

Decree of liquidation of the power distribution company:

“Compañía de Luz y Fuerza del Centro”.

Felipe de Jesus Calderon Hinojosa, President of the United Mexican States, in exercise of the power vested in me by Article 89, Section I of the Constitution of the United Mexican States, based on Articles 27, 31, 32, 32 -bis, 33, 34, 35, 36, 37 and 40 of the Organic Law of the Federal Public Administration, 15 and 16 of the Federal Law of Semi-Public Entities; 1o., 2o., 4th., 6o., 7th. , 8o. and 9th. of the Electricity Public Service Act; 1o., 76 and 78 of the Federal Law on the Management and Disposal of Public Sector Assets and 4, Section II of Ordinance Expenditure Budget of the Federation for Fiscal Year 2009 and

WHEREAS

That the opening of the electricity industry in our country began in the late nineteenth century, however, it was until the early twentieth century when exploitation flourished and private investment, mostly foreign, prevailed for the year 1930, controlling 70 percent of installed electricity generating capacity;

That under the 1917 constitutional regime free competition between companies operated, which favored the most profitable niches, leaving out of their business goals service to small cities and rural areas;

That by 1940 service coverage reached only half of the population, it was considered of poor quality by virtue of the continued and prolonged interruptions or changes as presented in voltage and frequency as well as by the high price of tariffs;

As a consequence of the discontent with electric companies, by domestic users, industry and agriculture, as well as for the growing demand for the nationalization of the electricity industry, by decree published in the Official Gazette on 24 August 1937 issue of the Act establishing the Federal Electricity Commission, responsible for organizing and managing a national system of generation, transmission and distribution of electricity, based on nonprofit technical and economic principles and on February 11, 1939 the Electricity Industry Act was issued, in order to regulate companies engaged in this activity;

That given the need to increase the supply of electricity to meet the growing demand that the progress of the country required, in 1960 the Federal Government ordered the nationalization of the electricity industry through the acquisition of shares in the concessionaire companies, and ordered the exclusivity of the nation for generation transmission, transformation and distribution of electricity supply which has the purpose of public service delivery

by adding a sixth paragraph of Article 27 of the Constitution, published in the Official Gazette of 29 December 1960, noting that in this matter concessions to individuals will not be granted and that the nation will control the natural assets that are required for these purposes;

That one of the objectives of the nationalization of the electricity industry was to consolidate, into one company, the provision of electricity as a public service, in order to meet demand throughout the country under the same standards of quality and efficiency, so In December 1974, a presidential agreement that authorized the dissolution and liquidation of company Luz y Fuerza del Centro S. A., Compania de Luz y Fuerza Electrica de Toluca SA, Compania de Luz y Fuerza de Pachuca S. A., and Compania Mexicana Meridional de Fuerza, S. A., and the Federal Electricity Commission, to acquire ownership of those assets and rights was published;

That, on the other hand , the Electricity Public Service Act, regulation of the mentioned constitutional addition, published in the Official Gazette of 22 December 1975, reiterated the constitutional formula and expressly stated that the provision of public power corresponding to the Nation, would be headed by the Federal Electricity Commission;

That same system, through its transitional regime annulled the concessions and also ordered the dissolution and liquidation of existing concessionary companies, under the logic that the Federal Electricity Commission took over the services provided by such dealers and was in a position to meet with their legal order to consolidate the service nationwide;

That despite the foregoing, to the detriment of the provisions of the Electricity Public Service Act, provision of services by the Federal Electricity Commission at the national level could not be accomplished under a variety of extralegal causes and the difficulties of completing the liquidation of the concessionaire companies, which led in 1989 to reform of the fourth transitional article of the Act establishing that the Federal Executive will provide for the establishment of a decentralized agency charged with providing the public service that the concessionaries that were in dissolution and liquidation used to provide, so that by presidential decree of 9 February 1994, the independent agency, power-distribution company (Compañia de Luz y Fuerza del Centro) was created;

That since its foundation, the decentralized organization has continued to receive substantial budgetary transfers, which far from reducing have been increased in recent years; is adequate to note that from 2001 to 2008, such transfers increased by more than two hundred percent and that for this year such transfers will come up near 41.945 million pesos, to continue the same behavior, it is estimated that it could reach a total of 300 billion pesos during the present administration;

That the costs of Luz y Fuerza del Centro almost double its sales revenue, from 2003 to 2008 recorded sales revenue of 235.738 million pesos, while its costs were of \$ 433,290 million pesos (including electricity purchased from the Federal Electricity Commission);

That the working body records a liability of 240 billion pesos, of which only 80 billion are for active employees and 160 billion are retired staff ;

That the results reported by the power-distribution company (Compañía de Luz y Fuerza del Centro) are significantly lower than those of other companies or agencies providing the same service internationally, including in respect of which has reported the Federal Electricity Commission, because, among other reasons:

a) The percentage of total energy losses of the power-distribution company (Compañía de Luz y Fuerza del Centro) is excessive and almost three times higher than those presented by the Federal Electricity Commission. In June 2009, the power-distribution company (Compañía de Luz y Fuerza del Centro) lost 30.6% of energy, while said Commission had lost 10.9%, almost no power company in the world records the percentage of losses that the power-distribution company (Compañía de Luz y Fuerza del Centro) presents,

b) In 2008, the power-distribution company (Compañía de Luz y Fuerza del Centro) lost 32.5% of the energy that generates and buys to sell. The estimated value of these total losses amounted to nearly 25 billion pesos, representing 52% of total sales revenue of the organism, and,

c) In the best of cases, the unit costs of works executed by the power-distribution company (Compañía de Luz y Fuerza del Centro) are 176% higher than the costs of the Federal Electricity Commission;

That in December 2008, the power-distribution company (Compañía de Luz y Fuerza del Centro) did not address several requests to provide service, that as a whole, represent twice the demand in Acapulco. The lack or insufficiency of power supply is an important factor that can inhibit the decision to invest consequently this situation is not sustainable;

That presented circumstances and issues have been known by the Superior Audit of the Federation, which on the occasion of the review and audit of the Public Account 2006, recommended "... that the Energy Secretariat will coordinate with the Secretariat of Finance and Public Credit to assess the desirability of studies that support the possibility of proceeding in terms of what is stated in Article 16 of the Federal Law of Parastatal Entities, which states that 'Where a decentralized agency created by the Executive fails to comply with its purpose or object or operation may not be as desirable from the standpoint of

the national economy or the public interest, the Ministry of Finance, taking the opinion of the Sector Coordinating Unit as appropriate, recommends to the Federal Executive dissolution, liquidation or termination of one’.

That taking into consideration all that previously was exposed it can be concluded that not only that financial self-sufficiency of the power-distribution company (Compañía de Luz y Fuerza del Centro) has failed to be achieved but that the decentralized body Subsists by the transfers made by the Federal Government to sustain it and that far from achieving the equivalent rates respect to the domestic sector, the operation of the power-distribution company (Compañía de Luz y Fuerza del Centro) nowadays represents a cost so high that it is not convenient for the national economy or the public interest;

As above, coupled with economic conditions resulting from global crisis ,it is imperative the adoption of measures to strengthen the economic viability of the country through the most productive use of public resources, removing inefficiencies that squander public funds;

That the proven operational and financial inefficiencies of the decentralized agency in question leads to the conclusion that, following the principle of efficient performance of public spending, the power-distribution company (Compañía de Luz y Fuerza del Centro) must be extinguished, grounded in that its operation is no longer convenient from the point of view of national economy and public interest for the reasons already stated;

That, in this sense, the Federal Law of Parastatal Entities establishes as causes of extinction of an independent agency, created by the Federal Executive, that it no longer fulfills its purpose or object or operation may not be as desirable from the point of view national economy or the public interest, what stated, in order to preserve those that are precisely the reasons justifying the existence of the decentralized organism;

That attentive to this, the Energy Secretariat, in its capacity as coordinator of sector, considering the updating of the causes of extinction under the Federal Law of Parastatal Entities, dated September 28, 2009 proposed divestiture by extinction of power-distribution company (Compañía de Luz y Fuerza del Centro) ;

That the Interdepartmental Commission of Public Expenditure, Finance and Privatization, in its meeting dated 5 October 2009, issued a favorable opinion regarding the proposed divestiture by extinction and the subsequent liquidation of the decentralized organism power-distribution company (Compañía de Luz y Fuerza del Centro) ;

That in view of the foregoing, the Secretariat of Finance and Public Credit, submitted for consideration by the Federal Executive on which I hold office the

referred proposal of divestiture, on the grounds that the operation of power-distribution company (Compañía de Luz y Fuerza del Centro) is not desirable from the point of view of the national economy or the public interest;

That the Federal Law stipulates that the Public Enterprises in the extinction of decentralized agencies must observe the same formalities established for their creation, so that whenever the power-distribution company (Compañía de Luz y Fuerza del Centro) was created by decree of the Federal Government, its extinction should be done through an instrument of the same nature;

That, based on all the foregoing, the present Decree is to extinguish the decentralized body Luz y Fuerza del Centro, which will retain its legal personality only for the liquidation process, in order that obligations are met by the agency against third parties;

That upon the termination of the power-distribution company (Compañía de Luz y Fuerza del Centro) that is decreed in this instrument and the consequent disappearance of their management bodies, administrative units and other spheres of functioning, it is essential the involvement of a liquidator. In this regard, the Federal Law on the Administration and Property Disposal gives the Management Service and Property Disposal the allocation to liquidate the decentralized agencies of the Federal Public Administration;

That law empowers the referred Management Service and Property Disposal to appoint custodians, liquidators, supervisors or managers to fulfill its purpose, noting that such designations will fall mostly in the departments or entities of the Federal Public Administration;

That the Management Service and Property Disposal has powers to take steps to ensure that the goods of the body cease to be assigned to the provision of public electricity and others that are necessary for achieving this are used for that purpose as provided by the Electricity Public Service Act;

It is the duty of the Federal Government under my direction to respect the rights of workers while extinguishing the power-distribution company (Compañía de Luz y Fuerza del Centro), so it expressly provided that the award amounts will be covered, taking into consideration the provisions of the Federal Labor Law and the Collective Labor Contract likewise be respected acquired rights of workers:

That in that sense and taking into account that the power-distribution company (Compañía de Luz y Fuerza del Centro) is a decentralized agency of the Federal Public Administration, all rights and obligations resulting from his termination shall vest in the Federal Government, and

That in order to make better use of resources of citizens and to ensure the whole country the same standards of quality in the provision of electricity as a

public service, serving as ordained in the Electricity Public Service Act I had to issue the following:

DECREE

Article 1.- The decentralized organism Luz y Fuerza del Centro is extinguished, which will retain its legal personality only for purposes of liquidation.

Article 2 .- The liquidation of the power-distribution company (Compañía de Luz y Fuerza del Centro) will be in charge of the Management Service and Property Disposal, for which have the broadest powers for acts of administration, domain and lawsuits and collections, and to underwrite or provide evidence of credit, including those that, in any matter requiring special clause or power in terms of the applicable provisions and to take any action that contributes to a swift and efficient settlement process.

The Management Service and Property Disposal, by itself or through third parties in terms of the applicable requirements immediately will intervene to take control and have all types of property, rights, assets, lawsuits, obligations, liabilities, contracts, Conventions and resources as well as to prove the termination of the management bodies, administrative units and other bodies operating the power-distribution company (Compañía de Luz y Fuerza del Centro).

The Management Service and Property Disposal shall take immediate measures to which the goods of the extinguishing organism to be assigned to the provision of public power in the geographic area in which before the issuance of this decree the power-distribution company (Compañía de Luz y Fuerza del Centro) was providing service., and others that are necessary for that service, are used for that purpose as provided in the Law of Public Electricity Service.

Article 3 .- The Energy Secretariat, in its capacity as coordinator of the sector, will indicate the basis for conducting the liquidation resulting from the extinction of the power-distribution company (Compañía de Luz y Fuerza del Centro, which must consider the efficiency, effectiveness and transparency at all times of the liquidation process, and adequate protection of public interest.

The administrative unit of the Energy Secretariat acting as coordinator of sector, will be responsible of the divestiture process for termination of the power-distribution company (Compañía de Luz y Fuerza del Centro), in accordance with the provisions of this Decree and other applicable provisions, also resolved any situation inherent in that process, without prejudice to the powers of the Interdepartmental Commission of Public Expenditure, Finance and Privatization.

The Secretariat of Finance and Credits and the Energy Secretariat, within the scope of their powers, will undertake the actions leading to the Management Service and Property Disposal, in his capacity as liquidator, receive the resources needed, depending anticipated needs, to deal with the liquidation the power-distribution company (Compañía de Luz y Fuerza del Centro).

Article 4 .- The labor rights of workers of the power-distribution company (Compañía de Luz y Fuerza del Centro) will be respected and the related compensation will be made as provided by the Collective Contract Agreement, the Federal Labor Law and other applicable ordinances.

The secretaries of finances and Public Credit, Energy and Labor and Social Welfare in the field of their respective responsibilities will coordinate with the Management Service and Property Disposal to the effect that the compensation outlined in the preceding paragraph be paid in shortest time possible under the applicable provisions.

Article 5.- The Federal Government will guarantee the payment of retirement benefits granted to employees of the power-distribution company (Compañía de Luz y Fuerza del Centro) . To this end, the Secretariat of Finance and public credit and the Secretariat of Energy, within the scope of their powers, will undertake the actions leading to the Management Service and Property Disposal receives the resources needed, depending on the likely requirements , to fulfill obligations to retired employees of the power-distribution company (Compañía de Luz y Fuerza del Centro), under the resources to be established for this purpose in the Expenditure Budget of the Federation.

Article 6 .- The balances that are at the conclusion of the divestiture process will take appropriate in terms of the applicable provisions.

Article 7 .- The Secretariat of the Interior, in exercise of the powers conferred by law, shall at all times guardian the constitutional order and the institutions of government.

TRANSITIONAL ARTICLES

FIRST .- This Decree shall enter into force on the day of its publication in the Official Gazette.

SECOND .- It is repealed the decree which established the decentralized organism, Luz y Fuerza del Centro, published in the Official Gazette on 9 February 1994.

THIRD .- The Secretariat of Energy shall publish in the Official Gazette bases to carry out the liquidation of Luz y Fuerza del Centro, within three working days after the entry into force of this Decree.