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Financial Transmission Rights Guidelines – Mexico

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By: [Manuel Vera](#)

On July 28, 2017, the Mexican Ministry of Energy (*Secretaria de Energia or SENER*) published the final guidelines for the Financial Transmission Rights (“FTR”) Auctions (the “Guidelines”), which will govern the auction process for Mexico’s newly created FTR market. The final Guidelines or *Manual de Subastas de Derechos Financieros de Transmisión* are the end result of months of public commentary and several interim drafts. Below are a few key points to note:

1. The FTR auctions will be conducted in two phases. The FTR auctions will be conducted in two phases as described below:

Phase One. In phase one, FTRs with a one year term will be auctioned under a simplified process. These auctions will occur annually, between October and November of each year and the FTRs auctioned will be effective from January 1st to December 31st of the immediately succeeding calendar year.

Phase Two. In phase two, FTRs with advanced specifications and with terms equaling 3 years, 1 year, seasonal (quarterly), and monthly will be auctioned separately.

The Guidelines did not include the official dates and timelines for auctions. However, the Centro Nacional de Control de Energía (“CENACE”) is required to publish the FTR auction schedule to the wholesale power market system at least 6 months prior to the offer period for annual auctions and at least 2 months prior to the offer period for monthly auctions.

2. Short-term FTRs may be auctioned for a limited time to encourage market participation. As part of the first FTR auction, CENACE may auction FTRs with limited one-month terms in order to encourage participation of Market Participants.

3. Last year’s FTR auction registration requirements were reaffirmed. The Guidelines reaffirmed the FTR auction market participation requirements set forth in the regulations issued last year titled “Guidelines to Registration as a Market Participant” (*Manual de Registro y Acreditación de Participantes del Mercado*). To participate in FTR auctions, an entity must register with CENACE as a Market Participant and provide a performance guarantee.

4. Bilateral FTR transactions will be permitted one year after the first auction. One year after the first annual FTR auction, private entities will be permitted to sell and trade FTRs with each other (“Bilateral Transactions”). For Bilateral Transactions, CENACE’s role will be limited to operating the trading platform and notably, will not include participation in negotiations or establishing

prices. However, parties must report Bilateral Transactions to CENACE to enable tracking and registration of such trades.

Anyone looking to participate in the Mexican FTR market should also note that the process for registering to participate in a Mexican FTR auction is more time consuming than the comparable processes in the United States. Thus, the registration process should be started far in advance of date of the desired auction.

About the Author: This update was written by Manuel Vera. Manuel regularly advises clients on transaction in the Mexican energy sector, including participation in the Mexican power market.

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