TALANZA

Electrical problems in Yucatan peninsula

1.- THE PROBLEM

The Yucatan Peninsula could experience new shortages to attend its electric demand. The power plants on the area are mainly combined cycle natural gas facilities without strong supply of fuel. After canceling long term bids of clean energy projects, AMLO's administration ensured that no new electricity cuts would be faced in the area.

Nevertheless, the shortages of national natural gas produced by PEMEX, the lack of interconnections to allow the cheap natural gas that could arrive from the marine pipeline to the peninsula (if it had already started operations) and the transmission infrastructure with low levels of reliability, make analysts think that a new electric breakdown in the Yucatan Peninsula is inevitable in the Mexican holiday season.

This area produces less electricity than it needs, so it is forced to receive cargo from neighboring states. Generation capacity in the area is much higher than the actual generation that is observed on a daily basis, but without enough natural gas, the Nacional Centre for Electricity Control (CENACE) faces very few decrees of liberty.

2.- WHOLESALE ELECTRICITY MARKET (MERCADO ELÉCTRICO MAYORISTA)

The Law of the Electrical Industry, published as part of the Mexican Energy Reform of 2014 establishes the creation of the Wholesale Electricity Market. An efficient and fair market is essential to achieve efficient prices and to encourage the development of new electrical infrastructure, both for generation and transmission.

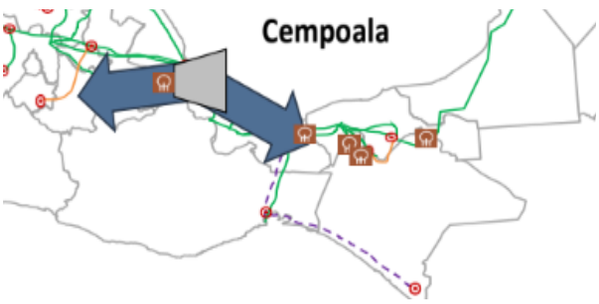
CENACE was designed as independent system operator to coordinate the market and to ensure efficient decisions could be made by market participants on the long term.

A clear understanding of the Mexican electricity sector institutions, particularly the rules of the wholesale electricity market, will allow qualified generators, marketers, suppliers and users.

3.- WHAT ABOUT THE SWAP AND THE MARINE PIPELINE?

Mayakan, the pipeline that transports gas to the Yucatan Peninsula is not interconnected to CENAGAS' SISTRANGAS but directly to Processing facilities owned by PEMEX.

Gas going down from the Marine Pipeline could be sent to the South, but in order to do that, the CEMPOALA compression station has to be operational and the pipes must be able to hold the extra pressure. Private, PEMEX and CFE's demand is urgent for new supply sources.



RELEVANT ANNOUNCEMENTS:

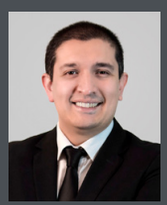
- On June 17th 2019, CENACE reported that the demand for electricity exceeded the generation capacity in the Yucatan Peninsula, so it declared an operational alert status in that region of the country.
- Three days later, CENACE pointed out that in the case of the combined cycle power plant in Mérida, the diesel discharge limitations have been "remedied" by the installation of a discharge head in that place, to increase the capacity of proving and that, with this allows diesel to be operated at the plant during the hours of greatest energy demand.
- Two days later, president Lopez Obrador publicly informed that a new power plant could be built, but the source of natural gas to the plant has not been announced.

These problems should lead to reflections on the importance of having adequate market signals, an independent operator of the robust system and an autonomous regulation system.

- While lots of attention has been placed to the Yucatan peninsula, the case of Baja California and Baja California Sur could be even worse for the following months, where regulatory strategies for market participants will be key.

Thanks to our Energy Market Intelligence, we support our clients in their risk assessment for their projects' investments decisions.

ANALYSTS



DAVID ROSALES provides solutions for business development, regulatory compliance and feasibility analysis for natural gas and liquids projects. He has experience designing strategies to identify supply, demand and funding for infrastructure projects, including a deep feasibility analysis due to a profound understanding of the regulatory environment and the regional energy balances involved on each case, both for natural gas and liquid fuels.

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We are a unique firm integrated by experts in energy regulation and public administration, conformed by a professional team with vast experience in the evolution of the energy sector during the last 10 years.

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