

Press release

The Costs of Eliminating Independent Power Producers

In 2020, the Federal Electricity Commission’s (CFE) Basic Supply subsidiary purchased 36% of its electricity from Independent Power Producers (IPPs) to satisfy the demand of 45 million users nationwide.

What would happen if CFE reduced energy purchases from IPPs, one of the objectives of the Electric Industry Law reform? **CFE would need to generate this energy by itself.** Failure to do so would jeopardize CFE’s capacity to supply the power demand of Mexican households and businesses, with negative consequences for Mexico’s economic performance and wellbeing.

The Mexican Institute for Competitiveness (IMCO) estimated the costs of replacing the energy generated by IPPs under three different scenarios, using conservative assumptions from public sources. Each scenario compares the cost for CFE to generate the energy it would cease to buy from IPP in 2021, in addition to the growth in electricity demand for the period 2021-2024, compared to purchases under the current scheme.

The first scenario assumes that CFE ceases to buy 100% of the energy produced by IPPs, hence the latter stop dispatching their energy to the National Electric System. Scenarios two and three assume that CFE reduces purchases by 66% and 50% respectively.



Estimated costs to replace energy produced by Independent Power Producers (IPP) for 2021-2024

Billion Mexican pesos (2020 constant)

Scenario	Description	Cost
Scenario 1	Reduction of IPP dispatched energy: 100%	382.8 billion MXN
Scenario 2	Reduction of IPP dispatched energy: 66%	207.0 billion MXN
Scenario 3	Reduction of IPP dispatched energy: 50%	141.6 billion MXN

Source: Own

The report concludes **CFE would face between 141.6 and 382.8 billion MXN (2020 constant prices) in additional expenses between 2021 and 2024**, depending on the scenario, due to the costs of generating the electricity currently produced by IPPs: generation costs, investment, operation and maintenance, as well as costs related to the compensation of IPPs. **These figures are equivalent to between 1 and 2.6 times the budget of the Ministry of Health for 2021 (145.4 billion MXN).**

Regardless of the scenario, CFE's additional costs represent an unnecessary expenditure, given that IPPs generate electricity at lower costs. Replacing IPPs would represent a financial burden that CFE has no reason to incur and that would divert resources that could be used to invest in more relevant areas where only the State-owned company is legally allowed to invest, like electrical transmission and distribution. For example, **the 382.8 billion MXN in additional expenses estimated for CFE under scenario one is equivalent to more than three times the total investment in transmission and distribution planned for the period 2021-2024 (114.9 billion MXN – 2020 constant), according to the company's 2021-2025 Business Plan.**

IMCO warns that the provisions approved in the amendments to the Electric Industry Law to reduce the market share of IPPs will have, among other negative consequences, significant associated costs for CFE and for all Mexicans.

The Mexican Institute for Competitiveness (IMCO) is an evidence-based, non-partisan, nonprofit think tank that combines research and advocacy to solve Mexico's most important challenges. Our mission is to propose public policies, suggest viable actions, and influence their adoption and execution to improve competitiveness and achieve prosperity and economic opportunity.