

# ***The Mexican Electricity Industry: A History of the Strong Influence of Path Dependency and Informal Institutions in Defining an Industrial Organization Model***

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## **Overview**

The Mexican electricity sector has undergone significant changes in recent years, driven by policy reforms and counter-reforms, attempts at market liberalisation, and the resurgence of central planning and the primacy of the state-owned company over private market players as the main policy objective. The resulting hybrid institutional framework aims to achieve seemingly conflicting objectives in an environment of accelerated demand growth and large decarbonisation targets, both of which require private investment that needs regulatory certainty, and an organisational arrangement efficiently designed to manage market-oriented and nationalist objectives effectively and simultaneously.

## **Methods**

This paper analyses the recent evolution of the sector through the lens of neo-institutional economics, focusing on the role of institutional change, path dependency and institutional bricolage in shaping the development of the sector. By examining the regulatory changes initiated by the 2013 energy reform and the subsequent policy shifts under the current government, which aims to dismantle the previous market-oriented rules and regain market share for the state-owned electricity company, the paper aims to explain the role of formal and informal institutions in shaping the current institutional transformation.

The concept of institutional bricolage refers to the process by which actors e.g., governments, firms, or other stakeholders, draw on existing institutional frameworks and resources - both formal and informal - to create new arrangements or adapt existing ones, often in response to changing circumstances. This approach emphasizes the creative recombination of different institutional elements rather than the complete replacement of old structures. When applied to the analysis of the evolution of the organizational model of the Mexican electricity system, the concept of institutional bricolage provides valuable insights into how the model has been and will continue to be shaped by a mix of existing institutional legacies, political negotiations, and the need to respond to both domestic and international pressures.

Contrary to other countries where transformation have occurred when institutions needed to be reoriented towards new goals, functions or purposes, the current reorientation in Mexico appears to be the result not of a new set of challenges, but of a different perspective on the same challenges, to which current policymakers seek to respond through a process of adding new elements to existing institutions. The attempt to maintain the market-oriented rules and to gradually introduce more central planning criteria is a major challenge that needs to be carefully managed, at the risk of not being able to keep up with investment needs.

## **Results**

The paper examines how changes in formal institutions, such as market design, governance structures and the relationship between state and private actors affect market outcomes and investment patterns. First, by highlighting the conflicting objectives imposed by the market reform in 2013. The paper examines the resulting difficulties of the model in achieving the proposed outcomes. Then, the paper examines recent counter-reforms within the same theoretical approach, considering the strong interplay between informal institutions - such as political coalitions, interest group networks and regulatory capture - to explain the resilience of historical institutional arrangements. Finally, the paper shows how the strong attachment to nationalist premises that view the energy sector as part of Mexico's idiosyncrasy has played and will continue to play a crucial role in the organisational model, forcing both the public and stakeholders to adapt in order to navigate the future in a seemingly opposite direction compared to other similar economies in the world.

## **Conclusions**

The analysis highlights the challenges and potential contradictions inherent in Mexico's electricity transition, including the tension between sovereignty, decarbonisation goals, market competition, energy security and the role of state-owned companies. By highlighting and analysing the potentially conflicting objectives, the paper proposes adjustments to the institutional arrangements, with the aim of maintaining key market-oriented rules and gradually introducing more central planning criteria, which is a major challenge that needs to be carefully managed, at the risk of not being able to keep up with investment needs.

## **References**