

COFECE-003-2021

COFECE makes available to the public the preliminary version of the document about the market for Clean Energy Certificates to receive comments

- *By mandate of the Energy Transition Law, COFECE will publish an analysis on the market of Clean Energy Certificates and other links in the electric production chain, where it analyzes the impacts on competition from its regulation and recent changes in the norms.*
- *The purpose of publishing the preliminary version is to receive comments that nurture its final content, therefore those interested are invited to provide input from February 8 to March 5.*

Mexico City, February 8, 2021.- The Federal Economic Competition Commission (COFECE or Commission) makes available to the authorities, powers of the Union, users, permit holders, academia, as well as the general public the preliminary version of the document *Transición hacia mercados competidos de energía: Los Certificados de Energías Limpias en la industria eléctrica mexicana* (Transition towards competed energy markets: Clean energy certificates in the Mexican electric industry), with the aim of receiving comments to enrich it. Suggestions will be received between February 8 and March 5.

This document is prepared in compliance with the provisions of the last transitory article of the Energy Transition Law¹, based both on previous analyses that the Commission has carried out in this sector, as well as on the contributions received for the questionnaire for the initial preparation of this study published in March 2020. Those interested will be able to access the preliminary text at the following URL (in Spanish): <https://www.cofece.mx/consulta-documento-cel/> and send their comments through the form available at the same site or at the email certificadosenergia@cofece.mx

¹ The last paragraph of the transitory article **Twenty-second** establishes that: “Two years after the entry into force of the obligations on matters of Clean Energy Certificates, the Federal Economic Competition Commission, within its powers, shall conduct an evaluation of the competitiveness of the market for Clean Energy Certificates, and shall issue recommendations with the aim of improving its performance”.

The constitutional and legal framework in force allows private participation in the activities for the generation and commercialization of electricity, in a competition environment that encourages lower costs, both economic and environmental for the benefit of consumers and productive sectors. As a part of this legal framework, the law contemplates the Clean Energy Certificate (CEL per its acronym in Spanish) mechanism which, broadly, works in the following way: the Ministry of Energy (SENER, per its initials in Spanish) establishes the obligation to suppliers and certain electricity users of having a certain quantity of certificates that they acquire from generators from whom they purchase electric energy; these — in turn — obtain them when they prove before the Energy Regulatory Commission (CRE, per its initials in Spanish) that they produce a certain quantity of energy from clean energy sources. The objective of this market is to encourage the installation of new energy generation projects based on clean energies, to, among other objectives, comply with international commitments that Mexico has on environmental matters.²

The intensity of competition in the markets for generation and supply, as well as conditions of access to the transmission and distribution grids, impact on the functioning of the CEL market. Therefore, the document presented analyzes the regulation in force, the recent changes in it and its impact on competition in the generation and supply links. Moreover, it examines several statistics to diagnose compliance with CEL obligations and clean generation goals foreseen by the Mexican regulation based on the international commitments that the country has.

From all this, preliminarily, the document highlights issues such as:

- 1) **The difficulty for the entry of more participants in the electricity supply (commercialization).** For example, the constant changes in the methodology for the calculation of the fees of *CFE Suministrador de Servicios Básicos* (CFE SSB) and its lack of traceability, which impedes competing against it and discourages large users, which are supplied by CFE, to buy in the wholesale electricity market. In this way the CEL obligations are concentrated in CFE SSB and this prevents users from having more options to choose a different supplier.
- 2) **Delay in the granting of generation permits.** Until October 2020, the CRE had 99 permit applications pending to be resolved and 153 for modification and transfers

² For 2024 the participation of clean energy generation in Mexico must be of 35% and of 50% for 2050. It started from a basis of 20.9% in 2014, year when the Electric Industry Law came into force.

of these. In addition, there are procedures that have not been resolved for up to 300 working days, when the regulation provides for a maximum of 75 days.

- 3) **The lack of expansion of the transmission and distribution grids.** Which results in the difficulty to interconnect new projects, especially solar and wind projects that depend on the availability of sun and wind, respectively.
- 4) **The cancelation of Long-Term Auctions without justification.** Since 2019 eliminates the possibility to compete for selling electricity and CEL mainly to CFE SSB, which in turn hinders financing of new clean generation products. The foregoing despite that auctions had favorable results in terms of average price per Megawatt/hour, going from 31 dollars in 2015 to 13.22 in 2017. The suspension of auctions could increase fees for final users and/or subsidies for them.

As a consequence of these and other obstacles identified in the document, it is preliminarily concluded that the continuation of the energy policy measures that have been issued recently will result in non-compliance with the committed Clean Energy Goals by Mexico. According to estimations based on clean energy generation projects and their entry into operation, since 2022 in Mexico a missing 12 million CEL could be observed. Moreover, in 2024 Mexico will fail to reach the goal of 35% clean energy generation committed, as it is estimated that it will barely reach 29.8%.

It is worth highlighting that this forecast does not consider the impact that could cause, if approved, the *Initiative to reform the Electric Industry Law*, presented by the Federal Executive last February 1, which would impede competition in the generation and commercialization of electricity by: i) eliminating the economic dispatch (using low-cost energy first), ii) relaxing access of generators to the transmission and distribution grids and iii) allowing CFE SSB to procure electricity from CFE Generación without the need to conduct auctions. In addition, the draft grants CEL to all clean energy generation plants notwithstanding when they began operations (this artificially increases the number of CEL and compliance of Mexico's obligations, but in reality the country is not producing more clean electric energy).

The final version of the document will have the ultimate objective of promoting, through specific recommendations, competition in the electric industry with the purpose of encouraging electricity generation in a more efficient manner, both in costs, as well as environmentally, and a supply for users in better price conditions, to improve the



competitividad of Mexican companies and to reduce final fees payed by Mexican families and/or the Federal Government's subsidies.

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MORE COMPETITION FOR A STRONGER MEXICO

The Federal Economic Competition Commission is responsible for ensuring competition and free market access. In this way, it contributes to consumer welfare and the efficient functioning of the markets. Through its work, COFECE seeks better conditions for consumers, greater output and better services and a “level playing field” for companies.

