Pichardo Asset Management
Asesores de Portafolios de Inversión

ENERGY SECTOR REPORT, MARCH 2018

The Silent Energy Sector Reform

The energy sector reform initiated by the Federal Executive and approved by Congress in 2013, transformed Mexico's hydrocarbon and electricity markets. There has been talk of oil and natural gas exploration and extraction and the over USD158 billion in investments it has triggered ever since. However, less has been said of the silent transformational power of electricity sector reform, which could turn out to be just as or even more important to Mexico's economic growth.

As in the hydrocarbon sector, the aim of electricity reform is to go from a single supplier model to one of competition that fosters investment, infrastructure development and energy supply. The amount of investment in this segment so far, puts into perspective the importance of this reform for our country.

The next few years are expected to herald the arrival of more than 100 billion dollars in additional investments, more than 22 billion dollars in fossil fuel-based electricity generation, almost 60 billion dollars in electricity generation using renewable energy sources, more than 700 billion dollars in distributed generation, around 11 billion dollars in transmission, and more than 8 billion dollars in distribution.

The size of the investment compared to what the hydrocarbon sector has attracted is noteworthy, but perhaps the most interesting data is that 63 percent of additional capacity for meeting electricity demand in the coming years should be sourced from clean energies. The first three electricity tenders alone should benefit 19 states through the construction of 70 new power stations, 67 percent of which are planned to be fueled by clean energies.

Thus, energy sector reform is not only giving rise to growing investment, but also, and above all, a cleaner energy mix. Indeed, Ernst & Young's Renewable Energy Country Attractiveness Index (RECAI) states that between 2014 and 2017, Mexico moved up to 9th from 24th out of a total of 40 countries analyzed for global appeal in terms of green energy investment. Meanwhile, Bloomberg New Energy Finance reported that as of March 29, 2018, Mexico posted 516% growth in clean energy investment vs. 2017.

The reform promotes projects that involve clean energies, such as solar, wind and geothermal power, among others, which should permit the reduction of greenhouse gas emissions under the Treaty of Paris. The reform gives consumers the power to take control of their energy needs and choose options they didn't previously have while at the same time caring for the environment. Nowadays consumers can install solar panels or generate electricity to meet localized energy needs. Likewise, small communities can join forces in terms of energy needs by using solar panels as a collective community development strategy while minimizing the impact on the environment, just like when people share vehicles to reduce gas emissions.

The new electricity model operates with many companies, generation methods, and more efficient transmission and distribution networks. This should translate into a more competitive market, a more sustainable energy portfolio, and faster and more sustainable economic growth. The changes in the sector are already evident and the benefits make this silent reform one of the most transcendental for the development of Mexico.

Source: Reforma.

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Definitions

RECAI: Renewable Energy Country Attractiveness Index that ranks 40 countries on the attractiveness of their renewable energy investment and deployment opportunities