



Enel X Insights

May 2020 Mexico Monthly Market Commentary

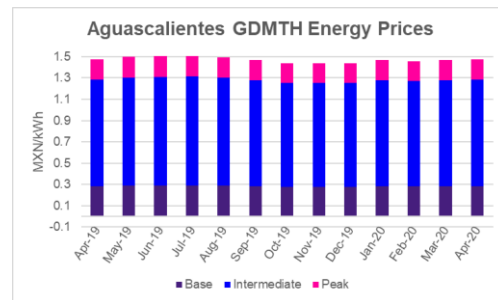
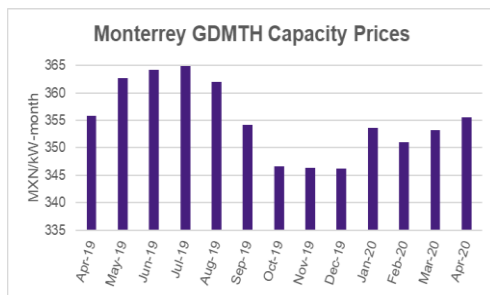
Mexico

CFE Rates Increase 0.64% in May

April rates have been published by the Federal Electricity Commission (CFE) for its Basic Service clients, and the increase from March to April is less than over the same period last year. While seasonal demand remains a primary factor in shaping rates throughout the year, commercial and industrial customers have begun to pay slightly lower rates compared to the same period last year. In particular, for this month, there is a slight decrease in costs year-over-year for March of almost 1.07% for the capacity component and 0.88% of energy on the bill.

Capacity prices in the Monterrey region for the GDMTH tariff for April 2020 are just under \$355 MXN/kW-month. This represents a 0.64% increase over March, and a 0.08% increase relative to last April's rates, which registered at just \$356 MXN/kW-month. The capacity component accounts for roughly 15% to 25% of overall energy costs.

Energy prices showed a similar slight increase in April 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. April energy prices increased by about 0.56% in most regions compared to the previous month, but were 0.07% higher compared to April 2019. Load-weighted prices in Aguascalientes have slightly increased from \$1.473 MXN/kWh in April 2019 to \$1.474 MXN/kWh in April 2020. The energy component of customers' bills usually makes up 50% to 70% of total costs.



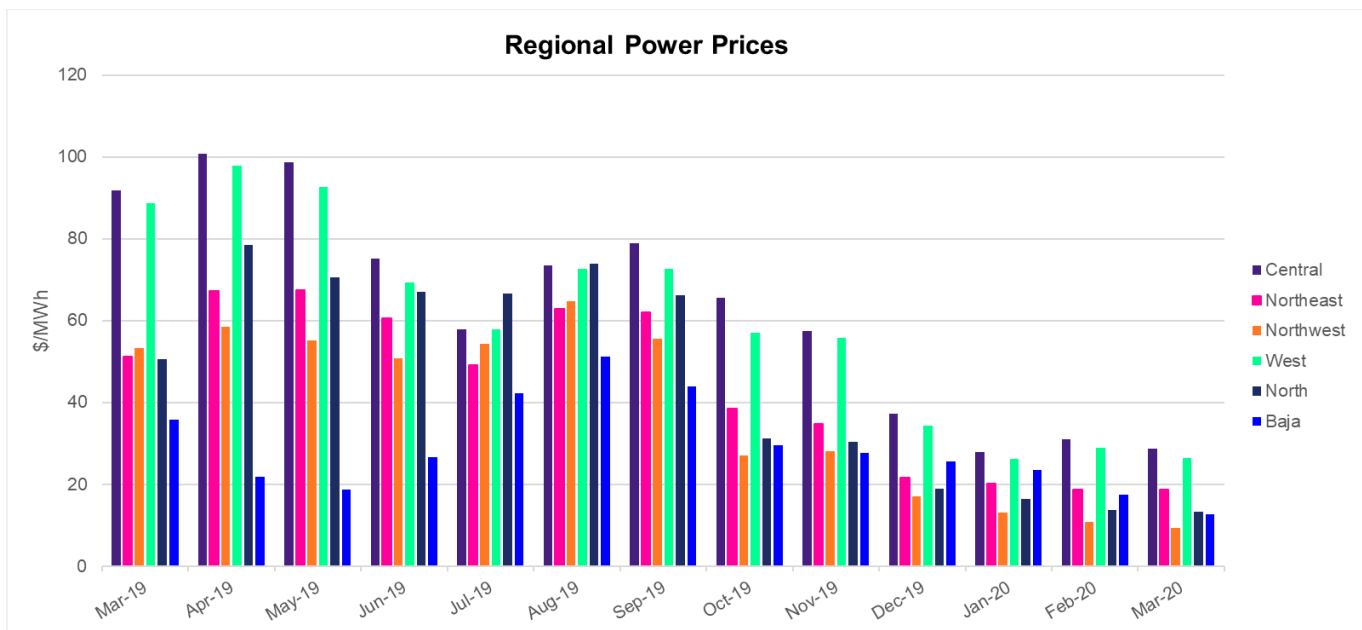
Mexico Natural Gas Prices Touch Historic Lows in March

Mexico's IPGN monthly natural gas price index averaged \$2.22 USD/MMBtu in March, the lowest price recorded since its inaugural publication in July 2017.

The price was down from \$3.15/MMBtu last March, according to the Energy Regulatory Commission (CRE), an average price that at the time was also a record low. CRE used 292 transactions reported by 22 marketers to calculate the average price in March 2020, versus 311 transactions from 23 marketers in March 2019. Transacted volumes averaged 5.57 Bcf/d, down from 6.44 Bcf/d.

Regional Electricity Pricing Update

In March, wholesale electricity prices decreased approximately 15% compared to February due in part to a seasonal decrease in demand, but also as a reflection of 6% 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 67% compared to the previous March. 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.



The CFE rules out deferring payments of electricity due to COVID-19

At a conference, the director general of the CFE, Manuel Bartlett, ruled out the possibility that the state company would allow non-payment of electricity bills as the crisis caused by the COVID-19 outbreak.

He stated that there are those who think that CFE can stop charging, but “they do not realize that [CFE] is a company like any other that has 90 thousand workers, that it has to pay wages.” He also noted the CFE has to buy fuel to generate electricity and cannot make waivers.

Bartlett accepted that the cases in which there is an inability to pay will be carefully reviewed, but the general rule is that the population attend to their responsibility to make their payments and keep the state-owned company operating.

Pemex downgraded to speculative or junk bonds by Moody's

The rating agency Moody's downgraded the national oil company Pemex to the junk bond grade. The agency downgraded the company's note on April 17th to a level that Fitch has held it at for almost a year.

As two of the three largest rating agencies have Pemex at this level, Pemex debt is considered to be in the grade of speculative or junk bonds, a condition that will prevent various investment funds from retaining debt papers of the company.

AMLO government grants fiscal stimulus to Pemex for 65 billion pesos

In a statement to investors and financial institutions, Pemex announced a tax benefit granted by the current administration that will allow it to reduce the amount of the Shared Profit Right (DUC) payment, which represents 80% of the company's direct tax burden.

Additionally, the company said that it has applied a reduction of 40.5 billion pesos to the investment budget scheduled for 2020. Also, the firm estimates additional revenue of 7.5 billion pesos for oil coverage contracted at the end of 2019. This set of measures, totaling 113 billion pesos, seeks to mitigate the effects of the temporary drop in crude oil prices on Pemex's financial balance and the generation of cash flow.

Regional Natural Gas Pricing Update

In March, natural gas prices decreased month-over-month, and continue to show a negative trend on the year. In the table below, the columns to the left show that natural gas prices in dollars decreased 18.20% from \$2.71 to \$2.22 USD/MMBtu. The columns on the right show prices in terms of Mexican pesos, which decreased 4.2% from \$48.26 to \$46.21 MXN/GJ.

National Natural Gas Pricing

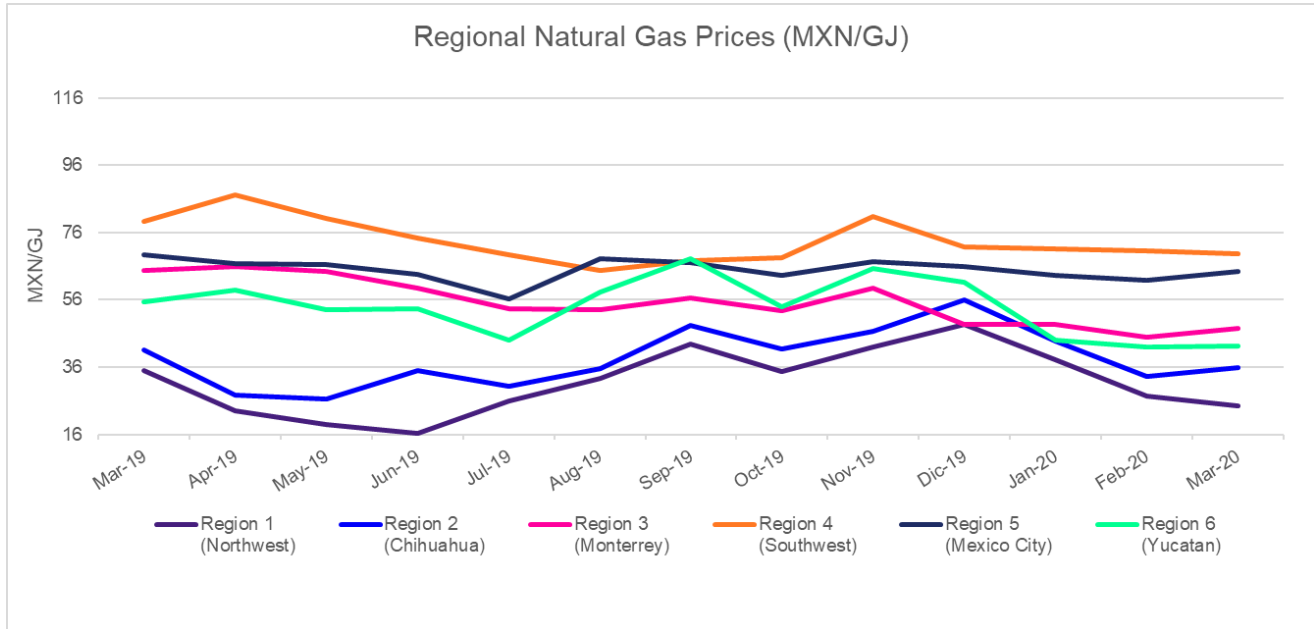
| Month | USD/MMBtu | M-o-M Change | MXN/GJ | M-o-M Change | Y-o-Y Change |
|--------|-----------|--------------|--------|--------------|--------------|
| Mar-19 | 3.15 | -17.6% | 57.37 | -17.4% | -16.7% |
| Apr-19 | 2.88 | -8.46% | 51.94 | -9.5% | -27.7% |
| May-19 | 3.00 | 4.19% | 54.30 | 4.5% | -26.9% |
| 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% |

| | | | | | |
|--------|------|---------|-------|-------|--------|
| Feb-20 | 2.71 | -7.10% | 48.26 | -7.3% | -30.6% |
| Mar-20 | 2.22 | -18.20% | 46.21 | -4.2% | -19.4% |

Regionally, in March, changes in prices were mixed, for Regions 1 and 4 prices decreased 11% and 1% respectively, while the remaining regions had moderate increases, with Region 6 being the smallest increase of 1% and Region 2 with 8%. Region 2 had a significant increase of 8% from \$33.25 to 35.97 MXN/GJ, followed by the Monterrey Region of 6% and Region 5 of 4% from \$61.86 to \$64.51 MXN/GJ on a month-over-month basis.

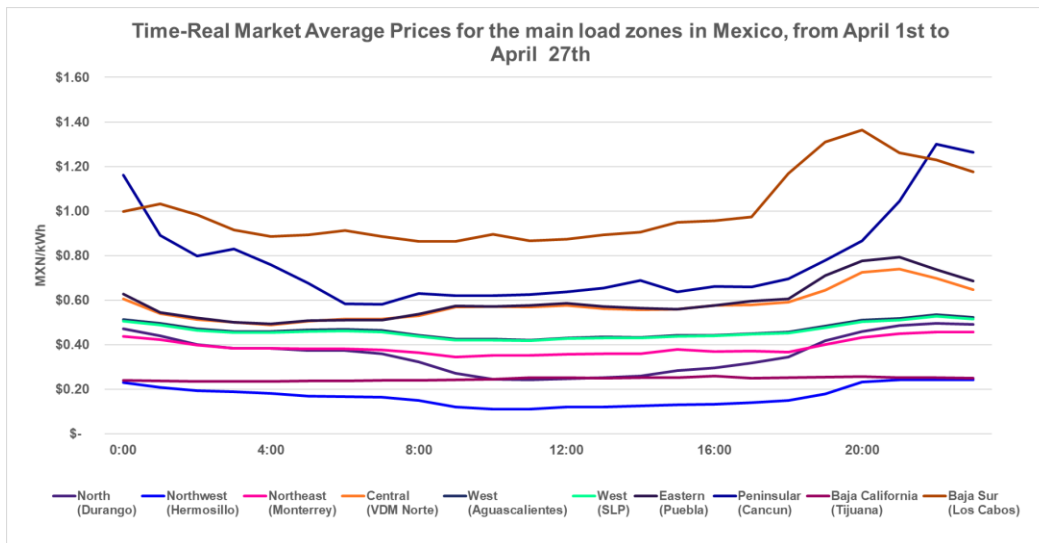
Regional Natural Gas Pricing (MXN/GJ)

| Month | Region 1 (Northwest) | Region 2 (Chihuahua) | Region 3 (Monterrey) | Region 4 (Southwest) | Region 5 (Mexico City) | Region 6 (Yucatan) |
|--------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-----------------------|
| 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 |
| Feb-20 | \$27.48 | \$33.25 | \$44.80 | \$70.56 | \$61.86 | \$42.03 |
| Mar-20 | \$24.34 | \$35.97 | \$47.41 | \$69.74 | \$64.51 | \$42.30 |



Regional LMP in RTM and DAM

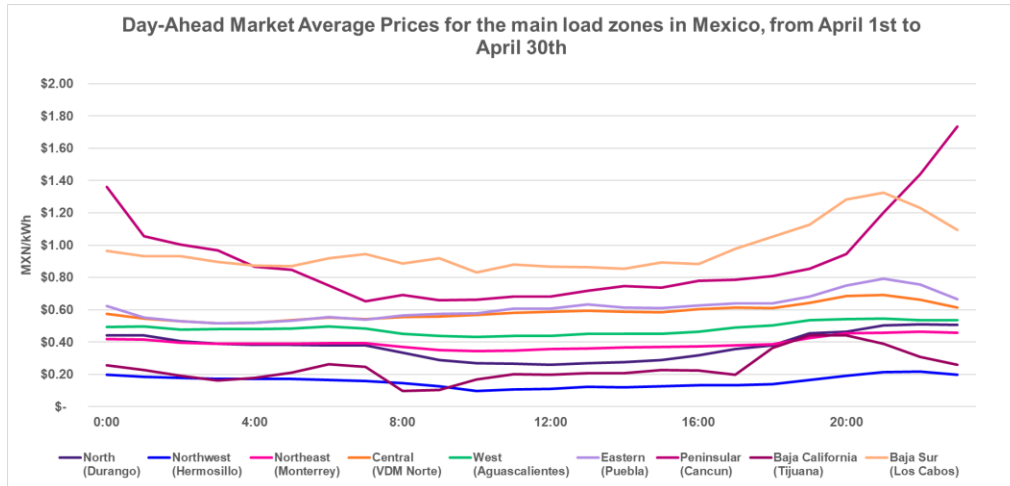
In April, the region that presented the highest daily Local Marginal Price (LMP) for the Real Time Market (RTM) was Los Cabos (Baja California Region), with an average price of \$1.00 MXN/kWh. The Hermosillo (Northwest Region) presented the lowest LMP with an average price of \$0.17 MXN/kWh.



April's average daily prices for TRM, by load zone

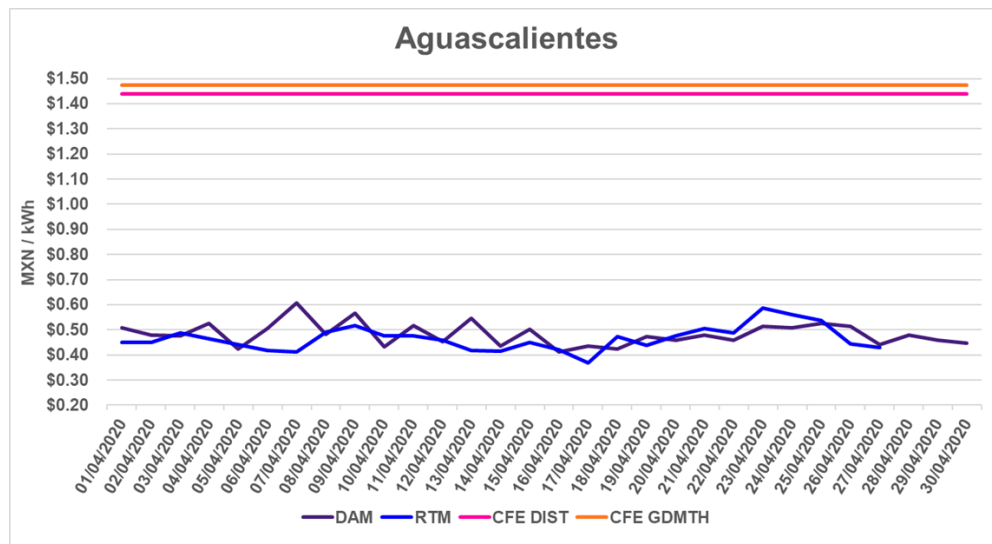


The highest hourly Local Marginal Price (LMP) for the Day Ahead Market (DAM) during the month of April registered for Los Cabos (Baja Sur Region) with average price of \$0.97 MXN/kWh, and the lowest price presented in the load zone of Hermosillo (Northwest Region) with average price of \$0.16 MXN/ kWh.



April's average hourly prices for DAM, by load zone

The average price of DAM LMP is 66.4% lower than the CFE DIT rate and the average price of RTM LAM is 67.2% lower than CFE GDMTH rate. Also, the average price TRM LMP is 70.9% lower than the CFE DIT rate and the average price of RTM LAM is 71.63% lower than the CFE GDMTH rate.



April's 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](#).