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New Report on Cost Savings from Clean Energy Finds that Mexico's Top Utility Has Reduced Costs and Avoided Carbon Emissions Via Participation in Clean Energy Auctions

Pending Action by the Mexican Government Threatens to Reverse this Progress

LA JOLLA, CA (November 18, 2021) – A first-of-its-kind report from Institute of the Americas (IOA) finds that Mexico's top state-owned utility, the Federal Electricity Commission (CFE), had reduced costs and avoided carbon emissions through participation in the sector-wide clean energy auction process which the Mexican government is now threatening to abandon.

The report, Clean Energy Cost Savings: A Study of Mexico's Federal Electricity Commission (CFE), was written by Francisco Salazar, a Non-Resident Fellow at IOA and former Chairman of CRE and Francisco Barnes, former CRE Commissioner, Deputy Secretary of Energy in Mexico and former President of the National Autonomous University of Mexico (UNAM).

According to Richard Kiy, President & CEO of IOA, "Mexico has significant untapped renewable energy potential, particularly solar and wind. Renewable energy also affords Mexico the ability to expand its power generation capacity at a time when climate change and extreme drought is putting the country's hydroelectric generation capacity at risk. The Institute's report highlights the net benefits of this potential for Mexico as well as the economic cost of the country squandering this opportunity thereby compromising its own energy security."

The report highlights the financial and emissions profile benefits to the state-run utility from purchasing clean energy generation and credits and outlines potential threats to ongoing progress from decisions expected to be made by the Mexican government. Since the Lopez Obrador administration took office in December 2018, there have been a series of decrees and interventions in Mexico's energy sector.

In September 2021, the administration sent an initiative to Congress aimed at amending the constitution and completely restructuring the electric sector and market. The goal of the amendment proposed by the Lopez Obrador administration is to reassert the primacy of CFE in the market, but also of the Mexican government more broadly by eliminating independent and longstanding energy regulators. There would be grave impacts on private power generators and renewable firms, but also severely restrict the ability of Mexican citizens to pursue distributed energy solutions.

The Lopez Obrador administration and director general of CFE contend that the 2013 energy reform and electric sector industry law and its power market elements have obligated CFE to acquire clean energy and the corresponding renewable energy credits (CELs in the parlance of the Mexican market), claiming that the market-based approach is restrictive.

“The administration claims that investing in clean energy in Mexico is too expensive, but the Mexican people cannot afford to continue subsidizing the energy sector with their health in order to get rid of the dirty fuel oil produced in Mexican refineries, that no longer can be exported to international markets and which is much more expensive,” said co-author Francisco Barnes, former CRE Commissioner, Deputy Secretary of Energy in Mexico and former President of the National Autonomous University of Mexico (UNAM).

In an effort to further understand these issues, IOA conducted a fact-based economic analysis of current policies and regulations. The report, “Clean Energy Cost-Savings: A Study of Mexico’s Federal Electricity Commission (CFE),” examines how the purchase of clean energy credits through the auctions in order to obtain the corresponding CEL certificates has allowed CFE to avoid variable generation costs at its thermoelectric plants, which would have been far higher than the cost of purchasing the clean energy.

“In addition to the saved energy generation costs, the amount saved can be estimated based on fossil fuel use avoided and cost of the emissions that would have been generated, which benefits CFE’s bottom line and the health of our local communities,” said co-author Francisco Salazar, a Non-Resident Fellow at IOA and former Chairman of CRE. “It is important that these savings continue, both for the future of Mexico’s energy grid and competitiveness as well as for its relationships with other governments in North America.”

The report also examines specific case studies of La Paz, Baja California Sur and Petacalco, Guerrero, where CFE power plants are located and finds that CFE is incurring losses on the order of $1 billion per year to power their plants with fuel oil. Fuel oil generation is also wreaking havoc with local air quality and produces an increasingly wide array of deleterious emissions harming the entire country and North America more broadly. It bears noting that fuel oil not permitted to be combusted by ships traveling the world’s oceans is now in many densely populated locations in Mexico the power generation fuel of choice.

“A fuel that is barred from use by ships in the middle of the ocean should not be the primary power generation fuel source near major population centers in Mexico,” added Barnes.

The report is available on the Institute of the Americas website and may be downloaded here.

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