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U.S.-Mexican Joint Venture Wins First Concession for Natural Gas Distribution

by LADB Staff

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In mid-August, the Energy Secretariat (SE) announced the first-ever concession for a private firm to distribute natural gas in a Mexican community. The SE awarded a 12-year contract to a US-Mexican partnership, which will service residential and commercial users in the city of Mexicali, Baja California state. The award was the first since President Ernesto Zedillo's administration announced its intention in late 1995 to transfer natural-gas distribution, transportation and storage functions from the state-run oil company PEMEX to the private sector. The concession for the gas distribution in Mexicali was awarded to Distribuidora de Gas Natural de Mexicali (DGN), a joint venture formed by California-based companies Pacific Enterprises and Enova Corporation and Mexico's Grupo Proxima.

Pacific Enterprises is a subsidiary of Southern California Gas, while Enova's parent company is San Diego Gas and Electric. DGN beat out two other partnerships to gain the concession for gas distribution in Mexicali. A total of six partnerships had pre-qualified earlier this year to participate in the bidding for the Mexicali distribution contract, but the government later narrowed the list to three partnerships. In addition to DGN, the two other finalists were a partnership between Spain's Gas Natural SDG and Repsol Gas de Saltillo, and a joint venture formed by US-based Tenneco and Canada's Westcoast Energy. DGN is scheduled to begin providing limited service to residential and industrial users by the beginning of 1997, transporting gas from the US.

For his part, Proxima director Gaston Luken said one reason why DGN won the concession was because of the proximity of its source of supply of natural gas to Mexicali. The majority of the gas will be provided via southern California. According to Enova's chief executive officer Stephen Baum, DGN expects to invest about US\$25 million over a five-year period for equipment and infrastructure, with the goal of eventually raising distribution capacity in Mexicali to 18 million cubic feet of natural gas per day. Baum estimated that 90% of the clients would be domestic users, but that the greatest demand in volume will come from industrial users.

Meantime, Hector Olea, head of Mexico's energy regulatory commission (Comision Federal de Energia, CFE), told a news conference the bidding process to distribute natural gas in northern Chihuahua would open in the coming weeks. Olea said the government is seeking US\$5 billion in investments in the sector over five years and is awarding concessions by geographic area. Mexico has concentrated the majority of its own natural-gas production in the southeast, where reserves are found alongside crude oil. These supplies are difficult and costly to transport to northern areas because PEMEX lacks the appropriate infrastructure in northern Mexico. Some natural gas is also found in Tamaulipas and Coahuila states, but these supplies are not within easy access. Olea raised the possibility that bids would also be opened in the near future for gas distribution in the cities of Altamira, Tampico, and Ciudad Madero in Tamaulipas state; and Hermosillo in Sonora state.

In addition, the CFE is also considering offering contracts in Mexico City and Toluca in Mexico state. According to a report in the daily newspaper El Universal, five US companies and their Mexican partners are in the best position to obtain new gas-distribution concessions in northern Mexico. The report said the five companies Enova, Conoco, El Paso Natural Gas, Tenneco, and MidCon all offer advanced technology and ready access to ample supplies of natural gas in the US. Rafael Sanchez Sola, president of Conoco Mexico subsidiary of the US firm Conoco acknowledged that his company is interested in gaining concessions for distribution of gas in the states of Tamaulipas, Nuevo Leon, and Chihuahua, which are within easy access of the company's reserves in Texas. Sanchez said Conoco has particular interest in the Tampico-Madero-Altamira corridor in Tamaulipas state, where the company is considering construction of a thermoelectric plant.

The government is proceeding with other plans to open up the natural-gas sector to private participants. For example, the Tenneco-Westcoast partnership which lost the Mexicali pipeline bid recently received a 30-month contract from PEMEX to upgrade natural-gas pipelines for PEMEX in the southeast. Another foreign company, Bristol Babcock, the US subsidiary for Britain's FKL plc, received a PEMEX concession in August to develop remote-controlled automatic operation capabilities for 40 PEMEX wells in the Chiapas-Tabasco areas. (Sources: Reuter, 08/12/96; The News, 08/13/96; El Financiero International, 08/19/96; El Universal, 08/23/96)

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