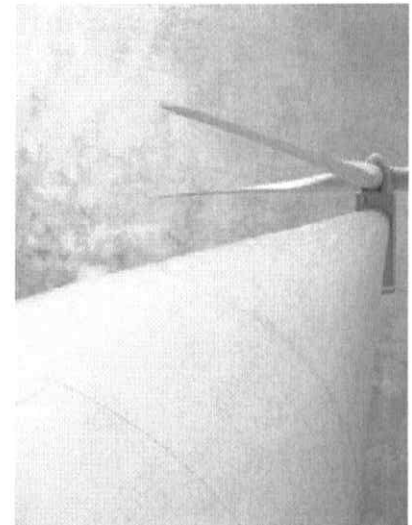


“Current Trends & Expected Development” In Mexican Renewable Energy Market

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By *Edmond Grieger*

Business opportunities continue to arise in our country's renewable energy market, primarily from wind and solar projects. Geothermal, mini-hydro, biomass and biofuels projects are being developed as well by transnational and national companies and further opening in this market is expected following the worldwide trend.



The Mexican energy legislation has been modified in important aspects over the past few years, specifically in 2008 with laws in the energy sector, among them, and most importantly through the Law for the Use of Renewable Energy and the Transition (“LAERFTE”) and its Regulations which entered into force in 2009. The purpose of the LAERFTE and its Regulations is to provide a clearer and specific legal framework for investors looking to enter into this expanding energy business in the country and to promote the use of renewable technologies to fight and mitigate the consequences of climate change.

The federal government, through the Federal Ministry of Energy (SENER) which is responsible for policy setting, and through the Commission for Energy Regulation (CRE) and the Federal Electricity Commission (CFE) which are responsible for the implementation of several regulatory instruments and schemes to encourage local and foreign companies to invest in the development of renewable energy in our country.

From recent studies carried out in Mexico the following information has been made available by the CRE. The estimated potential (excluding solar thermal technology) is around 10,480 MW, the installed capacity about 519.8 MW and the objective for 2012 is 1,826.7 MW. The actual estimated potential (including solar thermal technology) is around 5 kWh/m² per day, the installed capacity approximately 1.67 million m² and the objective for 2012 is 2.7 million m² and 34.6 MW. Biomass and Biogas projects have a potential of 2,675 to 3,771 PJ per year, an objective of more or less 565 MW, and the objective for 2012 is 637.9 MW. Other renewable sources such as mini-hydro and geothermal have a potential of 466.8 MW and 891 MW respectively for 2012, which are 466.8 MW and 891 MW respectively.

Pursuant to the current Mexican legal framework the activities consisting of transmission, transformation and distribution of electric energy to the public in general, are to this date still considered a State Monopoly. In light of the above, in 1992 the Law for the Use of Electric Energy was amended in order to create six legal schemes that allow the private sector to contribute to the generation of electric energy, which schemes are used today to generate electricity from renewable energy sources.

These schemes are (i) self supply; (ii) cogeneration; (iii) independent power producer (IPP); (iii) exportation; (iv) importation and (v) small producer.

The most popular trend is to develop renewable energy projects under self-supply or cogeneration schemes, where joint between investors and developers, and the beneficiaries of such schemes are included as minority shareholders of such for them to be directly supplied from the electricity generated by the corporation in which they are shareholders, benefit in contrast to the tariffs offered by the CFE to the public in general. On the other hand, the Small Producer's scheme is also and support from the CRE in order to increase private investment in this scheme (for renewable projects under 30MW), in accordance with a specific methodology which will be issued soon for such purposes, will purchase through specific public electricity produced from renewables directly from private producers.

In Mexico we do not have "Feed In Tariffs" or similar governmental subsidies for renewables, however regulatory instrument by the federal government to incentivize renewable projects, such as a Virtual Energy Bank, Net Metering for small (up to 30kW up to 500kW) electricity producers, Fixed Transmission Costs and conduction of Open Seasons in order to develop regions of our country lacking transmission infrastructure.

Among other tools used to promote investment in renewable energy, the CRE published a resolution which governs the relations between suppliers and generators that use renewable energy, as well as the model Connection Contract for a Renewable Energy executed between the CFE and the generator.

Having mentioned the above, I would now like to discuss the steps that, based on our experience in this emerging practice, should be taken into account for a successful development of a renewable energy project in our country in compliance with the applicable law: (i) assessment, selection and execution of the corresponding agreements with the land owners; (ii) Technical measurement authorization, environmental permits, and other applicable local authorizations and permits such as the construction license permit in the specific desired scheme (i.e. self-supply or cogeneration) before the CRE; (iii) execution of the corresponding transmission and service agreements with the CFE; and (iv) negotiation and execution of PPAs. Once the development complies with these stages it is considered a "Ready to Built" project. It is worth mentioning that the moment for the execution of one project to another and there are also subsequent steps to be carried out in order to legally operate a renewable energy project.

Other mechanisms used to promote renewable energy developments are certain tax incentives such as an accelerated depreciation for assets which use renewable energy sources and Tariff "0" for the import and export of non-polluting or energy efficient equipment.

We may conclude by mentioning that the Mexican renewables market continues to expand rapidly thanks to the significant support from the federal government. There are still several efforts underway to offer more incentives, as well as to provide the necessary financing tools to increase the viability of this green business.

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