be implemented in any EPS, for those not to oppose the principle of efficiency established in the Decree.

Human Resources

Unlike the TESL published on January 11, 2016, from now on the various EPS may share human resources to carry out independent activities on a temporary or permanent basis.

Transitory Articles

It is established that the CFE has sixty calendar days to submit to SENER a proposal for the reallocation of assets and generation contracts among its Companies, seeking to contribute in a better way to efficiency.

The final version of the proposal should be published in the DOF, and once it is published, the SENER has thirty calendar days to carry out the reassignment of assets registered in the Market Information System according to the new structure.

According to Article Fifth Transitory, once CENACE has concluded with the reallocation of assets "such transfer of assets, rights and necessary obligations for the reorganization referred to in this Decree, will not require to be formalized in a public deed; accordingly, the resolutions of the Board of Directors

of CFE will serve as the title deed or certificate of transfer of ownership, for all legal purposes, including those related to the recordation of such transfers in the corresponding public registries”.

This provision will only apply for a period of 2 years from the date of the actual allocation of these assets.

Finally, it is important to mention that with the enactment of this Decree, all provisions and regulations that may oppose its purpose are repealed.

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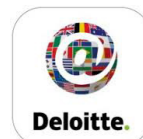
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