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How Advanced Is Mexico's Renewables Sector?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: How Advanced Is Mexico's Renewables Sector?

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The Mexican government expects that foreign investment in the country's renewable energy sector will nearly triple this year, reaching \$8 billion and potentially helping states like California meet clean energy requirements, said Carlos Guzmán, the head of Mexico's investment promotions agency, Bloomberg News reported. How advanced is Mexico's renewable energy sector? Should the government and private sector be doing more to promote alternative sources of power and, if so, what steps should be taken? What role should the Mexican renewable energy sector play in supplying California's market, where state utilities are required to get a third of their power from renewable sources by 2020?

A: Duncan Wood, professor and director of the International Relations and Canadian Studies programs at the Instituto Tecnológico Autónomo de México:

"Mexico's renewable energy sector is one of the most promising in Latin America, blessed as the country is with impressive wind resources, a well developed geothermal sector and one of the world's best solar resources. However, until recently there has been relatively little attention paid to renewables in Mexico. The wind farms of Oaxaca have only been developed over the past decade but have become a significant source of electricity for Mexico's private sector. The wind patterns of La Rumorosa in northern Baja California are now being developed, with the express goal of exporting energy to California. Tamaulipas is about to experience a wind boom, with private sector firms (such as Cemex and WalMart) looking to source their electricity from cleaner sources. Solar power has received very little investment in the past in Mexico but it holds enormous potential and will likely become the most important area of renewable development in the next 20 years. The government needs to do much more to promote clean energy in Mexico. The first step would be to provide meaningful financial support to research and to subsidizing development of the sector. This could take the form of preferential buy-in tariffs or direct payments to either generators or consumers. Second, the government should push the CFE further to factor the carbon price into the overall cost of producing electricity. Legislation approved in 2010 and signed by Calderón this year makes that possible. Third, the government should work more closely with its U.S. counterpart to facilitate cross-border transmission of renewable energy. The presidential bilateral commission that was created more than two years ago has achieved very little thus far, and renewed impetus is needed. Mexico can play a part in supplying California's clean energy needs through exports of wind and geothermal energy from Baja California in the short term and solar power from Baja and Sonora in the longer term.

California will be unable to meet its own demand for clean energy for the foreseeable future and will need to import energy from neighboring U.S. states, from British Columbia and from northern Mexico."

A: Miguel Ángel Alonso, general director of Acciona Energía México:

"Both the government and private sector have been discovering the great potential that Mexico has for renewable energy. Up until now, Acciona Energía has developed the biggest wind energy project in Latin America of 250 MW, and we are currently 75 percent ahead in the development and construction of three other wind farms in Oaxaca of 102 MW each. In Mexico, we have developed and constructed 50 percent of the wind energy installed capacity and have invested more than \$1.2 billion over the past three years. The biggest challenge renewable energy has is getting governments, developers and clients to understand that renewable energy should not be competing directly with fossil fuels. The volatility in oil prices, and specifically the low gas prices, are a disadvantage when signing 20-year electricity contracts to develop wind farm projects, which are needed to make these projects financeable. Other challenges that the government should address include fixing a tariff for the small producers (Pequeño Productor) and determining interconnection points to the grid. It's important to understand and communicate the certainty and benefits of renewable energy projects. These projects are not only profitable, but can offer industrial consumers significant savings in energy spending. The Mexican government is keen on reaching the ambitious goals it has set with the National Energy Strategy for 2024 as well as the Special Program for Renewable Energies for 2012, and it's important that these goals are materialized as real opportunities. For this to happen, these programs must also consider the interconnection infrastructure needed to support these projects. Finally, Baja California is an area with very strong wind resources as well as high solar radiation. There is great potential for generation in Mexico to support California in meeting its renewable energy goals. The legal and economic benefits of NAFTA can support these projects; however, for this to happen, the interconnection infrastructure must be solidified and both governments must be willing to invest in supporting it."

A: Beatriz Olivera, coordinator for Greenpeace Mexico's energy efficiency campaign:

"Mexico has some plans for renewable energy. The Special Program for the Use of Renewable Energy estimates that about 9 percent of electricity will be generated from renewable sources by 2012. However, the National Energy Strategy for 2010-2025 doesn't clearly define the goals for renewable energy, but rather includes them within the concept of clean energy, for establishing a 35 percent stake, which could include nuclear and large hydro. Advances in the use of renewable sources are minimal so far. The steps that should be taken to promote alternative sources of power should include phasing out all subsidies for fossil fuels and nuclear energy, internalizing the external (social and environmental) costs of energy production through emissions trading and regulation and mandating strict efficiency standards for all energy consuming appliances, buildings and vehicles. Other necessary steps include establishing legally binding targets for renewable energy and combined heat and power generation, reforming the electricity markets by guaranteeing priority access to the grid for renewable power generators, providing defined and stable returns for investors (with programs like feed-in tariffs), implementing better labeling and disclosure mechanisms to provide more environmental product information and increasing research and development budgets for renewable energy and energy efficiency."

A: Nicolas Mariscal, chairman of Grupo Marhnos in Mexico City:

"In the previous administration, President Calderón served as energy secretary, giving special emphasis to power generation for renewable sources such as solar, biomass, wind and mini hydro. The same drive has been present in the current administration and although there has been significant progress, much remains to be done. We have particular examples of success in this area, such as a bakery that invested \$200 million to build a wind farm in Oaxaca with a generation capacity of 90 megawatts (MW) that will supply 100 percent of its power. It takes time to accomplish these projects, often years, but they are achieved through combined efforts and are ultimately worthwhile. Although there are many success cases such as the one mentioned, Mexico does not rank high on global statistics with regard to renewable energy. That would require a greater promotion for the sector as well as legal certainty and a generating culture. There is a sufficient market for renewable energy, but there is a struggle with accessibility, competitiveness and the regulatory framework. I believe that Mexico has a crucial role to play in California's goal. There is a market and there are players, the only thing that is needed is to adapt, in an expeditious manner, is the regulatory framework."

A: Allan T. Marks and Francisco J. Luna, partner and associate at Milbank, Tweed, Hadley & McCloy, LLP:

"Mexico's renewable energy sector has made significant progress over the last few years. In November 2008, the Mexican Congress enacted the Renewable Energy Act with the goal of increasing the use of renewable energy, including biofuels. The statute and its implementing regulations amend the framework under which private generators produce and deliver electricity to the national state-owned utility, Comisión Federal de Electricidad (CFE), and facilitate the use of the selfsupply exemption that allows generators to produce their own energy without countering CFE's legal monopoly over 'electric energy public service.' Mexico also provides renewable energy generators with tax incentives. Investors in machinery or equipment used to generate energy from renewable energy sources receive an accelerated depreciation schedule of 100 percent under current tax law. Furthermore, the Comisión Reguladora de Energía last year established the feed-in tariff that CFE is to pay to renewable energy generators that sell energy to CFE for retail distribution, as well as the transmission fee that CFE will charge generators for the use of its grid. These policy positions are significant steps in the advancement of renewable energy's development, but the government and private sector could do more to promote alternative sources of power. Mexico's current policies lack cohesion and the required efficiency that will truly lead to an increase in the role of renewable energy as part of Mexico's energy profile. Though the country's renewable energy sector could play a significant role in supplying energy to California, and Mexico's energy law is quite amenable to exporting electricity, U.S. law and international agreements between Mexico and the United States are not so amenable to this concept. For instance, to build and install transmission facilities required to transport energy across the border, developers require a permit from the International Boundary and Water Commission, which is not an easy endeavor. An authorization from the U.S. president is required just to initiate the approval process. At the California level, electric retail providers must be able to credit such energy against their RPS requirements under California law before renewable energy generators will have significant access to the market."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.