Government Seeks Alternatives To Attract Private Capital Into Electrical Power Sector

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President Ernesto Zedillo's administration, unable to obtain support from Congress to privatize the country's large utility companies, has found a loophole in existing regulations to attract private investors into the electrical power industry. The administration contends that private capital is essential to expand the country's infrastructure to meet the rapidly growing demand for electricity. Demand is up 8% this year, surpassing original expectations for a 6% increase, according to the Secretaria de Energia (SE). The need to increase electrical power is especially urgent if extended drought conditions continue to reduce the capability of hydroelectric dams in western and northern Mexico (see SourceMex, May 3, 2000). Zedillo submitted a proposal in early 1999 to modify the Mexican Constitution to allow partial privatization of the Comision Federal de Electricidad (CFE) and the Luz y Fuerza del Centro (LFC) [see SourceMex, February 3, 1999]. But the measure met strong resistance in Congress, even among some members of the governing Partido Revolucionario Institucional (PRI), which forced the president to leave efforts to pass the constitutional changes to the next administration (see SourceMex, September 22, 1999, February 2, 2000). Faced with the need to enhance the country's electrical infrastructure, the SE has begun to use the existing legal framework to attract private investment into the sector. Energy industry analysts say Energy Secretary Luis Tellez and Comision Reguladora de Energia (CRE) director Alfredo Elias Ayub have added flexibility to the Producion Externa de Energia (PEE) program, which could result in a slight increase in the supply of electrical power in Mexico.

Restrictions eased on program for independent contractors

The PEE, a program implemented during former president Carlos Salinas de Gortari’s administration, allows private companies to construct and operate plants under 25-year concessions. The program originally limited the participants to produce electricity for their own use and sell any surplus energy to the government, primarily the CFE. But the SE has modified the rules to allow participants to also sell energy to other businesses. The government has also eased restrictions on regulations that govern capacity, interconnections, and fuel distribution. "The real news...is that the projects are being tendered with fewer conditions than ever before to make them more attractive to foreign investors," said David Shields, a syndicated columnist who follows the energy sector.

Since the PEE was initiated, the CRE has awarded nine permits to private companies and expects to approve another seven concessions during 2000. The seven projects are expected to increase Mexico’s electricity generating capacity by more than 3,400 megawatts, SE sources said. The government has used the PEE to finance massive projects like Samalayuca II in Chihuahua state, Monterrey III in Nuevo Leon state, and Merida III in Yucatan state. This year, the SE has awarded concessions for the Campeche complex in Campeche state and the Naco-Nogales plant in Sonora state. The concession for the Rosarito III plant is expected to be announced sometime in June. The concessions have been awarded primarily to foreign engineering companies or Mexican-foreign partnerships. Of those awarded this year, Spain’s Union Fenosa Desarrollo y Accion Exterior won the Naco-Nogales concession, while Canada’s Transalta won the right to construct the Campeche...
plant. Some private companies like Grupo Alfa have hired private companies to construct their power plants within the PEE framework. In March, Alfa signed a 25-year contract with Spain's Iberdrola to build and operate its 388-MW facility in Monterrey. For its part, Grupo Penoles received a concession in May to construct a 230-MW plant in San Luis Potosi state. It will service Penoles' mining facilities and some operations for cement manufacturer CEMEX, Penoles sources said.

**Mexico to import US electricity during summer months**

The Mexican government is also expected to make up for the energy deficit by importing electricity from the US. In mid-May, the CRE approved permits to import about 340 MW of electricity from US sources to supplement energy supplies in northern states between June and September of this year. The principal importer will be the Rio Bravo III facility in Tamaulipas state. In the past, El Paso Energy and Sempra Energy have exported electricity to Mexico during the summer months. The CRE also approved a permit in mid-May for Energía de Mexicali, a subsidiary of American Electric Power Co., to sell 200 MW of electricity from its Baja California plant to customers in southern California. (Sources: Notimex, 03/28/00; El Economista, 04/05/00; El Financiero, 03/10/00, 05/04/00; The News, 05/11/00; El Universal, 04/25/00, 05/12/00; Reuters, 05/15/00; Reforma, 05/17/00)

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