

What are the scenarios for Mexico's energy sector in 2025?

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January 9, 2025, p. 1.

The Question

In 2025, the outlook for the energy sector has shifted. Even though some of the most likely scenarios for 2024—such as the purchase of Iberdrola, the resolution of electricity-related legal injunctions, and the stagnation of the USMCA energy dispute—materialized (see Cuestión Publius XVI), the most unlikely outcome also came to pass: Morena succeeded in amending the Constitution, weakening institutional checks and granting the government greater discretion. Furthermore, the Judiciary, autonomous bodies, and regulatory agencies have ceased to act as counterweights to curb anti-competitive policies. Nevertheless, the energy reform that was approved is ambiguous and, despite its clear statist orientation, it does not prohibit private participation. Therefore, its true scope will only become clear as it is implemented. In 2025, five key issues will determine the direction of the country's energy policy and may lead to probable, possible, and unlikely scenarios (see Annex): (i) the implementation of Sheinbaum's energy reform, (ii) the projects and investments of the CFE (Federal Electricity Commission), (iii) the participation of private companies, (iv) the electric system's vulnerability to climate change, and (v) the relationship with the United States.

As of today, President Sheinbaum has presented a plan with ambitious energy transition goals and sustainable initiatives such as the comprehensive Tula project. However, it won't be until February that she submits the secondary legislation for the energy reform to Congress. It is likely that in implementing her reform, Sheinbaum will continue promoting renewable projects under state leadership with private participation, as well as encourage a gradual transition away from self-supply schemes and establish a restricted electricity market. It is possible that the new legislation will discriminate against private actors in favor of the CFE, push for a rushed migration away from self-supply, and eliminate the electricity market. It is unlikely that it will promote a return to a deeper electricity market with competitive and transparent mechanisms for private participation.

Regarding the CFE, it is likely that it will launch renewable projects in partnership with a few favored private companies. It is possible that its business plan will remain focused on natural gas projects and, given a lack of resources, it is unlikely that it will seek to invest on its own while excluding private investment. Meanwhile, it is likely that private companies will seek to engage with the CFE to participate in strategic alliances, and possible that they will continue competing in the electricity market to capitalize on high prices. However, it is unlikely that energy companies will seek to sell their assets and exit Mexico.

In 2024, the electric grid was shown to be more vulnerable than expected, with unexpected blackouts forcing a reduction in industrial demand. In 2025, it is likely that some necessary generation projects will move forward to strengthen the system, but that shortcomings in transmission and distribution will be addressed by private players through interconnection projects. It is possible that the necessary works won't be carried out and blackouts will increase, and it is unlikely that all necessary reinforcement works and generation projects will be initiated to ensure long-term system reliability.

Finally, it is likely that Trump will abandon Biden's renewable-focused rhetoric and favor the oil and gas industry. It is possible that the U.S. government will attempt to influence the implementation of the energy reform in favor of U.S. companies, including renewables as Biden did. It is unlikely that Trump's team will allow Sheinbaum's government to deepen an energy policy that violates the USMCA without demanding a consensus.

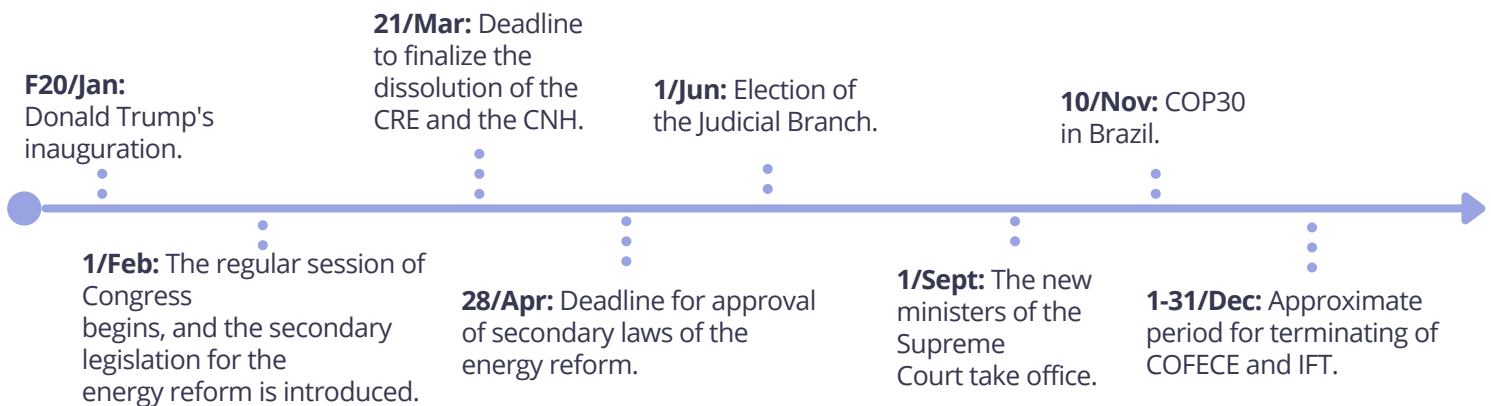
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Ergo

Since 2018, Mexico's electricity sector had become hostile to private investment and skeptical about the energy transition. Although Sheinbaum shares her predecessor's statist stance, the environmental dimension of her energy agenda is promising—albeit overly optimistic. The President's ambitious climate goals and projects, which she aims to showcase at COP30 in Brazil (where Mexico is among the few countries that have already announced an increase in their climate ambitions), cannot be realized without investment and private sector involvement—especially in the context of a fiscal deficit. In 2025, the outlook is different. The sector is no longer defined by conflict between the government and private actors, but by an administration seeking to develop an ambitious energy policy while facing greater external constraints with Trump and the renegotiation of the USMCA, and greater internal constraints due to the public deficit, shrinking reserve margins, and the increasingly limited financial capacity of the CFE.

Ex Post: Relevant events in 2025



Verbatim

"We have a massive deficit with Mexico, and we help Mexico a lot. They're essentially run by the cartels, and can't let that happen. Mexico's really in trouble, a lot of trouble. Very dangerous place. And we're going to be announcing a future date pretty soon. We're going to change because we do most of the work there and it's ours. We're going to be changing."

Donald Trump, Economic Development Conference (transcript), January 7, 2025

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Annex. Likely, possible and unlikely scenarios in 2025.

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Question	Likely Scenario	Possible Scenario	Unlikely Scenario
Sheinbaum and the energy reform	It will promote subordinated private participation, a gradual phase-out of self-supply schemes, and a limited electricity market.	It will limit private participation, force a swift phase-out of self-supply schemes, and eliminate the electricity market.	It will maintain a strong, active electricity market and promote private participation based on competitive mechanisms.
CFE	It will undertake renewable projects in partnership with a few favored private companies.	It will maintain a business plan focused on natural gas.	It will seek to invest on its own and exclude private investment.
Private Companies	They will seek to approach the CFE in order to participate in strategic alliances.	They will decide to continue competing in the electricity market, aiming to capitalize on high prices.	They will seek to sell assets and exit Mexico.
Electrical system	Some generation projects will move forward, but private companies will cover deficiencies in the transmission grid.	The necessary works and projects will not be carried out, and blackouts will increase.	All necessary reinforcement works and generation projects will be initiated to ensure the security of the system.
United States	It will leave behind the renewable rhetoric and favor the oil and gas industry.	It will seek to influence the implementation of the energy reform to favor its companies, including renewable ones.	It will allow Sheinbaum's government to deepen its energy policy, which violates the USMCA, without being consensual.