
New Frontiers in Energy Regulation, Supply and Markets: What is the Role of Regulators?

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- Most States have a clear division of powers:
 - Legislative, Executive and Judicial Powers
- Within the Executive, different functions tend to be performed by different bodies
 - Ministries, regulators and operators
- There are also different kinds of regulation which are a responsibility of different agencies.
 - Economic regulation (natural monopolies, competition, consumer protection, etc.)
 - Environmental regulation
 - Social regulation
 - Technical regulation

Some new frontier issues in Mexico

- Energy policy and regulation
 - Reviewing the natural gas transport rate system
- Regulation and investment promotion
 - Conducting an open season for a new transmission line
- Economic regulation, energy efficiency and environmental regulation
 - Regulation for renewables
 - PEMEX self supply and BUGs in Mexico
- Economic regulation and social regulation
 - Pushing for the use of futures and hedging
- Regulation and legislation
 - Promoting ROW and safety legislation

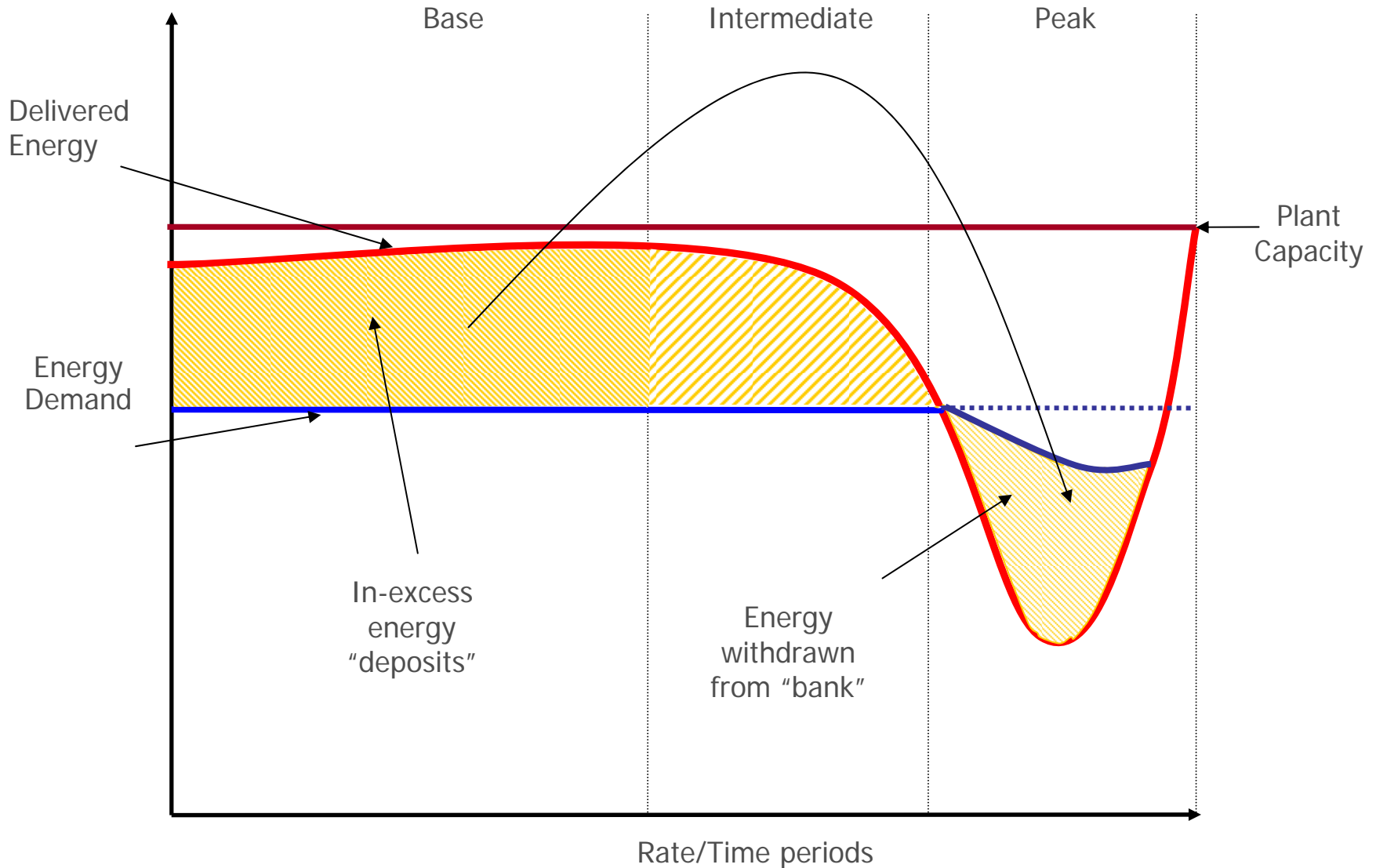
- Reviewing the natural gas transport rate system
 - CRE is currently reviewing PEMEX SNG (national pipeline system) rates, the methodology to calculate them and the corresponding tariffs.
 - Using a postage stamp or a mcf mile methodology, or a combination of both, is a decision that implies energy policy decisions, i.e. desired levels of central planning, and expansion of the system, roll-in criteria, degree of competition, etc.
 - Although SENER is responsible for energy policy and planning, CRE's opinion is central in this issue.

- Conducting an open season for a new transmission line
 - With a potential of more than 5,000 MW of wind power capacity (with near to 50% plant factor) in Oaxaca, it is impossible to evacuate this energy without a new transmission line.
 - In order to solve a collective action problem, and coordinated both with SENER and CFE, CRE promoted and conducted an open season process to build the new line.
 - CRE also conducted an open season process to upgrade and allocate available transmission capacity in CFE's grid.

- PEMEX new self supply scheme
 - Derived from legislative changes in 2006 which allow PEMEX to become a more important player in the electricity sector, its excess capacity available in some sites can be transmitted to where they have excess demand or no generation at all.
 - Even when using very inefficient generators this option represents enormous economic savings for PEMEX but an overall decrease in energy efficiency of the system.
 - When granting the corresponding permits, CRE is conditioning them to an overall improvement of energy efficiency within PEMEX.

- The following regulatory measures have been issued with the purpose of encouraging projects from intermittent renewable energy sources:
 - Generated energy is transmitted when available;
 - Excess energy generated at any given time may be “stored” within the power utility (CFE) and “withdrawn” when required, even in different time periods;
 - At the end of the year, excess energy “stored” in the system may be sold to CFE at 85% of the short-term generation cost;
 - CFE recognizes as plant capacity the monthly average of the energy generated during peak demand;
 - Wheeling charges are paid in terms of the transmitted energy, not in terms of reserved capacity.

CFE as a "bank" for renewables



- Regulation of BUGs in Mexico
 - Due to the peak hour high electricity rates, an increasing number of CFE customers disconnect from the grid and turn on their Back Up Generators (BUGs).
 - As an average, BUGs are inefficient (at least compared to other technologies) and highly pollutant but their use represent considerable savings compared to paying the peak hour rate.
 - Less than 3MW generators don't need any kind of environmental permit so there is no incentive to use clean technologies.
 - CRE is considering pushing new regulation with SEMARNAT to promote clean technologies.

- Pushing for the use of futures and hedging
 - Due to volatility of the market and high prices and consumption volumes during the winter, every year there is significant political pressure for the government to intervene in the market and subsidize the price, specially in favor of small users.
 - Instead of the use of subsidies or other high distorting schemes, CRE has been promoting the market of natural gas futures and the use of hedging practices.
 - As a result during 2006 ~ 85% of the gas sold to small users through LDC's was hedged.

- Promoting ROW and safety legislation
 - Illegal invasion or blocking, lack of enforcement, different legal criteria between local and federal authorities, land rent speculation and other similar problems affect the Rights of Way (ROW) for pipelines.
 - Besides increasing the cost of the service, these issues may also present safety problems.
 - In order to solve this kind of problems, CRE, along with SENER, PEMEX and SEGOB, are promoting legislation that would address the issue at the federal level avoiding or at least reducing overlapping between different jurisdictions.