

Transmission Rates 2023

As a result from the announcement of the Energy Regulatory Commission¹ where it informs about the Regulated Electricity Transmission Tariffs applicable from January 1st to December 31st, 2023, and the issuance of the General Administrative Provisions that establish the methodology to determine the calculation and adjustment of the regulated tariffs for the public transmission service that will apply (20) business days after its publication in the Official Gazette, CFE Capital presents the most relevant aspects below:

I. Transmission Rates 2023

Transmission rates are defined by the Energy Regulatory Commission based on the required income divided by the total energy transported through the National Transmission Network

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

CFE Transmisión **Required Income (IR)** was **\$75,946.4 million pesos¹** expressed at 2023 prices, which was determined as shown below:

$$RI_t = (OAM_{t_0} + CC_{t_0} + RInv_{t_0} + C_{t_0} - OI_{t_0}) * AF_t$$

Where:

RI_t	Required Income of the Carrier at t , expressed in pesos
OAM_{t_0}	Operation, Administration and Management costs at t_0 , expressed in pesos
CC_{t_0}	Capital Cost of t_0 , expressed in pesos
$RInv_{t_0}$	Remuneration of investments at t_0 , expressed in pesos
C_{t_0}	Cost for Associations and Contracts at t_0 , expressed in pesos
AF_t	Update Factor for t
t	Year of application of electricity transmission tariffs
t_0	Base year

To determine the Required Income, the costs of operation, maintenance and administration, and the costs of the assets of the most recent audited financial statements were taken, in this case, from the year 2021.

- The Required Income expressed in 2023 prices had an increase of **2.61%** with respect to the Required Income of 2022, mainly due to the following factors:
 - a) The costs of Operation, Maintenance and Administration (OAM) are integrated by remunerations and benefits to the personnel; cost of employee

¹ Energy Regulatory Commission, Resolution A/044/2022. Available at: <https://www.cre.gob.mx/Acuerdos/>

benefits; maintenance; taxes and duties; safety of operating assets; and, other expenses, were **16.07%** lower than the previous year.

- b) The cost of capital (CC) integrated by Return of Assets, Depreciation, Disposal of fixed assets, Investment Plan in the NTN, and Expense for interests and commissions, increased by **17.29%** with respect to the cost of capital of the immediate year former.
- ✓ The value of the carrier’s assets increased by **49.37%** compared to 2022.
 - ✓ The Rate of Return to obtain the return on assets and new investments using the Weighted Average Cost of Capital (WACC) methodology increased in nominal terms by 17.5% compared to 2022, reaching 12.5% after of taxes. Originated from macroeconomic factors -not exclusive to the transmission sector-, the real Rate of Return after taxes is **4.82%** considering inflation (INPC) of 7.36%
 - ✓ The RI is made up 30% of tariffs for generators and 70% of consumers interconnected to the National Transmission Network (NTN).

Electric Power uses CENACE² projections to estimate injections and withdrawals in the National Transmission Network (NTN) for 2023.

Electric power projections 2023	
(MWh)	
Energy injected	Energy withdrawn
342,065,486.9	319,880,817.0

Source: Energy Regulatory Commission, Resolution A/050/2022.

- The CENACE projections for 2023 about the energy injected and withdrawn from the NTN that were used to determine the rates present a growth rate of 2.56% and 2.69% respectively.

II. General administrative provisions that establish the methodology to determine the calculation and adjustment of regulated rates

Likewise, the Energy Regulatory Commission reported that on December 20th, through Resolution A/044/2022, the **General Administrative Provisions used by the methodology to determine the calculation and adjustment of regulated rates for the public transmission service were issued.**

The methodology maintains a formula based on the Required Income adjusting the new mechanics in the transmission tariff where the following parameters will be updated according to the following:

² National Energy Control Center.

A. Operation, Maintenance and Administration (“OAM”)

- The updating of these operation, maintenance and administration costs for the Required Income will be carried out with the most updated financial information available from CFE Transmission at the time of rate determination.
- The following concepts of the financial statements of the last period available are used:
 - Salaries and employee benefits
 - Cost of benefit to employees
 - Maintenance
 - Taxes and duties
 - Other Expenses
 - Loss on disposal of fixed assets
 - Safety of operating assets
 - Other income unrelated to the Electric Power Transmission Public Service

B. Cost of Assets

- The update of the Depreciation, Financial Expense, and Net Asset Value (based on the calculation of the Return of the Assets) will be carried out with the most updated information at the time of tariff determination.
- Return on Assets is calculated as the product of a Rate of Return and Net Assets.
- The Rate of Return is determined based on a formula with market parameters.

C. Return on Investments

- The update of the investment return, and its Depreciation will be carried out with the most up-to-date information at the time of the rate determination.
- The Return on Investments is calculated as the product of a Rate of Return, the Value of the investment, and the total number of investments.
- The Rate of Return is determined based on a formula with market parameters.

D. Adjustment Factors

- The update for inflation and exchange rate will be in accordance with the incidence of the Exchange Rate and the incidence of the National Producer Price Index (INPP by its initials in Spanish).

E. Weighting Factors

- By type of user: Generators 30% and Consumers 70%.
- Subsequently, the tariff is assigned based on the marginal cost of transmission and sub-transmission.

With these general provisions, the Energy Regulatory Commission demonstrates the principles of the regulatory framework of the electric transmission public service tariffs, which are **transparency, stability, predictability, and consistency**.