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Energy Secretariat Announces New Infrastructure Projects for 1998

by LADB Staff

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The Secretaria de Energia (SE), seeking to expand and improve basic services for the Mexican public, has announced more than two dozen infrastructure projects for 1998. The largest of these projects involves the construction of a first-ever natural-gas pipeline in Mexico City and a large hydroelectric plant in Baja California state. In addition, other smaller yet still significant projects are also planned for the coming year. Government plans huge investments in electrical power. According to Rogelio Gasca Neri, head of the SE's Comision Federal de Electricidad (CFE), that agency has proposed a budget of 13.59 billion pesos (US\$1.67 billion) for infrastructure expenditures next year. In addition, the CFE will sponsor another 23 projects in 1998, which will require private investments of 12.6 billion pesos (US\$1.55 billion).

The CFE-sponsored projects include construction of major power stations in metropolitan areas such as Monterrey, Saltillo, Hermosillo, and Campeche, and in several medium-sized cities. The CFE will also award concessions next year to construct pipelines that supply natural gas to the Samalayuca and Merida III power plants in southeastern Mexico. In 1997, the CFE has awarded concessions for huge electrical power projects, which involve about US\$1.4 billion in private investments.

In December, for example, the CFE announced contracts with a Japanese engineering company and a Spanish consortium to build major infrastructure projects. The Japanese company, Mitsubishi Corporation, signed a contract to build the Cerro Prieto IV thermoelectric plant near Mexicali, Baja California state. Mitsubishi plans to invest about US\$100 million in the project, which will include four separate units, each with capacity to generate 25 megawatts of power. The Cerro Prieto complex will become the second largest thermoelectric plant in the world once the Cerro Prieto IV facility is completed in the year 2000. Existing units at Cerro Prieto, which currently generate about 620 megawatts, supply about 70% of the needs of the cities of Tijuana, Mexicali, Ensenada, and Tecate.

Also in December, the CFE awarded contracts to a Spanish consortium, comprising Dragados Industrial and Control y Montajes Industriales (CYMI), to build seven new electrical substations in different areas of the country. Timetable set for concessions of Mexico City gas pipelines. Meanwhile, one of the SE's largest infrastructure projects planned for next year is construction of a network of natural-gas distribution pipelines in Mexico City. According to Energy Secretary Luis Tellez, the government will accept technical bids on the project until April 16. The same bidders will have until June 30 to present their financial bids. The SE will announce winning bidders for two Mexico City concessions in July or August 1998. Then, distribution rights will be auctioned off in two separate concessions, one for the Federal District and the other for the adjacent Cuautitlan- Texcoco region in neighboring Mexico state.

The Mexican capital and surrounding communities in Mexico state have a population of about 16.7 million, but only a fraction of the households are served by natural-gas distribution lines. The Mexico City project will require an investment totaling as much as US\$1 billion for the two zones combined. The largest expense will be laying down a network of pipelines and other infrastructure. Tellez said the concessions will be awarded to the company that offers to supply natural gas to the most people at the lowest price. Companies may win rights for only one region, although they may bid for rights to both.

Several prominent companies have announced their intentions to bid for the concessions, including Mexican engineering companies Gutsa and Grupo ICA, plus multinational firms such as Enova Gas, Westcoast Energy, Tenneco, Shell, and Repsol. The winning bidder will receive distribution rights for only the first five years of operation, since the government has already signed contracts with other parties to assume the distribution process five years after the new system of pipelines is in place.

Such limited distribution rights contrast with concessions in Toluca, Mexicali, and other areas where winning bidders received rights for 12 years. According to the Comision Reguladora de Energia (CRE), the construction of the pipelines could eventually result in an eightfold increase in natural-gas usage in the Mexico City metropolitan area. Current daily consumption is estimated at about 3.1 million cubic meters, but is expected to reach about 20.4 million cubic meters after the pipelines are functioning.

In a smaller project announced by the CRE in December, Repsol Mexico was awarded a 30-year concession to distribute natural gas to Nuevo Laredo in Tamaulipas state. Repsol has the option to renew the contract for 15-year increments. Under terms of the concession, Repsol would lay down the required infrastructure, including a system of pipelines to distribute natural gas to homes and businesses. Repsol is committed to invest about US\$11.2 million in the project, which is separate from a pending concession for other areas of Tamaulipas state (see SourceMex, 10/15/97).

The concession for Nuevo Laredo, which is directly across the Mexico-US border from Laredo, Texas, is the second natural-gas project awarded to Repsol this year. In July, the CRE approved a contract with Repsol to distribute natural gas in Coahuila state, including the city of Saltillo (see SourceMex, 07/23/97). [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Dec. 10, reported at 8.12 pesos per US\$1.00] (Sources: The News, 11/21/97; El Financiero International, 12/01/97; Notimex, 12/01/97, 12/03/97; Reuter, 12/03/97; El Universal, 12/01/97, 12/04/97; El Economista, 11/21/97, 12/02/97, 12/04/97; The News, 12/04/97; El Nacional, 12/01/97, 12/08/97)

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