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Beyond de-risking

Industrial orders and political revolutions in Mexico's power sector

Jose Maria Valenzuela and Nacxitl Calva

Introduction

The revolution of deregulation that swept national markets with particular force in the Americas was followed by the rise of complex and diverse regulatory institutions. Mexico was the poster child of governance by regulators as, in the 2000s and 2010s, its governing being used, in the energy sector the true innovation of liberal elites was the repurposing of state-owned companies to maintain economic order and de-risk private investments – a role which was meant to be transitory. The political revolution that started with the presidential victory of Andrés Manuel López Obrador reached a peak in 2025 with legislation to reform the power sector. The proposed new order turns on its head the purpose of the markets, stabilizing the role of state-owned enterprises, dispensing with autonomous regulators (but not regulation), and proposing a new hierarchy of governance where public planning occupies an equivalent position to regulation as a form of organizing private investment.

The two large electoral swings in 2012 and 2018, with two highly contrasting political programs on energy governance, allow scholars to consider Mexico as a window into the malleability of modern capitalist orders. Two models – one when state ownership of key business operations is subsidiary to private capital, the other when state ownership dominates over private capital. In both, private capital enjoys the benefits of short-term risk mitigation, but they differ on the promise of long-term order – one based on markets and regulation, the other based on markets and planning. The case, therefore, offers scholars an opportunity to consider post-regulatory market orders where planning takes precedence as a tool for stabilizing market institutions. The subject is particularly relevant given the rise of climate scenarios in the financial industry and central banking, and the larger trend of relying on decarbonization pathways to orient economic policy and corporate strategy.

To discuss the case, this brief article sequentially explains the nature of de-risking in electricity in liberal electricity markets, describes the scope of planning within liberal models of governance in the sector, and presents the key concepts and expectations from the new power sector governance model.

Eroding the liberal creed one long-term contract at a time

In 2012, the return of the Partido Revolucionario Institucional (PRI), which had lost presidential power for 12 years, after more than 70 years of continuous government was politically marked by one large economic governance commitment: A major energy reform to liberalize the sector that was a remnant of the previous developmental state model. This commitment was meant to accelerate growth by attracting private investment in infrastructure and increasing economic productivity, as reproduced by public and private international institutions.

The reformers' main objective was, therefore, to provide as many benefits to investors as needed. In the oil sector, as Juan Carlos Boue (2025) has claimed, the contractual regime for oil exploitation resulted in a number of inefficient and unnecessary concessions. In the power sector, as the following paragraphs describe, the state creatively developed new methods of de-risking private investment, even at the cost of the purity of market liberalization models. In previous work, Valenzuela (2023) has discussed how the 2013-2014 reforms under the PRI utilized the structure of state-owned companies to reduce market, political, and regulatory risks in the industry, in what amounts to a very efficient model under the premises of what Daniela Gabor (2021) calls the Wall Street Consensus.

A few years later, two flagship achievements were used to demonstrate the success of the reforms: The ex-

pansion of the gas pipeline system and the rapid growth of solar and wind energy capacity. These instances were canaries in the mine of the transition from the Washington to the Wall Street models. In the midst of the most ambitious reforms to liberalize the energy sector, the government decided to rely on the state-owned enterprise (SOE), the electricity utility Comisión Federal de Electricidad (CFE), to serve as the offtaker of both gas transport capacity contracts and long-term renewable energy supply contracts. To understand the size of these operations, CFE became, in just a few years, one of the top ten gas traders in North America – the largest natural gas market globally.

In 2025, given Donald Trump's political stance, the question of gas dependence on the US resolved a long-standing puzzle about energy security in Mexico. The liberal government claimed that Mexico's energy reliability would benefit from integrating with the US. The relevant, even if remote, chance that US policy would increase the price of gas through a border tax or regulated limits to supply proved the point made by left-wing coalitions that energy dependence could be detrimental to the country's long-term interest. The question of long-term renewable energy auctions has not yet been resolved. As described below, the new government has made a proposition regarding long-term contracts, but the international regulatory and policy literature on the subject has been slow to recognize auctions as forms of state intervention that work best when the state expands rather than encroaches (Mathieu and Valenzuela 2024).

What we do know is that, as an OIES expert has claimed, auctions are market-like, but they are not markets, and the more a country commits to using auctions, the more the electricity systems turn into a managed complex of overlapping contractual systems, some of which are private, more, increasingly, public.

But investors and asset managers have proactively shown commitment to this form of business model, where the state can take an active role in managing market and physical risks through the use of state-owned enterprises. The work on de-risking and the framing of the Wall Street Consensus by Daniel Gabor has exactly the right take on this phenomenon, but the framing has not been adopted in the sectoral policy literature nor are there sufficient case studies to make these mechanisms visible as a form of capital organization.

If you are not doing the planning, you are being planned

One of the most invisible aspects of capital organization under the de-risking framework is planning, which is indispensable for managing risks. Public-private partnerships in the form of concessions left risk invisible. In the 1990s, Mexico saw a series of public bailouts of private endeavors in the areas of construction and highways due to what could be called myopic, clumsy, or simply lazy de-risking.

Planning is a practice to assess, identify, and manage risk. As Beckert (2016) argues, anticipatory practices serve to make uncertainty about the future communicable and manageable within existing institutional frameworks. Innovations in planning are particularly relevant as they represent capitalist and state forms of making sense of the future and organizing today's commitments for tomorrow. Thus, the question is not whether planning is happening but who is doing the planning.

We can rely on Busemeyer and Thelen's (2020) description of institutional business power as resulting from the delegation of power through deregulation or accretion; and as they argue: "once public responsibilities have been ceded to business actors, who then become integral parts of the governance and delivery structures of key collective goods and services, the government becomes de facto dependent on the business actors' continued commitment to providing those services" (456). Planning, when not done by government, is still done by the actors controlling either the existing system or dominating system expansion. Under the regulatory state, where privatization occurred swiftly and the government dismantled the ministries dedicated to conducting energy policy (like the UK or Chile), system planning did not stop, it was just done somewhere else. And this form of power has proven to be effective in the electricity sector (Fink et al. 2024).

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Given the presence of a strong SOE in Mexico, it was not until the reforms of 2013-14 that the government attempted to transform how planning was made; in particular, it shifted the responsibility from the SOE to the political office, the Department of Energy (SENER), and in doing so also transformed the planning practices, displacing not only the SOE but also local research institutions and planning tools (which had their origin in tools first developed by the once venerable Tennessee Valley Authority and shared through the International Atomic Energy Agency). Liberal reformers preferred to use commercially available software and to hire international consultants to run the back office for this work.

The 2025 reforms made the role of political authorities explicit and diminished the autonomy of regulators but also increased the significance of planning in regulation. This pairing, between regulation and planning, is where economic governance has become more innovative across countries. The UK and the US, for instance, are only now experimenting with ways in which state planning can structure investment without renouncing the primacy of private investors in their open markets (Bolton 2023).

Governance beyond de-risking

Having put forward our understanding of the previous state of affairs in Mexico, in light of current developments globally we turn to discussing the most recent blueprint for governance experimentation. The legislation published into law on March 18, 2025, introduces three cornerstones of state dominance as a form of de-risking: The existence of binding planning, the prevalence of state-owned assets, and the preference of public-private joint holding over other forms of public-private investments.

We compare these three instruments with the two cornerstones of de-risking under the Mexican regulatory state – the existence of state long-term contracts and the use of asymmetric regulation to ensure a passive role of SOEs. Table 1 presents a summary of the comparison and the expected consequences of the use of the new governance principles:

Binding planning

The shift toward binding planning represents a major departure from Mexico's indicative planning model. Previously, power system development was primarily market-driven, characterized by government intervention in favor of private interests and the SOE facilitating the transition of assets from the public to the private sectors.

The absence of a coordinated strategic framework resulted in inefficiencies for the system. Regulatory fragmentation allowed for the approval of generation permits through a process that operated independently of grid and system operators. These permits were issued without systematically considering infrastructure availability and development timelines. The transmission SOE was legally mandated to provide open access and the policy mandate for the system operator was to approve projects swiftly, with the expectation that tariffs would pay for future investment. In practice, generation interconnection and grid expansion planning were largely disconnected. In other jurisdictions, a policy known as "connect and manage" would give grid operators the obligation to approve interconnections swiftly but also the right to impose constraints on the operation of generators.[1] The second part of the formula did not occur in Mexico.

This dynamic led to a reactive rather than proactive approach to grid expansion. The increasing interconnection demands from privately approved generation projects placed continuous pressure on transmission and distribution infrastructure, which resulted in a decrease in the reliability of the power system and an increase in technical, political, and economic risk. This, in turn, constrained the allocation of public resources and limited the SOE's ability to distinguish between funding for operational maintenance and new infrastructure development. Consequently, the SOE faced structural challenges in managing interconnection requests while maintaining system reliability.

The binding planning model introduces a coordinated approach across the energy sector. Under the new bind-

Table 1. Comparison of governance cornerstones

De-risking with SOEs as subsidiaries	De-risking with SOEs as dominant	Main objective
Asymmetric regulation	Binding planning	Reduce regulatory risk Reduce physical risk Reduce market cannibalization
State long-term contracts	SOE prevalence	Reduce physical risk Clear market segmentation SOE reinvestment in physical resilience
	Public-private holding	Reduce political risk Reduce financial risk State control of assets

ing planning framework, the Ministry of Energy oversees system development, directs SOE activities, and establishes mechanisms for allocating public resources to strategic infrastructure projects, grid expansion, and project monitoring. The process will be managed through a new Energy Planning Council under the new Planning and Energy Transition Law.

A second key innovation is that new regulatory measures require granting of generation permits to align with binding planning criteria, ensuring synchronization between infrastructure availability and project timelines. While this seems minor, it is the cornerstone of success or failure of the reforms, as sectoral analysts have described (Goldwin, Hernández, and César 2025). But these criteria establish the conditions necessary to maintain sufficient transmission capacity and provide more accurate cost estimates and commercial operation schedules. This planning model is straightforward about the fact that the ultimate responsibility for system reliability lies with the state and that the state has the capability to coordinate investment scheduling in the electricity sector without slowing down the economic growth rate, something other governments are also trying to figure out.

Guaranteeing a reliable power system through SOE prevalence

The October 2024 constitutional reforms mandated that the private sector cannot have prevalence over the state in electricity generation and commercialization. Article 27 (Estados Unidos Mexicanos 2025a) states:

> The planning and control of the national electricity system are the exclusive responsibility of the Nation, in accordance with Article 28 of this Constitution, as well as the public service of electricity transmission and distribution; no concessions shall be granted for these activities. Laws shall determine the manner in which private entities may participate in other activities within the electricity industry, which shall never take prevalence over the State-owned enterprise, whose fundamental role is to fulfill its social responsibility and ensure the continuity and accessibility of the public electricity service. *(35) [Author's translation]*

In this context, prevalence is integrated into decision-making as the guarantee to maintain a reliable energy system. The legal framework defines the scope of action required to allocate resources and develop new projects, assigning the SOE as the operational entity responsible for maintaining the reliability of the system as well as cost control and executing strategic infrastructure projects.

Prevalence is defined in Article 3 of the Electricity Sector Law (Ley del Sector Eléctrico) (Estados Unidos Mexicanos 2025b), which is the legal instrument derived from the abovementioned constitutional reform, in Section XXXVII as:

> The preference of the state over private entities in generation and commercialization activities, as it is responsible for ensuring the reliability, security, continuity, and accessibility of the public electricity service. Binding planning must guarantee the State's preference in these activities to provide electricity at the lowest possible cost. *(5) [Author's translation]*

The law now delineates the boundaries between prevalence as a planning tool and market operation principles. Article 12 specifies that while planning must adhere to state preference objectives, economic efficiency remains the basis for unit allocation in power dispatch (Estados Unidos Mexicanos 2025b). The law states:

> VI. Ensure that private entities do not prevail over the State, in accordance with Article 27 of the Political Constitution of the United Mexican States. The State must maintain at least 54% of the average annual energy injected into the grid, as specified in the regulations and other applicable provisions. Prevalence must be implemented within the Wholesale Electricity Market framework, following Economic Load Dispatch principles, subject to reliability and security constraints. *(15) [Author's translation]*

The prevalence metric is broadly defined as a minimum threshold of 54% state-related electricity generation measured annually. The legal framework does not impose a fixed state-directed generation target in proportion to demand growth, maintaining flexibility in planning.

The reform also mandates that the SOE operates without profit, limiting its ability to exercise market power for rent-seeking purposes. Profit is defined in Article 3, section XXIX as "the economic surplus after covering operating costs and ensuring resources for investment, modernization, expansion, and Energy Justice" (Estados Unidos Mexicanos 2025b, 5)

This regulatory structure reduces political risk and reinforces reliability as the core justification for state prevalence. Greater certainty and transparency in power system development enhance the alignment of productive investments with national planning objectives.

Generation expansion certainty through public-private holding

The new legal framework establishes planning objectives and mechanisms for power generation expansion while defining guidelines for private investment participation in generation assets. This framework seeks to

balance access to private capital with public oversight through the regulation of the types of investment.

A distinction is made between generation assets for self-supply and those intended to meet national demand growth. Self-supply projects fall outside the scope of public service interest, with associated risks borne entirely by developers and consumers. As energy from these projects is (mostly) not injected into the grid, it remains outside the state's prevalence assessment. However, regulatory measures are in place to prevent monopolistic practices that could affect off-grid consumers.

For projects contributing to national demand growth, the framework introduces strategic public-private holding and contracting models, referred to as mixed development schemes, including long-term energy producer and mixed investment arrangements. These models enable collaboration between the SOE and private entities for the development and operation of generation assets. The legal framework grants the SOE priority in purchasing electricity from these assets, while also mandating compliance with contractual obligations to ensure project continuity.

This policy evolution is, again, a more straightforward proposition to make use of experiences with the independent power producer model and other long-term contracts schemes that enhance investment certainty. The state's goal is to explicitly align public interest with investment efficiency; the challenge is to maintain competitive procurement processes and transparency.

The approach represents a bet on state capacity but also a recognition of the limited financial space that states occupy. This alignment of public and private interests is intended to decrease systemic risks and to project specific risks.

Conclusion

While demand in most European electricity markets is declining, Mexico's electricity sector is expected to triple in size in the next twenty-five years, to reach 1,000 TWh, which is close to twice the size of the current German electricity market. This situation is an opportunity for the Mexican state to transform the rules of the game, in ways that enable the government to tightly control the development of the sector to achieve two simultaneous goals: Offering favorable conditions for private investment, without putting too much of the state balance sheet on the table to de-risk private investment.

This paper provided both a theoretical framework to understand and debate the changing governance of electricity industries. It uses the Mexican case as an interesting instance of explicit political debates over the state's role in the electricity industry and the making and re-making of tools to establish the conditions for private investment. The case is particularly interesting because of the legal innovation, both in 2013-2014 and 2024-25. In the 2023 paper, Valenzuela described the 2013-14 governance model as fitting Daniela Gabor's Wall Street Consensus based on the use of SOEs to de-risk investment. The political dominance of the left-wing party Morena and the victory of Claudia Sheinbaum allowed for a new wave of economic governance innovations.

The new governance framework emphasizes two key aspects in the de-risking agenda: Mitigating investment risk for private entities and ensuring long-term power supply security and reliability through state participation. Risk reduction aligns with the broader objective of minimizing systemic exposure to disruptions that could affect economic stability. Strategic public-private partnerships facilitate power supply continuity while distributing financial risks with the objective of maintaining a globally competitive risk profile. The broader objectives of state prevalence and non-profit orientation establish a framework that guides the actions of the SOE Comisión Federal de Electricidad and private generators, ensuring alignment with national energy policy and long-term system stability. Binding planning further enhances investment predictability by synchronizing transmission, generation, and demand timelines. Coordinated regulatory mechanisms and integrated data flows provide certainty that infrastructure will be operationally prepared to support new projects.

The use of new legal concepts like *binding planning*, *prevalence*, and *profit* should be followed by political economy scholars as they are deployed in the policy space and litigated through the courts. In fact, it might be in courts that evidence of the opinion of businesses will be most evident, if they find the new system arising from these conceptual innovations has an impact on their business operations. The making of a global pool of experiences on economic governance will already expand with the Mexican example, but its potential international impacts beyond the Mexican market will depend on scholarly treatment of this and other cases where legal economic innovations are happening beyond Europe and the US.

Endnotes

The article reflects the authors' personal view and does not represent a government position.

1 See examples from the UK and the US: https://www.neso.energy/document/85911/download & https://www.utilitydive.com/news/connect-and-manage-grid-interconnection-ferc-ercot-transmission-planning/698949/.

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