GWEC
GLOBAL WIND ENERGY COUNCIL

Global Solar Council

Joint Statement on the Reversal of Mexico’s Clean Energy Transition

24 February 2021

- Over the last two years, national policy reforms have eroded the investment environment in Mexico for renewable energy. But the latest proposal to reverse key parts of the Electricity Act, Ley de la Industria Eléctrica (LIE), poses an unequivocal threat to all local and foreign private sector investment into Mexico’s formerly robust renewable energy market.

- This critical policy change further relegates renewable energy supply to the backseat in Mexico, unwinding the progress made in its energy transition over the last decade and reversing 2015’s landmark energy market liberalisation. Giving priority dispatch to state-owned utility CFE’s plants – fossil fuels and large-hydro plants that generate power with far higher costs and carbon emissions – undermines the principle of fair competition and puts Mexico’s climate commitments and investment environment at risk.

- The international bodies representing the global wind and solar industries jointly call upon the Government of Mexico to restore policy stability and legal certainty to the renewables sector, and capitalise on the significant investment, socioeconomic benefits and energy security brought by the clean energy transition.[1]

The direction of policy for Mexico’s electricity sector is harming current and future investment in renewable energy. While cancelled clean energy auctions, regulatory changes and legal actions have led to a slowdown in renewable energy development since 2019, a new potential roadblock has emerged in the bill to modify the LIE, currently undergoing an approval process. Furthermore, on 11 February Mexico's state-owned utility CFE called to cancel long-term power purchase contracts it holds with independent producers, citing losses for the utility.

Lawmakers should reject the bill to avoid adverse consequences, which will span beyond the power sector to impact local industries, households and the overall investment environment.

The latest proposal will undercut the pace and feasibility of Mexico’s clean energy transition, overhauling legislation to grant priority dispatch to power plants run by state-owned utility Comisión Federal de Electricidad (CFE) – essentially regressing the market back to its monopolistic past. These power plants are generating power at significantly higher cost – which would either result in more expensive tariffs for household consumers and large industrial end-users, or greater leverage required from the government to the utility to subsidise power prices in the regulated market.

[1] *IRENA Coalition for Action’s “Scaling up renewables investment in Mexico in the wake of COVID-19” paper from 2020*

CFE's plants are primarily based on natural gas, oil and coal-fired generation, which are older on average and more expensive to dispatch. The short-run marginal costs for CFE-owned oil and diesel plants are up to 33 times higher than privately owned wind and solar plants, according to BloombergNEF. Price distortion and market inefficiency is not the only issue, as assigning priority to fossil fuel plants will result in a rise in Mexico's carbon emissions and air pollutants. The increasing emissions may cause harmful effects on human health and exert additional pressure on an already stressed healthcare system.

It also means CFE will not be obliged to procure power through auctions and annul existing self-supply contracts, which have been a driver of wind and solar development. During the last decade, Mexico demonstrated renewable energy leadership by setting an ambitious target of 35% renewable energy in the power mix by 2024, enshrined in the 2015 Energy Transition Law, and conducting a successful clean energy auction programme. The actions from 2016-2018 resulted in US$9.7 billion in new investments and more
than 8GW of new wind and solar capacity secured at extremely low prices.

But developers and investors in wind and solar energy have faced deeply unfavourable market conditions over the last two years, resulting in a dramatic "bust" of clean energy investment and installations since 2019. This is at the precise moment when private investment is needed more than ever, and electricity consumers are clearly favouring green power. In response, legal challenges to government have been initiated by the private renewables sector.

Further hurdles for clean energy development and generation will result in stagnation of investment in Mexico's renewable energy sector. This puts jobs at risk, not only in the wind and solar industry which counts 17,000 workers in Mexico, but also in the wider value chain of industrial and commercial sectors which are committed to sustainable energy. Energy-intensive industries, such as steel and automobile manufacturing, comprise a significant share of Mexico's GDP and are important sources of employment.

The steps being taken towards a less efficient, higher-emitting grid with greater price volatility will undermine Mexico's industrial competitiveness as a low-carbon economy. The international bodies representing the global wind and solar industries jointly ask Mexican lawmakers to reject the bill to modify the LIE currently under discussion, and the Government of Mexico to urgently reset the course to transition to a renewables-based economy, which will generate enormous net-positive benefits in GDP growth, job creation and social welfare gains in the near term and long run.

Signatories

GWEC GLOBAL WIND ENERGY COUNCIL

Global Solar Council

IRENA coalition FOR ACTION