

In 1949, CFE became a public decentralized agency with its own legal and financial framework. Between 1944 and 1960, the CFE gradually consolidated and began to compete successfully with the foreign companies still operating in Mexico: the Mexican Light & Power Co.. (British-U.S.-Canadian capital) with their respective companies, although it sold most of the fluid through the private companies.

Between 1959 and 1960 CFE opened several plants with a total capacity of 308,000 kW, increasing thereby total installed capacity to three million kW. The most important plants were in Temascal, Oax; Monterrey, N.L.; El Fuerte, Sin.; Villahermosa, Tab. and Catemaco, Ver. During 1960, there were 20 plants in construction with a total capacity of 1.9 million kW. The most important ones were six hydroelectrical plants in Infiernillo-Mich., Mazatepec-Pue., Cupatitzio-Mich., Novillo-Son., Santa Rosa-Jal. and La Venta-Gro.; and three thermoelectrical plants in Monterrey-N.L., Tijuana-B.C. and Poza Rica-Ver. Many of these were used to provide rural areas with electricity. By then, there were eleven interconnected systems throughout the country.

In 1960, the Government decided to nationalize the electrical industry and purchased 90% of the shares of the Mexican Light and Power Co. and all of the American and Foreign Power Co. and it also demanded that the funds so obtained by the foreign companies (\$52 million and \$78 million respectively) were invested in Mexico. The industry now was constituted by the Compañía Mexicana de Luz y Fuerza Motriz (CMLFM) and its subsidiaries (previously the Mexican Light and Power Company), the NAFINSA electrical companies and CFE with its 19 new affiliates. Gradually, CFE purchased other small companies and integrated its operations by dissolving the 19 affiliates.

In 1960, total installed capacity of 2.3 million kW was distributed as follows: CFE 1.3 million kW, affiliates 128,000 kW, CMLFM 586,000 kW and NAFINSA 337,000. By 1970, only two companies remained: CFE with 5.4 million kW and CMLFM with 667,000 kW.

With the nationalization of the industry, the Mexican electrical system also began to be interconnected and to be unified to a 60 cycle frequency, in order to better supply large areas of the country.

## 2. ECONOMIC ENVIRONMENT

With the objective of reducing the inflation rate, the Mexican authorities implemented a stabilization program in 1988, called the Economic Solidarity Pact, which features traditional austerity measures, entailing tight fiscal and monetary policies and unorthodox measures, such as price, wage and exchange rate controls. This program has been the cornerstone of Mexico's economic policy over the past four years and has resulted in a drastic reduction of the inflation rate, from an annual rate of 159.2% in 1987 to 51.7% in 1988 and 19.7% in 1989. Inflation