

## Due to the risks of affecting consumers and companies, Cofece recommends not to approve the constitutional reform initiative in electricity matters

- *The approval of the Initiative would suppress competition in the sector and eliminate the regulation mechanisms that allow its efficient development.*
- *The change of model would affect Mexican consumers and companies due to more expensive electricity fares; it could also harm public finances due to the inefficient use of resources and the application of subsidies.*
- *Cofece recommends not to approve the Initiative and to consolidate a competitive electricity model that is capable of supplying electricity in the best conditions and supports the development of the country.*

**Mexico City, March 7, 2022.-** The Board of the Federal Economic Competition Commission (Cofece or Commission) submitted to the Congress of the Union an opinion in which it recommends not to approve the *Initiative with a Draft Decree by which Articles 25, 27 and 28 of the Political Constitution of the United Mexican States are reformed, in energy matters (Initiative)* and reiterates the importance of maintaining and consolidating an electricity model based on competition, accompanied by the regulatory elements that are necessary to safeguard the public interest.

Cofece warns that the *Initiative* resigns in a categorical manner to the model of competition in the generation and supply (commercialization) of electricity, by replacing it with a vertically integrated industrial model and operated by a unregulated state-owned monopoly, which has been abandoned in many countries due to its inefficiency, inability to meet the demand, high costs and negative impact on public finances.

The model proposed in the *Initiative* represents a setback against social welfare, as, if approved it would imply:



- (i) To establish a monopoly in the whole value chain of the sector, that is, in the generation, transmission, distribution and supply (commercialization) of electricity;
- (ii) To create a monopsony (sole buyer) in the purchase of electricity that, in its case, is carried out by the *Comisión Federal de Electricidad (CFE)*;
- (iii) To dismantle the institutional framework that guards the public interest, unduly transferring to CFE the regulatory and public policy tasks, including the control and planning of the electricity system, as well as the determination of rates; and
- (iv) To eliminate different mechanisms that pursue fundamental objectives, such as ensuring the reliability of the system, diversifying the generation mix, seeking equity among the participants, applying neutral and technical regulation, improving the service and motivating investments in more efficient and clean generation technologies.

Furthermore, in the proposal there are no mechanisms to ensure that the electricity generated ( both by CFE and, if applicable, by private parties) and dispatched into the system is the least costly. On the contrary, a change such as the one proposed would delay the exit from the market of the older, polluting and inefficient generation plants; likewise, it would discourage the installation of new projects that could operate with more efficient and environmentally friendly technologies.

It should be added that the *Initiative* contemplates the cancelation of all generation permits and electricity purchase and sale contracts in force with the private sector, which necessarily would translate into a restriction of supply, idleness of assets and greater disincentives for investments. Although the *Initiative* foresees that private parties will be able to generate “up to” 46 percent of the energy required by the country, this generation would only be for sale to the CFE and under the thresholds, terms and conditions —still unknown— determined by the latter, which turns it into a monopsony in the purchase of electricity and thereby allows it to monopolize the whole value chain.

In this manner, the proposed paradigm shift would cause an increase in costs along the value chain of the electricity industry, which would cause an increase in rates that would harm the welfare of consumers and the competitive position of companies, or else a



diversion of resources to subsidize an inefficient public service. Summarizing, the *Initiative* would compromise the efficient operation of the sector in general and its capacity to meet present and future needs. This would negatively affect both consumers and companies, the competitiveness of the country and thus is economic growth.

Cofece reiterates that it is essential to make every effort to maintain and develop a competitive, efficient, sustainable and safe electricity sector, since the performance of the rest of the economic sectors and the prosperity of the country depend on it. The *Initiative* does not contribute to this purpose because, among other things, it renounces to competition and to a regulation that protects the efficient functioning of the markets.

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

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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.*

