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Mexico Moves Ahead with Plan to Boost Electricity Generation Capacity by 2000

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In early May, the Mexican government announced the resumption of two major projects that will greatly expand the country's electricity-generation capacity. Both projects the Merida III thermoelectric plant in Yucatan state and the Samalayuca II plant in Chihuahua state had been suspended because of questions of financing, partly due to the economic crisis that followed the devaluation of the peso in late 1994. The largest of the two plants, Merida III, is expected to add about 440 megawatts to Mexico's total electricity- generation capacity, while the Samalayuca plant will add another 173 megawatts. According to a study conducted by the economic analysis unit of Banamex-Accival, Mexico could require as much as 13,000 megawatts of additional electricity generation to meet the country's growing residential and commercial demand by the beginning of the next century.

The Mexican government will seek to meet that demand by offering concessions to private companies to build and operate power plants that will sell electricity to the Federal Electricity Commission (Comision Federal de Electricidad, CFE). But the Zedillo administration has also pledged to invest about US$9 billion in adjunct projects that will help with the construction of the plants. Among other things, the SE has already requested bids from domestic and foreign companies to construct five other plants by the year 2000. In a tender announced in early May, the SE opened bidding for construction and operation of three plants in Baja California state, one near Cerro Prieto and two near the city of Rosarito.

A fourth plant would be constructed near Chihuahua city, and a fifth in Monterrey. The SE set a deadline of July 15 for interested parties to register to participate in the auctions. Taken together, all five facilities will eventually add about 1,600 megawatts to the country's electricity-generation capacity. Meanwhile, the SE is expected to seek bids for three more electricity plants later this year, one in El Cajon in Nayarit state, a second in Punta Prieta in Baja California Sur state, and the third in La Parota in Guerrero state.

According to the CFE, these plants are expected to eventually add more than 1,500 megawatts to the country's electric grid. The Merida III plant, which will be Mexico's first privately operated thermoelectric plant, represented the first step in the government's efforts to privatize electricity generation. The SE had originally started accepting bids for construction of the facility in 1994. However, the country's economic crisis had forced the government to suspend the process. In particular, PEMEX was forced to delay construction of a natural gas pipeline from Ciudad Pemex, Tabasco state, to Yucatan state. The pipeline would have supplied fuel to operate the new power plant. In announcing the reopening of bids for Merida III in May of this year, the SE decided to limit participation to the 31 companies that had submitted bids in the original tender in May 1994, rather than open the process to new bidders.

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Most of the companies have grouped themselves into several consortia, composed mostly of joint ventures between Mexican engineering firms and foreign partners. Among the prominent consortia submitting bids are Mexico's Grupo ICA and US-based companies General Electric and Fluor Daniel. Similarly, Grupo Tribasa is seeking a bid jointly with Electricite de France. Under the timetable established by President Ernesto Zedillo's administration, the winning bidder for Merida III will be announced in March 1997, with construction scheduled to begin in January 1998. According to the SE, the government wants the first phase of the Merida III plant to be completed by April of the year 2000, with the second phase finished by October of that same year. The facility is expected to provide electrical power to residential and commercial users throughout the entire Yucatan Peninsula, including Quintana Roo state. According to SE estimates, construction of the Merida III plant will require a US$500 million investment. The bids for Merida III are being offered in conjunction with bids for construction of the pipeline itself. Work on the pipeline is scheduled to begin in December 1997, with completion targeted for October 1999.

In addition to supplying Merida III, the pipeline will also provide natural gas to the nearby thermoelectric plants of Lerma, Nachicocom, Merida II, and Valladolid, which together require about 272 million cubic feet of natural gas per day. In addition, the pipeline will provide natural gas to residential and industrial customers in Yucatan and Quintana Roo states. Interest in the Merida III auction has grown significantly because of new regulations that will allow the winning bidder to retain ownership and operation capabilities for the pipeline, rather than transfer the property to the state-run oil company PEMEX.

Among the firms expected to bid are the US-based companies Amoco, Enron, and the San Diego Gas and Electric Co., plus Gaz de France. In addition to Merida III, construction of Samalayuca II in northern Chihuahua state is expected to start soon, following the completion of new financing arrangements in early May. Originally, the plant was to be constructed exclusively with private funds and without government guarantees.

In fact, in February of last year, the government had already awarded a concession to a partnership formed by Mexico's Grupo ICA and the US-based firms General Electric and Fluor Daniel (see SourceMex, 02/22/95). Originally, General Electric was to pick up a large portion of the cost of construction, with the rest provided by US financial institutions. When those original financing arrangements fell through, however, the Zedillo administration sought alternative sources of funding, which are part of the protocol announced in May. Under the new financing terms, the Inter-American Development Bank (IDB) and the US Export-Import Bank will provide 80% of the estimated US$647 million needed for the project.

The balance of the funding will come from the consortium, which has been expanded to include two other US partners: the Texas-based El Paso Natural Gas and Electric and Bechtel. El Paso Natural Gas is expected to invest US$40 million, and that company will also lay down a pipeline to supply natural gas from the Texas-Chihuahua border to the new plant. Samalayuca II is located 20 miles south of Ciudad Juarez. [Sources: Reforma, 04/22/96; Review of the Economic Situation of Mexico (Banamex-Accival), 05/96; El Financiero International, 04/29/96, 05/06/96; La Jornada, 05/10/96, 05/14/96]

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