I. Introduction

In 2014, Mexico embarked on a total transformation of its entire energy sector, on a scale unmatched in the world. The reform of the energy sector, under President Enrique Peña Nieto, involved not only the state-owned monopoly leviathan PEMEX, but also the equally powerful vertically integrated electric utility, Comisión Federal de Electricidad (CFE). Mexico had unsuccessfully attempted reform of the electric power sector nearly 20 years previously, in the administration of President Ernesto Zedillo. The current reform built on and substantially improved upon the ideas first developed in the Zedillo administration.

While President Zedillo started late and ran out of time (the Mexican President is elected for a single six-year term), President Peña Nieto obtained concurrence on the central tenets of his energy reform before taking office. The enabling constitutional amendment was passed in December 2013 and the energy reform legislative package of eight bills and amendments to 13 other laws was signed Aug. 17, 2014. Mexico moved quickly to implement the reforms and the first set of regulations was issued Nov. 1, 2014.

II. Problems Addressed by Reform in the Power Sector

According to official projections, Mexico will need about 60 gigawatts of new generation capacity in the next 15 years, as well as considerable investments in transmission and distribution. Mexico’s per capita electricity consumption in 2013 was only 2,057 kilowatt-hours--far below that for advanced countries such as the U.S. (12,953 kilowatt-hours) and Japan (7,836 kilowatt-hours), but also below other countries of Latin America, such as Chile (3,879 kilowatt-hours) and Argentina (3,093 kilowatt-hours). Apart from the
need to respond to current low consumption, new power infrastructure also will be required to meet projected growth.

Mexico also needs to reduce the price of electricity. A report on energy reform that the Mexican government issued in 2014 reported that the country’s electricity tariffs at the time were, on average, 25 percent higher than those in the U.S., even with subsidies, and would have been 73 percent higher without subsidies.

Finally, Mexico must deal with energy theft and inefficient operations. Theft and operational weaknesses have led to non-technical losses that are excessive by international standards and have deprived CFE of needed revenue. In 2015, CFE losses reached $6.8 billion.

Although there was some liberalization prior to 2014, including relaxing CFE’s monopoly on owning generation and permitting limited self-supply, the state-owned utility has limped along with government subsidies and under-investment, falling further and further behind in satisfying Mexico’s power needs.

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