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# POWER CAPACITY PRICE SETTLES LOWER, **STOKING CONCERNS** **IN MEXICO**



By Claudia Espinosa

# POWER

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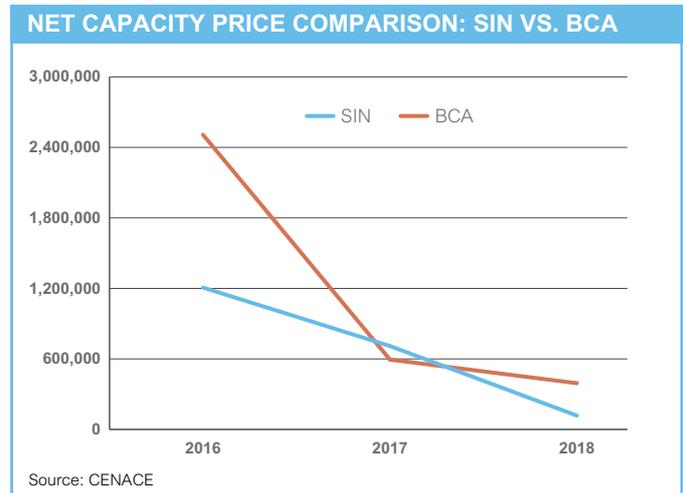
BY CLAUDIA ESPINOSA MARCH 2019

Mexico's power market operator **CENACE** published a lower year-on-year settlement price for the 2018 capacity market, also known as potencia, on 28 February, a result that market participants anticipate may slow down market growth. This raises questions about how the country's market could evolve if more generation to meet growing demand is not incentivised by a higher capacity price.

The price for the large mainland SIN grid settled at Mexican peso (Ps) 117,486.70 (\$6,086)/MW-year, a figure identical to the theoretical price published by CENACE, along with updated reference technology, during the second half of January. The settlement price is 83% lower than the one for the prior year.

The capacity price for the much smaller Baja California and Baja California Sur portions of the grid settled at Ps393,258.78/MW-year and Ps5,516,512.27/MW-year, representing a 34% decrease and doubling on the year, respectively.

Market participants said they were concerned that as these prices, with the exception of Baja California Sur, are much lower than in previous years, this could send confusing signals to the incipient market where demand for power



from a vulnerable grid in need of modernisation continues to grow. Locational marginal prices (LMPs) on the day-ahead (MDA) market have continued to increase, partly signaling a need to address grid modernisation and the addition of efficient generation.

State-run power utility CFE, the dominant market participant, has made efforts to address these issues

### NET CAPACITY PRICE COMPARISON (PS/MW-YEAR)

Grid	2016	2017	Y-o-Y Variation	2018	Y-o-Y Variation
SIN	1,207,324.43	709,625.12	-41%	117,486.70	-83%
BCA	2,507,456.35	594,112.23	-76%	393,258.78	-34%
BCS	1,240,145.66	2,754,685.14	122%	5,516,512.27	100%

Source: CENACE Note: The capacity price is settled ex-post, meaning the 2016 capacity price was settled in 2017, etc.

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in previous years, converting many power plants to significantly lower-cost natural gas generation, although pipeline delays caused in part by misaligned policies in other parts of government have hampered those efforts.

Mexico's power grid could also be improved by adding power generation capacity at other strategic points, something that could be incentivised by a higher capacity price. One market observer said the decreases seen thus far send confusing messages to current and prospective investors who expect Mexico's capacity price to include a premium in relation to more mature markets. These markets would have had more time for supply and demand to come closer to balancing and for market participants to communicate their needs to policymakers.

### LOOKING AHEAD

The upside of the confusing capacity price signals is that further debate may be generated about what many consider to be a design flaw in the way prices for the capacity balancing market are currently calculated.

The rules governing the capacity market were created separately from the MDA and real-time (MTR) markets, resulting in significant differences in the products acquired through the balancing market and those needed in the MDA and MTR, something highlighted in the latest [Independent Market Monitor report](#)

Most market participants are more familiar with and immediately affected by the MDA and MTR. However, the competitive nature of the Mexican power market could come into further question if market participants and policymakers leave the capacity pricing issue unaddressed for too long.



### ABOUT THE AUTHOR

**CLAUDIA ESPINOSA**  
**EDITOR, MEXICO ENERGY REPORT**

Claudia Espinosa is the editor of the ICIS Mexico Energy Report. She joined ICIS in 2017 and has covered the markets in Mexico and the Americas. Previously, Claudia consulted on Latin American political and economic issues for organisations in the US and Mexico. She holds a Bachelor of Arts degree and a Master's degree in international affairs, focusing on Latin American politics and business management.

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