

EXCLUSIVE INTERVIEW

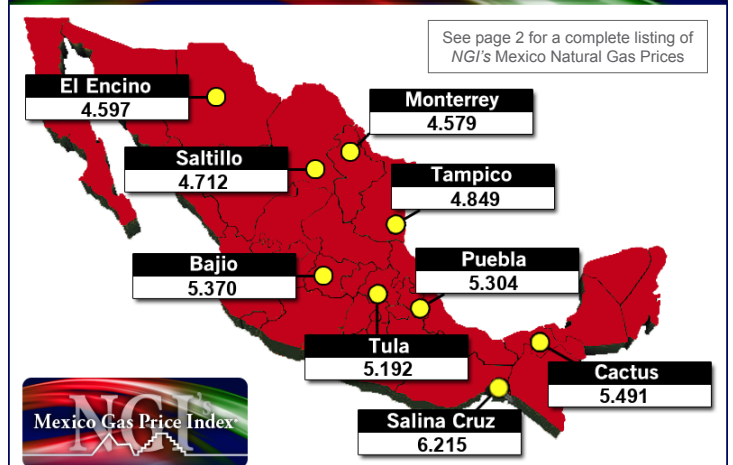
Mexico Electricity Bill Could Harm Small To Midsize Businesses, Specialist Lawyer Says

“I think emphasis on how the electricity reform proposal could affect small to midsize Mexican businesses is a key point to be addressed and discussed,” Paolo Salerno, founding partner of the firm Salerno and Associate Experts in Energy, told *NGI's Mexico GPI*.

Salerno added: “I think the impact of the proposal on small to midsize businesses could be very grave and very harmful.” If “forced to operate under a regulated electricity rate,” small to midsize Mexican companies could see “a considerable increase in cost that could be very damaging to operations,” he said.

Salerno, an attorney specializing in energy law, recently gave a [presentation](#) at Mexico’s open parliament discussions about the electricity bill proposal, which was applauded by members of the industry. A managing partner at Salerno y Asociados Expertos en

NGI's MEXICO NATGAS PRICE TRACKER



Source: NGI - based on US-to-Mexico cost plus transport prices in \$US/MMBtu. For the full list of NGI's US/MX border & Mexico prices, visit: natgasintel.com/mx-price

US/Mexico NatGas Market Recap

- Models back off early-March cold
- Big swings may continue into expiration
- Cash mixed ahead of winter blasts

[Read more on pg. 5](#)

Energía in Mexico City, he deals with all matters related to the legal, business, infrastructure and training of the electricity market and renewable energies. Salerno is also a professor in the Law Department of the Autonomous Technological Institute of Mexico (ITAM) and a researcher at the ITAM Energy and Natural Resources Center (CIERN-ITAM).

Prior to coming to Mexico, Salerno worked for several years as an independent consultant and attorney at the European Parliament and specialized in European and energy law in Spain and Italy.

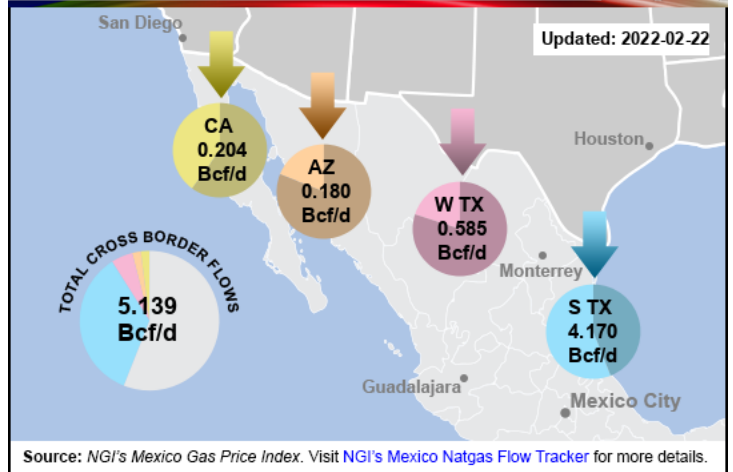
Salerno holds a PhD in law, the electricity market and renewable energies from the Universidad Carlos III de Madrid, where his thesis compared the electricity and renewable energy markets of Spain and Mexico. He received his undergraduate degree in law from the Università Alma Mater Studiorum di Bologna and has completed additional studies at the Universidad Complutense de Madrid and the University of California, Berkeley.

Editor's Note: NGI's Mexico Gas Price Index, a leader tracking Mexico natural gas market reform, offers the following question-and-answer (Q&A) column as part of a regular interview series with experts in the Mexican natural gas market. Salerno is the 74th expert to participate in the series.

NGI: In your speech before members of congress last month, you mentioned that in the current Mexican constitution, the state already has energy sovereignty. Do you think that the proposed

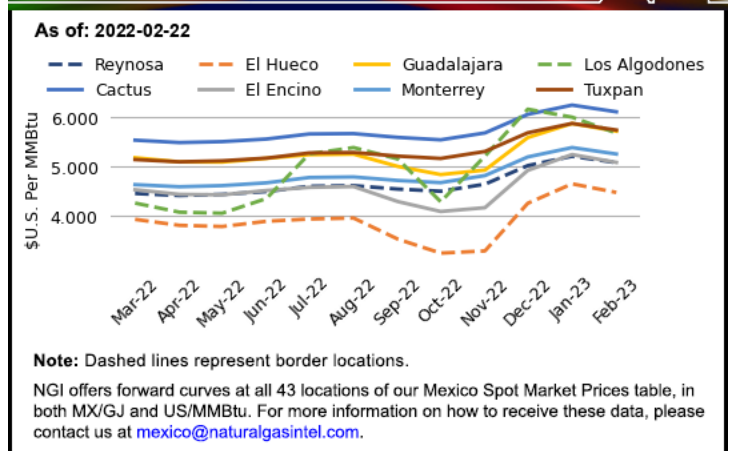
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NGI's MEXICO NATGAS FLOW SNAPSHOT



Source: NGI's Mexico Gas Price Index. Visit [NGI's Mexico Natgas Flow Tracker](#) for more details.

NGI's MEXICO FORWARD PRICE CURVES



MEXICO NATURAL GAS PRICES

MEXICO BORDER LOCATIONS	BIDWEEK PRICES FEBRUARY 2022		DAILY PRICES FEB. 19 - FEB. 22				FORWARD PRICES MARCH 2022	
	\$/US/MMBTU	MXP/GJ	\$/US/MMBTU	D/D CHG	MXP/GJ	D/D CHG	\$/US/MMBTU	MXP/GJ
Camargo	6.756	132.131	4.510	-0.211	86.810	-4.016	4.561	88.121
Colombia	6.660	130.251	4.420	-0.210	85.069	-4.007	4.470	86.370
El Hueco	4.452	87.073	4.054	-0.225	78.022	-4.292	3.919	75.724
Los Algodones	5.615	109.806	4.515	0.000	86.902	0.035	4.252	82.158
Matamoros	6.795	132.886	4.516	-0.214	86.916	-4.076	4.567	88.242
Mier	6.682	130.688	4.420	-0.212	85.064	-4.047	4.470	86.375
Ojinaga	4.566	89.295	4.176	-0.220	80.369	-4.201	4.044	78.135
Reynosa	6.650	130.048	4.398	-0.211	84.645	-4.027	4.448	85.949
San Isidro	4.822	94.315	4.433	-0.219	85.310	-4.198	4.300	83.095
Sásabe	4.636	90.663	4.221	-0.234	81.246	-4.465	4.081	78.855
LOCATIONS IN MEXICO								
Aguascalientes	6.480	126.730	5.151	-0.218	99.140	-4.147	5.108	98.696
Aguascalientes via Cenagas	7.645	149.519	5.370	-0.215	103.344	-4.096	5.417	104.671
Aguascalientes via Fermaca	5.315	103.940	4.933	-0.220	94.935	-4.199	4.799	92.721
Bajío	7.645	149.519	5.370	-0.215	103.344	-4.096	5.417	104.671
Cactus	7.765	151.856	5.491	-0.215	105.681	-4.096	5.538	107.007
El Encino	5.616	109.836	4.597	-0.218	88.468	-4.165	4.525	87.427
El Encino via Cenagas	7.212	141.049	4.929	-0.215	94.873	-4.097	4.979	96.200
El Encino via Ojinaga-El Encino	4.601	89.987	4.212	-0.220	81.061	-4.201	4.080	78.827
El Encino via Tarahumara	5.035	98.474	4.649	-0.220	89.469	-4.199	4.516	87.254
Guadalajara	6.551	128.111	5.223	-0.218	100.521	-4.148	5.179	100.077
Guadalajara via Cenagas	7.645	149.519	5.370	-0.215	103.344	-4.096	5.417	104.671
Guadalajara via Fermaca	5.456	106.703	5.076	-0.220	97.698	-4.199	4.942	95.484
La Laguna	5.168	101.073	4.784	-0.220	92.067	-4.199	4.650	89.853
Los Ramones	6.952	135.964	4.665	-0.215	89.789	-4.096	4.716	91.116
Mérida	8.161	159.610	5.894	-0.215	113.434	-4.097	5.939	114.761
Monterrey	6.841	133.795	4.579	-0.213	88.134	-4.050	4.629	89.447
Monterrey via Cenagas	6.952	135.964	4.665	-0.215	89.789	-4.096	4.716	91.116
Monterrey via Mier-Monterrey	6.729	131.605	4.467	-0.212	85.980	-4.047	4.518	87.291
Monterrey via Nueva Era	6.842	133.816	4.605	-0.210	88.633	-4.007	4.654	89.935
Puebla	7.581	148.267	5.304	-0.215	102.092	-4.096	5.352	103.418
Salina Cruz	8.477	165.791	6.215	-0.215	119.616	-4.096	6.259	120.942
Saltillo	6.999	136.872	4.712	-0.215	90.697	-4.096	4.763	92.023
Tampico	7.133	139.502	4.849	-0.215	93.326	-4.097	4.899	94.653
Topolobampo	5.332	104.270	4.954	-0.220	95.345	-4.201	4.819	93.111
Torreón	7.212	141.049	4.929	-0.215	94.873	-4.097	4.979	96.200
Tula	7.471	146.111	5.192	-0.215	99.936	-4.097	5.241	101.263
Tuxpan	7.367	144.083	5.092	-0.215	98.010	-4.086	5.141	99.336
Tuxpan via Cenagas	7.471	146.111	5.192	-0.215	99.936	-4.097	5.241	101.263
Tuxpan via Sur de Texas - Tuxpan	7.264	142.054	4.992	-0.214	96.084	-4.076	5.041	97.410
Villa de Reyes	7.531	147.290	5.267	-0.213	101.363	-4.075	5.314	102.683
Villa de Reyes via Cenagas	7.471	146.111	5.192	-0.215	99.936	-4.097	5.241	101.263
Villa de Reyes via Los Ramones	7.241	141.615	4.998	-0.211	96.185	-4.030	5.046	97.490
Villa de Reyes via Tula - Villa de Reyes	7.882	154.144	5.610	-0.215	107.969	-4.096	5.656	109.296

Note: Prices are calculated from transportation rates added to U.S. natural gas prices. See [NGI's Mexico Gas Price Index Methodology](#) for location-by-location specifics. US\$/MXP exchange rate from Banco de México and Bloomberg. Bidweek Prices do not change once established each month. Daily and Forward Prompt prices are updated daily. All prices within Mexico assume transport on Cenagas unless otherwise noted.

Source: Natural Gas Intelligence

modifications to the constitution in the electricity reform are necessary for Mexico to achieve energy sovereignty, which the current administration claims as the objective of the new bill?

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Salerno: The state currently holds sovereignty and in particular jurisdiction over the sector. In Mexico, we have four areas in the sector: generation, transmission, distribution and consumption, and planning and control. And currently, the state oversees and has jurisdiction over all the principal elements of the sector.

What is being proposed is not only to return the state to a monopoly but that the elements of the industry are consolidated into the Comisión Federal de Electricidad (CFE). Currently, the state has control of the industry through various institutions, which are the Energy Ministry (Sener), the Comisión Reguladora de Energía (CRE), power dispatch operator Cenace and the CFE as a productive company of the state. What the electricity reform aims to do is to put all of these elements

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NGI & GADEX WEEKLY MEXICO NATGAS FLOW TRACKER

As of 18-Feb-2022



Gasoducto Rosarito — Gasoducto de Zapotlanejo — KM Mexico — Manzanillo–Guadalajara —
 Mayakan — Naranjos–El Sauz — Ojinaga–El Encino — San Isidro–Samalayuca —
 Sonora Pipeline (Sasábe–El Oro) — Sur de Texas–Tuxpan — Valtierra–Aguascalientes (Bajío) —

LOCATIONS WITHIN MEXICO

Key Location	Delivery Pipeline	Delivery (Dths/MMBtu)	Op Cap (Dths/MMBtu)	Deliveries (Bcf/d)	Op Cap (Bcf/d)	Cap Util %
1 Aguascalientes	Valtierra-Aguascalientes (Bajío)	59,208	85,266	0.06	0.09	69%
2 Altamira Receipts	LNG	6,872	500,554	0.01	0.50	1%
3 Burgos	Gas Processing Plant	294,874	645,371	0.28	0.65	46%
4 Cactus/Nuevo Pemex	Gas Processing Plant	767,030	1,196,714	0.76	1.21	64%
5 Cauchy	PEMEX	142,186	201,222	0.14	0.20	71%
6 El Castillo	Manzanillo-Guadalajara	108,931	250,277	0.11	0.25	44%
7 El Encino	Ojinaga-El Encino*	174,778	670,742	0.17	0.67	26%
7B El Encino	Ojinaga-El Encino**	595,159	1,671,850	0.61	1.67	36%
8 El Oro	Sonora (Guaymas-El Oro)	156,369	510,565	0.15	0.51	31%
9 El Sauz	Naranjos-El Sauz	297,063	665,422	0.30	0.63	45%
10 Energia Costa Azul	Gasoducto Rosarito	7,011	1,001,108	0.01	1.00	1%
11 Gaza	Gasoducto de Zapotlanejo	154,260	250,277	0.16	0.25	62%
12 Gloria a Dios, CH	Gasoducto de Chihuahua	69,228	130,002	0.07	0.13	53%
13 Guaymas	Sonora (Sasabe-Guaymas)	0	812,000	0.00	0.81	0%
14 La Venta	Gas Processing Plant	40,497	118,523	0.03	0.12	34%
15 Manzanillo	LNG	0	500,554	0.00	0.50	0%
16 Mérida	Mayakan	142,811	237,045	0.14	0.24	60%
17 Montegrande	Sur de Texas-Tuxpan	226,229	500,554	0.23	0.50	45%
18 Monterrey	KM Mexico	121,782	150,166	0.12	0.15	81%
19 Naranjos	Sur de Texas-Tuxpan	733,839	825,914	0.74	0.83	89%
20 Playuela	PEMEX	184,500	201,222	0.17	0.20	92%
21 Samalayuca	San Isidro-Samalayuca	123,469	472,523	0.12	0.47	26%
22 Tuxpan	Sur de Texas-Tuxpan	0	886,981	0.00	0.89	0%

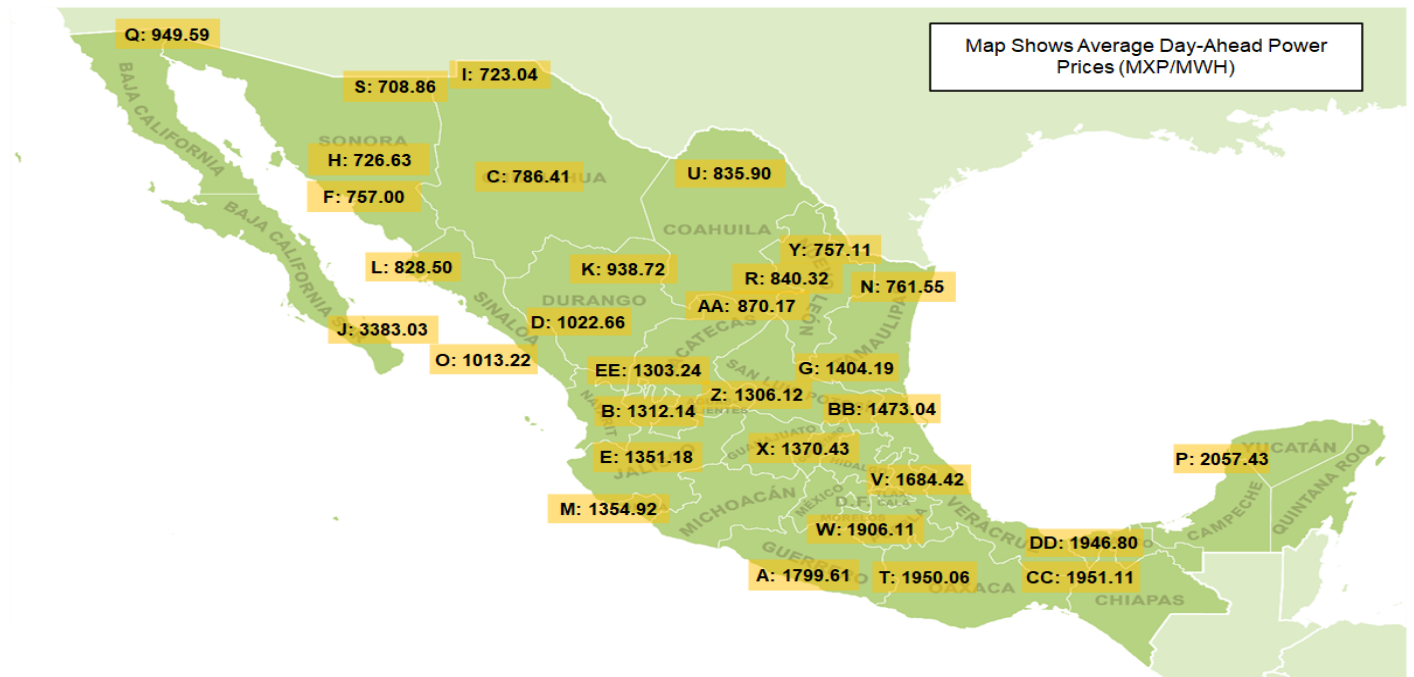
*Delivery into Topolobampo (El Encino–Mazatlán Segment I). **Delivery into El Encino–La Laguna.

Source: Compiled by NGI from Gadex data (gadex.mx/en/home/)

Average Mexico Day-Ahead Power Prices at Selected Distributed Nodes 22-Feb-2022

US/MX Exchange Rate: 20.28

Location	Power Prices (MXP/MWH)				Power Prices (USD/MWH)			
	24 Hr. Low	24 Hr. High	24 Hr. Avg.	D/D Chg.	24 Hr. Low	24 Hr. High	24 Hr. Avg.	D/D Chg.
A Acapulco	896.62	2903.86	1799.61	594.02	\$44.21	\$143.19	\$88.74	\$29.35
B Aguascalientes	773.44	2007.96	1312.14	336.71	\$38.14	\$99.01	\$64.70	\$16.65
C Chihuahua	651.65	1162.03	786.41	-48.09	\$32.13	\$57.30	\$38.78	-\$2.33
D Durango	750.51	1526.35	1022.66	116.36	\$37.01	\$75.26	\$50.43	\$5.78
E Guadalajara	787.47	2180.58	1351.18	346.54	\$38.83	\$107.52	\$66.63	\$17.14
F Guaymas	597.32	1185.85	757.00	53.26	\$29.45	\$58.47	\$37.33	\$2.66
G Huasteca	752.36	2337.36	1404.19	551.61	\$37.10	\$115.25	\$69.24	\$27.24
H Hermosillo	558.78	1140.29	726.63	9.22	\$27.55	\$56.23	\$35.83	\$0.49
I Juarez	570.34	1076.31	723.04	-56.62	\$28.12	\$53.07	\$35.65	-\$2.75
J La Paz	2319.95	5643.41	3383.03	297.36	\$114.40	\$278.27	\$166.82	\$14.81
K Laguna	739.12	1367.21	938.72	53.71	\$36.45	\$67.42	\$46.29	\$2.69
L Los Mochis	672.29	1276.08	828.50	65.75	\$33.15	\$62.92	\$40.85	\$3.28
M Manzanillo	787.17	2185.52	1354.92	342.61	\$38.82	\$107.77	\$66.81	\$16.94
N Matamoros	631.40	1060.45	761.55	12.31	\$31.13	\$52.29	\$37.55	\$0.64
O Mazatlan	737.31	1547.59	1013.22	119.01	\$36.36	\$76.31	\$49.96	\$5.91
P Merida	923.83	3218.75	2057.43	574.99	\$45.55	\$158.72	\$101.45	\$28.42
Q Mexicali	661.73	1810.24	949.59	234.94	\$32.63	\$89.26	\$46.82	\$11.62
R Monterrey	686.42	1163.27	840.32	24.43	\$33.85	\$57.36	\$41.44	\$1.24
S Nogales	498.25	1143.11	708.86	-26.43	\$24.57	\$56.37	\$34.95	-\$1.27
T Oaxaca	894.33	3056.41	1950.06	730.32	\$44.10	\$150.71	\$96.16	\$36.07
U Piedras Negras	681.40	1147.21	835.90	22.53	\$33.60	\$56.57	\$41.22	\$1.15
V Poza Rica	768.72	3221.29	1684.42	529.62	\$37.91	\$158.84	\$83.06	\$26.17
W Puebla	877.46	2970.47	1906.11	735.56	\$43.27	\$146.47	\$93.99	\$36.33
X Queretaro	767.31	2265.23	1370.43	333.95	\$37.84	\$111.70	\$67.58	\$16.52
Y Reynosa	629.09	1053.87	757.11	13.58	\$31.02	\$51.97	\$37.33	\$0.71
Z San Luis Potosi	757.41	2040.08	1306.12	362.41	\$37.35	\$100.60	\$64.40	\$17.92
AA Saltillo	695.19	1234.52	870.17	39.24	\$34.28	\$60.87	\$42.91	\$1.98
BB Tampico	716.14	2782.39	1473.04	689.33	\$35.31	\$137.20	\$72.64	\$34.03
CC Tuxtla	875.21	3026.52	1951.11	740.35	\$43.16	\$149.24	\$96.21	\$36.56
DD Villahermosa	873.96	3024.84	1946.80	733.76	\$43.09	\$149.15	\$96.00	\$36.24
EE Zacatecas	781.18	1945.46	1303.24	321.94	\$38.52	\$95.93	\$64.26	\$15.92



Note: Power prices are the average of hourly day-ahead (MDA) prices for each listing, as published by CENACE, and include energy, congestion, and line loss components. \$US/MWH to MX/GJ exchange rate listed above.

Source: CENACE, Banco de México, NGI calculations

NGI's Spot Prices at US Locations Key to Mexico

Trade Date: 18-Feb-2022 Flow Date(s): 2022-02-19 to 2022-02-22

	RANGE	AVG	CHG	VOL	DEALS
CALIFORNIA					
Ehrenberg	4.425-4.500	4.475	0.000	108	30
EAST TEXAS / SOUTH LOUISIANA					
Henry Hub	4.535-4.650	4.600	0.030	530	72
Houston Ship Channel	4.150-4.200	4.180	-0.210	100	6
ROCKIES					
El Paso San Juan	4.200-4.400	4.310	-0.070	188	30
SOUTH TEXAS					
Tennessee S. Tx	4.200-4.250	4.220	-0.185	360	55
TETCO S. Tx	4.380-4.390	4.385	-0.090	151	18
South Texas Avg ¹	4.200-4.390	4.303	-0.138	511	73
WEST TEXAS					
El Paso Permian	3.750-4.150	3.965	-0.220	435	87
Waha	3.750-4.080	3.960	-0.220	262	54

All prices are in \$U.S./MMBtu. Data are excerpted directly from NGI's Daily Gas Price Index except for the (1) South Texas Avg, which is a simple average of Tennessee S. Tx, and TETCO S. Tx. For more information on how we calculate our next-day and next-month price indexes, please refer to our Price Index Methodology, which is located [here](#).

Note: NGI's Mexico Gas Price Index plans to calculate our own Mexico spot prices in the same manner as we do for locations in the United States & Canada as soon as possible. For more information, or if you wish to participate in NGI's Mexico natural gas price survey, please contact Christopher Lenton at +1-703-348-9807, or e-mail us at prices@naturalgasintel.com.

MARKET STORY

Natural Gas Futures Slide Further Friday as Forecast Warms Again; Cash Mixed

With geopolitical tensions surrounding Russia and Ukraine roiling markets, natural gas futures were higher in early trading Tuesday. At around 8:50 a.m. ET, the March Nymex contract was up 12.8 cents to \$4.559/MMBtu. April was up 13.8 cents to \$4.515.

After an earlier rebound, natural gas futures ultimately slipped further Friday as traders focused on some easing in the early-March cold. With the potential impacts on already below-normal storage inventories unclear, the March Nymex contract settled at \$4.431/MMBtu, off 5.5 cents on the day. April lost 5.3 cents to hit \$4.377.

Spot gas – which traded Friday for gas delivery through Tuesday – was mostly lower, though strong demand on the West and East coasts propped up prices there. NGI's Spot Gas National Avg. fell 2.5 cents to \$4.830.

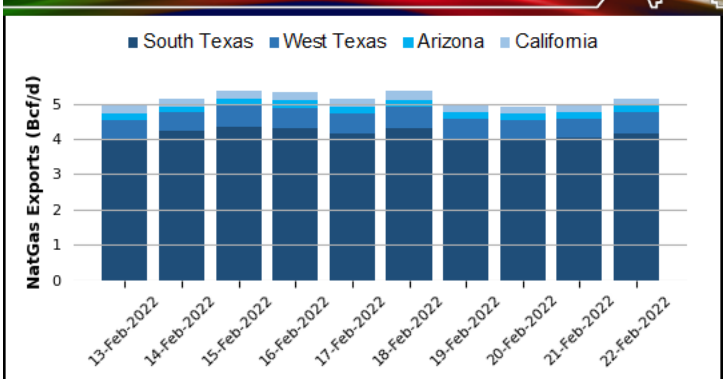
After some hugely colder moves this week in the weather models, the latest forecasts have eased a little for the early-March period. Changes were minor early Friday, with the next two weeks still projected to be on the colder side of normal.

Bespoke Weather Services said the coldest days in the forecast come late in the coming week into next weekend, when daily gas-weighted degree days top 30 before dropping off into the following week. The setup continues to favor colder-than-normal weather beyond day 15, even if not extreme, though some variability may return after the first third of March. Any weakening in the Pacific pattern opens the door to some warmer days, the forecaster said, given no help from the Atlantic side in driving the current colder pattern.

NatGasWeather said the midday Global Forecast System continued to lessen the amount of cold for March 1-5. The model shed a total 13 heating degree days over the prior 24 hours and is now “not quite cold enough to satisfy.”

Nevertheless, the potential for cold to linger a bit longer weighed on traders still digesting the latest government inventory data. The

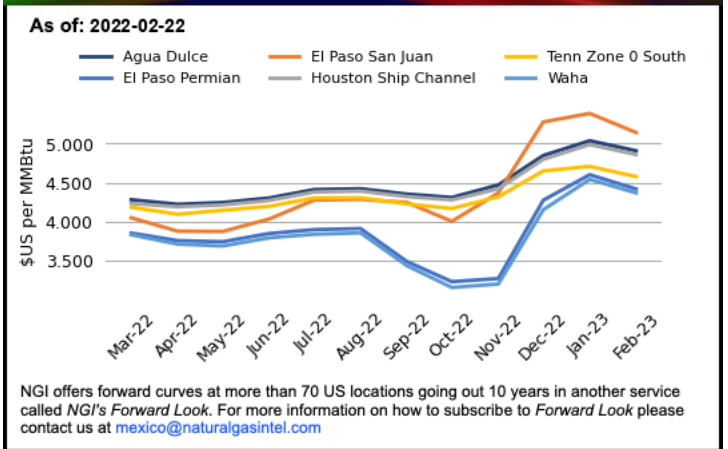
NGI's U.S. NATGAS PIPELINE EXPORTS TO MEXICO



Note: Excludes non-public intrastate flows.

Source: NGI's Mexico Gas Price Index. Visit [NGI's Mexico Natgas Flow Tracker](#) for more details.

NGI's KEY US FORWARD PRICE CURVES



March Nymex contract hit an intraday high of \$4.654, up 16.8 cents higher than Thursday's close.

The Energy Information Administration (EIA) said stocks for the week ending Feb. 11 were down 190 Bcf to 1,911 Bcf.

The Schork Group pointed out that it was the sixth consecutive triple-digit draw of the winter, resulting in a “substantial” delivery of 1.28 Tcf. This is the earliest that stocks have fallen below 2 Tcf in the past three winters, according to analysts.

“We are more than two-thirds of the way through the season, and the market has now delivered more than 90% of last summer's 1.894 Tcf refill,” the Schork team said. Including Thursday's EIA update, “this season's delivery is 180 Bcf above the five-year average, 254 Bcf above the seasonally adjusted norm and 56 Bcf above last year's pace.”

Looking ahead to the final week of February, Mobius Risk Group said the market is having to come to grips with measuring recent highs and lows in \$1 increments. Such volatility has been largely absent from futures trading over the past five years.

“With expiry for the March contract” four trading days away, “and bidweek commencing, market participants will remain on edge as ghosts of last month's expiry linger.”

The February Nymex contract surged 46% on the day of expiration, shooting up to \$6.265.

Further down the road, Mobius said daily production over the first half of the injection season is a critical factor for

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physical market participants with open exposure, as well as for financial participants who have remained on the sidelines since volatility skyrocketed early in the fall.

Over the past several months, there have been a wide range of estimates of production growth, with some as low as 1 Bcf/d year/year and some as high as 4 Bcf/d, according to Houston-based Mobius. The firm pointed out that guidance from [EQT Corp.](#), [Comstock Resources Inc.](#) and [Antero Resources Corp.](#) best supports total U.S. production growth on the lower end of the market's expected range of outcomes; however, "there are still plenty of uncertainties regarding Permian Basin growth in an \$80-\$90/bbl environment."

EBW Analytics Group noted recent comments from [Pioneer Natural Resources Co.](#) CEO Scott Sheffield, reaffirming the company's pledge not to increase supply by more than 5% in 2022

As a proclamation of capital restraint, Sheffield stated that even if oil prices were to reach \$200, Pioneer would not change its growth plans.

"In our view, Sheffield's comments may be representative of capital restraint from public independents, but both supermajors and small private companies continue to have plans for rapid output expansion to capitalize on soaring commodity prices."

Cash Softens Ahead Of Long Weekend

Spot gas prices moved lower across most of the country on Friday following a strong winter storm that brought heavy rains and

strong winds. With temperatures on the rise, the majority of U.S. locations fell anywhere from a dime to as much as 30.0 cents.

In Texas, [Houston Ship Channel](#) dipped 21.0 cents to \$4.180 for the four-day gas delivery, while [Waha](#) dropped 22.0 cents to \$3.960.

In the country's midsection, [Consumers Energy](#) slipped 5.5 cents to \$4.415, and [Enable East](#) fell 9.5 cents to \$4.150.

Prices throughout Louisiana, the Southeast and Appalachia were down mostly less than 20.0 cents day/day.

However, on the East Coast, the [Algonquin Citygate](#) jumped \$1.500 to average \$9.665 for gas delivery through Tuesday. Similar gains were seen across New England.

The National Weather Service (NWS) said although the strong winter storm that hit the region in recent days has moved out to sea, gusty winds and lower temperatures remained. A warmup is expected in the coming days, however.

Meanwhile, an upper trough was forecast to dive south into the U.S. Northwest late Saturday into Sunday, according to NWS. Snow was seen breaking out across the northern Rockies and High Plains as an Arctic front moved south into the north-central states. Temperatures also were forecast to nosedive in Montana, plummeting from the low-mid 50s in eastern Montana Saturday to subzero by Sunday afternoon. Frigid temperatures are forecast to return throughout the northern High Plains and Upper Midwest in the days ahead.

Given the bone-chilling weather, [CIG](#) spot gas climbed 13.0 cents to \$4.475, and [KRGD Del Pool](#) rose 11.0 cents to \$4.575. [Malin](#) was up 16.5 cents to \$4.485. ■

... from INTERVIEW - Mexico Electricity Bill Could Harm Businesses, pg. 1 of industry into the hands of the CFE. For that reason, I think there is an argument to be made that currently, the jurisdiction over the sector is already in the hands of the state given how the constitution is structured.

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So, the objective of the reform is to maintain control of the sector by the state, but only via the CFE. The industry would no longer be under the jurisdiction of all the state institutions — as it is currently — but solely overseen by the productive company of the state, the CFE. In this case, the CFE would transform to be more than just a company of the state, as it would contain the other institutions of the industry. This would mean that the government still oversees the activity of the industry, as they do now, but through just one organism - the CFE - instead of several.

NGI: In another comment from your speech in congress, you said that “European markets dispatch electricity according to price, while in Mexico they are dispatched according to cost.” Could you explain the difference between the Mexican electricity market and the European electricity markets?

Salerno: When the Mexican electricity market was reformed, what was done was that the power dispatch in the spot market was set according to cost to avoid market distortions. So, currently in the European spot market, the majority of markets can dispatch electricity according to price. So if I say my energy per Kilowatt hour is worth 1 peso and I put it in the market, that price could fluctuate at a certain point as a result of market economics and behavior. This could happen if there’s an increase in demand or supply needs in certain regional markets, for example, or if one company is dominant in an industry and drives prices one way or the other.

In Mexico, the method by which this is calculated is through standard formulas that establish the price at which energy is sold. So

when you want to dispatch your energy, the price is calculated through a set of formulas established by the CRE and the independent system operator Cenace. It is a methodology that is public and incorporates the type of technology and the type of fuel used to generate energy. So, for example, if there is a distortion in your generation costs and they are much higher than what the methodology calls for, then you can’t dispatch your energy to be sold in the market. This is done to have a control in the market over the generation costs for energy and to prevent artificial price inflation. This also prevents companies from colluding to create a cartel or pool that can work together to push prices up. That’s an important distinction in the Mexican market versus some other global markets.

NGI: In your speech, you discussed the role of Cenace and the control that it currently holds in the national electricity system. What type of impact would the electricity reform proposal have on Cenace’s role in the Mexican sector?

Salerno: It would simply disappear. It would be integrated into the CFE and would then effectively become a division of the CFE, as it was before the current Mexican energy model was created. It would disappear and dispatch electricity into the national system as indicated by the CFE. It would cease to serve as the independent system operator in Mexico.

NGI: Something else you mentioned in your speech is the impact that the electricity reform could have on small to midsize Mexican companies, known as PYMES. Do you think the potential impact on small to midsize Mexican companies has been an overlooked consequence of the electricity reform proposal?

Salerno: It does appear that way and that seems to be a problem. The topic of the impact on small to midsize Mexican companies is a delicate topic and it’s important to mention that the previous Mexican energy reform of 2013-2014 also didn’t prioritize or give much importance to the PYMES. I consider that to be an error because the PYMES are the heart of the Mexican energy industry. If the PYMES are in good shape, it usually means the productive sector as a whole is functioning well. So, I think emphasis on how this proposal could affect the PYMES is a key point to be addressed and discussed.

I think the impact on small to midsize businesses could be very grave and very harmful. Above all, the PYMES and qualified electricity suppliers (*suministradores calificados*) would lose this distinction and be forced to operate under a regulated rate.

To provide an example, I have clients that currently pay \$150 or \$155 per Kilowatt hour that, if the rate was regulated, would pay \$220/Kilowatt hour. So that’s a considerable increase in cost that small to midsize companies would have to assume that could be very damaging to operations.

NGI: In your speech, you referred to yourself as a “fan of the CFE.” In your opinion, what is the CFE currently doing well in the sector?

Salerno: I am a fan of the company in terms of the historic role of the CFE and its importance to the country. It’s historically been such an important part of the country and its role in providing citizens electricity for decades has been vital to the development of the country. One of the great values of the company is the distribution and transmission of electricity that was created to provide power to citizens. I’m a fan of competitive CFE. I’m a fan of a CFE that, for example, doesn’t control the minority electricity market through the state and where basic supply isn’t consolidated only within the CFE.

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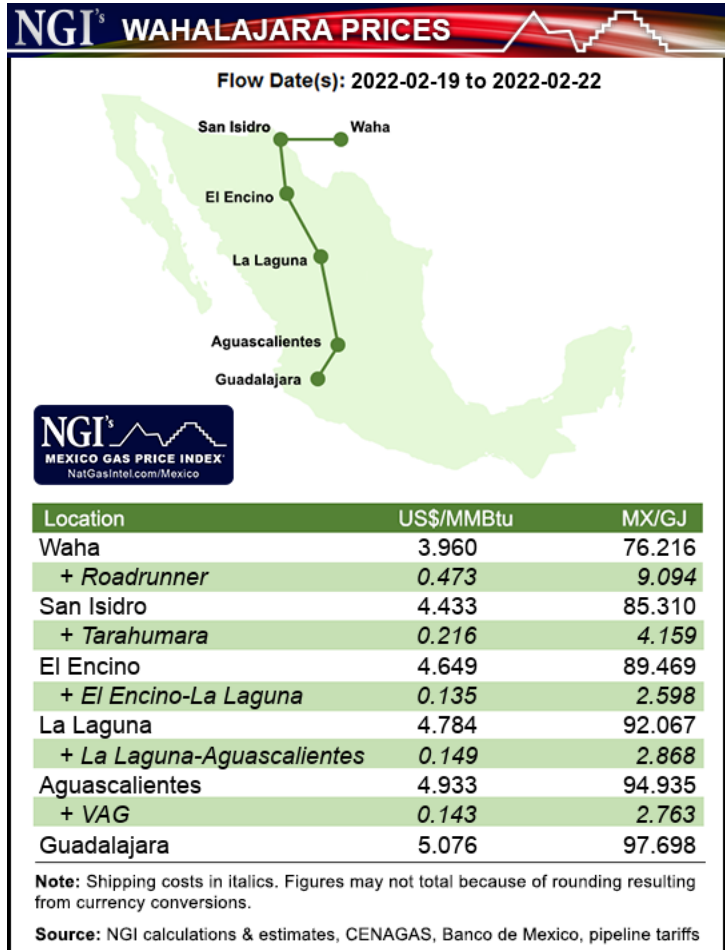
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I think the CFE has done a lot of great things. The minority electricity market is a complicated one and that, if done correctly, could provide power to the large population of Mexicans that live in extreme poverty. We need a company that can manage the minority electricity market and I'm a fan of the CFE in that sense. As a company of the state, the CFE provides that service and electricity to people that wouldn't be able to access power throughout the country. What worries me about the CFE is that often there are interests behind the scenes and questionable tactics that taint the company's reputation and result in a loss of trustworthy and qualified professionals. ■



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