

INFORMATIVE NOTE

General Administrative Provisions that establish the Methodology to determine the Calculation and Adjustment of the Regulated Tariffs for the Public Electric Power Transmission Service

On March 31st, 2023, the Energy Regulatory Commission (CRE)¹ published in the Official Gazette of the Federation (DOF)² the Resolution A/044/2022 by which the General Administrative Provisions (DACG)³ establish the Methodology to determine the Calculation and Adjustment of the Regulated Tariffs for the Public Electric Power Transmission Service (SPTEE)⁴.

The DACG have the objective of establishing the Methodology to determine the Calculation and Adjustment of the Regulated Tariffs for the SPTEE, which must allow the Transmission Operator to obtain the necessary estimated income to recover its efficient costs of operation, maintenance, financing, and depreciation, technical and non-technical losses in accordance with the standard determined by the CRE, applicable taxes and reasonable profitability, which will not be guaranteed. Likewise, this Resolution contains the mechanisms for the information submitted from the various sources and the subsequent procedures for the review and validation of the correct application of the Regulated Tariffs.

The publication of the DACG in the DOF is the result of the process that the CRE began on December 9th, 2022 when it sent the draft of the DACG through the electronic tool cofemersimir.gob.mx to the National Commission for Regulatory Improvement (CONAMER), which, in turn, carried out the public consultation exercise, in which they took into consideration the opinions, comments and recommendations of the Regulated Subjects⁵ and interested parties who participated. After the consultation, on December 19th, 2022, CONAMER informed the CRE through official letter number CONAMER/22/7061 their approval to continue with the formalities for the publication of the DACG.

In this regard, this note has the objective to inform the investing public of CFE FIBRA E the most relevant aspects that make up the DACG and which establish the Methodology to

¹ CRE by its initials in Spanish.

² Agreement A/044/2022 available at:

https://dof.gob.mx/nota_detalle.php?codigo=5684476&fecha=31/03/2023#gsc.tab=0

³ DACG by its initials in Spanish.

⁴ SPTEE by its initials in Spanish.

⁵ In Agreement A/044/2022, natural persons, legal entities, or, where appropriate, public bodies and State productive companies that conduct activities subject to regulation by the Commission, are defined in accordance with the regulations that are applicable. As declarative but not limited form, are those that conduct the regulated activities of transmission, distribution, operation of the Basic Services Supply, Related Services not included in the MEM, operation of National Energy Control Center (CENACE) and Supply of Last Resort.

determine the Calculation and Adjustment of Regulated Tariffs for the public transmission service. It is important to note that the publication of Resolution A/044/2022 in the DOF does not affect or modify the current transmission rates for the year 2023 published on December 23rd, 2022, through CRE Resolution A/050/2022.

I. Methodology

Agreement A/044/2022 defines the variables and parameters used by the Methodology for the Calculation and Adjustment of Regulated Tariffs, which are specified in the Regulatory Accounting Guidelines and in the formats requested by the CRE to the Transmission Operator.

Transmission Regulated Tariffs are defined by the Energy Regulatory Commission based on the Required Income divided by the total energy transported through the National Transmission Network.

$$TT_t = \frac{\text{Required Income}}{\text{Energy}}$$

I.I Required Income

The Required Income (RI) constitutes the quantitative basis for the calculation of the Regulated Rates, which will be determined according to the following formula:

$$RI_t = (OMA_{t_0} + CC_{t_0} + RoI_{t_0} + C_{t_0} - OI_{t_0}) * UF_t$$

Where:

RI_t	Required Income of the Transmission Operator at t , expressed in pesos.
OMA_{t_0}	OMA cost of t_0 , expressed in pesos.
CC_{t_0}	Capital cost of t_0 , expressed in pesos.
RoI_{t_0}	Remuneration of investments at t_0 , expressed in pesos.
C_{t_0}	Cost for Associations and Contracts at t_0 , expressed in pesos.
UF_t	Update Factor for t .
t	Year of application of electricity transmission tariffs.
t_0	Base year.

The **Operation, Maintenance and Administration Costs (OMA)** are integrated, including but not limited to, by the following groups of concepts:

- Salaries and benefits to staff
- Cost of employee benefits
- Maintenance
- Taxes and duties
- Safety of operating assets

- Other expenses

Capital Costs (CC) correspond to the costs associated with the Transmission Operator's assets put into operation for the provision of the SPTEE. These costs will be integrated, including but not limited to, by the following groups of concepts:

- Return on Assets
- Depreciation
- Loss on disposal of fixed assets
- Interest expense, net

The Cost of Capital will be calculated with the following formula:

$$CC_{t_0} = (ROA_{t_0} + Dep_{t_0} + PB_{t_0} + GIN_{t_0})$$

Where:

CC _{t0}	Cost of Capital at t ₀ , expressed in pesos.
ROA _{t0}	Return on Assets at t ₀ , expressed in pesos.
Dep _{t0}	Depreciation of Assets at t ₀ , expressed in pesos.
PB _{t0}	Loss on disposal of fixed assets at t ₀ , expressed in pesos.
GIN _{t0}	Interest expense, net of t ₀ , expressed in pesos.
t ₀	Base year.

To calculate the **Return on Assets (ROA)** the Net Asset Value, the Net Value of contributions to third parties, a Rate of Return (RoR) expressed as a percentage, the total number of assets, and the total number of assets contributed by third parties, will be considered.

The **Rate of Return (RoR)** to obtain the return on assets and new investments uses the Weighted Average Cost of Capital (WACC) methodology in real terms after taxes, which will be determined for each year of application of the Regulated Tariffs and will be calculated according to the following:

$$RoR_{t_0} = \frac{1 + NRoR_{t_0}}{1 + \pi_{t_0}} - 1$$

Where:

RoR _{t0}	Rate of Return of t ₀ , expressed in percentage.
NRoR _{t0}	Nominal Rate of Return after taxes of t ₀ , expressed as a percentage.

- π_{t_0} Variation of the National Consumer Price Index (INPC)⁶, published by the National Institute of Statistics and Geography (INEGI)⁷, for December of t_0 compared to December of the immediately preceding year, expressed as a percentage.
- t_0 Base year.

The **Nominal Return Rate** after taxes (**NRoR**) will be calculated according to the following:

$$NRoR_{t_0} = [CC_{t_0} \times (1 - Debt_{t_0})] + (kd_{t_0} \times Debt_{t_0})$$

Where:

- $NRoR_{t_0}$ Nominal Rate of Return after taxes of t_0 , expressed as a percentage.
- CC_{t_0} Cost of Capital at t_0 expressed as a percentage.
- $Debt_{t_0}$ Leverage of the Transmission Operator at t_0 expressed as a percentage.
- kd_{t_0} Cost of debt after taxes of t_0 , expressed as a percentage.
- t_0 Base year.

- The **Base Year Cost of Capital** (CC_{t_0}) will be calculated according to the **Weighted Average Cost of Capital (WACC)** methodology as follows:

$$CC_{t_0} = RFR_{t_0} + [\beta\alpha_{t_0} \times (RMRP_{t_0} + LMRP_{t_0})]$$

Where:

- CC_{t_0} Cost of Capital at t_0 expressed as a percentage.
- RFR_{t_0} Risk-free rate of t_0 , expressed as a percentage.
- $\beta\alpha_{t_0}$ Levered Beta of t_0 .
- $RMRP_{t_0}$ Reference market risk premium of t_0 , expressed as a percentage.
- $LMRP_{t_0}$ Local market risk premium of t_0 , expressed as a percentage.
- t_0 Base year.

- The **Cost of Debt** (kd_{t_0}) after Base Year taxes will be calculated as follows:

$$kd_{t_0} = (RFR_{t_0} + YS_{t_0}) \times (1 - IT_{ISR_{t_0}})$$

Where:

- kd_{t_0} Cost of Debt after taxes of t_0 , expressed as a percentage.

⁶ By its initials in Spanish.

⁷ By its initials in Spanish.

- RFR_{t0} Risk-free rate of t₀, expressed as a percentage.
- YS_{t0} Yield or Bond Spread of t₀, expressed as a percentage.
- IT_{ISRt0} Income tax rate for legal entities at t₀, expressed as a percentage.
- t₀ Base year.

- The **Leverage** (Debt_{t0}) of the Transmission Operator of the Base Year will be calculated according to the following:

$$Debt_{t0} = \frac{D_{t0}}{D_{t0} + EV_{t0}}$$

Where:

- Debt_{t0} Leverage of the Transmission Operator at t₀ expressed as a percentage.
- D_{t0} Debt value of t₀, expressed in pesos.
- EV_{t0} Equity value of t₀, expressed in pesos.
- t₀ Base year.

- The Base Year **Levered Beta** (**β_α**) will be calculated according to the following:

$$\beta_{\alpha t0} = \beta_{d t0} \times \left[1 + (1 - IT_{ISRt0}) \times \left(\frac{Debt_{t0}}{1 - Debt_{t0}} \right) \right]$$

Where:

- β_{αt0} Levered Beta of t₀.
- β_{d t0} Unlevered Beta of t₀.
- IT_{ISRt0} Income tax rate for legal entities at t₀, expressed as a percentage.
- Debt_{t0} Leverage of the Transmission Operator at t₀, expressed as a percentage.
- t₀ Base year.

The **Return on Investments (RoI)** includes the Return on Investments and their Depreciation for the Return on Investments, the Investment Value, the Update Factor, and a Rate of Return of t₀ expressed as a percentage, and the total number of investments, are considered. The Rate of Return to obtain the return on investments will be calculated with the same formula used for the Return on Assets.

The **Costs for Associations and Contracts** correspond to the considerations provided for the Associations or Contracts in the Base Year.

Other Income refers to the income of the Transmission Operator other than those obtained from the provision of the SPTEE and which are made up of intercompany income, income from services provided to third parties; and miscellaneous income for work performed.

The **Update Factor** is made up of the annual variation of the Exchange Rate and the Weighted National Producer Price Index (INPP)⁸, which is used to update the inputs that make up the Methodology. The INPP will be determined for the month and years of reference as the weighted sum of sixteen selected INPP indices, total production, according to the economic activity of origin according to the Industrial Classification System of North America (SCIAN)⁹ 2013 of National Institute of Statistics and Geography (INEGI).

Finally, the Required Income will be assigned to the Generators (those that inject electrical energy into the NTN) and to the Wholesale Load Centers (those that withdraw energy from the NTN) in a proportion of 30% and 70%, respectively. Subsequently, the Required Income is assigned by voltage level based on the marginal cost to transmission or subtransmission in (i) voltages equal to or greater than 220 kV and in (ii) voltages less than 220 kV. Given the above, there are four tariffs applicable to the public service of electric power transmission:

Users of the NTN	Level of Voltage
Generators	≥ 220 kV
	< 220 kV
Wholesale Load Centers	≥ 220 kV
	< 220 kV

I.II Energy

The SPTEE Regulated Tariffs are calculated based on the Required Income (IR) per assigned user at each voltage level and energy projections. The information of the Energy Projections will correspond to what is registered in the General Administrative Provisions that establish the methodology to determine the calculation and adjustment of the Regulated Tariffs for the operation service of the National Center for Energy Control (CENACE) published on the Agreement A/026/2022.¹⁰

With respect to the recognition of technical and non-technical losses, the Regulated Tariffs allow the recovery of the estimated income necessary for the SPTEE without the recognition of the cost of technical and non-technical losses of electrical energy, therefore technical and non-technical losses of Electricity recognized by the Commission must be paid by the Wholesale Load Centers in accordance with the provisions of the Electricity Market Bases, the Settlement Manual and the applicable regulations.

⁸ By its initials in Spanish.

⁹ By its initials in Spanish.

¹⁰ Resolution A/026/2022 available at:

https://dof.gob.mx/nota_detalle.php?codigo=5684184&fecha=29/03/2023#gsc.tab=0

The four tariff principles that govern the determination of Regulated Tariffs are:

- a. **Productive efficiency**, the Transmission Operator must have sufficient incentives to function in optimal conditions, with the purpose that public service of electric power transmission is offered with conditions of efficiency, quality, reliability, continuity, safety, and sustainability.
- b. **Allocative efficiency**, the Generators and the Wholesale Load Centers must have adequate signs that promote the rational use of the NTN, electrical energy, and the sustainability of the SPTEE.
- c. **Sufficiency**, the Transmission Operator must have an estimated income necessary to recover the efficient Costs incurred for the provision of the SPTEE, as well as a reasonable profitability, which will not be guaranteed.
- d. **Rationality**, the Generators and Wholesale Load Centers must have the service at the lowest possible cost and in conditions of efficiency, quality, reliability, continuity, security, and sustainability, while the Transmission Operator must function economically and prudently, and as consequently recover their efficient costs.

Additionally, the general principles of **transparency, stability, predictability and consistency** with current legislation and regulations must be complied with.

II. Mechanisms for the delivery, review and validation of the Regulatory Information on Costs and Assets, and subsequent procedures for the review and validation of the correct application of the Regulated Tariffs

The DACG defines the processes and mechanisms for each of the stages and activities conducted by both the Transmission Operator and the Energy Regulatory Commission for the determination of the SPTEE Regulated Tariffs.

II.I Delivery of Regulatory Information on Costs and Assets

The CRE defined that the Transmission Operator must integrate and present the regulatory information on Costs and Assets in accordance with the provisions of the Regulatory Accounting Guidelines or the corresponding templates. This information must be submitted on the last day of August of each year. Likewise, it must be accompanied by supporting documentation, which will be the Audited Financial Statements, Digital Tax Receipts on the Internet, contracts and their terms of reference, reports, and official reports, among others.

II.II Review and verification of Regulatory Information on Costs and Assets

The CRE will review the Regulatory Information of Costs and Assets that the Transmission Operator submitted and CRE will verify that it complies with the Regulatory Accounting Guidelines. In this review, the reliability, consistency, and

comparability of the information will be verified. This verification of information will be conducted based on supporting documentation.

II.III Information Requirement

Upon receipt of the Regulatory Information on Costs and Assets, the CRE may request clarifications, modifications, or complementary requirements from the Transmission Operator or, where appropriate, may warn them of any omission, inconsistency or deficiency in the information presented.

The Transmission Operator will have 10 (ten) business days after the date on which it receives the information request from the CRE to respond to it. The Regulatory Information of Costs and Assets, as well as the complementary information, will constitute the base for the calculation of the Regulated Tariffs.

If the Transmission Operator does not comply in a timely manner with the provisions for the delivery of the Regulatory Information on Costs and Assets, as well as the Additional Requirements that the CRE may request, the Regulator could apply sanctions to the Transmission Operator.

II.IV Calculation, approval notification and publication of Regulated Tariffs

- **Calculation:** the CRE will have 75 (seventy-five) business days after receipt of the Regulatory Information on Costs and Assets to determine the calculation according to the Methodology described in Section I of this document.
- **Approval:** The Governing Body of the CRE will approve and issue the Regulated Tariffs and will announce the date of entry into force, the period of application, the value, and the unit in which the Regulated Rates will be expressed.
- **Notification:** The CRE will notify the Transmission Operator and CENACE¹¹ through official means and prior to the period of application of the Regulated Tariffs.
- **Publication:** The Transmission Operator must publish the Regulated Tariffs in the Official Gazette within 20 (twenty) business days after the notification and will have 10 (ten) business days to disseminate the date of entry into force, the period of application, the value and unit in which the Regulated Rates will be expressed. In addition, the Transmission Operator must inform CRE about compliance with these provisions. Finally, the CRE will publish the calculation log used for the determination or adjustment of the Regulated Tariffs on its internet portal, within 10 (ten) business days after the date of its entry into force.

¹¹ National Energy Control Center.

II.V Validation and verification of Regulated Tariffs

The CRE will conduct validation and verification activities after the entry into force of the Regulated Tariffs to guarantee their correct application. In these validation processes, they will review that the Transmission Operator has correctly published the information on the Regulated Tariffs and there are no discrepancies with the approved information. Likewise, the Transmission Operator must submit quarterly reports to the CRE where the correct application of the Regulated Tariffs will be verified. All these activities are subject to deadlines for the Transmission Operator to comply with the observations and clarifications that the CRE may request.

II.VI Review and adjustment of Regulated Tariffs

The request for review the Regulated Tariffs can occur at any time and may be requested by both the CRE and the Transmission Operator. For this review to take place, the Transmission Operator must once again submit the Regulatory information on Costs and Assets, as well as the supporting documentation. The CRE will review and verify the information and decide the origin of the adjustment of the Regulated Tariffs.

This mechanism is defined in the DACG with the purpose that Regulated Tariffs reflect the operating conditions of the Transmission Operator.

II.VII Review and adjustment of the Methodology

This mechanism for reviewing and adjusting the Methodology may also be requested by both the CRE and the Transmission Operator to reflect economic and market conditions, changes in the regulatory framework, cost structure and/or operating conditions of the Transmission Operator.

Even if there is a request for revision of the Methodology, the current variables and/or parameters will continue to apply until the Commission issues the adjustment through the corresponding regulatory instrument.