



Enel X Insights

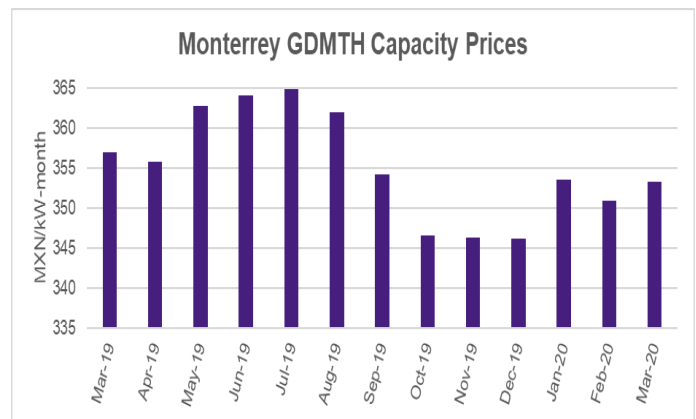
March 2020 Mexico Monthly Market Commentary

Mexico

CFE Rates Increased 0.65% and 0.57% in March, 0.88% and 1.07% Lower than Last Year

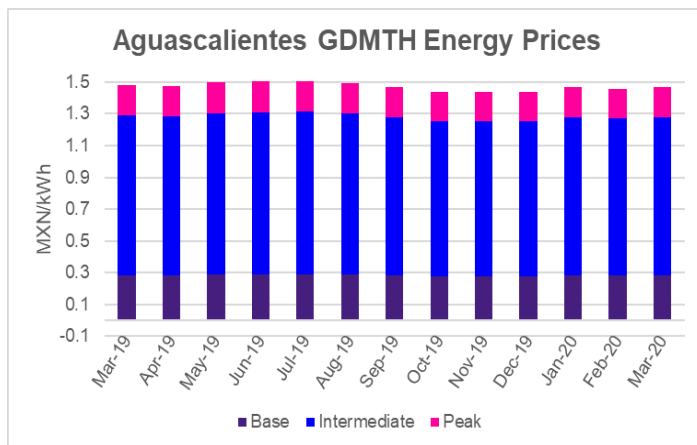
The CFE published its rates for their Basic Service customers for March. Rates increased slightly by about 0.65% for capacity and 0.57% for energy. The increase from February to March was smaller than the one observed a year ago. While the seasonal demand continues to shape the tariffs, commercial and industrial customers began paying slightly lower rates this month compared to the CFE rate a year ago. In particular, the decrease in costs year-over-year for March is almost 1.07% for the capacity component of the bill and about 0.88% for energy.

The chart on the right shows the capacity prices in the Monterrey region for the GDMTH tariff, where prices for March 2020 are just under \$353 MXN/kW-month. This represents a 0.65% increase compared to the February rates, and a 1.07% increase relative to last March's rates, which registered at just \$357 MXN/kW-month. The capacity component accounts for roughly 15% to 25% of overall energy costs.



Energy rates showed a similar slight increase in March. The chart below shows energy prices for the Aguascalientes region of the GDMTH tariff, load-weighted for each tranche assuming an average of 30% base consumption, 60% intermediate consumption, and 10% peak consumption.

March energy prices increased by about 0.57% in most regions compared to the previous month, but were 0.80% lower compared to March 2019. Load-weighted prices in Aguascalientes slightly went from \$1.478 MXN/kWh in March 2019 to \$1.466 MXN/kWh in February 2020, a 0.80% decrease over that period. The energy component of customers' bills usually makes up 50% to 70% of total costs.



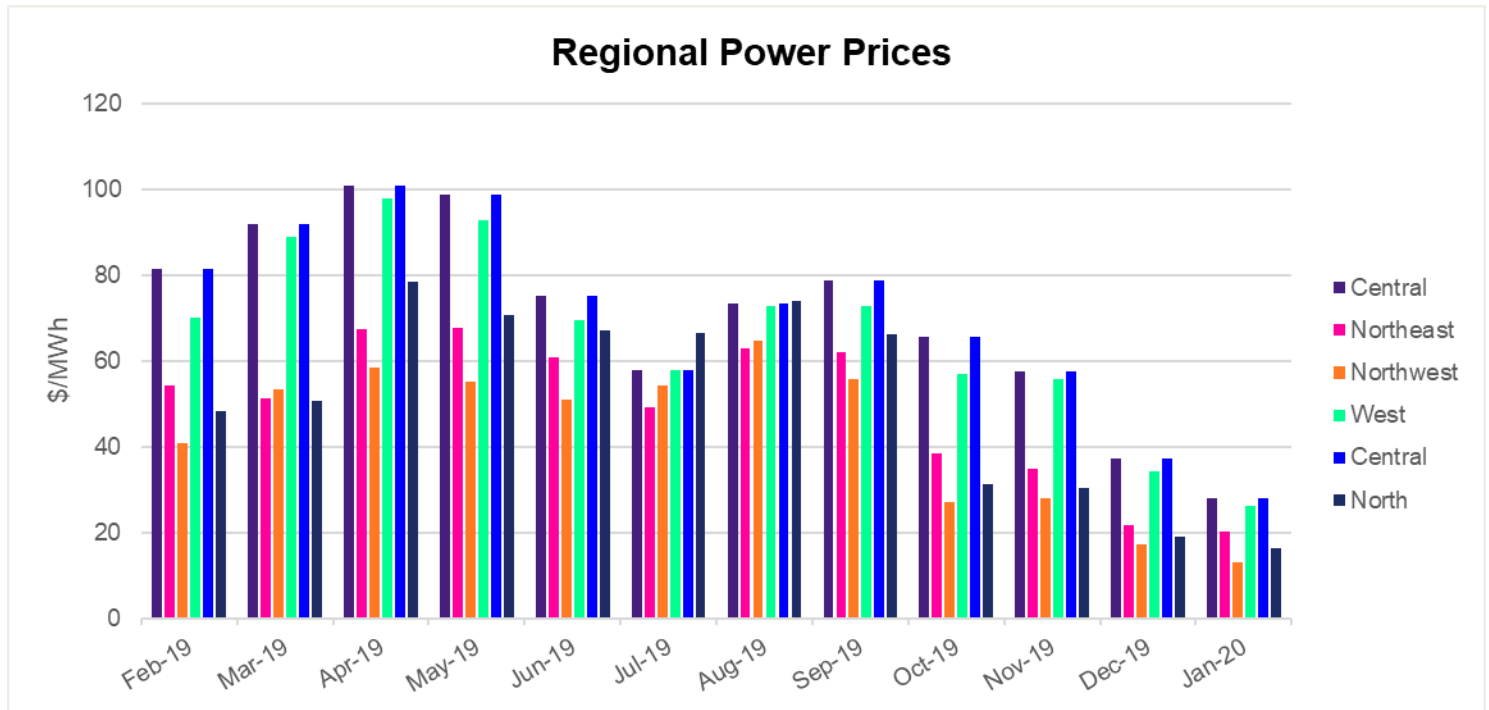
In December 2017, the Energy Regulatory Commission in Mexico (CRE) forced the default utility company CFE to unbundle their power rates, breaking out supply components such as energy and capacity from regulated components including distribution, transmission, and ISO charges. This unbundling would increase transparency and make it easier to compare pricing offers from third-party suppliers, which can now provide alternatives to the supply component of the bill.

Leaving the CFE Basic a service tariff in favor of third-party supply could be an attractive alternative. More than thirty qualified suppliers now operate in the market and offer a range of products to achieve greater budget certainty and

lower costs.

Regional Electricity Pricing Update

On the other hand, wholesale electricity prices decreased approximately 18% compared to December due not only to a seasonal decrease in demand, but also as a reflection of an 8% decrease in Henry Hub natural gas prices in the same period. On a year-over-year basis, wholesale energy prices are down for the main National Interconnection System by 52% compared to the previous January. Notably, though, key areas in the northern sectors of the country have seen lower prices largely because of the increased importation capacity of natural gas from the US.



CFE bets on nine new projects in the Mexican Southeast

CFE's announcement of the launch of two new projects in the Mexican Southeast represents good news. The Southeast suffers from a lack of infrastructure and recurring problems in electricity and natural gas issues, and the projects are expected to help meet the demand in the Peninsula. The two projects will include the construction of the Merida Combined Cycle Power Plant and the Cuxtal Phase 2 Gas Pipeline. The Merida Combined Cycle Power Plant is expected to have a generation capacity of 493 MW and will also contribute to the reduction of carbon dioxide emission in 260,000 tons.

In turn, the Cuxtal Phase 2 Gas Pipeline will have an extension of 158 km, starting in Valladolid to the Riviera Maya, transporting 240 million cubic feet. The main objective of this project will be to supply natural gas to the Combined Cycle Plant of the Riviera Maya, as well as the hotel and commercial industry in the region.

Six additional projects are planned in the 2020-2024 period of transmission (193 km) and transformation (1 thousand 140 MW) with an investment of four thousand 300 million pesos, resulting in the discontinuation of 1.6 million of barrels of fuel oil per year.

CFE is also in the process of analyzing the construction of another generation plant that, if carried out, would generate 493 MW; this will be called to tender the first quarter of 2021

Regional Natural Gas Pricing Update

In March, natural gas prices began to show a decrease compared to the previous month, but continue to show a negative trend compared to 2019. In the table below, the columns to the left show that natural gas prices in dollars decreased 8.45% from \$3.19 to \$2.92USD/MMBtu. The columns on the right show prices in terms of Mexican pesos, which decreased 10.22% from \$ 57.98 to \$ 52.05 MXN/GJ. The year-over-year price increase is mainly due to changes in the weather.

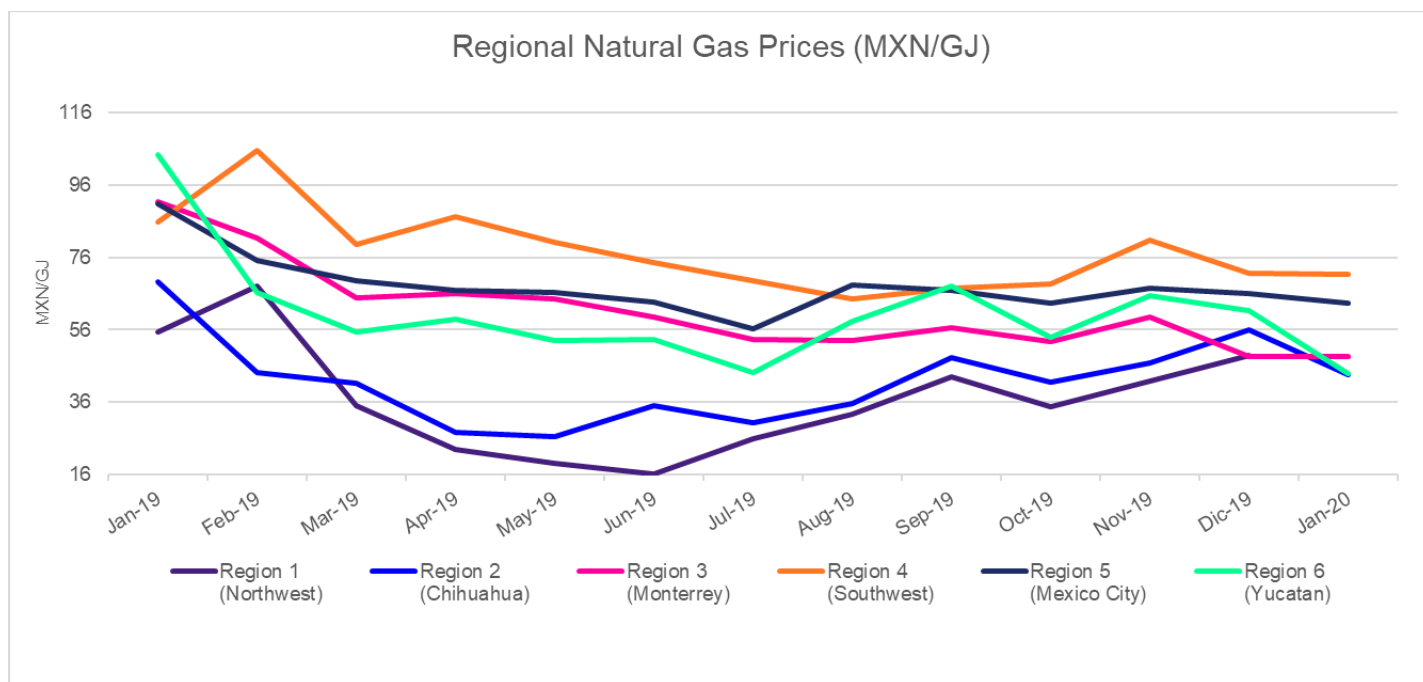
National Natural Gas Pricing

Month	USD/MMBtu	M-o-M Change	MXN/GJ	M-o-M Change	Y-o-Y Change
Jun-18	3.88	-3.5%	74.74	0.6%	
Jul-18	4.09	5.3%	74.11	-0.8%	6.7%
Aug-18	4.13	1.1%	73.69	-0.6%	1.20%
Sep-18	4.33	4.7%	78.18	6.1%	13.3%
Oct-18	3.66	-15.5%	66.11	-15.4%	-6.11%
Nov-18	3.89	6.2%	74.60	12.8%	-1.0%
Dec-18	4.60	18.4%	87.98	17.9%	20.15%
Jan-19	4.37	-4.9%	79.68	-9.4%	2.0%
Feb-19	3.82	-12.7%	69.49	-12.8%	-13.6%
Mar-19	3.15	-17.6%	57.37	-17.4%	-16.7%
Apr-19	2.88	-8.46%	51.94	-9.5%	-27.7%
May-19	3.00	4.19%	54.30	4.5%	-26.9%
Jun-19	2.78	-7.29%	50.88	-6.3%	-31.9%
Jul-19	2.62	-5.71%	47.41	-6.8%	-36.0%
Aug-19	2.85	8.65%	52.93	11.6%	-28.2%
Sep-19	3.24	13.8%	60.31	14.0%	-22.9%
Oct-19	3.16	-2.62%	57.97	-3.9%	-12.3%
Nov-19	3.15	-0.13%	57.67	-0.5%	-22.7%
Dic-19	3.19	1.15%	57.98	0.5%	-34.1%
Jan-20	2.92	-8.45%	52.05	-10.2%	-34.7%

Regionally, in January, the changes in prices were mixed—Regions 1, 2, and 6 saw a considerable decrease in the price of natural gas, and Regions 4 and 5 had a small decrease compared to the previous month, too. Region 6 had the largest decrease from \$61.30 to \$43.94 MXN / GJ, followed by Region 2 whose prices decreased from \$56.02 to \$43.61 MXN/GJ. The only region that presented or an increase in January was region 3 (Monterrey) from \$48.74 to \$48.77 MXN/GJ.

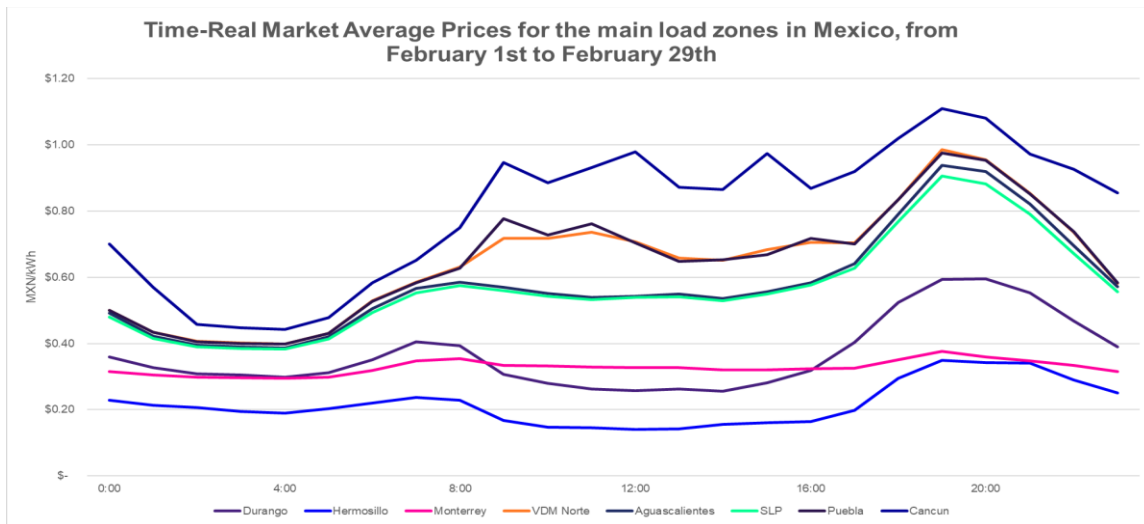
Regional Natural Gas Pricing (MXN/GJ)

Month	Region 1 (Northwest)	Region 2 (Chihuahua)	Region 3 (Monterrey)	Region 4 (Southwest)	Region 5 (Mexico City)	Region 6 (Yucatan)
Jan-19	\$55.29	\$69.20	\$91.39	\$85.82	\$90.73	\$104.27
Feb-19	\$67.98	\$44.17	\$81.24	\$105.59	\$75.23	\$66.19
Mar-19	\$35.03	\$41.20	\$64.76	\$79.44	\$69.51	\$55.37
Apr-19	\$22.89	\$27.75	\$66.04	\$87.28	\$66.84	\$58.86
May-19	\$19.07	\$26.48	\$64.52	\$80.27	\$66.38	\$53.05
Jun-19	\$16.36	\$35.03	\$59.42	\$74.46	\$63.67	\$53.34
Jul-19	\$25.95	\$30.44	\$53.47	\$69.53	\$56.21	\$44.08
Aug-19	\$32.74	\$35.56	\$52.97	\$64.64	\$68.26	\$58.33
Sep-19	\$42.96	\$48.25	\$56.58	\$67.52	\$67.01	\$68.11
Oct-19	\$34.79	\$41.43	\$52.67	\$68.51	\$63.28	\$53.89
Nov-19	\$41.96	\$46.73	\$59.56	\$80.80	\$67.43	\$65.45
Dic-19	\$48.83	\$56.02	\$48.74	\$71.73	\$65.88	\$61.30
Jan-20	\$38.18	\$43.61	\$48.77	\$71.24	\$63.27	\$43.94



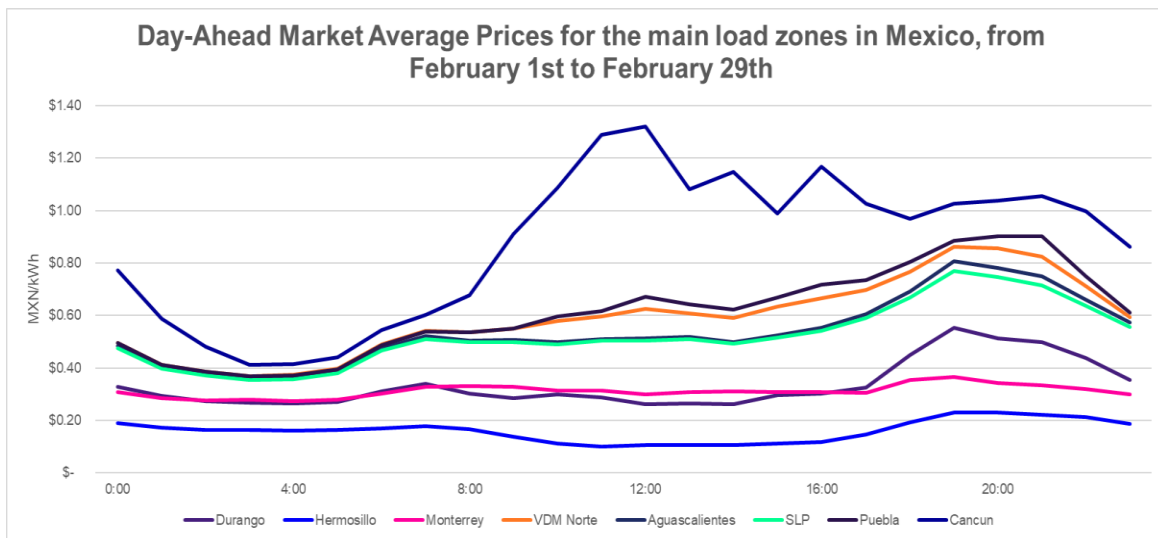
Regional LMP in RTM and DAM

In February, the region that presented the highest daily Local Marginal Price (LMP) for the Real Time Market (RTM) was Cancun, with an average price of \$0.80 MXN/kWh. The Hermosillo zone presented the lowest LMP with an average price of \$0.22 MXN/kWh.



February average daily prices for TRM, by load zone

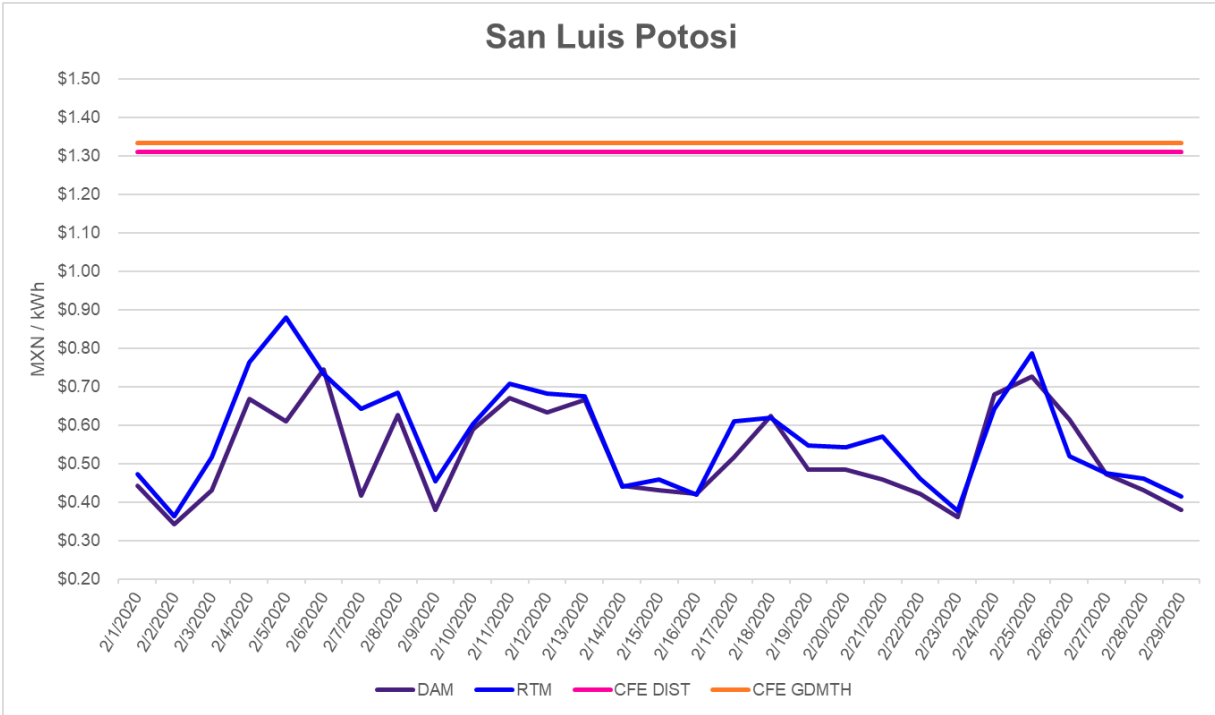
The highest hourly Local Marginal Price (LMP) for the Day Ahead Market (DAM) during the month of January registered for Cancun with average price of \$0.87 MXN/kWh, and the lowest price presented in the load zone of Hermosillo with Avg. price of \$0.16 MXN/ kWh.



February average hourly prices for DAM, by load zone



The average price DAM LMP is 60% lower than the CFE DIT rate and the average price RTM LAM is 57% lower than CFE GDMTH rate from January.



February Comparative Daily Price TRM vs. DAM vs. CFE Tariff (GDMTH and DIST)

For questions or further discussion about these topics, please contact your Enel X Energy Advisor or talk to an [Energy Sourcing Expert](#).