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Mexican renewables: trapped by policy about-face

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Regulatory and political challenges are foremost in the minds of investors when it comes to the opportunities generated by the clean energy transition in Latin America.

This was one of the key takeaways from a panel hosted by the [Madrid Energy Conference 2020](#) on investment in renewables in the region. Three of the regions leaders in clean energy growth, Brazil, Chile and Mexico, have faced challenges in this area in recent years.

No country, however, has faced a more radical about-face than Mexico, where a change in government from Mexico's PRI party to the center-left Morena party led President Andrés Manuel López Obrador (AMLO) to attempt to undo the liberalizing reforms carried out by predecessor Enrique Peña Nieto.

AMLO has gone about his objectives in a non-traditional way: instead of undoing the reforms through congress, he has focused on pressuring traditionally independent regulatory bodies to change the rules to suit his agenda, even if the new measures contravene existing laws.

"The first thing [to understand the changes] is understanding what is going on in the country right now," said Claudio Rodríguez Galán, a partner at law firm [Thompson & Knight](#). "This is not achieved by reading the law but by reading the news, because the policies in Mexico are made of what the president says or thinks, even though it's not in the law. This is very important to understand."

Starting from an objective of improving the standing of state-owned firms [Pemex](#) and [CFE](#), both of which were monopolies until the 2013 energy reforms, AMLO has cancelled a planned renewable auction and erected roadblocks for the development of renewable projects already awarded.

While officially the president has said repeatedly that his administration will honor existing contracts – always adding that they should be revised to weed out potential corruption – in practice he has met with regulators to demand they [stop issuing permits to private firms](#) in fields as diverse as fuel sales, oil and gas exploration and renewables. One such meeting reportedly led the head of grid operator [Cenace](#), Alfonso Morcos Flores, to resign.

However, the biggest blow to the country's once budding renewables market came in the form of the reliability policy. Cenace and energy ministry [Sener](#) issued the policy, which stipulated that new renewable plants would not be allowed to connect to the grid during the COVID-19 pandemic due to concerns that they would reduce the reliability of the grid.

The publication of the policy led to a spat between the president and renewable developers, which culminated with AMLO calling out Spanish renewable developer [Iberdrola](#) for alleged corruption during his habitual weekday morning press conference in June. In the meantime, Mexico's courts largely sided with private investors and granted [over 220 injunctions](#) preventing the policy from going into effect.

"We had three very successful rounds of power auctions and it was a boom for the energy transition," Rodríguez said. "About 80-90% of the projects are in operation and the system hasn't failed, because the tenders were designed for this. And now they're stopping renewable projects to avoid the future collapse of the grid. It's like trying to stop traffic by forbidding the sale of new cars. It makes no sense. If you want to deal with traffic, you have to grow the size of the road."

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