

A NEW ROLE FOR THE PRIVATE SECTOR

In a dramatic reversal of past policies, the Federal Electricity Commission will now rely on private sector turnkey projects for about 60 percent of its expansion program.

Beginning in 1988, the Mexican government embarked on a sweeping series of economic reforms, encompassing policies on trade liberalization, deregulation and privatization. The number of public enterprises was slashed from 1,115 in 1982 to 215 in 1994. A number of industries, including energy, were excluded from the privatization process because they are reserved for the state under the Mexican constitution as well as a number of other laws.

During the term of former president Carlos Salinas, these restrictions as applied to electricity were gradually relaxed. A new law, the *Ley de Energía Eléctrica*, Electric Energy Law, came into force on December 1, 1992. It retained the monopoly of the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, over the generation and distribution of all electricity sold to the public. But, for the first time, the law allowed private self-generation of electricity by industries for their own use.

In 1994, the *Secretaría de Energía, Minas e Industrias Paraestatal (SEMIP)*, Secretariat of Energy, Mines, and State-owned Industries, issued a ten year electricity plan as part of the implementation of the revised electricity law. This plan included an expanded role for the private sector in the construction of new electricity generation facilities within *CFE's* jurisdiction.

The administration of President Ernesto Zedillo came to power on December 1, 1994. Three weeks later it issued an executive decree disbanding *SEMIP* and replacing it with the much smaller *Secretaría de Energía (SE)*, Secretariat of Energy.

There had been much speculation that the new government would privatize the *CFE*. The decree, however, continued the previous policies. Nonetheless, the sharp devaluation of the peso in late December 1994, and the economic crisis it spawned, have placed even greater pressure on the *CFE* to use private sector resources to expand the electrical system.

Even before the crisis, *SEMIP's* ten-year plan contemplated a heavy reliance on private investment, largely through build-lease-transfer (BLT) and build-operate-transfer (BOT) arrangements. The plan is based on the now-implausible assumption of a 4.5 percent growth in the gross domestic product (GDP), but it is still indicative of the government's priorities.