

## PROJECT ABSTRACT

Project number	ME 0228
Project name	Monterrey Cogeneration Project
Country	Mexico
Sponsors	Enron Energía Industrial de México S. de R.L. de C.V. (“Enron”)
Total project cost:	US\$ 182 million.
IDB participation	IDB A-Loan: US\$ 45.5 million, approximately IDB B-Loan: US\$ 91.0 million, approximately
Department	Private Sector Department
Status	Approved by the Board of Executive Directors
Date	September 27, 2000

### I. Project Description.

The Monterrey Cogeneration Project (“Monterrey Cogen” or the “Project”) consists of a 245 MW natural gas power cogeneration project being developed by the US energy group Enron Corp., to be located in the vicinity of *Monterrey*, State of *Nuevo León*, Mexico. The principal equipment will be comprised of one GE 7FA gas turbine, one heat recovery steam generator and one 100 MW steam turbine. Related investments include a branch gas pipeline, connecting the plant to the nearby mainline, and a local power transmission line to connect the plant to four offtakers and to two CFE substations (*Comisión Federal de Electricidad*, “CFE”, is the public electricity utility), near the site.

Total project costs stand at US\$191 million, of which US\$134 million corresponds to the turnkey engineering, procurement, and construction contract. The preliminary financial plan contemplates an equity participation of 25% (US\$ 45.5 million) and an IDB A/B Loan to fund the remaining 75% of Project costs (approximately US\$ 136.5 million).

The Project will sell both electricity to three industrial groups, including *Vitro, S.A.* The project will also will steam to a subsidiary of Vitro S.A. Sales will be made pursuant to 15-year (from commercial operation) power and steam purchase agreements (collectively, the “PSPAs”) to be negotiated between Enron and the offtakers.

Enron has negotiated a natural gas fuel supply agreement with PEMEX and agreements for backup power, wheeling, and interconnection with CFE. Under current sector regulations, all Independent Power Producers (“IPPs”) are required to obtain a Cogeneration or Self Supply Permit from the Energy Regulatory Commission (the “CRE”). This permit is necessary to generate electricity, to obtain other permits and to sign agreements with other government entities including CFE and PEMEX. Enron has obtained a 15-year Cogeneration permit with the CRE.

### II Project Highlights.

The Project supports the transition to a competitive electricity market by enabling the private sector to add much needed energy capacity to the CFE system, thus displacing CFE-based generation projects and alleviating strain on the transmission lines.

Monterrey Cogen is one of the first projects in Mexico developed by a private company to sell electricity (and steam) directly to private customers. In this respect, it is fully consistent with: (i) the Mexican authorities' commitment to create a competitive electricity market; (ii) the objectives of the sectoral reform recently announced by the Government of Mexico to develop such a market between private producers and private offtakers; and (iii) the strategy of the IDB in Mexico and in the sector. The Project will be a good illustration of the IDB's support of the reform in the electricity sector in Mexico.

The sectoral reforms being implemented allow private sector companies to seek more efficient and reliable sources of energy, such as natural gas. In addition, Monterrey Cogen will be the first cogeneration facility financed by the IDB, and is the type of project identified as a priority by the IDB's energy strategy due to the efficiency and environmental considerations related to such technology.

The Project's structure does not rely on the credit backing of the CFE since it is outside CFE's tariff setting authority. Thus no tariff distortions and/or subsidies are involved, and the Project supports a movement toward a self-sustaining sector.

Private power projects in Mexico still lack a track record as the regulatory framework remains substantially untested, thus increasing the perceived legal and regulatory risks. IDB participation may be a critical factor in bringing the Project to fruition and to using innovative capital market instruments.