

Mexico: Efficient Lighting and Appliances project

CTF review: Team's response to USA Comments

COMMENT:

We also wish to note our concern that subsidized electricity tariffs strongly influence the economics of the program. A key reason that an international loan to fund these programs is economically favorable for the GoM is that the associated electricity savings reduces subsidy payments. However, these subsidized electricity tariffs will increase the size of the support required from the CTF to spur consumer action and, more problematically, will limit the catalytic effect of these programs by creating a disincentive to subsequent consumer investment in energy efficiency. Strong consideration should be given to finding ways to reduce or eliminate the subsidies, perhaps paired with alternative forms of compensation for low-income households and businesses.

RESPONSE:

The nominal residential electricity tariff of about 10 US¢/kilowatt-hour (8.5-9.0 US¢/kilowatt-hour in lowest income groups) is not low in Mexico compared to other countries of the region (e.g. Bolivia: 6.1 US¢/kilowatt-hour, Colombia: 9.8 US¢/kilowatt-hour, Ecuador: 9.7 US¢/kilowatt-hour, Honduras: 5.8 US¢/kilowatt-hour). The absolute price that the residential consumer pays for electricity is high enough to induce behavioral changes along EE measures.

However, SENER's February 2010 National Energy Strategy (ENE), p.31, outlines a three-pronged plan of action for addressing electricity tariffs and subsidies in the context of energy efficiency. The first line of action is to gradually implement tariff schemes that reflect the opportunity costs of other energy sources, and incentivize energy efficiency while protecting low-income populations through targeted subsidy programs. The second line of action is to evaluate complementary mechanisms to promote energy efficiency. The third line of action is to provide more transparent information on the sub-components of energy prices, differentiating between the supplier's price, taxes, and subsidies. In addition, the Mexican Government's consolidation of *Luz y Fuerza* with CFE was partially executed to reduce the gap between the cost of service and tariffs.

The GoM plans to implement tariff reforms gradually; however a specific time frame is not stated. As outlined in the ENE, introducing energy efficiency measures is considered a "complementary mechanism" to implementing tariff reforms because reduced energy consumption will relieve the burden the GoM currently faces in subsidizing the differential between energy costs to consumers and the full cost of service. This is particularly relevant in the low-income segment of consumers, where subsidies are highest. The purpose of providing "more transparent information" is so that consumers are more aware of the specific components that go into energy pricing, thus are more likely to see the impact of subsidies within their electricity bill.