WHAT IS DRIVING UNCERTAINTY IN MEXICO’S POWER MARKET?

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BY CLAUDIA ESPINOSA  OCTOBER 2018

■ Price, tariff uncertainty hurting market development
■ Shifting regulations sustain confusion
■ Energy leadership lacking in coming presidential administration

Despite the continued and recently accelerated registration of new market participants and an additional step towards the much-awaited financial transmission rights (FTRs) auction, Mexico’s wholesale electricity market (MEM) is struggling to fully launch.

The start of the new presidential term in December will introduce additional uncertainty that has some participants questioning what direction the incipient market will take.

MEM MARKET PARTICIPANT COUNT

Note: Participants are considered those able to buy and sell power, potencia (capacity), clean energy certificates (CEls) and other products required for grid operation

Price transparency
Among the chief obstacles to the full development of the MEM is the lack of transparency in power market prices published by grid operator CENACE. This deficiency frustrates analysts’ attempts to check if the prices truly reflect normal market volatility associated with changes in power generation input prices.

Market participants said they would like to see CENACE offer information on generator availability, daily dispatch data from plants, and reserve requirements, among other key data they need to accurately model and forecast power prices.

CENACE previously said the lack of detailed information is the result of normal growing pains for a recently established institution with significant financial and technological constraints that make it difficult to quickly provide the level of detailed data usually seen in mature markets.

The situation has eroded confidence in the validity of current power market prices and generated questions about whether or not future prices will be set fairly.

The resulting uncertainty makes it challenging for liquidity, market prices and competition to develop.

The situation has also been reflected in the ICIS power price and clean energy certificate (CEL) survey where power contract types added have been for longer durations amid the current dearth of data available for types shorter than one year.

Metering
Additionally, regulations governing the type of metering necessary to enter the MEM continue to be characterised as a barrier to entry.

Energy regulator CRE announced the public consultation period for interim regulations ended on 11 September, but the timing for the final metering regulation and the duration of the interim period has not yet been confirmed, leaving
qualified users questioning what they should budget to comply with the regulations or if they should bother joining the MEM at all.

Qualified users are those with electricity demand greater than or equal to 1MW.

This situation leaves qualified suppliers, who compete with state-run utility CFE’s Suministro Basico arm, in the middle, since qualified users who choose to remain with CFE are not subject to the new metering standards.

At publication, more than 40 qualified suppliers were registered in Mexico, but the challenges facing the MEM have left many struggling. This is despite there being enough demand for each qualified supplier to provide around 800MW to customers, according to executives at Mexico’s SUMEX, a pioneer participant in the MEM.

Like many others, its business is being hampered in certain areas by the current situation in the MEM where qualified suppliers are eager to provide qualified users with the superior service that competition in a market is supposed to generate.

However, they are sometimes unable to sufficiently assuage the concerns of would-be customers. The executives described some potential SUMEX clients as being in wait-and-see mode with regard to signing up to migrate to the MEM.

The process involves many variables for qualified users like industrials whose sectors have varying levels of tolerance for power price volatility that can eat away at profit margins, and these customers want more certainty in regulations and tariffs before migrating to a non-CFE supplier.

“Migration to the MEM is frozen [at present],” said a different source about the situation.

**Tariff uncertainty**

CRE also seems to have changed course on the path to market-based industrial power rates, raising questions about the possibility of regulatory capture among several market participants.

Regulatory capture occurs when a government agency is more responsive to requests from the industry it is supposed to regulate and fails to act in the public interest.

Some have argued this is the direction CRE has been tilting in since it began adjusting industrial rates in the early part of 2018 and switched methodologies.

Adding to the confusion is a 13 September decision by CRE’s governing board to change regulation that outlines how to calculate tariffs that apply to CFE Suministro Basico and its newly registered competitors. CRE did not immediately respond to requests for comment.

**New government**

Nearly all these were problems prior to the victory of Mexico’s left-leaning president-elect, Andres Manuel Lopez...
Obrador (AMLO), but his preparations for office have heightened uncertainty as market participants consider the possible direction his current and future appointees would take with key institutions like CENACE.

No official announcement has yet been made regarding the next director of CENACE. However, Rocio Nahle has been tapped to be energy secretary, and she is reportedly considering candidates for the post, at least one of whom does not have the technical experience many believe essential to operate the power grid.

There are also concerns about the quality of the future talent pool for CENACE. Market participants who wanted more detailed data from the grid operator also seemed to believe the current group of professionals there would be the best positioned to continue implementing the energy reform, and they expressed concerns several factors including proposed pay cuts could drive them out if their niche skills are not recognised and retained.

Manuel Bartlett, appointed to lead CFE, is widely considered antagonistic to the energy reform and has floated ideas to reintegrate the branches of the CFE that currently compete with one another, which would stifle competition significantly and likely remove profit and loss incentives that generate efficiencies. However, he is constrained by the legal complexities that would create, by growing power demand, and perhaps most importantly, a need for investment.

Some market participants said Bartlett would likely only reintegrate in ways that facilitate decision-making, which seems more likely given the enormous difficulty of completing a wider reintegration process.

Moving forward
Given the uncertainty and possible turnover of reform-friendly personnel in government institutions, most market participants have adopted a cautious approach leading into the start of AMLO’s term in December 2018.

Two oil majors whose power divisions had plans to enter Mexico’s wholesale power market confirmed they are going to wait at least one or two years, as are others.

Those already participating have braced themselves for additional bureaucratic delays and increased regulatory uncertainty.

At the same time many participants say they view the final months of 2018 as an excellent time to engage AMLO’s transition team and express a willingness to co-operate with their knowledge.

“Market participants need to be vocal,” one source said.

This is for the greater good of Mexico, whose economy is forecast to grow by less than 3% at best in 2019, and could benefit from the efficiencies generated by a competitive MEM.