

Another new electrical generation facility in the planning stages is the *Mérida III* plant, which will burn natural gas with residual fuel as backup.

In August 1995, the *CFE* announced that tenders for the construction of six more electricity generation plants would be issued soon. The announcement went on to say that by the year 2000, the *CFE* will require 13 new generation plants, worth an estimated US \$8.5 billion, to be built by private producers. The plants will most likely be constructed under the build-lease-transfer (BLT) option allowed under Mexican law.

Constraints

Industry experts caution that the 1994 ten-year plan for the development of Mexico's electricity sector is flawed in a number of respects. For one thing, it is based on gross domestic product (GDP) growth projections that are no longer realistic. The plan also does not take into account the effects of rising energy prices on consumer demand. A new energy plan for 1995 to 2000 was released by the *Secretaría de Energía (SE)*, Secretariat of Energy, in February 1996. This plan is still being evaluated by energy experts, and it is not yet clear what effect it will have on the short-run demand for equipment and services.

Another problem is that build-operate-transfer (BOT) financing is new to Mexico, and progress is likely to be slow, especially since top government officials are now preoccupied with other problems. For example, *Carbon II*, a proposed power project in Coahuila State, was scrapped when the consortium which won the initial bid could not agree with the government on the final terms of the agreement. The construction of private plants has also been hindered by the lack of clear ground rules, including a price schedule for surplus power which must, by law, be sold only to the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission.

In spite of these constraints, it is clear that Mexico's power sector will have to expand to serve a growing population, as well as to facilitate industrial growth. In a study released in February 1995, about two months after the devaluation of the peso, the *CFE* projected that electricity consumption would continue to grow at more than 5 percent per year. It forecast a need for investments of US \$30 billion in the electricity sector. While the details of this expansion remain murky, the direction is clear: there will be major opportunities for companies that adopt a medium- to-long-term strategy.

To take advantage of these opportunities, Canadian companies must be registered with the *CFE*. They will also have to become more visible to Mexican buyers and this will require the establishment of a long-term presence.

Action Plan

Given the uncertainties surrounding future privatization plans, expanded contacts with officials of *Petróleos Mexicanos (PEMEX)*, the national oil company, the *Secretaría de Energía (SE)*, Secretariat of Energy, and private sector companies are an essential part of the action plan.