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The US and Mexican governments are exploring a proposal to integrate the electricity and natural-gas markets to allow an easier flow of energy products across the US-Mexico border. Speaking to reporters after a meeting with Texas Gov. George W. Bush in Austin in early October, Energy Secretary Luis Tellez said the integration would particularly benefit Tamaulipas and Nuevo Leon, which are the fastest growing industrial areas in the country. The proposal to integrate the gas and electricity generating infrastructure along the US-Mexico border has been considered for several years.

Tellez's comments are a sign President Ernesto Zedillo's administration could be moving forward with the plan. "In the medium term, we hope to develop an integrated electricity network with the US, particularly with Texas," Tellez said. The Zedillo administration is also pushing to allow easier movement of natural gas across the US-Mexico border, but this would require that Mexico eliminate a 5% tariff on imports of US natural gas. Under the current timetable, the tariff on natural gas imports from the US is to be reduced by one percentage point annually until it reaches 0% in December 2002. "The tariff must be eliminated as soon as possible," said Tellez. "This reduction would benefit our national industry as well as the providers of natural gas."

In mid-October, Trade Secretary Herminio Blanco said the US and Mexican governments are still discussing the possibility of expediting the timetable to eliminate the tariff. Pemex-Petroquimica, a subsidiary of the state-run oil company PEMEX, is the only Mexican entity allowed to import natural gas without paying a tariff. During the meeting with Tellez, Gov. Bush pledged to work toward integration of the electricity and natural gas infrastructures in Texas and northern Mexico, which would open "areas of opportunity" on both sides of the border.

Private sector to build power plants in Tamaulipas, Sonora

Tellez's visit to Austin came only a few weeks before the Comision Federal de Electricidad (CFE) completed the next step in the construction of a 450-megawatt thermoelectric plant in Rio Bravo, Tamaulipas state. The CFE said nine firms had submitted bids by the early October deadline for construction of the facility. Four consortia and five companies submitted bids to gain the concession for the project. The firms include US companies Texaco and El Paso Aztec Energy, Mexican companies Endesa International and Enron Internacional, and French state-run company Electricite de France.

Three of the four consortia involve a joint venture between a Japanese company and a Mexican or US partner. These joint ventures are Mitsubishi-Calpine, Nisso Iwai-ABB Asea Brown Boveri, and Sumitomo-Congentrix One. The fourth joint venture to submit a bid is Intergen, a partnership formed by Royal Dutch Shell and US engineering company Bechtel.

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The CFE was expected to award the concession for this project by Nov. 10 after reviewing the technical and financial proposals presented by each company or consortium. The CFE, in mid-October, also announced the concession for construction of a 225-megawatt power plant near Hermosillo, Sonora state. The 25-year concession was awarded to Union Fenosa Desarollo y Accion Exterior, one of Spain's largest industrial conglomerates. Construction of the new facility is expected to take about 25 months at a cost of about US$160 million.

The Rio Bravo and Hermosillo concessions are part of the Zedillo administration's plans to expand private-sector participation in electricity generation. Later this year, the administration is expected to award concessions for private companies to construct power plants in the Bajio region of Guanajuato and near Saltillo, Coahuila state. Under the administration's five-year plan for 1998-2002, at least one- tenth of the electrical power in Mexico will be provided by foreign and domestic private companies.

But the government's near-term plans for the electricity sector been questioned by some opposition legislators. In mid-October, members of the energy committee (Comision de Energeticos) of the Chamber of Deputies summoned Tellez to explain the administration's proposals. Committee chair Benito Osorio of the center-left Partido de la Revolucion Democratica (PRD) questioned the administration's projections regarding the amount of investment needed in coming years to meet Mexico's needs.

The administration projects a total of US$28.7 billion in investments will be needed in the electrical sector between 1998 and 2007. Private capital will account for 54% of this investment with the remainder coming from the government. Osorio said the executive and legislative branches will have to examine the role of the CFE to determine whether the federal agency should still be considered "strategic," given its reduced role in electricity generation. The CFE enjoys Constitutional protection because of its "strategic" designation.

In a report published in early October, the weekly news magazine Proceso said the government has reduced the budgets for the CFE and the state electric company Luz y Fuerza del Centro even before electric power from private sources became available. As a result, the report said, electricity generation has only increased by about 0.07% in 1997, which is less than the annual 7% increase in demand. Expenditures on the two agencies are further strained this year because of three budget cuts implemented by the Zedillo administration. Some private business organizations are pushing for the administration to privatize CFE and Luz y Fuerza as soon as possible.

At a recent forum in Mexico City, Jose Antonio Fernandez Gonzalez of the Camara Nacional de Comercio (CANACO), said CFE, Luz y Fuerza, and several PEMEX subsidiaries remain unprofitable and must be transferred to the private sector. However, Gonzalez said his organization does not advocate that the government sell these entities at "bargain prices." (Sources: Notimex, 10/01/98; Proceso, 10/04/98; El Universal, 10/12/98; Reuters, 10/01/98, 10/07/98, 10/08/98, 10/13/98; El Financiero International, 10/12/98, 10/19/98; El Economista, 10/02/98, 10/08/98, 10/14/98, 10/21/98; Excelsior, 10/07/98, 10/19/98, 10/21/98)

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