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LADB Staff

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Mexico Seeks Private Capital for Oil, Electricity, Natural Gas Projects

by LADB Staff

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The Mexican government is continuing efforts to attract private capital to the energy sector, which suffered major cuts in public funding in the 1998 and 1999 budgets. During 1999, three government entities the Comision Reguladora de Energia (CRE), the Comision Federal de Electricidad (CFE), and Pemex-Refinacion are planning to award contracts to private companies to lay down natural gas pipelines, construct new power plants, and modernize six oil refineries to expand Mexican production of unleaded gasoline.

Pemex plans include expansion of five refineries In an interview with the daily newspaper The News, Energy Secretary Luis Tellez said Pemex-Refinacion, a subsidiary of the state-run oil company PEMEX, is seeking private investments to modernize five refineries this year. According to Tellez, PEMEX is hoping to attract a total of US\$5.8 billion private capital for seven capital projects, including the expansion of the five refineries. The two other major projects involve a plan to increase the capacity of the Cantarell oil field in Campeche Sound and to develop the Burgos natural gas field in northern Mexico.

PEMEX hopes to boost production at the Cantarell oil field to 1.9 million barrels per day by the October-December quarter of this year. This would represent an increase of 900,000 bpd in output in just three years. This year's investments are part of PEMEX's goal to bring about 75.8 billion pesos (US\$7.44 billion) in new investments to refinery projects in the three-year period spanning 1999 through 2001, spokespersons for the state-agency said.

Pemex-Refinacion director Jaime Mario Willars said the expansion and modernization of the five refineries is intended to boost PEMEX's capacity to process Maya-grade heavy crude oil to 460,000 bpd. Currently, more than one-fourth of the gasoline pumped at PEMEX service stations is supplied by imports. Mexico imports slightly more than US\$2 billion in oil and gas from the US annually.

During January, Pemex-Refinacion received bids from private companies to modernize refineries in Ciudad Madero, Tamaulipas state, and Tula, Hidalgo state. Five parties submitted bids to gain the concession for the Tamaulipas project, which includes construction or overhaul of 11 processing plants at the site.

Three Mexican companies are hoping to participate in the Tamaulipas project, including an individual bid presented by Bufete Industrial. Grupo ICA submitted a bid in partnership with US-based Fluor Daniel and Italy's Snamprogetti, while Grupo Tribasa is seeking the concession in a joint venture with German company Siemens and South Korean-based engineering firm Sunkyong. The other bids were submitted by the partnership formed by Spain's Mecanica de la Pena and South Korea's Hyundai, and by the Japanese-South Korean venture Chyoda-Samsung.

The Tula project, which involves the modernization of nine plants, also attracted strong interest. Many of the same partnerships that are seeking the Tamaulipas concession also submitted bids for the Tula project. The bidders include ICA-Flour-Daniel-Snamprogetti, Tribasa-Siemens-Sunkyong, and Mecanica de la Pena-Hyundai. Samsung submitted a lone bid in this project. The two other bidders are South Korea's LG International Corp., and a joint venture formed by Argentine conglomerate Techint and Japan's Toyo Engineering Corp. Pemex-Refinacion is expected to announce the winning bidder for both projects by mid-February.

The agency is also expected to seek bidders soon for similar projects to upgrade the refineries at Salamanca, Guanajuato state; Minatitlan, Veracruz state; and Salina Cruz, Oaxaca state. Nine electrical power projects planned this year

The CFE is also proceeding with plans to seek private capital to construct new power plants to meet Mexico's growing demand for electricity. According to CFE director Rogelio Gasca Neri, domestic demand for electricity increased by 6.3% in 1998 and is expected to grow by another 5% to 5.5% in 1999. Gasca said the CFE is planning to award concessions for nine power projects in 1999 that would provide Mexico with an additional 3,500 megawatts of electricity.

Five of the plants would be constructed under the Produccion Externa de Energia (PPE). Under this scheme, the constructing company operates the facility for a specific period while selling electricity to the CFE. After several years, ownership of the plant is transferred to the government. The five plants to be constructed under the PPE program this year are located in Azufres, Michoacan state; Tuxpan, Veracruz state; Altamira, Tamaulipas state; La Laguna, Durango state; and Rio Bravo, Tamaulipas state. The five plants have combined capacity of 2,800 MW.

Francisco Moreno, the CFE's contracting director, said construction of the five plants would require private investments of about US\$2.1 billion in 1999. This is slightly more than the US\$1.9 billion invested in 1998, the CFE said. The CFE is also proceeding with plans to construct two new thermoelectric plants with private capital this year. In mid-December, the agency opened bids for construction of the facilities to be located in Coahuila and Guanajuato states. Both plants will be constructed under the PPE scheme. The Coahuila plant, which will be located near the city of Saltillo, will have the capacity to produce 225 MW of electricity. This project requires an investment of US\$130 million.

Government to award five natural-gas concessions

The government is also planning to award concessions for distribution of natural gas in five regions of Mexico during 1999. The five regions are: the Laguna region in southern Coahuila and Durango; Tijuana-Ensenada-Tecate in Baja California; the Puebla-Tlaxcala corridor; San Luis Potosi state; and Aguascalientes state. The CRE awarded four natural gas concessions in 1998, including a project in Guanajuato state in December. This concession was won by Gas Natural Mexico (GNM) and its Spain-based parent Repsol to construct a natural-gas distribution system in Guanajuato state to supply the cities of Silao, Irapuato, Leon, Celaya, and Salamanca.

The GNM-Repsol partnership committed to invest US\$27 million in the Guanajuato project through the year 2005 to service more than 72,000 residential and industrial customers in the state.

GNM-Repsol has won five of the 12 natural-gas distribution concessions awarded by the CRE in recent years. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 20, reported at 10.18 pesos per US\$1.00] (Sources: El Economista, 12/16/98, 12/17/98; El Universal, 12/16/98, 01/07/99; El Financiero International, 12/28/98, 01/11/99; Informe de la Comision Reguladora de Energia, 01/12/99; Reuters, 12/15/98, 01/11/99, 01/18/99; Novedades, 01/18/99, 01/18/99; The News, 01/19/99)

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