

## The Energy Regulatory Commission issues the new Grid Code for the National Electric System

On January 1, 2022, Resolution RES/550/2021, which issued the new General Administrative Provisions issued by the Energy Regulatory Commission ("**CRE**"), containing the criteria for efficiency, quality, reliability, continuity, safety and sustainability of the National Electric System: Grid Code", ("**New Grid Code**"), came into effect. The New Grid Code is intended to update and replace the previous General Administrative Provisions contained in RES/151/2016 8 ("**Old Grid Code**"), so as of last January 1, the Old Grid Code was repealed.

The most important matters of the New Grid Code are as follows:

- Planning criteria are established for the works of reinforcement and construction of General Distribution Networks that are considered within the Expansion and Modernization of General Distribution Networks Program.

The National Energy Control Center ("**CENACE**") will be responsible for developing the planning procedure for the reinforcement and construction works of the General Distribution Networks derived from the proposals of CFE Distribución.

- A new Procedure for the Root Cause Analysis of disturbances (mainly blackouts) in the National Electric System ("**SEN**") is incorporated, which will establish corrective and preventive actions to set responsibilities and establish coordination measures to avoid affecting users. The CRE and CENACE will be the authorities in charge of issuing the corresponding reports when such Root Cause Analysis Procedure is activated.
- A new Reliability Generation Reduction Procedure is established. Such procedure consists of reducing the generation of electric power in a coordinated, orderly, safe and reliable manner, in the event of extraordinary conditions in the SEN. Such procedure considers that the reduction of electric power generation should be carried out considering the following order:
  - Generation in the testing period regardless of the type of technology.
  - Dispatchable intermittent generation.
  - Dispatchable hydroelectric generation.
  - Thermal generation.
  - Non-dispatchable hydroelectric Generation.

- Legacy Interconnection Contract Generation.
- Geothermal and Nuclear Generation.

This new order is different from the one established in the Old Grid Code, which established the reduction of electric energy generation considering the following order:

- Hydroelectric generation.
- Thermal generation according to its cost.
- Non-dispatchable firm generation.
- Intermittent generation.
- Legacy generation (self-supply).

Therefore, CENACE may, in the case of extraordinary conditions in the SEN, first limit the dispatch of electricity generated by renewable sources (intermittent dispatchable) mainly from private companies, allowing the electricity generated by power plants of the productive generation subsidiaries of the Federal Electricity Commission (“CFE”), from conventional and clean sources, such as thermal and hydroelectric, to be limited at the end and only in extraordinary cases.

- The obligation of power plants that use renewable energy sources to participate in the Primary Control in Low Frequency for the delivery of active power is established, with the purpose of maintaining the load-generation balance. This could result in power plants having to install storage systems to comply with this requirement.
- Regarding the obligations of compliance with technical requirements for the connection of load centers (Regulatory Manual of Technical Requirements for the Connection of Load Centers), energy consumers maintain the same obligations of compliance with the technical requirements established in the Old Grid Code for load centers in medium and high voltage; however, the obligation to comply with the power factor between 0.95 in reverse and 1.0 at the connection point for load centers in medium voltage is included.

All load centers must identify when they are in non-compliance with any of the technical requirements established in the New Grid Code and, if applicable, the owners of such centers will have the obligation to submit a Work Plan to the CRE. The Work Plan must indicate the causes associated with the non-compliance, as well as the actions and estimated times to achieve compliance.

Therefore, medium and high voltage load centers must comply at all times with the technical requirements established in the New Grid Code, regardless of whether they have previously submitted a Work Plan to CRE under the terms of the Old Grid Code. In other words, all those companies with medium and high voltage load centers that have submitted Work Plans to the CRE and still do not comply with the applicable technical requirements must update their Work Plans.

In accordance with the Electricity Industry Law, any non-compliance with the technical requirements established in the New Grid Code could generate the imposition of sanctions such as fines from 2% to 10%

of the gross income received in the previous year by the owner of the respective load center and/or fines from MXN\$4,811,000.00 (USD\$235,000.00) to MXN\$19,244,000.00(USD\$938,000.00).

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S I N C E R E L Y

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