

How much has Mexico's electricity competitiveness eroded?

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The Question

Over the past seven years, average electricity prices paid by Mexican industry have increased by 36 percent. In 2017, a megawatt-hour cost an average of \$111 USD; by 2024, that figure had risen to \$151 USD. Some observers view this trend as a minor and temporary issue. Others, however, believe the steadily rising cost of industrial electricity in Mexico signals deeper structural problems. These increasing prices reflect a Federal Electricity Commission facing mounting costs and an electricity market that is suffering from declining investment and reduced competition. From this point of view, Mexican electricity prices are likely to continue rising.

What makes this trend especially concerning is that current industrial electricity rates in Mexico are already significantly higher than those of neighboring and competing countries. The 36 percent increase since 2017 is far from trivial. At \$151 USD per megawatt-hour on average, the cost of electricity for Mexican industry, as reflected in CFE's GDMTH tariff (which is based on real costs and followed closely by private providers with only minor discounts), is now three times higher than in the United States and twice as high as in India or China.

Even more troubling is the fact that current Mexican electricity prices still do not fully reflect the rise in actual costs. Years of underinvestment in the transmission network and restrictions on new private power plants are now beginning to show their consequences in an industry that has few new projects in the pipeline. Additionally, two major policy decisions from the previous administration have structurally increased system costs. The first was the renegotiation of gas pipeline contracts, and the second was the restructuring of pension obligations for CFE employees.

According to the Federal Audit Office, the 2019 pipeline renegotiation did not lead to savings and instead extended CFE's obligation to make payments in U.S. dollars for an additional ten years. Similarly, the 2020 pension restructuring raised CFE's labor liabilities significantly. What had been a liability of 361 billion pesos in 2016 had grown to 652 billion pesos by 2024. These financial burdens are already affecting CFE's balance sheet and are expected to weigh even more heavily over time.

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Other strategic decisions made by CFE, including its ventures into liquefied natural gas exports and its delayed combined-cycle power plants, could also result in future losses that are not yet fully visible in financial statements, as these projects are still in their initial stages. So far, the government has managed to mask the rise in operational costs by increasing annual subsidies from the federal budget to CFE and by allowing the company's equity to absorb the higher costs as losses. In 2024, CFE reported losses of approximately \$14 billion USD, an amount equivalent to the total six-year public investment planned for solar and wind generation and transmission infrastructure under the Plan México.

However, the federal budget cannot increase subsidies indefinitely, and CFE's equity cannot continue to absorb losses of this magnitude year after year. Eventually, CFE will be forced to raise industrial electricity rates, and private suppliers are likely to follow.

Ergo

Economic competitiveness is essential for any government that seeks to build a strong social legacy. Only a growing economy can provide the fiscal resources necessary to sustain and expand social transfers and benefits. The competitiveness of CFE directly affects the broader Mexican industrial electricity sector. When CFE struggles to compete, the entire system becomes less competitive. And when CFE increases its rates, electricity prices rise for all industrial consumers. For Mexico's export-driven industrial model to succeed, it must be supported by competitive electricity rates.

Solving the challenge of electricity competitiveness in Mexico will require CFE to reduce its costs, better utilize its most valuable assets, and invest in infrastructure that is both profitable and beneficial to the entire electricity system, particularly in transmission. CFE must also evolve beyond its identity as a fossil-fuel-heavy utility led by retired personnel. It needs to become a greener, more innovative company staffed by younger professionals who are adept in new technologies.

If CFE does not become more competitive, Mexico will not be able to attract the public and private investment necessary to make its electricity system more efficient.

Verbatim

"[In 2024] prices for energy-intensive industries reached... \$62 per MWh in India, \$70 per MWh in China and just \$45 per MWh in the US."

-"Why are the UK's industrial electricity prices so high?", Financial Times, June 8th, 2025.

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