



Innovative Policy and Institutional Framework: the Mexican regulatory experience

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Using the grid as a bank

- In January 2006, CRE issued the final version of a contract model for the interconnection of intermittent type renewable energy sources (wind, solar radiation, small hydro, etc);
- It is designed for self-supply generation permit holders (above 0.5 MW) that use CFE grid to transmit the electricity;
- This instrument has been a landmark in the development of renewable energy in Mexico;
- Regulated topics:
 - Transmission services
 - Energy exchange and trade.



Basic characteristics

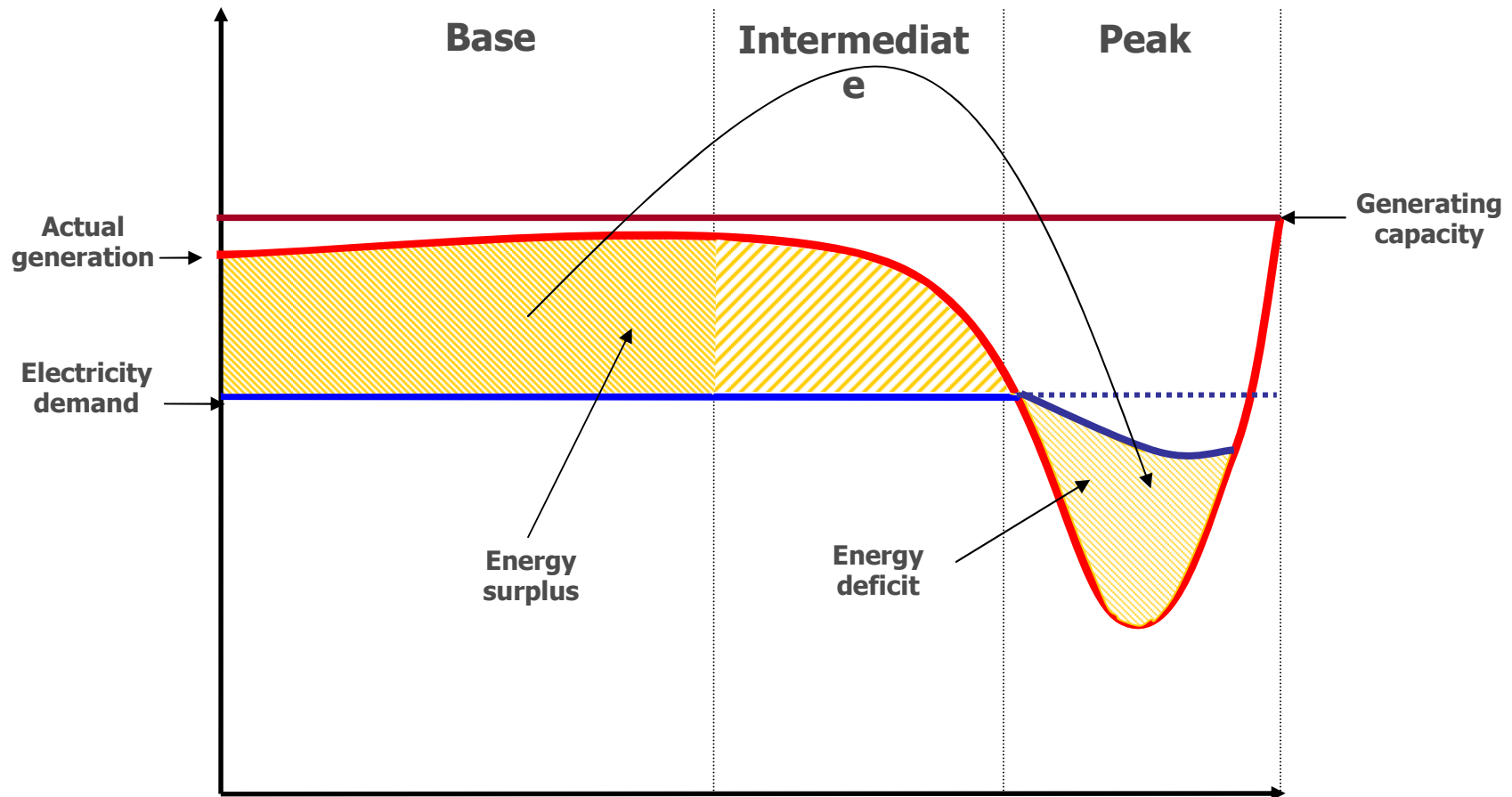
- Energy is delivered to the grid whenever it is generated;
- Consumption doesn't need to match generation; energy can be "accumulated" in the grid and delivered in a different period of time;
- Energy exchange takes place at the prevailing tariff rate in the interconnection and load points;
- At the end of the year, the permit holder can sell the remaining "accumulated" energy at 85% of the marginal cost of the system;
- Wheeling charges and other services provided by CFE are paid based on generation plant factor;
- Capacity credit is granted based on the monthly average of power produced during the weekdays system peak period;
- Emergency energy for CFE is paid at 1.5 times the tariff rate.



A graph...



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Remarks

- It is important to say that by the time it was issued, CRE didn't have an specific mandate to promote renewable energy...
- The underlying logic was to issue an instrument that would level the field for renewable energy by recognizing the special characteristics of intermittent sources of renewable energy.
- Therefore, it implied, up to a certain point, entering in a zone where regulation was meeting energy policy...
- Nevertheless, the instrument was a success because of its immediate acceptance by all the relevant actors: Sener, CFE, financing entities and the permit holders.



A transmission open season

- Once regulation was in place there was another problem: how to solve a coordination problem between different permit holders and CFE to build transmission capacity.
- Most of the wind potential in Mexico is located in Oaxaca, far away from the consumption points and with very limited transmission capacity.
- Building several transmission lines was uneconomic, so there was a need for someone to step in and coordinate CFE and the permit holders through an open season type process to determine the capacity of a new transmission line to be built, establish how this new capacity would be paid and allocate the new and existing transmission capacity among the different users.



Remarks

- In a similar way to the intermittent renewable energy regulation, there was no specific legal provision whereby CRE should conduct a process like this...
- However, CRE considered it was related to its mandate of promoting the efficient development of the regulated activities.
- Also, it was a way to overcome barriers of entry to new technologies, something which is clearly within the job description of a regulator.
- The process was successful once again thanks to the support of Sener, CFE and the permit holders...



Lessons learned

- An ideal institutional framework should include at least three elements:
 - Specific legal provisions (which include goals and mandates) to promote renewable energy;
 - Specific institutions with clear roles: policy, planning, regulation and operation, and
 - Economic mechanisms to level the field (funds, subsidies, tariffs, taxes, etc.)
- At the same time, the framework should be designed taking into account resource availability as well as restrictions imposed by market structure and public funds.



Lessons learned

- Last year the Mexican Congress passed a new legislation specifically devoted to promote renewable energy. Secondary legislation has just been issued by Sener and CRE is working on new regulatory instruments that will be issued in the near future.
- This new framework tries to take into account considerations like the ones previously mentioned but will probably be limited in the short run by budget restrictions.
- Nevertheless, as the Mexican experience shows, more than the specific legal framework, the commitment and creativity of policy makers and regulators will remain as the main driving force to continue promoting renewable energy...



Thanks!

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