

*Prepared for the Executive Committee of the
Association of Chambers of Commerce, Industry & Banking.*

BASIC CONSIDERATIONS IN THE PROBLEM OF ADEQUATE SUPPLY
OF ELECTRICITY FOR THE DOMESTIC, COMMERCIAL, AGRICULTURAL
AND INDUSTRIAL NEEDS OF THE MEXICAN ECONOMY.

This memorandum, although necessarily somewhat detailed, is not intended to be a full presentation of this basic problem, as a full and completely adequate presentation would involve covering factors not included in this memorandum and some of which would have to be presented in considerable detail for a full understanding of the problem. Only the most fundamental and basic factors are therefore presented, without going into detail.

Basic Need for Power.

Completely aside from the continuously increasing need for electric power for domestic purposes, electricity is the most vital single factor which has to be present in adequate form to provide for commercial, agricultural and industrial needs.

Electric power has been and is the principal source of power and practically the only source of power for industry in the country. As coal is present in only limited quantities in the country, electricity has to be produced through the use of water and oil.

In the earlier stages of the electricity producing industry dependence was principally placed on hydroelectric plants, as once the initial civil engineering costs of hydroelectric projects which are usually very considerable, are taken care of, the cost of the production of electric energy is smaller than through the use of oil. For this reason out of the seventeen plants which the Mexican Light & Power Company has in the

central

central area fifteen are hydroelectric and two are thermal plants.

Owing to the lack of dependence which can be placed on a dequate rainfall, and owing to the increasing importance of electric power in the economy of the country, it has been necessary to turn increasingly in recent years to thermoelectric plants and this tendency is likely to become more accentuated. While the preponderance of installed capacity in Mexico is still hydroelectric, it is probable that because of basic conditions which the industry must take into account in order to meet adequately and without interruption continuously increasing demand, this preponderance of installed power will soon be thermoelectric.

Practically the whole economy of the central area, which is the most highly developed area in the country, is now dependent upon an adequate and continuous supply of electric power. The industrial development in recent years would not have been possible if there had not been adequate installed capacity in the central area, and the higher standard of living which has marked the life of the country in recent years would not have been possible. It is useless to talk about increased production in the agricultural and industrial field and to enlarge existing industries or to build new industries unless the appropriate measures are taken to assure this adequate and continuous supply of electric power. In some respects the maintenance of the whole economy and its continued development, the maintenance of a balance in trade, the stability of the peso and the maintenance of employment depends upon electric power.

For every sector of the population, the worker, the farmer, the business man, the banks and for industrial producers this question of the presence of adequate power is the primary economic factor for all concerned.

The Policy of Government with Respect to the Electricity Industry.

Until the formation of the Federal Power Commission the development of the electricity industry was left entirely to private initiative. Owing to the very considerable capital which is necessary for the installation of electricity plants, whether they be hydroelectric or thermal, and as the return on the investment on such capital has been inadequate from the very beginning from the point of view of the investor in Mexico, the necessary capital for such plants could not be secured in the country. It was foreign capital, therefore, which was satisfied with relatively lower rate of return in the hope of gradual betterment of such rate, which was the only capital which was willing to make the venture. For this reason, with the exception of a very few small plants which for special reasons could secure a relatively high rate of return, all the capital invested in the industry was and practically still is from outside the country. The relatively very small companies which were able to secure this relatively satisfactory rate of return were established through Mexican capital or mixed Mexican and foreign capital. It is not too much to say, however, that up to the organization of the Federal Power Commission the overwhelming part of the capital in the electricity industry was foreign and that it was this foreign capital which made possible the beginnings of the industrial development of the country.

With industry becoming a more important production factor in the country than agriculture and mining and with the needs for power developing in various areas outside of the central area and with the growing recognition by the government of the part which power played in the economy of the country and in development thereof, the government began to take a prudent interest in the power situation. This interest was augmented by the fact that

that power was being needed more and more in areas of the country in which private capital could not venture because of the lack of the possibility of receiving even the most inadequate return, and it was obvious that if there was to be any development of these areas such power would have to be provided. Out of this recognition of the situation and study thereof the government set up the Federal Power Commission primarily as its organism through which power could be supplied in areas in which the private companies, Mexican or foreign, were not operating and were not likely to be able to operate for years even under the most favorable conditions, and to supplement the activity of private initiative where this might be needed.

The policy of the Mexican Government in the field of the electricity industry and through its instrument, the Federal Power Commission, is therefore that the Government and the Commission shall concentrate their activities in the supplying of power in areas in which the private companies do not operate and are not likely to operate, and to supplement private initiative in such areas where it may be necessary or desirable. Such is the policy of the government and of the Power Commission as publicly expressed and as expressed to the Export-Import Bank, of Washington, and the International Bank for Reconstruction and Development, which are presently the only source of capital for purchases of equipment abroad for the electricity industry. The policy of the Government has been increasingly to aid the private companies, Mexican and foreign, in the fields in which they operate, in order that the full facilities available to government in the way of financial resources and borrowing may be available to the Federal Power Commission for the field in which it is planned that it operate, as defined by policy.

It is important to note here that the only available sources of capital
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abroad for the electric power industry are the Export-Import Bank of Washington and the World Bank, and that these do not lend money to governments or private companies for this industry except for the foreign currency needs for equipment. They do not lend money for the needs of the industry for construction, transmission and distribution purposes which are incurred in the currency of the country and in the country. This creates a vital problem, as in general it may be said that approximately 50 per cent of the cost of a new plant is in foreign currencies and 50 per cent in pesos. As the electricity industry still does not give, under the regulation of government, a return which is adequate either for private foreign investment or to interest the Mexican investor, these peso costs for the development of the industry must either be derived from government lending or out of the revenues of the enterprise.

Programs of Government and Private Enterprise in the
Electricity Industry.

With the recognition by government of the basic importance of electricity in the economy of the country it became obvious that the program planning for new or additional facilities in the country, which had been going forward only through private enterprise, should be coordinated with that of private enterprise. Specifically in this connection it should be stated that the authorities of government and the Federal Power Commission have been continuously coordinating their studies of the power situation and particularly in the central area in which the need for power was developing by leaps and bounds and where immediate provisions for the future had to be made.

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As a result of the coordinated studies of the Federal Power Commission and of the Mexican Light & Power Company, which studies covered the central area, it became obvious around 1945 that a coordinated program of new power plant construction in the central area must be put into effect. As a result of these coordinated studies for the central area it was clear that a minimum program for the central area which would provide the production necessary through 1955 at the least would have to be undertaken. On account of the great capital needs involved in such a program and the difficulty in securing such capital, whether it be in dollars or pesos, the program had to be the minimum program necessary. This minimum program for the Federal Power Commission in the central area involved the installation of a third unit in its existing plant at Ixtapantongo, and the construction of new plants at Santa Barbara and El Durazno, and the further extension of the use of the waters of what is known as the Miguel Alemán System. The power from these plants was to be sold to the Mexican Light & Power Company for distribution through its system in the central area. The program of the Mexican Light & Power Company included the installation of a third unit in its existing hydroelectric plant at Lerma, a tenth unit in its existing hydroelectric plant at Necaxa, which is a part of the Necaxa system of the company, and a new hydroelectric plant at Patla which would make the last use of the waters of the Necaxa system, a large thermal plant at Lecheria, a new transmission line from Necaxa to Mexico City made necessary by this development of the Necaxa system, and considerable works for the distribution of power to the consumer through new sub-stations, etc.

The dollar and peso needs of these minimum programs of the Federal Power Commission and of the Mexican Light & Power Company were to be met

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by foreign and local borrowing and from the returns on power sold.

The Programs Involved the Minimum Needs to 1955.

It is imperative to emphasize that the programs of the Federal Power Commission and the Mexican Light & Power Company involve the minimum needs of the central area to 1955 and that the completion of the works included in the program as scheduled is imperative if there is to be no interruption in adequate and continuous supply of power for present and developing needs and therefore no interruption in the economic development of this important area of the country. There has been some question as to whether so large a program is absolutely necessary and it is therefore important to emphasize the following facts.

The engineers of the Export-Import Bank and of the World Bank attached to the staffs of these institutions, after examining the needs of the central area arrived at the conclusion that the programs prepared by the Commission and the company were the minimum needs.

The World Bank, not wishing to depend entirely on its own staff of engineers, engaged the services of one of the best known engineers in the electricity field in the United States to make a completely independent study of the power needs of the central area to 1955, and this independent expert, after a detailed study of the central area, expressed his opinion to the World Bank that the coordinated program was the minimum which was needed.

The World Bank, in view of the fact that it was being asked by the Federal Power Commission for a loan of 24,000,000 dollars, and \$26,000,000 dollars by the Mexican Light & Power Company for use in the central area, had a further study of the whole situation in the central area made by a wellknown engineering firm in the United States at the bank's expense.

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This study carried through by engineering experts of this independent firm also reported to the World Bank that the minimum program of the Commission and the company was essential for the central area.

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The Commission and the company, conscious of the responsibility involved in this new plant construction and realizing the necessity for continued plant construction after the minimum program under consideration was completed, requested a wellknown firm of engineering experts with long and important experience in the field to make a completely independent survey of the power needs of the central area up to 1960. This study was carried through by expert representatives of this firm during the course of six months in 1949 and 1950. The Commission, the company, the Confederations of Chambers of Industry and Commerce, the various appropriate departments of the Mexican Government, and industrial, commercial, mining and other interests in Mexico made available to these experts all the accumulated information with respect to the conditions, agricultural and commercial and industrial, of the central area. As a result of these detailed, careful and basic studies a report has been prepared which it will shortly be possible to make public. It is in many respects the most important study of this kind that has been undertaken of the electricity situation so far as projected needs are concerned, in any country. It is possible to state that this study confirms the projections of increased use of electric energy made by the Commission and the company and by the independent engineers already above mentioned, and that the study further shows that by 1960 the demand for electric energy from all sources in the central area will have developed to such a degree as to make necessary an increase in production capacity equivalent to that installed in the central area in 1950.

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It will be seen from the foregoing that the Government, the Power Commission and the Mexican Light & Power Company which is the principal producer of electricity in the country and aside from the Power Commission the sole producer of electricity in the central area, have given the most careful and considered attention to the study of the needs of the developing economy and that their conclusions have been corroborated by independent experts of proved and recognized capacity.

Financing Problems.

The financing problems involved in the construction of the works covered by the minimum program under reference, and work on which is in actual progress, are very great and it would have been impossible to solve them, whether for the Commission or for the company, without the intervention of the Export-Import Bank and of the World Bank.

The Power Commission, which had already received a substantial loan for previous programs from the Export-Import Bank, made an application to the World Bank for a long-term loan of 25 years for the dollar and foreign currency needs for the purchase of equipment for the work that it was going to undertake under the minimum program already defined.

The Mexican Light & Power Company made an application first to the Export-Import Bank for a loan of \$24,000,000 dollars for the foreign currency needs of its program. After this application had received careful and favorable study by that bank, the company was informed that it should transfer its application to the World Bank, as the Export-Import Bank was presently limiting its lending to 10 year periods and it was obvious that for the electricity industry a loan of longer term was essential. The company made, therefore, in the beginning of 1948, an application to the

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World Bank for a long-term 25 year loan in the amount of \$26,000,000 dollars for the foreign equipment needs of its program. This increase of \$2,000,000 dollars over the amount originally sought was made largely necessary by the increased costs of the materials included in the program to be purchased abroad.

It is not possible to state in this memorandum the total peso costs in Mexico of the program of the Power Commission, which peso costs are indispensable in connection with the use of the \$24,000,000 dollars for equipment. These ^{or} _A peso costs are, in any event, equivalent to the \$24,000,000 dollars involved in the loan, and probably considerably more, as the plants projected by the Power Commission in the central area are all hydroelectric.

The peso costs in Mexico of the program of the Mexican Light & Power Company necessary in connection with the minimum program, and to supplement the \$26,000,000 dollars borrowing from the World Bank for equipment, are approximately 152,000,000 pesos.

Helpful Aid of the World Bank.

The World Bank studied the applications of the Federal Power Commission and of the Mexican Light & Power Company for long-term 25 year loans, respectively in the amounts of \$24,000,000 dollars and \$26,000,000 dollars. After very detailed, time-consuming studies the World Bank expressed a favorable attitude towards the granting of the two loans. In January 1948 it granted a long-term 25 year loan at 4-1/2 per cent interest to the Power Commission for the foreign currency needs of this program, this loan having the guarantee of the Mexican Government. At the same time the World Bank extended an interim credit of \$10,000,000 dollars for one year at 4-1/2 per cent interest to the Mexican Light & Power Company, and indicated its intention, if certain conditions were fulfilled, of granting a long-term 25
year

year loan to the company at 4-1/2 per cent interest. The bank granted the interim loan of \$10,000,000 dollars to the company as it recognized that in view of the imperative importance of the construction program in the economy of the country and of certain plants being completed as scheduled in the program it was necessary to begin construction immediately on certain parts of the program, and that in the meantime the company could endeavor to meet the conditions made by the bank for the granting of the full long-term loan of \$26,000,000 dollars, out of which the \$10,000,000 dollars interim loan was to be repaid on the granting of the long-term loan.

The World Bank made certain basic requirements in connection with the projected loan to the company. These were principally that the loan must carry the guarantee of the Mexican Government according to the statutes of the bank and its invariable practice with respect to such loans, irrespective of the country or the borrower; that the company must carry through a reorganization of its capital structure by the end of 1949 in order that the company should be in a position at the end of the construction program to have more easy and ready access to such further borrowing as would obviously be necessary for further plant construction in a period following the construction program envisaged through the loan solicited from the bank; that while it recognized the capacity of the company from a technical, engineering and management point of view, and the need for the program, the company would have to be in a position to show that it was securing that reasonable rate of return necessary for its proper operation and which was provided for in the electricity law of Mexico as enacted in 1949 and through later amendment. On the company agreeing to make every effort in its power to carry through the required reorganization of its capital structure in the time indicated, the bank granted in January 1949 the abovementioned interim loan of \$10,000,000 dollars for one year.

The company proceeded with the program of minimum works and began immediately after the granting of the interim loan the necessary complicated measures which were necessary to bring about the reorganization of its capital structure by December 31, 1949. The conditions imposed by the World Bank as basic in the reorganization were severe but just and sound, as their basic purpose was to make possible further borrowing by the company when new responsibilities for construction to meet the needs of the area which it serves, would arise. The carrying through of this reorganization was a difficult process as the ownership of the company lay largely in the United Kingdom, in Europe, in Canada and in the United States. The bonds and shares of the company were held about 40 per cent in the United Kingdom, about 45 per cent in Europe, and about 15 per cent in Canada and the United States. While the interest on the bonds of the company had been met, no dividends on its common shares had been paid since 1913 and no dividends on its preferred shares since 1931, and it was obvious that any reorganization plan would involve further sacrifices by the owners of the company. In order that a plan of reorganization might be formulated which would find general acceptance among all the bond and shareholders of the company, it was decided by the company that it should be prepared not by it, but by a completely independent organization competent and experienced in this field, and for that purpose the First Boston Corporation of New York was selected to formulate the reorganization plan, keeping in mind the basic requirements of the World Bank.

As one of the requirements of the World Bank for the making of the long-term loan to the company was that it should be earning a reasonable return on its investment as provided for in the electricity law of Mexico, it was not possible to present the plan of reorganization to the bond and shareholders of the company until the completion by the Electric Tariff

Commission in Mexico of its study of the company's request for definitive tariffs as provided for in the electricity law. The company had made its application for such definitive tariffs under the law in October 1948 and it was on December 14, 1949 that the Tariff Commission completed and made known the result of its studies, which granted the company a rate of return of 8.7 per cent on the investment before payment of taxes, which in practice and effect gives the company a return of 5.8 per cent on the investment of the company as determined by the value of its properties, etc., under the law, through the Tariff Commission. The Tariff Commission made known the rate of return and the definitive tariffs in an official statement published on December 14, 1949, in which it was stated that this return for the company was necessary in order to enable it to meet its operating costs and fixed charges, as well as to pay a reasonable return on its investment. The definitive tariffs granted the company involved an average increase in the tariffs of the company of somewhat less than 18 per cent which became effective as of December 14, 1949.

As these definitive tariffs were not established until December 14, 1949 it was impossible to carry through the reorganization of the company before the end of 1949, which had been the date set by the World Bank. Immediately after the publication of the tariffs the reorganization plan was submitted to the bond and share holders of the company and meetings were held of the eight classes of securities of the company in Toronto, Canada, the company being a Canadian company, during February 1950. It should be observed that in the meantime the World Bank had agreed to extend the interim loan of \$10,000,000 dollars to June 30, 1950, and the first mortgage holders of bonds of the company which expired on February 1, 1950 had had a meeting in Toronto at which it was agreed to extend the maturity of these bonds until June 30, 1950.

As the plan of reorganization involved considerable sacrifices by the security holders, officers of the company had made a trip to England and the Continent in early 1949, and made a further trip in early 1950, in order to explain to as many of the security holders as possible the reasons which made necessary the reorganization of the company's capital structure and the further sacrifices involved therein.

The meetings of the eight classes of security holders of the company held in Toronto in February 1950 approved with very satisfactory votes the reorganization plan. The plan is now before the appropriate Courts of Canada for approval which it is expected will shortly be granted. The Electric Tariff Commission in Mexico, which had previously examined the reorganization plan and the issuance of the new securities thereunder, had already given its approval.

It is expected that within relatively few weeks the signature of the long-term \$26,000,000 dollar loan agreement will take place in Washington, and shortly thereafter the signature of the other documents in connection with the reorganization of the company and the long-term loan.

It will be seen from the foregoing that the World Bank has shown a very considerable and constructive interest in the problems of the Mexican economy and of the electricity development so fundamental therein. It will be seen that its attitude has been not only constructive but understanding.

Peso Financing of the Construction Program.

The \$24,000,000 dollar loan which the Power Commission has received from the World Bank and the \$26,000,000 dollar loan which the company is receiving from that bank would be useless unless there is adequate provision for the financing of the peso costs of the construction programs.

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The World Bank, as is the policy of the Export-Import Bank and as would be the policy of any other lender, will not make such loans for electricity development unless completely satisfied that the peso costs of the program, which these banks cannot and do not finance, have been adequately provided for. It would be useless for these institutions to make loans for the dollar equipment costs of the construction programs unless assured that the financing of the peso costs of the works in Mexico had been appropriately and adequately provided for. The bank has therefore properly insisted that it be kept informed as to how the peso costs will be provided for and met.

So far as the Power Commission is concerned the peso costs of this construction program will be met by the 10 per cent production tax which the Mexican law places on the sale of electric energy in Mexico, by the payments which it gets from the Mexican Light & Power Company for the power purchased by it from the Ixtapantongo plant and distributed by the company, and by proceeds of sales to other companies in Mexico from other of its plants in the country and to such consumers as it may directly serve, and by the appropriations for works made to it out of federal funds for construction purposes. The peso costs of the program of the Commission, therefore, are covered by revenue and by direct appropriation of Federal Government funds which come out of the general taxation and revenue.

The peso costs of the program of the Mexican Light & Power Company must be met out of available earnings of the company and from peso borrowing. As the peso costs could not be met under any circumstances from earnings except through the imposition of tariffs which would give a rate of return on the investment higher than that contemplated in the basic law, it is necessary for the company to do peso borrowing. The only sources for such peso borrowing would be the private investing public, the private banks

banks, or the Nacional Financiera. There is no possibility to do peso borrowing from the public at a rate of interest which the company could pay. Its return on its investment is fixed by the regulatory agencies of the government in accord with the law and this rate of return which after taxes has now been fixed at 5.8 per cent obviously does not permit the company to have recourse to borrowing from private investors who can secure at least twice that rate of return through other forms of lending or investment, or more. Besides that the private investor does not yet have the confidence in the electricity industry which is necessary to induce him to lend money to that industry. Recourse to the private banks and institutions is also difficult as they are securing a higher rate of return on their loans than that which the company could pay within its possibilities, so that under the best circumstances the peso borrowing which the company could make from banks and institutions would be limited in quantity and for relatively short periods of time. Recognizing this situation, the Mexican Government has agreed to lend to the company through Series D first mortgage bonds of the company under the reorganized structure of the company, up to the amount of \$44,000,000 pesos during the period of the present construction program. This means that the remainder of the 152,000,000 pesos will have to be covered out of revenues of the company. These bonds will carry a rate of interest of 7 per cent. *what bank*

It should be noted in this connection that after the World Bank had given its approval to the reorganization plan of the company and before its presentation to the security holders of the company it was found that under the rate of return of 5.8 per cent net which the definitive tariffs of December 14, 1949 provide for the company, the earnings of the company would not be sufficient, together with the 44,000,000 pesos lending by the Financiera,

Financiera, to cover the peso costs of the program, and the bank therefore made it a requirement that the reorganization plan as submitted to the owners of the company should be further modified in the sense that there would be no amortization on the first mortgage bonds of the company, including those in the amount of \$26,000,000 dollars to be received by the bank for its loan, during the period of the construction program and that amortization should begin after December 31, 1952. It also required that although the company must be earning a reasonable return on the investment from the beginning of the loan and the reorganization plan being effective and therefore earning a dividend on its shares, no such dividend although earned was to be paid during the period of the present construction program. The monies which would ordinarily have gone into the amortization fund which is customary in the case of such bonds and which would have been available for dividends was to be used to make up the deficit for pesos during the period of the construction program. It is important to take note of these facts as they bring out so definitely that the owners of the company, after having had no dividends on their shares since 1913 and 1931 as already indicated, and as established in the published report of the Electric Tariff Commission on December 14, 1949, will not receive any dividends until the completion of the present construction program.

Definitive Tariffs of the Company.

The definitive tariffs for the Mexican Light & Power Company were established after a study of almost a year and a half of the company's financial situation and structure, its operating costs and obligations, and of the program of new works and of the economy of the country. This published study made by this responsible and competent agency of the government established that the rate of return on the company's investment

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had averaged approximately 3 per cent over a long period of years and had not enabled it to pay dividends on its common shares since 1913 and on its preferred shares since 1931, the holders of which shares are the real owners of the company as in the case of any other company, domestic or foreign. This ^{net} rate of return of 5.8 per cent established economic equilibrium in the company and the presence of the adjustment clause provided for in the electricity law and its regulations is intended to maintain that economic equilibrium established by the definitive tariffs. The adjustment clause permits appropriate adjustment to be made in the tariffs by the Electric Tariff Commission on the petition of the company whenever changes take place in the earnings of the company through increased labor costs, fuel costs, increased taxes ^{and} or certain other more minor costs of operation. The intent of the adjustment clause is to maintain the economic equilibrium of the company by providing it this fixed return of 5.8 per cent net on the investment.

The maintenance of this net rate of return through the tariffs is essential in order that the company may be able to meet its operating costs and fixed charges and for the reasonable return on the investment provided for in the law and has been shown as essential in order to carry forward the program of construction and the essential service to the public. As the rate of return is the absolute minimum on which the company can operate, any factor which upsets this economic equilibrium has to be readjusted as rapidly as possible.

As an indication of the delicacy of this economic equilibrium it may be noted that through the dry season a new factor has developed which disturbs this economic equilibrium and which has to be taken into account in connection with the progress on the construction program. The restrictions which have

have necessarily been placed in effect by the government as a result of the present water shortage will cause a decrease in the earnings of the company during the first half year of 1950 of ^{approximately} 16,000,000 pesos through decreased consumption, and the company during that period has increased costs for fuel in the amount of ^{approximately} 9,500,000 pesos due to the fact that the thermal plants of the company must operate at full capacity 24 hours a day. This means that approximately 26,000,000 pesos which would ordinarily have been available to the company out of its gross earnings and which had been counted upon for the construction program will have to be taken care of by it in some way or the construction program would have to be halted or diminished to a degree which would be dangerous for the economy of the country. Mention is made of this aspect only because it is an indication of the financial problems which must constantly be met by an industry regulated by government and which cannot of itself adjust its charges to the public as other producing industries can when they have to meet a situation of this kind.

The Collective Contract with the Workers of the Company.

The labor contract of the Mexican Light & Power Company with its syndicate will expire on April 30, 1950. In accord with the labor law and practice the syndicate presented its demands in connection with this revision to the company some weeks ago, and the company presented to the syndicate its demands in connection with the revision. The conversations between the company and the syndicate begin on April 10. ~~In accord with the law and practice,~~ should an agreement not be arrived at by April 30 ^{has already indicated its intention} ~~it is then in the power of~~ the syndicate to declare a strike of the company's workers which could become effective not before May 10.

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The workers of the company have now, under the existing contract, an average daily wage of approximately 20.22 pesos which together with social benefits gives the worker an average of approximately 35.02 pesos a day. This, it is believed, is the highest average wage of a worker in any industry in Mexico.

The demands of the company syndicate as expressed in their petition delivered to the company and which will be the basis of the beginning of the negotiations with the syndicate would imply additional cost for wages and social benefits of approximately 86,000,000 pesos a year. The present cost to the company under the existing contract of wages and social benefits is approximately 52,000,000 pesos a year. The syndicate is therefore asking approximately 86,000,000 pesos additional over the 52,000,000 present cost.

As has been shown in this memorandum, the economic equilibrium of the company was established through the definitive tariffs established on December 14, 1949. Any increase in wages through the present negotiation of a new contract with the syndicate, or in social benefits, would involve an increase in tariffs through the adjustment clause. If the requests of the syndicate as made in their petition were to be met the careful calculations of the company show that this increase of approximately 86,000,000 pesos would involve an increase in the tariffs now existing for the public of at least 40 per cent.

It may be noted in this connection that practically all of the increases in tariffs of the company in recent years have been made necessary by the increased costs of successive labor contracts of the company. This can be shown by appropriate statistics which are available. It is significant that while the last increase in the company's tariffs which was granted on December 14, 1949 for the purpose of establishing the economic equilibrium

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of the company and in order to make possible this great construction program indispensable for the economy of the central area and the wellbeing of its population was in the amount of 17.8 per cent average, while the demands of the syndicate for its workers, which are already the best paid in the Republic, would involve for increases in wages and social benefits for them an increase of approximately 40 per cent over the present tariffs.

The authorities of the government are aware, through the study of the company's financial situation and needs and operation, that any increase in wages and social benefits must be accompanied by an increase in the tariffs now prevailing, which increase would have to be made effective under the adjustment clause in the shortest possible time in order to maintain the economic equilibrium of the company and to enable it to continue to operate and to pursue the program of works. The government is aware that the claims of the syndicate that any increase in wages and social benefits, no matter how small, could be paid out of the earnings of the company under its structure and tariffs are utterly unrealistic and unfounded. It is further aware that any increase in the wages of the workers of the company would set a serious precedent for labor contracts in other industries in view of the fact that the workers of the company are already the best paid in the country. The government is also aware that granting any increases to the workers of the company at this time would inevitably have its repercussions in the economic structure of the country and particularly in prices of other commodities.

~~The necessity for the company to secure improvement through the negotiation of a new labor contract or clauses of the present contract so as to give it greater control of management and operation.~~

The Necessity of the Company to Secure Improvement
Through the Negotiation of a New Labor Contract of
Clauses in the Present Contract so as to Give it
Greater Control of Management and Operation.

Through the handicaps from which the Mexican Light & Power Company has suffered, which have affected also other public utilities, the workers have made encroachments through clauses in the collective contracts on management and operation which make it now impossible for the company to operate, in its interest, in the interest of the public and in the interest of the economy, in an adequate manner.

Although the company has some 5,000 permanent workers it has only some 20 representatives of the owner and some 50 employees of confidence in the organization. This is utterly inadequate for the management and operation of so large a company and which must give prompt, adequate and courteous service to the public. Every effort which the company has made in order to improve its service to the public, and there have been many, has been thwarted by the syndicate and by its threat to create situations in the company which would prevent its functioning, if these improvements were carried through. There are many complaints, and justified complaints, of the public with regard to the slow service in the company offices in connection with payment of bills, the making of new contracts, etc. There are many complaints with regard to the carelessness of the employees in reading meters. in delivering or collecting bills, and in inadequacies in service outside of the company offices. The company has made innumerable and continuous efforts to correct these situations, but when it wishes to sanction an employee of proved incapacity, negligence or even malfeasance, it is not able to separate or sanction the employee, although the facts are clear, through the intervention of the syndicate. The company does not have
sufficient

sufficient employees of confidence through whom it can give instructions and directions to its workers. The company has been and is living under constant threats of such acts as not permitting extra time, substitutions and other ordinary procedures of operation. The syndicate is constantly creating problems in the operation of the company which involve increased costs of operation and which ultimately find their reflection in operating costs and tariffs. Increasingly the endeavors of the syndicate are in the direction of taking over management functions. There have been cases of direct intervention by syndicate officials, including the head of the syndicate, in operation which took place in the offices of the company itself.

Detailed statements of these arbitrary acts of the syndicate and incidents to show the decreased ability of the company to operate efficiently and to give the service to its customers which it wishes to give and should give can be adduced and it is the intention to make these known to the public. This latter procedure seems to be essential in view of the fact that the consuming public is naturally placing a good deal of the responsibility, if not all, of these inadequacies in service on the company, when as a matter of fact the company has made every effort to improve these services.

It would seem necessary in the interest of the consumers and of the economy of the country to make it clear once and for all to the public that this highly paid group of workers, through its syndicate leaders, is making it impossible increasingly in a public service to render proper service and that the activities of the syndicate and its exigencies are increasingly becoming a menace to the operation of this vital public service in which every single individual in the central area has such a vital interest.

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The company has made it clear to the appropriate officials of the government that while it cannot pay a single peso of increase in wages or social benefits without reflection in the tariffs through the operation of the adjustment clause, it considers that the necessity for changes in the collective contract which will make it possible for the company to have control of operations and service is even more important and essential than the economic repercussions to the public of an increase in wages and social benefits. The electricity industry has become so vital a public service in the country that neither government nor the public nor individual sectors of the population can permit that a single group of some 5,000 workers, by unreasonable demands and improper attitudes, interfere with the development of the economy of the country through retarding or making impossible the proper operation of a public service of interest to all and the realization of a construction program of new works which is essential to the wellbeing of all.

The company must therefore be insistent in its demand that through the revision of this labor contract it secure that adequate control of management and operation which it is its duty to itself and to the public to insist upon.

Necessity for Reasonable Treatment of
the Private Electricity Industry.

The problems of the Mexican Light & Power Company with respect to financing, operation and programs, etc., which have been referred to in this memorandum do not differ in nature, but only in scope, from those of other private companies, Mexican and foreign, in the country and do not differ essentially from the problems of the Federal Power Commission. As the Mexican Light & Power Company produces over 50 per cent of all of the current produced in Mexico, and practically all of the current produced

in the central area except that from the Ixtapantongo plant of the Federal Power Commission, it is naturally the most important factor in the electricity situation.

The definitive tariffs, or rather the rate of return under the law fixed for the Mexican Light & Power Company on December 14, 1949 is therefore in a large measure a norm which the government has established as the reasonable rate of return for the privately-owned power industry in Mexico. Whether the Mexican Light & Power Company and other privately-owned companies in the country will be able to meet the requirements on them for power in a rapidly developing economy, on the basis of this rate of return of 5.8 per cent net on the investment, remains to be seen.

It would be futile to hope that the problem could be met better in any other way than under the present policy of the government already set forth in this memorandum. The expropriation of the present privately-owned plants, Mexican and foreign, and their nationalization and their operation by government through the Federal Power Commission or through some other agency of government, would not solve the electricity problem but would aggravate it. The financing problems of the industry, both in foreign currency and in pesos, would remain the same. The foreign financing which is absolutely essential now and for some years to come would still remain indispensable but would be harder to get. The universal experience in all countries is that government operation of a public utility and construction of facilities is more costly under government operation than through private operation. The financing problem of operation and construction under government ownership and control and operation would remain the same and would be further aggravated. The cost of the service to the public would necessarily be higher through the electricity tariffs unless

unless the government were in a position to subsidize the government monopoly, and this would involve financial burdens on the government of extraordinary character on top of those already involved through the operation of the railways and the oil industry. The large sums necessary for new construction if economic development of the country is to continue could only be met by government if it decreased expenditures for such other essential works as irrigation, roads, schools, public health and other essential public services and improvements.

The Importance to Industry and Commerce of the
Private Electric Industry.

Even the most casual student of the economic structure of the country will observe that the private electricity industry which has since its inception, and since the use of electricity for power began in the country, met the needs of the industry, has not been able to pay a return of more than approximately 3 per cent on the investment. In the meantime it has made possible the development of many kinds of industrial development which it is considered must render a minimum return of 10 per cent or more on the investment per year. The electricity industry, therefore, under great deprivation and vicissitudes, has rendered a great service to industry which it cannot, with the increased demand of industry, be able to continue to satisfy unless it receives more reasonable treatment as a private industry. The policy of the government is in the direction of such adequate attitude and reasonable treatment. The ~~public~~ of certain sectors of the syndicate is to make the operation of the private industry impossible. The percentage of labor and social benefit costs in the electricity industry in relation with the gross earnings is already very much higher than it is in the United States and in most countries and the tendency is constantly for such percentage of labor cost to rise. If this tendency is not arrested it

will lead to the impossibility of operating the private industry and with inevitable consequent effects on electricity tariffs which will find their reflection in the whole economic structure of the country and in the retarding of practically all industrial development. The matter is therefore one of primary interest to industry and commerce.

How the Private Electricity Industry has met the
Needs of the Economy.

There is appended hereto a pamphlet prepared by the Mexican Light & Power Company giving a few pertinent facts concerning the company's installations; showing that it had practically doubled its production capacity in the last five years; has carefully planned and has under way a new construction program which will meet the needs (together with the program of the Federal Power Commission) to 1955; and that it is taking the appropriate steps through provision of thermal capacity to prevent interruptions or inadequacies of service in dry years.

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