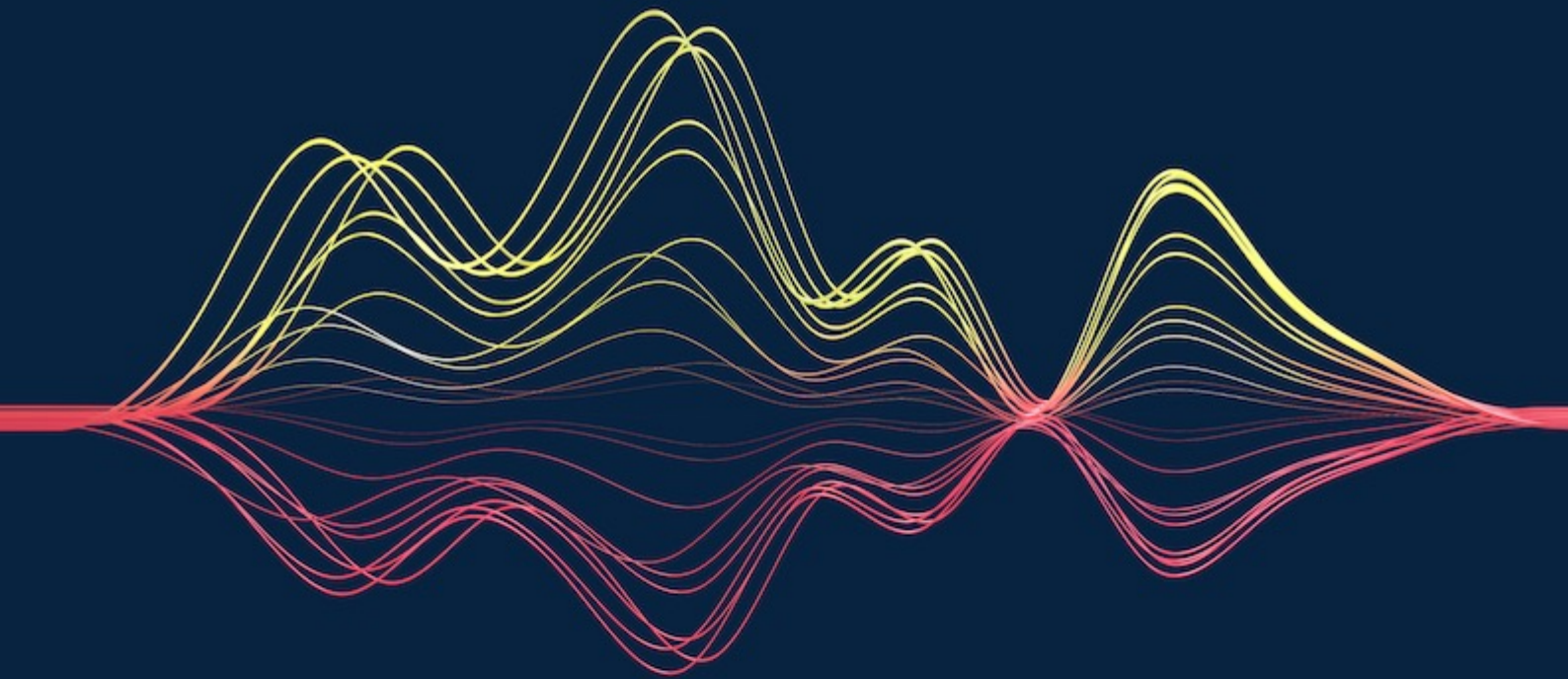


MEXICO

Corporate Power Purchase Agreements





Mexico

Last modified 16 December 2020

PPA structures and parties involved

To what extent are corporate PPAs presently deployed and what sort of structure do they take?

Traditionally in Mexico, Corporate PPAs have been Physical PPAs under the legacy regime called *Autoabastecimiento* or Self-Supply, where a group of medium to large consumers (usually belonging to the same corporate group) together with a selected generator form a corporation (the **"Self-Supply Corporation"**), which will be responsible for obtaining the necessary permits (particularly important is the power generation permit from the Energy Regulatory Commission **"CRE"**) and entering into the relevant agreements (particularly important are the Transmission Agreements for the wheeling of electricity with the State-owned transmission and distribution utility **"CFE"**). The generation would own the vast majority of shares in the Self-Supply Corporation and the consumers would need to own at least one share. The PPA would be entered directly between the Self-Supply Corporation and the consumers.

This Self-Supply regime was the only mechanism available to purchase the electricity from a private generator. Prior the energy reform of December 2013 in Mexico, only the CFE could generate and sale power and electricity. The Self-Supply scheme was an exception to the CFE state-owned monopoly, where private parties were allowed to generate their own electricity through the Self-Supply Corporation. With the reform of 2013, the projects that were developed under the Self Supply scheme have been recognized as legacy projects and will remain valid for the remaining duration of the Transmission Agreement entered into with the CFE. Although no more projects of this type will be authorized.

After the energy reform, the electricity market has been opened to private participation in generation, marketing, and supply of electricity. Only physical transmission and distribution of electricity remain a state monopoly. As the market develops, we will begin to see different types of corporate PPAs.

Do the country's regulators allow corporate owners to purchase (1) directly from a facility, or (2) from a choice of suppliers?

Through the Self-Supply scheme, corporate owners may purchase directly from a facility. For new projects, after the reform, corporate owners may purchase the electricity directly from a generator, if the state-owned transmission system (**"National Transmission System"**) is not used (distributed generation or local generation). If the National Transmission System is to be used: (i) the electricity would need to be purchased from a supplier, or (ii) consumers with a minimum average yearly consumption is 1 MW, may become registered with the CRE as qualified consumers and may enter into a PPA with a generator.

Other than the generator and the off-taker, are any third parties commonly party to the PPA structure (e.g. a utility or other market agent)?

Yes, marketing companies or suppliers are necessary if the electricity is to be wheeled through the National Transmission System. If there is no need to use the National Transmission System (distributed generation or local generation) the use of third parties may not necessary.

Is a generator permitted to sell electricity directly to an end user? If so, do they require a licence or other form of authorization?

Yes, as long as the user is registered with the CRE as a qualified user (minimum average consumption of 1 MW per year). The generation will need a generation permit with the CRE.

Challenges

What are some of the technical, political, financial or regulatory challenges to corporations adopting green energy in the short/medium term in your country and how have these challenges been overcome (or how can they be overcome)?

The main problem is that the current administration is not in favour of private participation in the energy industry and would like to have the State-owned CFE controlling the market. There have not been any changes in the laws, yet, but the new policy has created uncertainty. However, the market since the reform of 2013 has evolved to an open market structure with solid regulations, and it is unlikely that this new government could change the rules to give back to CFE an integrated monopoly.

For instance, most of the Self-Supply projects are renewables. The regulations allow that these projects have a cost benefit in the transmission and distribution of electricity. The new government has indicated that these benefits are currently under review and may be terminated. However, there are legal mechanisms available to fight against such measures.

Regulatory changes

Are there any anticipated regulatory changes which will alter the regulatory landscape for corporate green energy and corporate PPAs?

As mentioned in [Challenges](#), the government has announced the review of the transmission and distribution rates currently available for renewable Self-Supply projects. These special rates are similar to a subsidy, to allow the development of renewable generation. Other than the termination of these special rates, there are no other anticipated regulatory changes.

Incentives and benefits

What is the corporate appetite for green energy, including any political or financial incentives available to corporates to adopt green energy?

Mexico has adopted aggressive international commitments to develop the use of green energy. The regulations provide that all consumers have to obtain a certain percentage of their electricity through renewable sources. This percentage is currently 7.4%, but in 2021, it will be increased to 10.9%, and in 2022 such percentage will be 13.9%. Increments for the following years will be announced by the Energy Ministry. The main responsible parties are the suppliers, who need to purchase the electricity from a portfolio of renewable generators in such a way, that their customers consume electricity from renewable sources to comply with these percentages. If such consumption minimum requirements are not met, the responsible party would need to purchase green energy certificates (by its Spanish acronym "CELs") in the Mexican market.

What are the key local advantages of the corporate PPA model which can benefit our clients?

Under the Self-Supply scheme, the most beneficial aspect is price. Renewable developers have been able to offer significant discounted prices to the standard CFE end user price.

For projects post the 2013 energy reform, where the Self-Supply scheme is no longer available, large consumers are still looking, first to comply with the clean energy minimum consumption requirements; second, to obtain lower prices from renewable sources; third, to use in their advertisement that they are a "clean energy user". Finally, but not less important, companies are looking for reliability in the supply.

What subsidies are applicable to the generation and sale of renewable energy?

There are no subsidies in Mexico for renewable generation or sale of electricity. As mentioned above, there are some advantages given to Self-Supply projects in the transmission of electricity from renewable sources.

Does your country implement a national support scheme with tradable green certificates (such as guarantees of origins)?

The clean energy certificates (CELs) are issued by the Energy Regulatory Commission (CRE) in Mexico to renewable facilities.

Typical PPA terms and risk allocation

To the extent corporate PPAs are deployed, how are prices, terms and risks affected?

| Topic | Details |
|--|---|
| Do prices tend to be floating or fixed? | Most PPAs, particularly the Self-Supply projects, are based on a percentage discount over the CFE standard rate. |
| What term is typically agreed for the PPAs? | Most PPAs are between 15 to 20 years. However, in recent years we have seen from 2 to 5 years. |
| Are the PPAs take-or-pay or limited volume? | Take-or-pay. |
| Are there any other typical risks? | Perhaps the only serious risk is a possible change in law that would increase the transmission rate, which would make the Self-Supply projects economically non-feasible. |

To the extent corporate PPAs are deployed, in whose favour will the risks typically be balanced?

| Type of risk | Details |
|--|--|
| Volume risk | There is no volume risk. Consumers maintain their supply contract with the CFE utility. If the renewable supply is short, the supply from the CFE utility kicks in, at the CFE standard rates. |
| Change in law | Equally balanced |
| Increase / reduction of benefits | Equally balanced |
| Market liberalisation (if applicable) | Equally balanced |
| Credit risk | The generator assumes the credit risk. |
| Imbalance power risk | Equally balanced |
| Production profile risk | Equally balanced |

Balancing

Does your country operate a balancing responsibility scheme?

Balancing is the responsibility of the system operator "CENACE", a governmental institution regulated by the Energy Regulatory Commission (CRE).

If your country operates a balancing responsibility scheme, who is the balancing authority and do the generator and offtaker typically undertake balancing themselves?

CENACE is not an authority, it is just the operator. The authority is the CRE. The generator and offtaker do not take balancing themselves.

Significant transactions

What significant transactions/deals have taken place in the last 12-18 months?

There have been many, but there is no public record or reliable source of information.

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