Key design elements of the Mexican auction process
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Bid Announcement

The Bid Announcement invites the sector to participate in the auction and shows the process milestones that each participant must go through.

There is **enough time between milestones**, which were **objectively calculated**, to allow participants to complete them in a timely manner. This provides **transparency** to the process.
El costo de adquisición de las BASES DE LICITACIÓN será el equivalente en moneda nacional a 5,000 UDS más IVA, (utilizando el valor de la UDI determinado por el banco de México en el Diario Oficial de la Federación para el día hábil en que se emitan las BASES DE LICITACIÓN). Las BASES DE LICITACIÓN establecerán la forma en que deberá realizarse dicho pago así como la forma de acreditación.

Las fechas estimadas para el desarrollo de la SUBASTA son las siguientes:

<table>
<thead>
<tr>
<th>Nº</th>
<th>Actividad 1</th>
<th>Fecha o periodo</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Publicación de las Bases de la Licitación</td>
<td>8 de mayo de 2017</td>
</tr>
</tbody>
</table>
| 3 | Periodo de Precio de Pago:  
   - Base de Licitación  
   - Registros como Comprador Potencial  
   - Solicitudes de Preclasificación y Ofertas de Venta |  
   - Del 18 de mayo al 31 de agosto de 2017  
   - Del 18 de junio al 30 de agosto de 2017 |
| 4 | Primera Sesión de Capacitación: Uso del Titulo | 28 de marzo de 2017 |
| 5 | Primera Junta de Adjudicación:  
   - Preguntas sobre Bases de Licitación y Anexos  
   - Preguntas sobre Oferta y Adjudicación  
   - Preguntas de las Entidades Responsables de Carga |  
   - Del 02 al 05 de junio de 2017  
   - Del 07 al 09 de junio de 2017  
   - Del 13 de junio de 2017  
   - Del 14 de junio de 2017  
   - Del 19 de junio de 2017 (Fecha Límite) |
| 6 | Segunda Sesión de Capacitación: Reglas de Competencias Preclasificación y la presentación de Ofertas para las Entidades Responsables de Carga  
   - Fecha Límite | 27 de junio de 2017 (Fecha Límite) |
| 7 | Revisión final de las Bases de Licitación | Del 28 de junio de 2017 |

**Auction first run**  
**Auction second run**  
**Auction results**  
**Contract signature**

<table>
<thead>
<tr>
<th>Nº</th>
<th>Activity 1</th>
<th>Fecha o periodo</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Publicación del nombre del Testigo Social</td>
<td>30 de junio de 2017</td>
</tr>
<tr>
<td>9</td>
<td>Presentación del Registro de Posibilidad</td>
<td>30 de junio y 2 de julio de 2017</td>
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<td>10</td>
<td>Presentación al CENACE de las Ofertas de Compra por parte del Suministrador de Servicios Básicos</td>
<td>25 de julio de 2017 (Fecha Límite)</td>
</tr>
<tr>
<td>11</td>
<td>Publicación de la liquidación de los contratos de los suministradores de servicios básicos</td>
<td>31 de julio de 2017</td>
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<tr>
<td>12</td>
<td>Presentación al CENACE de las Ofertas de Compra por parte de las Entidades Responsables de Carga que no son Suministradores de Servicios Básicos</td>
<td>08 de agosto de 2017 (Fecha Límite)</td>
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<tr>
<td>13</td>
<td>Publicación de la liquidación de los contratos de las Entidades Responsables de Carga que no son Suministradores de Servicios Básicos</td>
<td>14 de agosto de 2017 (Fecha Límite)</td>
</tr>
<tr>
<td>15</td>
<td>Tercera Sesión de Capacitación: Presentación de Ofertas Electrónicas</td>
<td>05 de septiembre de 2017</td>
</tr>
<tr>
<td>16</td>
<td>Recepción de solicitudes de Preclasificación de Ofertas de Venta</td>
<td>Del 17 al 20 de septiembre de 2017</td>
</tr>
<tr>
<td>17</td>
<td>Presentación de Garantías de Seguridad</td>
<td>23 de octubre de 2017 (Fecha Límite)</td>
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<td>18</td>
<td>Revisión de las Concesiones de Preclasificación</td>
<td>30 de octubre de 2017 (Fecha Límite)</td>
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<tr>
<td>19</td>
<td>Publicación de la lista de licitantes que obtuvieron Concesiones de Preclasificación</td>
<td>30 de octubre de 2017 (Fecha Límite)</td>
</tr>
<tr>
<td>20</td>
<td>Actualización de los precios de la Oferta de Compra para cada producto de acuerdo al tipo de cambio publicado en el DFO</td>
<td>30 de octubre de 2017</td>
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<tr>
<td>21</td>
<td>Cuarta Sesión de Capacitación: Presentación de Ofertas Electrónicas</td>
<td>03 de noviembre de 2017</td>
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<tr>
<td>22</td>
<td>Recepción de las primeras etapas de las ofertas económicas de las Ofertas de Venta</td>
<td>08 de noviembre de 2017</td>
</tr>
<tr>
<td>23</td>
<td>Recepción de la segunda etapa de las ofertas económicas de las Ofertas de Venta</td>
<td>13 de noviembre de 2017</td>
</tr>
<tr>
<td>24</td>
<td>Revisión de las ofertas económicas de las Ofertas de Venta</td>
<td>14 de noviembre de 2017</td>
</tr>
</tbody>
</table>

1. El cálculo de la porción del valor del paquete resultante, incluyendo elIVA, el dispositivo.
Bid Rules

The Bid Rules contain the conditions participants must adhere to during their participation in the auction and the obligations they incur by doing so.

This document is available for everyone to see and review, which allows participants to decide whether to participate or not, and provides transparency for the process.

If a decision is made to participate, the participant must purchase the bid rules to receive a code that gives them entry to the auction. The proceeds are used to cover the costs of the auction.
Clarification Meetings

A full review of the bid rules is carried out with the participants in several question and answer rounds that seek to clarify contents, modify inconsistencies and/or add recommendations which sums to the transparency and efficiency of the process.

The results of these meetings lead to the publication of the final version of the bid rules that are to be used during the auction.
Prequalification of Purchase and Sale Offers

Prequalifying the legal, financial and technical aspects of purchase and sale offers, reduces the risks associated with the auction process itself and the subsequent power plant construction and commissioning. This type of risk management also serves to reduce the value of guarantees provided by the participants, which leads to lower prices.
Prequalification of Purchase and Sale Offers

**Legal review:** Reduces the chance a participant is unable to sign a Power Purchase Agreement (PPA), process permits, and carry-out operations on the electricity market, by not meeting the minimum requirements that the local mercantile legal framework establishes.

A legal review should be efficient by focusing on the specific documentation required for the above mentioned activities.
Prequalification of Purchase and Sale Offers

**Financial review:** Reduces the chance a participant is unable to provide the required auction participation and performances guarantees, and to later back their operation in the electricity market.

A financial review seeks key economic and financial indicators related to the developers’ solvency.
Prequalification of Purchase and Sale Offers

**Technical review:** This review applies specifically to sale offers and reduces the chance a project will fail to be commissioned, interconnected or allowed to participate in the market by not complying with the required grid code.

A technical review should demonstrate compliance with interconnection and market operation technical requirements.
Prequalification of Purchase and Sale Offers

Once a participant has passed its legal, financial and technical review, it is requested to present an auction participation guarantee (Bid Bond) to confirm its intention of presenting an economic proposal, and for both sellers and buyers to confirm their intention of signing the PPAs.

At this point, sellers receive a prequalification certificate that allows them to present their economic proposals for participation in the auction.

Note: During the first two auction, buyers were not requested to present bid bonds as there was only one state-backed regulated buyer.
Reception of Sale Offers

Previous to the prequalification of sale offers, Buyers have already been prequalified and have delivered their purchase offers, which indicates a single ceiling price for the products to be acquired by all buyers and the individual product volume for each buyer.
Reception of Sale Offers

Once a Sale Offer has been prequalified, it may present its economic proposal for consideration, but it must not exceed the participation guarantee delivered.

The economic proposal includes a single final price per product and volume offered.

These proposals are delivered as an “electronically” sealed envelope.
Auction First Run

Once the reception of sale offers has concluded, a first auction is run.

- The “electronically” sealed envelopes are opened.
- Offered prices are readjusted upwards or downwards associated to nodal congestion price considerations.
- Prices are compared and listed in ascending order.
- The lowest prices are selected until the entire volume of the products requested is reached.
Auction First Run

If a pre-established economic surplus threshold is reached or exceeded, then the auction is considered closed and the sale offers selected proceed for contract signing.

Rejected sale offers’ participation guarantees are returned to the corresponding participants.
Auction Second Run

If a pre-established economic surplus threshold is not reached or exceeded, then the auction is considered open and a second run is activated.

• Price and volumes assigned are made public to all participants.
• Remaining percentage of the economic surplus threshold to be reached, is made public to all participants.
• Participants re-submit prices for the product volumes already offered.
• Prices offered are readjusted upwards or downwards associated to nodal congestion price considerations.
• Prices are compared and listed in ascending order.
• The lowest prices are selected until the entire volume of the products requested is reached.
Auction Second Run

... continue ...

- The process is repeated until the economic surplus threshold is met, or until no new prices are received that have been lowered by at least 1% of the ceiling price value.

The auction is considered closed and the sale offers selected proceed for contract signing.

Rejected sale offers’ participation guarantees are returned to the corresponding participants.
Announcement  
Rules  
Clarification  
Prequalification  
Bid reception  

Auction first run  
Auction second run  
Auction results  
Contract signature

Auction Results

The results are known either on the first or second runs, but before these are published, CENACE validates them through a review performed by academic institutions. This review process includes a social representative to guarantee transparency before the final official results are given.
Academic institutions validate among other things, the following:

- Optimization model.
- Data gathering structure.
- Data Base
- Replication of the solution
Contract Signature

After the publication of the auction results, participants are given enough time before contract signing for the creation of the legal entities required to represent contracts. Due to the fact that this auction have several buyers and sellers, there is a “contracts clearinghouse” acting as a “single buyer – single seller” (it acts as a buyer for all sellers, and as a seller for all buyers), with all contracts signed within.

At this moment, all participants are required to present a contract compliance guarantee (performance bond). The participation guarantee is return upon contract signing.

The signature ceremony concludes the auction process.
Announcement
Rules
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Prequalification
Bid reception
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Auction second run
Auction results
Contract signature

Gen 1 → Contracts Clearinghouse → SSB
Gen 2 → Contracts Clearinghouse → SSC
Gen 3 → Contracts Clearinghouse → SUR
Gen 4 → Contracts Clearinghouse → UCPM
Auction Contract Compliance Guarantees
Mexico Wholesale Electricity Market

Guarantee FROM Seller TO Buyer

- Product-based Liabilities (PL)
- $ per MW of Capacity offered per year
- $ per MWh of Energy offered per year
- $ per Clean Energy Certificate offered per year

Milestone-based Adjustments

- 80% of PPL upon reaching financial closure
- 70% of PPL upon meeting time-bound construction and operational reviews
- 50% of PPL upon meeting plant commissioning deadline

Guarantee FROM Buyer TO Seller

- 50% of PL
Thank You!