

Paper: Mexico's natural gas and electricity industries still far from a competitive marketplace

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The recent reform in Mexico's natural gas and electricity industries is hampered from ushering in a competitive marketplace because of the country's economic regulation and regulatory design, according to a new paper from the Mexico Center at Rice University's Baker Institute for

Public Policy.

The paper, "Economic Competition and the Energy Sector: The Electricity and Natural Gas Markets," presents the main types of elements or conditions that, if not recognized in a timely manner by the industry regulator and by the entity with jurisdiction, may limit the effective application of the reform. It was co-authored by Josefina Cortés Campos, a professor at Instituto Tecnológico Autónomo de México in Mexico City, and Eduardo Pérez Motta, a partner at Agon and former president of Mexico's Federal Competition Commission.

"Gas and electricity markets exhibit a vertical structure that is conditioned by large amounts of investment, by levels of production with decreasing outputs by scale, and in some cases, by the presence of high sunken costs, traits that lead to a very long process of capitalization and recovery of investment and, in some segments, the presence of natural monopolies," the authors wrote. "This condition requires that the regulatory framework that applies to such sectors operate under conditions of stability, transparency and in consideration of goals consistent with the characteristics of the industry, considering that it is only in such a scenario that participants can set up adequate commercial strategies that have effective economic consequences."

The paper was written for a Mexico Center research project examining the rule of law in Mexico and the challenges it poses to implementing the country's energy reform. The project's findings are compiled in a Spanish-language book and are being posted on the Baker Institute's website in English.

Mexico's energy sector had been under strict governmental management since 1938. This changed in 2013 and 2014 when Mexico amended its constitution and passed enabling legislation overhauling its energy sector to allow private and foreign investment.

In the paper, the authors show the main obstacles documented by economic regulation in terms of creating competitive markets in the [natural gas](#) and electricity industries – from barriers of entry to low price elasticity of the demand for electricity and lack of investment. They also refer to the different developments and maturities of those markets. Finally, they present some of the elements that may limit the development of competitive markets on the level of regulatory design of the [energy sector](#), such as no clear delimitation of the areas of competence regarding policy authority, regulatory authority and proper management or administration authority.

"The introduction of competition into the productive segments that operate through network infrastructures is normally the result of a long process involving changing the legal and economic rules that are applied to such sectors," the authors wrote. "As this involves changing the status quo, the reform process requires a change in the behavior and mentality of the agents and authorities that are involved in the sector. These are the characteristics that have led to the affirmation that the reform of energy markets has not been completed anywhere in the world, and that revisions over time are required in terms of the effectiveness of the regulatory models implemented."

More information: Economic Competition and the Energy Sector: The Electricity and Natural Gas Markets:
www.bakerinstitute.org/media/f...mpos_Mota-012717.pdf

Provided by Rice University

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