



# Consumer Empowerment

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**Empowering Consumers**

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**Allowing Markets to Fully Operate**

# Innovation Empowers Consumers: allowing them to react to prices and having options

- In the energy markets, small users have been passive agents in a relationship with monopolies.
- So, Regulators have been responsible for protecting them and limiting the exercise of market power.
- There was completely inelastic demand in the short term, only elastic in the long term (energy efficiency).
- New technologies allowed users to react to prices in the short term or having access to alternatives.
- Empowering consumers can only lead to welfare enhancement.

# Empowering Consumers Also Means Empowering New Market Participants

*“Empowered consumers can, through demand-side choices, stimulate firms to innovate, improve quality and compete in pricing. Consumers not only benefit from competition, but they drive and sustain it<sup>1</sup>”.*

Necessary conditions for **effective consumer empowerment**:

- ✓ Informed customers.
- ✓ Decrease in transaction costs, particularly switching.
- ✓ Clear definition of products and services by the Regulator.
- ✓ Information that does not overwhelm the consumer.
- ✓ Behavioral economics: Context matters in decisions.



<sup>1</sup> OECD, (2008). Policy Guidance for Protecting and Empowering Consumers in Communication Services.

# Disruptive innovation that may empower consumers impose challenges to Regulators

- Regulation is justified only in the presence of market failures. How to identify when regulation is not necessary anymore and avoiding it from becoming a problem.
- Discerning between “sustaining innovations”, rent-seeking behaviors and consumer empowering “disruptive innovations”.

# Mexico's Gas Release Program, gives options to consumers

- Asymmetric regulation to incumbent (Pemex) to make the Natural Gas competitive.
- Set the elements to match Supply - Demand.
- Pemex:
  - A 70% of its retailer contracts available to other suppliers.
  - Publishs all the information of its contracts.
- Information to compare offers.

	<b>NG Price (month i, MX/Unit)</b>
<b>Gas for consumption</b>	$HH_i + / - \delta$
<b>Gas for injection in the System</b>	$HH_i + / - \delta$

**About a year after starting the program, 30% of Natural Gas is supplied by new entrants.**

# THANK YOU FOR YOUR ATTENTION!



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