

COFECE issues recommendations to the National Energy Control Center (CENACE) Agreement

- *During the health emergency, competitive electricity prices are of the utmost relevance. COFECE's recommendations seek to avoid a permanent increase in electricity rates or an increase of subsidies by the Federal Government in a context of budgetary constraints.*
- *Given that the Agreement does not establish a validity timeframe, the measures raised by CENACE exclude indefinitely the participation of new electricity, wind or photovoltaic power plants.*
- *Even when the Agreement does not explicitly exclude currently operating wind and photovoltaic power plants from the dispatch order, for its drafting, it could be understood that this type of power plants could be the first ones to exit the system.*
- *Displacing, even temporarily, the most efficient electricity generators could favor conventional power plants, which are mostly owned by the State-owned company CFE, which would be against article 108 of the Electricity Industry Law, which establishes that the CENACE is empowered, among others, to operate the Wholesale Electricity Market "in conditions that promote competition, efficiency and does not promote undue discrimination".*
- *To maintain the electricity system's stability and to allow the dispatch of energy at the lowest possible cost, five recommendations are issued, hereby described.*

Mexico City, May 7th, 2020.- The Mexican Federal Economic Competition Commission (COFECE or Commission) submitted an opinion to the Ministry of Energy, the Energy Regulatory Commission and the National Energy Control Center (CENACE, as per its initials in Spanish) regarding the *Agreement to guarantee the efficiency, quality, reliability, continuity and safety of the National Electricity System as a consequence of the acknowledgement of the SARS-CoV2 (COVID-19) virus pandemic (Agreement)* as COFECE considers that some of the *Agreement* provisions could be against the process of competition and free market access, causing an increase in both electricity prices and in the Federal Government's subsidies for electricity rates, all of this, in detriment of Mexican consumers and companies.



Because it is unclear how the measures contained in the *Agreement* will be implemented or how long it will be in force, the following effects on competition and free market access could be caused:

1. Indefinitely preventing new wind and photovoltaic plants from participating in the market, by suspending pre-operational tests that are required for these to come into operation. This, without clarifying how this measure contributes to the stability of the National Electric System (SEN, as per its initials in Spanish) in the context of a low demand caused by the current health emergency. Furthermore, the *Agreement* does not establish clear and measurable criteria or parameters under which the abovementioned tests can be resumed, thus worsening the uncertainty for planned and future investments in wind and solar generation projects.
2. Create uncertainty about the possibility of dispatching wind and photovoltaic power plants that already operate in the market and that usually have lower production costs than conventional plants. For wind and solar generators this could imply, although it is not totally clear, that their dispatch is limited in favor of conventional power plants that currently have idle available capacity, as could be the case of those of the Federal Electricity Commission (CFE).

Even temporarily, displacement of the most efficient generators without this measure being technically justified on criteria strictly related to the instability of the system could cause higher generation costs, which in turn could increase electricity rates, or increase subsidies by the Federal Government in a context of budgetary constraints.

These measures could open spaces for discriminatory actions in favor of certain power plants and compromise the dispatch of electricity in competition conditions, as expressly provided for in article 108 of the Electricity Industry Law.

Thus, COFECE recommends a review of the suitability of the *Agreement*, and in any case consider:

1. That the measures adopted by the CENACE, concerning wind and photovoltaic plants in operations, are based on strict technical criteria directly linked to aspects of reliability, continuity and stability of the SEN, and that these criteria are available to the public;

2. Do not grant undue discriminatory treatment to certain power plants and guarantee, pursuant to the current applicable legal framework, the economic dispatch of power plants according to their costs, ranging from lowest to higher, without compromising the SEN's stability;
3. Define and make public the criteria under which the implementation of the measures considered in the *Agreement* will be suspended, through parameters that are clear, transparent and measurable by third parties, especially for resumption of pre-operational tests for wind and photovoltaic plants;
4. To implement the interventions considered in the *Agreement* only when they are strictly necessary to ensure SEN's stability in light of the COVID-19 pandemic, as long as there are no alternatives that are less restrictive to competition; and
5. Undertake analysis of actions or required regulation, together with all actors in the sector, so that in the short term, the concerns identified in the SEN and CFE's operation as a "last instance" dispatcher are met. Thus creating, in the medium term, a stable system which is also consistent with the country's energy needs and productive capacity, reducing social costs derived from electricity generation.

[Read the complete opinion \(in Spanish\)](#)

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The Federal Economic Competition Commission is entrusted with safeguarding competition and free market access. Through this, it contributes to consumer welfare and the efficient functioning of the markets. Through its work, it seeks better conditions for consumers, greater output and better services and a "level playing field" for companies.

