



# Triple E Policy Issues: a regulatory perspective

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## Finding a common link

- Sustainability, in a broader sense, is attained when the proper balance among economic, energy and environmental objectives is achieved
- But, should we really talk about balancing economic, energy & environmental objectives, as if they were totally opposed?
- Wouldn't it be better to ask if there is a common link between them?



# What does sustainability imply?

- All three objectives should be met simultaneously
- A long run equilibrium is not possible without any of them
  - A future is unconceivable without energy security of supply, but it is also impossible to imagine a future without addressing the dramatic environmental consequences of business as usual scenarios
- Sound economic principles should be used to internalize true social costs, minimize total costs, maximize social welfare, signal availability and scarcity of resources & promote investment on new technologies



## So, what are the policy issues?

- We have the responsibility of developing an institutional regulatory framework that promote sustainability
- Since sustainability in a broader sense covers several topics, institutional coordination is essential
- Regulators should have a clear mandate to coordinate their efforts with natural resources, environmental and economic development agencies in order to achieve the goal of sustainability



## Some specific regulatory issues

# Price of natural gas

- The price of natural gas can be set according to different criteria, and in Mexico we chose to reflect its opportunity cost
- When the price of the fuel was very low, users supported this measure
- However, once the price started to increase, users pressured the authorities for a modification in the criteria



## Some specific regulatory issues

# Price of natural gas

- Since natural gas is considered a national resource, there is a general perception that it must benefit the Mexicans and it should provide a competitive advantage to Mexican companies
- On the other hand, it is in SHCP's interest to maximize petroleum rent



## Some specific regulatory issues

# Price of natural gas

- The matter in question is how to maximize the benefit to society:
  - via low prices (and a reduced budget or larger taxes),
  - or by reflecting the fuel's relative scarcity in its source
- Existing regulation favors the second point of view
- We apply the regulation and leave any intervention policies to other governmental instances



# Some specific regulatory issues

## Cost of service

- In transportation and distribution of natural gas, there is a debate in Mexico related to the cost of service
- Regarding transportation, there is a delay of the coming into effect of the permanent first-hand-sales regime that implies the need to reserve capacity
  - the main users are against the regime because of the higher cost
  - Pemex requests compensation for some extraordinary costs
- The main guiding principles of the regulator have been:
  - continuity and security of service
  - reasonable costs and profitability
  - efficient administration of the system



# Some specific regulatory issues

## Cost of service

- Concerning distribution, an important regulatory task is the first five-year assessment
- Fierce competition in bidding processes, local government decisions, anticompetitive practices by distributors and governmental subsidies to LPG lead to very low initial tariffs, higher than forecasted costs and smaller markets
- As a result, the tariff proposals implied large increases.
- The regulator analyzed the positions of regulated service companies, consumers and local governments
- Regulator's decisions took into account the long-term service sustainability



# Some specific regulatory issues

## Renewable energy

- Existing regulation discriminated against renewable energy sources for power generation
- A new regulatory framework was developed for self supply projects based on renewable energy
  - Allows energy “banking” with the public service company at tariff prices
  - Recognizes capacity provided by plants operating with intermittent sources of energy
  - Tolling costs and ancillary services are based on delivered energy, not on reserved capacity
- An open season was implemented to build a new transmission line for wind power plants



# Final Remarks

- Our efforts in Mexico are oriented to:
  - Increase the availability of national energy resources
  - Address economical and environmental concerns in order to achieve a rational exploitation of all energy options
  - Provide adequate signals to promote the efficient use of energy and maximize benefits to society
  - Put in place the legal changes that are required to achieve the above



Thank you!

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