

Comisión Federal de Electricidad

Type of Engagement: Annual Review

Date: 12 August 2024

Engagement Team:

Nimisha Shah, nimisha.shah@morningstar.com

Nachiket Goli, nachiket.goli@morningstar.com

Tomya Sardana, tomya.sardana@morningstar.com

Introduction

Since February 2022, Comisión Federal de Electricidad (“CFE”, or the “Company”) issued 12 labelled bonds,¹ (collectively called the “Sustainable Financing Instruments”) to finance and refinance projects and assets related to renewable energy, energy efficiency and access to free or subsidized essential services, such as fixed wireless broadband projects. In 2024, CFE engaged Sustainalytics to review the projects financed with proceeds from the Sustainable Financing Instruments (the “Nominated Projects”) and provide an assessment as to whether the projects met the use of proceeds criteria and the reporting commitments outlined in the CFE Sustainable Financing Framework (the “Framework”).² Sustainalytics provided a Second-Party Opinion on the Framework in January 2022.³

Evaluation Criteria

Sustainalytics evaluated the Nominated Projects based on whether they:

1. Met the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria

Use of Proceeds Category	Eligibility Criteria
Renewable Energy	<p>Expenditures that help supply energy from renewable and low-carbon sources. Renewable energy sources include:</p> <ol style="list-style-type: none"> i. Wind (onshore and offshore) <ol style="list-style-type: none"> a. Construction of new wind energy facilities b. Development, expansion, production, maintenance, refurbishment and/or repowering of existing wind energy facilities c. Acquisition of wind energy facilities or business ii. Solar (photovoltaic and CSP⁴) <ol style="list-style-type: none"> a. Construction of new solar energy facilities

¹ CFE issued 12 labelled bonds since February 2022: i) in February 2022, two sustainable bonds of MXN 25,523.5 million and MXN 10,209.4 million with maturity dates of May 2029 and February 2052, respectively; ii) in November 2022, two green and two social bonds of MXN 2,908 million, MXN 1,309 million, MXN 2,459 million, MXN 579 million, with maturity dates of May 2029, November 2030, March 2033 and October 2042, respectively; iii) in July 2023, one sustainable bond of MXN 3,378 million, one social bond of MXN 3,154 million, one green bond of MXN 3,468 million, with maturity dates of December 2024, November 2030 and October 2042, respectively; and iv) in December 2023, three sustainable bonds of MXN 2,844 million, MXN 2,512 million, MXN 4,644 million with maturity dates of December 2026, March 2030 and November 2035, respectively.

² CFE, “Sustainable Financing Framework”, (2022), at:

https://www.cfe.mx/finanzas/financiamiento-financiamiento/Documentos/CFE_%20Sustainable%20Financing%20Framework.pdf

³ Sustainalytics, “Second-Party Opinion, Comisión Federal de Electricidad Sustainable Financing Framework”, (2022), at:

[https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/comisi%C3%B3n-federal-de-electricidad-sustainable-financing-framework-second-party-opinion-\(1\)e7891ed4-a369-4c63-8b79-409e0e966b77.pdf?sfvrsn=52ad9871_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/comisi%C3%B3n-federal-de-electricidad-sustainable-financing-framework-second-party-opinion-(1)e7891ed4-a369-4c63-8b79-409e0e966b77.pdf?sfvrsn=52ad9871_1)

⁴ To be eligible, CSP plants must generate at least 85% of electricity from solar sources.

	<ul style="list-style-type: none"> b. Development, expansion, production, maintenance, refurbishment and/or repowering of existing solar energy facilities c. Acquisition of solar energy facilities or businesses <p>iii. Geothermal</p> <ul style="list-style-type: none"> a. Construction of new Geothermal energy facilities b. Development, expansion, production, maintenance, refurbishment and/or repowering of existing geothermal energy facilities c. Acquisition of geothermal energy facilities or businesses Geothermal projects shall only be eligible if their direct emissions will be less than 100g CO₂/kWh <p>iv. Hydroelectric</p> <ul style="list-style-type: none"> a. Construction of new run-of-river and other hydroelectricity facilities b. Refurbishment, modernization, and/or maintenance of existing hydroelectricity facilities with the purpose of increasing generation efficiency, operational life span and/or renewable energy output while maintaining or improving the level of operational safety c. Acquisition of hydroelectricity facilities or businesses, including pumped storage assets d. A hydropower facility in operation before 2020 is eligible if it has either: <ul style="list-style-type: none"> i. A power density > 5W/m² ; OR ii. GHG emissions intensity < 100g CO₂e/kWh e. A hydropower facility commencing operation in 2020 or after is eligible if it has either: <ul style="list-style-type: none"> i. A power density > 10W/m² ; OR ii. GHG emissions intensity < 50g CO₂e/kWh. <p>v. The purchase of renewable energy from wind and solar power facilities, pursuant to long-term (≥ 5 years) power purchase agreements (PPAs), including those entered prior to the issuance of our Sustainable Financing Instrument as well as later extensions.</p> <p>vi. Investments in the installation of electricity transmission lines⁵ that facilitate increased development and connection of renewable electricity generation sources, including:</p> <ul style="list-style-type: none"> a. capital investments into integrating the grid through interconnections across Mexico in order to: <ul style="list-style-type: none"> i. Improve transmission of low-carbon and renewable energy sources into the grid, specifically solar, wind, hydro⁶ and geothermal⁷ ii. Reduce the curtailment of existing renewable electricity generation capacity iii. Facilitate the development of new renewable energy generation through better connecting regions with high renewable generation potential
--	--

⁵ To be eligible, transmission lines would be either dedicated exclusively to renewable energy power plants or would carry at least 90% renewable energy.

⁶ To be eligible, projects must follow the criteria for Hydro Renewable Energy.

⁷ To be eligible, projects must follow the criteria for Geothermal Renewable Energy.

	and low demand with areas of high demand and low potential.
Energy Efficiency	<p>Expenditures related to projects that could result in increased energy efficiency, using best efforts basis to ensure all projects achieve at least a 30% energy efficiency improvement.</p> <p>Eligible Projects include, but are not limited to:</p> <ol style="list-style-type: none"> i. Financing of electric powered machinery or incorporation of energy saving technologies, including LED lighting technology ii. Energy storage systems and smart grids⁸ iii. Energy efficient heating, ventilation, air conditioning (HVAC⁹), refrigeration, and electrical equipment iv. Investments for optimization of energy consumption and reducing energy loss and such as energy management systems for POPs and automated metering v. Investments in energy consumption measurement and control systems, including industrial thermometers vi. Equipment to increase the controllability and observability of the electricity system and enable the integration of renewable energy sources (sensors and measurement tools, including advanced software and control rooms, automation of substations or feeders, and voltage control capabilities)
Access to Free or Subsidized Essential Services (Digital Inclusion)	Expenditures related to funding the construction, improvement, acquisition, or maintenance and operation of facilities and equipment needed to provide fixed wireless broadband service in areas without availability of wired services.

Table 2: Associated KPIs

Use of Proceeds Category	Key Performance Indicators
Renewable Energy	<ol style="list-style-type: none"> i. Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent ii. Annual renewable energy generation in MWh (electricity) and GJ (other energy) iii. Capacity of renewable energy plant(s) to be served by transmission systems (MW)
Energy Efficiency	<ol style="list-style-type: none"> i. Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)
Access to Free or Subsidized Essential Services (Digital Inclusion)	<ol style="list-style-type: none"> i. Number of additional low-income and underserved homes with fixed wireless broadband service ii. Number of additional access points created low-income and underserved localities iii. Number of low-income and underserved localities provided with access to internet service

⁸ Battery storage will only be applicable to those generated by renewable energy.

⁹ HVAC, refrigeration and other equipment powered by fossil fuels are excluded from eligibility.

Issuer’s Responsibility

CFE is responsible for providing accurate information and documentation relating to the details of the funded projects, including description of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from CFE’s Sustainable Financing Instruments. The work undertaken as part of this engagement included collection of documentation from CFE and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by CFE. Sustainalytics is not responsible, nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by CFE.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,¹⁰ nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the Framework.

CFE has disclosed to Sustainalytics that 83.7% of the proceeds from the Sustainable Financing Instruments were fully allocated as of December 2023. CFE intends to allocate the remaining proceeds from the social bonds (MXN 1,338.60 million) and green bond (MXN 2,721.30 million) issued in November 2022 by the end of 2024. As for the remaining proceeds from the social bond (MXN 3,154.00 million) and green bond (MXN 3,468.00 million) issued in July 2023, CFE intends to have them fully allocated by the end of 2025.

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Nominated Projects to determine alignment with the use of proceeds criteria outlined in the Framework.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the Nominated Projects to determine if impact was reported in line with the KPIs outlined in the Framework.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

¹⁰ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendices

Appendix 1: Allocation Reporting by Eligibility Criteria

Since February 2022, CFE issued 12 Sustainable Financing Instruments, raising MXN 65,733.40 million. 83.7% of the net proceeds from the issuance was used to finance and refinance the Nominated Projects.

Use of Proceeds Category	Eligible Projects	Number of Projects	Net Proceeds Allocated 2020 (MXN million)	Net Proceeds Allocated 2021 (MXN million)	Net Proceeds Allocated 2022 (MXN million)	Total Net Proceeds Allocated 2020-22 (MXN million)
Renewable Energy	Refurbishment and/or maintenance of wind and photovoltaic plants	6	111.34	24.94	1,440.29	1,576.57
	Refurbishment and/or maintenance of hydroelectric and geothermal plants ¹¹	43	1,193.54	3,095.41	1,248.10	5,537.05
	Purchase of renewable energy from wind and photovoltaic plants	46	12,747.89	14,080.48	15,168.92	41,997.29
Energy Efficiency	Energy efficiency projects ¹²	1	0	0	56.69	56.69
	Reduction of technical losses	1	969.51	991.00	1,021	2,981.51
Access to Free or Subsidized Essential Services (Digital Inclusion)	Fixed wireless broadband service in areas without availability of "cable" services	1	1,131.13	1,722.07	0	2,853.20
	Satellite internet connectivity service for rural communities	1	0	49.20	0	49.20
Total		99	16,153.41	19,963.10	18,935.00	55,051.51
Unallocated proceeds (MXN million)						10,681.89

¹¹ CFE has confirmed to Sustainalytics that all hydroelectric and geothermal plants noted above align with the criteria noted in the Framework.

¹² CFE has communicated to Sustainalytics that the energy-efficient projects are aimed at improving electrical energy efficiency in the company's properties and production processes through energy-saving initiatives and that the projects achieve at least a 30% energy efficiency improvement, in line with the criteria defined in the Framework.

Appendix 2: Reported Impact by Eligibility Criteria

Use of Proceeds Category	Eligible Projects	Reported Impact	2020	2021	2022
Renewable Energy	Refurbishment and/or maintenance of wind and photovoltaic plants	Annual energy generation (MWh)	11,134,060	13,822,106	13,135,245
		Annual GHG emissions reduced/avoided in tCO ₂ e	5,500,226	5,846,751	5,713,832
		Population benefited	4,075,650	5,134,404	4,817,643
	Purchase of renewable energy from wind and photovoltaic plants	Annual energy generation (MWh)	12,873,915	14,794,619	13,908,494
		Annual GHG emissions reduced/avoided in tCO ₂ e	6,359,714	6,258,124	6,050,195
		Population benefited	3,939,703	4,553,213	4,325,674
Energy Efficiency	Energy efficiency projects	Annual GHG emissions reduced/avoided in tCO ₂ e			9.48
	Reduction in technical losses	Avoided energy losses (MWh)	131,100	113,000	146,000
Access to Free or Subsidized Essential Services (Digital Inclusion)	Fixed wireless broadband service in areas without availability of "cable" services. Satellite Internet Connectivity Service for Rural Communities	Number of access points installed in locations		5,594	0
		Number of connections with technology (4G LTE)	0	41,816	0
		Number of connections with technology (satellite)	0	4,133	0
		Number of communication towers in operation	0	0	0
		Number of locations served by CFE TEIT	0	3,848	0
		Number of localities in poverty served by CFE TEIT	0	51,949	0
		Population benefited	0	1,520,317	0

Disclaimer

Copyright ©2024 Sustainalytics, a Morningstar company. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or content providers, and may be made available to third parties only in the form and format disclosed by Sustainalytics. They are not directed to, or intended for distribution to or use by India-based clients or users and their distribution to Indian resident individuals or entities is not permitted.

They are provided for informational purposes only and (1) shall not be considered as being a statement, representation, warranty or argument either in favor or against the truthfulness, reliability or completeness of any facts or statements that the issuer has made available to Sustainalytics for the purpose of this deliverable, in light of the circumstances under which such facts or statements have been presented; (2) do not constitute an endorsement of any product, project, investment strategy or consideration of any particular environmental, social or governance related issues as part of any investment strategy; (3) do not constitute investment advice, financial advice, or a prospectus, nor represent an “expert opinion” or “negative assurance letter” as these terms are commonly understood or defined by any applicable legislation; (4) are not part of any offering and do not constitute an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (5) do not represent an assessment of the issuer’s economic performance, financial obligations nor of its creditworthiness; (6) are not a substitute for professional advice; (7) past performance is no guarantee of future results; (8) have not been submitted to, nor received approval from, any relevant regulatory body; (9) have not and cannot be incorporated into any offering disclosure, unless otherwise agreed in writing.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-datedness or fitness for a particular purpose Sustainalytics has not independently verified any such information or data. The deliverables are provided “as is” and reflect Sustainalytics’ opinion at the date of their elaboration and publication. Sustainalytics does not undertake any obligation to update or revise any of the statements in the deliverable to reflect events, circumstances, changes in expectations which may occur after the date of the opinion or any statements included in the opinion. Neither Sustainalytics/Morningstar nor their content providers accept any liability from the use of the information, data or opinions contained herein or for actions of third parties in respect to this information, in any manner whatsoever, except where explicitly required by law. Sustainalytics does not assume any responsibility shall the bond default. Any reference to content providers’ names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our content providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

Sustainalytics may receive compensation for its ratings, opinions and other deliverables, from, among others, issuers, insurers, guarantors and/or underwriters of debt securities, or investors, via different business units. Sustainalytics believes it has put in place appropriate measures designed to safeguard the objectivity and independence of its opinions. For more information, visit [Governance Documents](#) or contact compliance@sustainalytics.com.

This deliverable, in particular the images, text and graphics contained therein, and the layout and company logo of Sustainalytics are protected under copyright and trademark law. Any use thereof shall require express prior written consent. Use shall be deemed to refer in particular to the copying or duplication of the opinion wholly or in part, the distribution of the opinion, either free of charge or against payment, or the exploitation of this opinion in any other conceivable manner.

The issuer is fully responsible for certifying and ensuring compliance with its commitments, for their implementation and monitoring.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds, which incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. For more information, visit www.sustainalytics.com

