

Mexico Opens Its Grid to Competition

By Lucas Laursen

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As part of a wider reform of its energy market, Mexico is privatizing its energy regulator and will begin allowing private companies to sell energy to, and add capacity to, its electricity grid. The country's president, Enrique Peña Nieto, enacted the laws ([English summaries \(http://www.presidencia.gob.mx/reformaenergetica/en/%23!diagnostico\)](http://www.presidencia.gob.mx/reformaenergetica/en/%23!diagnostico)) on Monday, August 11th ([Spanish pdf \(http://cdn.reformaenergetica.gob.mx/decreto-reforma-energetica.pdf\)](http://cdn.reformaenergetica.gob.mx/decreto-reforma-energetica.pdf)). Petroleum and electricity have been state monopolies in law since the 1917 constitution and in practice since the late 1930s, when Mexico succeeded in expropriating foreign energy firms' holdings.

The change in direction is in part a response to very poor productivity: Mexican industrial customers pay around 72 percent more than American counterparts for electricity, according to a Deloitte report ([pdf \(http://www.deloitte.com/assets/DCom-UnitedStates/Local%20Assets/Documents/Consulting%20MOs/CSMLs/us_MexicoEnergyReform_PandU_05082014.pdf\)](http://www.deloitte.com/assets/DCom-UnitedStates/Local%20Assets/Documents/Consulting%20MOs/CSMLs/us_MexicoEnergyReform_PandU_05082014.pdf)). PriceWaterhouseCoopers estimates that the Mexican grid has 18 percent transmission losses, over double the OECD average of seven percent ([pdf \(http://www.pwc.com/mx/es/industrias/archivo/2013-12-energy.pdf\)](http://www.pwc.com/mx/es/industrias/archivo/2013-12-energy.pdf)).

The US-Mexico border sees only a small amount of electricity trading today, but this reform could be an opportunity for American firms with generation and transmission construction experience. Private companies already generate around one third of Mexico's electricity, but they must sell it to the Federal Electricity Commission (CFE), the national regulator and distributor of electricity. Under the new laws, they will be able to bid for access to the grid and compete for clients. In the long run, that should lead to lower prices.

Yet many Mexicans are suspicious that the same cronyism that hobbled the CFE will continue under the new rules. They only have to look across their northern border for an example. An audience member at last week's 4th International Renewable Energies Conference (CIER) at the Technological University of the Central Valleys of Oaxaca, in Oaxaca, Mexico, reminded the audience that California's 1996 deregulation led to market manipulation and a [major energy crisis \(http://www.ferc.gov/industries/electric/indus-act/wec.asp\)](http://www.ferc.gov/industries/electric/indus-act/wec.asp).

A 2005 IEA [report \(http://www.iea.org/publications/freepublications/publication/lessons-from-liberalised-electricity-markets.html\)](http://www.iea.org/publications/freepublications/publication/lessons-from-liberalised-electricity-markets.html) on other countries' liberalization experiences concurs. It calls grid liberalization "a long process rather than an event." Japan, which began liberalizing its electricity market in 1995, [is now conducting its 5th reform \(http://www.tepco.co.jp/en/corpinfo/ir/kojin/jiyuka-e.html\)](http://www.tepco.co.jp/en/corpinfo/ir/kojin/jiyuka-e.html). The European Union began in 1996, has decreed three reforms so far, and still has [a long way to go \(http://futurechallenges.org/local/energy-market-liberalization-in-the-european-union-a-never-ending-story/\)](http://futurechallenges.org/local/energy-market-liberalization-in-the-european-union-a-never-ending-story/). Oaxaca state congressman [Juan José Moreno Sada \(http://www.congresooaxaca.gob.mx/legislatura/dip_sadapri.php\)](http://www.congresooaxaca.gob.mx/legislatura/dip_sadapri.php), of the ruling Institutional Revolutionary Party (PRI) said last week at CIER that the culture of Mexico's regulators would have to change along with the laws to



Photo: Susana Gonzalez/Bloomberg/Getty Images

Employees work in the control room at the Comision Federal de Electricidad's (CFE) Manuel M. Torres Dam and hydroelectric power station in the state of Chiapas near Chicoasen, Mexico, on Monday, May 27, 2013.

prevent corruption.

Still, energy generation and transmission companies should be interested. The Mexican government predicted in 2013 that electricity demand will grow by more than 75 percent between 2013 and 2026 ([Spanish pdf \(http://www.sener.gob.mx/res/PE_y_DT/pub/2013/Prospectiva_del_Sector_Electrico_2013-2027.pdf\)](http://www.sener.gob.mx/res/PE_y_DT/pub/2013/Prospectiva_del_Sector_Electrico_2013-2027.pdf)). The CFE only plans to expand its already overworked transmission capacity by 16.7 percent. The new laws will allow the CFE to contract out construction of the remainder of the needed transmission capacity to private companies.

Another criticism of the new law is that it is too focused on fossil fuels, which [accounted for almost a third of government revenues last year \(http://www.eia.gov/countries/cab.cfm?fips=mx\)](http://www.eia.gov/countries/cab.cfm?fips=mx). At last week's meeting, [Yesenia Nolasco Ramírez \(http://sil.gobernacion.gob.mx/Librerias/pp_PerfilLegislador.php?SID=&Referencia=9216921\)](http://sil.gobernacion.gob.mx/Librerias/pp_PerfilLegislador.php?SID=&Referencia=9216921), a congresswoman from Oaxaca in the opposition Democratic Revolutionary Party (PRD), complained that the reforms don't offer enough support to clean energies. While a 2012 climate law establishes a goal of 35 percent of Mexican energy coming from renewable sources by 2024, it lacks sufficient enforcement mechanisms, she said, and this year's energy reform do not add them.

"From my point of view it's a step backwards," she said.