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Newsletter

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Latin America Quarterly Energy Update

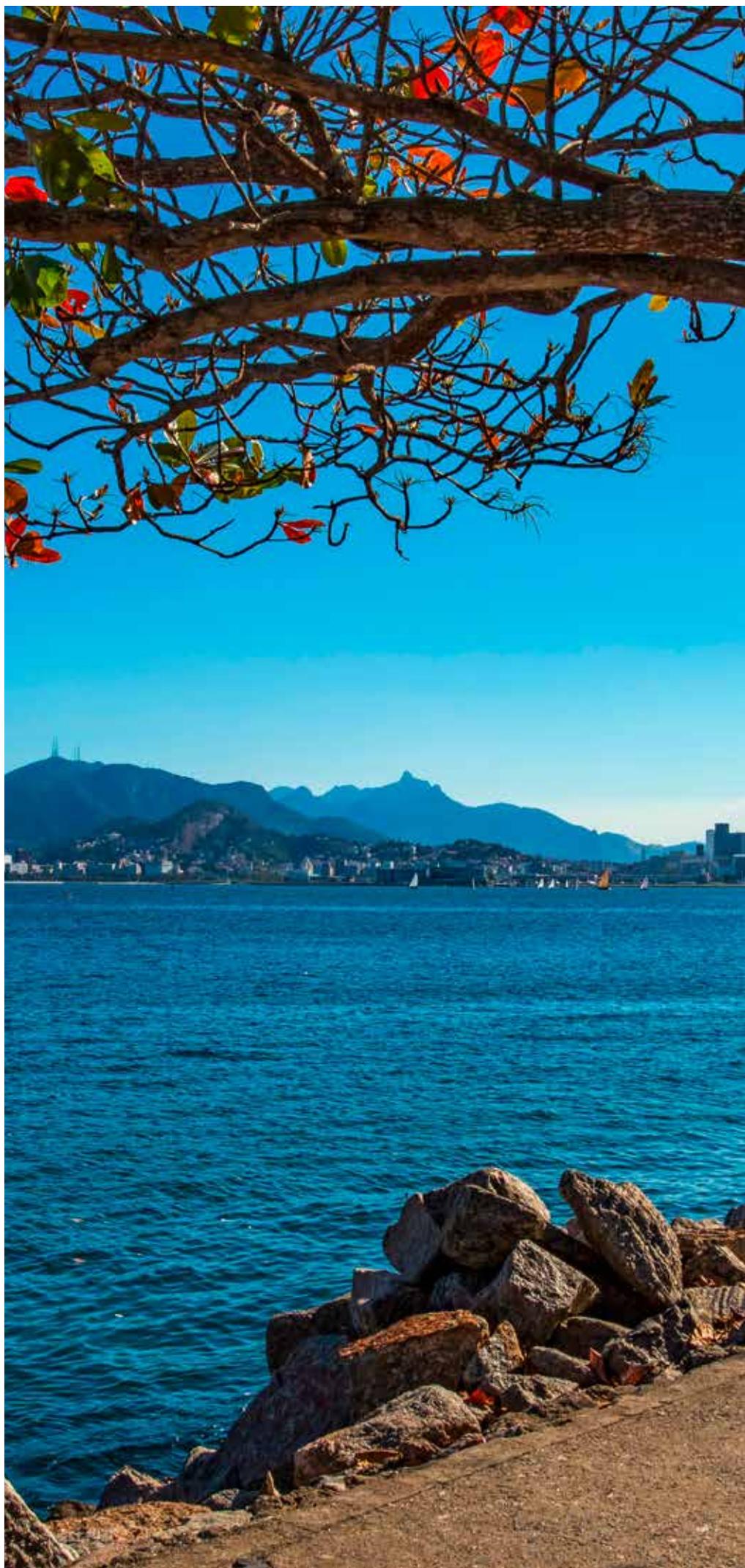
Brazil

Bolsonaro's appointments in the energy sphere

Shortly after taking office, Jair Bolsonaro, Brazil's newly elected President has commenced a wide ranging overhaul in the leadership structures of Brazil's government owned energy companies. In a flurry of appointments and resignations, Roberto Castello Branco, a Brazilian economist and close friend of Economy Minister Paulo Guedes, took up the role of President of Petrobras, Brazil's state owned oil company. By mid-January the Board of Directors of Petrobras, announced the appointment of Admiral Eduardo Bacellar Leal Ferreira as Chairman, amongst several other appointments. Petrobras has faced a long battle to restore its reputation after the Car Wash corruption scandal. It has done so, for the most part, by implementing a rigorous governance system, including independent board members. Some are concerned that these new political appointments run counter to those governance mechanisms, and undermine the board members' mandates.

On a governmental level, Bolsonaro appointed Admiral Bento Albuquerque to the position of Minister of Mines and Energy. Prior to his appointment, Admiral Bento Albuquerque was Director General of Nuclear and Technological Development with the Brazilian Navy, and he is expected to prioritise completion of the long-delayed Angra III nuclear power plant.

The head of Eletrobras, Wilson Ferreira, was maintained, and with him the plan to privatise this state-owned electricity holding company. He has long supported plans first formulated under the previous government of Michel





Temer to sell Eletrobras shares currently held by the state, following separation of Eletronuclear, the nuclear power generation unit, and Itaipu Binacional, which holds the Brazilian interest in this huge hydropower station on the border with Paraguay.

Bolsonaro's sweeping management changes are reminiscent of those made by the Workers' Party, the PT, when it came into power in 2003. Bolsonaro has appointed five military officers as ministers in his government and a number of people who have never held senior government positions and do not fully dominate the political sphere. That may be justified by his stated desire to depart from the patronage politics that has long tainted policy making in Brazil, but his push to promote personal friends has done little to establish a reputation of meritocracy.

Supreme Federal Court rules on suspension of Petrobras divestment

In April 2018, a presidential decree by Michel Temer reinforced an earlier agreement made between the TCU, Brazil's federal audit court, and Petrobras to establish procedures for the sale of oil and gas exploration, development and production rights held by the state owned oil company. Petrobras' current five year business plan contemplates the sale of USD 26.9bn worth of assets, to de-leverage, introduce competition into midstream and downstream sectors of the energy industry, and to focus on its core strategic priorities, particularly exploration and production in the prolific pre-salt province. However, a number of lawsuits by labour unions slowed the sale of some particular assets, and in some cases, even prevented sales entirely, on the arguments that the proposed sale was not subject to public offer. In December, Justice Marco Aurelio Mello from the Supreme Federal Court granted an injunction in a lawsuit brought

by the Workers' Party, the PT, suspending the efficacy of the presidential decree. PT alleges that procedures for the sale of Petrobras' assets may not be established by a presidential decree, but only by a federal law. The effects of the decision, although ambiguous, cast doubts about Petrobras' ongoing sale of its exploration and production assets. The decision could have caused difficulties for companies in consortia with Petrobras such as Shell, Exxon Mobil and Equinor, since it could undo parts of the decree that streamlined the procurement process for these consortia.

In a recent turn of events however, Chief Justice Jose Antonio Dias Toffoli temporarily restored the presidential decree. Petrobras announced in January that it would resume the publication of exploration and production divestment opportunities. Toffoli's decision is valid until 27 February 2019 when the full Supreme Court will hear the case.

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Chile

Lithium production in Chile will triple in 2022 after record investments committed.

According to the latest cadastre of the Chilean Copper Commission (Cochilco), the portfolio of lithium initiatives exceeds USD 1,800m, this is a growth of 276% compared to 2017.

If investments are made in local territory, Chile will triple its production of lithium carbonate equivalent, aiming at around 240,000 tons, which contrasts with the 80,417 tons in 2017.

The year of the electric take-off in Chile.

During the year 2018, more than 1,000 vehicles with alternative propulsion (conventional hybrids, plug-in hybrids and pure electric) were sold, according to figures from the National Automotive Association of Chile.

Chile will have the largest electric charger network in South America.

A total of 23 electric charging points will be made available by Petróleos de Chile, COPEC, between the communes of Puchuncaví and Concepción (approximately 700km), 20 of which were presented this Thursday at a ceremony attended by the Ministers of Transport, Gloria Hutt; of Energy, Susana Jiménez, and of the Environment, Carolina Schmidt.

The new stations include 19 points that allow charging 80% of the battery in 20 minutes, plus one ultra-fast charge of 75KW, the first of its kind in South America, for the new models of electric cars that will arrive this year, whose batteries can be charged in less than eight minutes.

The complete network will be operational from 31 January 2019.

There are currently 44 electric charging stations in the country, which are expected to increase to 150 during 2019.

It is estimated that by 2040, 100% of public transportation in Chile will be electric.

Undersecretary of Transportation, José Luis Domínguez, announced that the government's goal of electrifying 100% of public transport was advanced by ten years, from 2050 to 2040, due to the greater presence of electro-mobility in buses and the increase in Metro lines, which are planned to be extended to further regions.

"With the implementation of the third millennium transport plan that promotes transport on rails (of the Metro) and electro-mobility, we are able to be ambitious and anticipate that 100% of public transport will be electric before the year 2040, ten years ahead of the goal we had previously set,"

said the authority in the framework of the signing of the Public-Private Agreement for Electro-mobility, involving companies, universities, technical training centres and public bodies.

Energy demand will increase by 41% in the mining sector during the next decade.

The Chilean Copper Commission (Cochilco) published the key findings from the studies prepared by its specialists on the Projection of Water Consumption and Electric Power of Copper Mining 2018–2029.

Cochilco expects a sustained increase in seawater consumption in large copper mining operations in the next decade.

"It is projected that the consumption of seawater will be increasing, reaching 10.82m³ per second by 2029, which represents an increase of 230% compared to the expected value for 2018. With this, 43% of the total water required in the copper mining industry will come from seawater, as more and more mining companies are joining the construction of their own desalination plants or using seawater directly to face the scarcity of this resource."



Likewise, Cochilco presented the results of the report “Projection of Electric Power Consumption in Copper Mining 2018–2029”.

“Mining is already an intensive energy consumer in Chile and projections estimate that the demand for electric power will increase 41% in the next 11 years.”

The expected electricity consumption will grow from 22.6TWh to 31.9TWh between 2018–2029. To meet the expected demand for copper mining, it would be necessary to add an electric generation capacity of 1,336MW in the 2018–2029 period.

Renewable energies advance in 2018 and exceed 20% of the electricity matrix in the country.

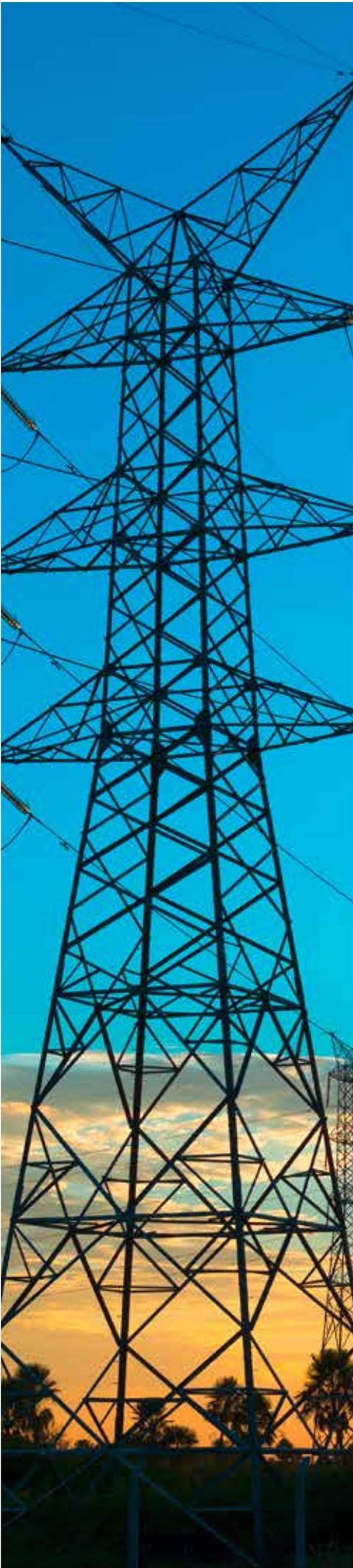
Renewable energies represent 20.8% of the electricity matrix in Chile, according to data provided by the energy minister, Susana Jiménez and the economy undersecretary, Ricardo Irarrázaval.

The authorities affirmed that renewable energies had an increase of 2.9% during the year 2018 when compared to the year 2017, when they represented 17.9% of the matrix. In addition, almost 92% of the 715MW that began operating in the national electricity system during 2018 were based on renewable energies, mainly solar (59%) and wind (32%).

Another of the highlights was the increase in electricity demand, which experienced an increase of 2.8% in 2018, compared to 0.8% in 2017.

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Colombia

The ANH adopts measures for the reactivation of the exploration and production of hydrocarbons in Colombia

According to the National Hydrocarbons Agency (ANH), exploration and production (E&P) contracts relating to new areas in Colombia have not been signed for more than four (4) years. Therefore, the Board of Directors of the ANH adopted two measures to reactivate the search for oil and gas as part of its strategy to increase reserves in the country. On the one hand, it resumed a system whereby companies can apply to explore areas of interest and on the other, it introduced several changes in the contracting model for exploration and production (E&P) of offshore hydrocarbons.

Permanent Area Assignment Procedure (PPAA)

At the end of 2018, the ANH terminated the Permanent Competitive Procedure 2018 because the Constitutional Court, in judgment SU-095/2018, ordered the ANH to put into practice a procedure that allowed for coordination and concurrence between the state and regional authorities for the definition and determination of the areas for hydrocarbon E&P.

In December 2018, the Agency published the updated Area Map as a first step to resume the process that had been suspended. Thus, it selected 20 strategic blocks (18 continental and 2 offshore) with high prospectivity over which it will receive proposals from interested companies at any time without having to open a round for their award. Additionally, the

ANH included the available areas on which interested individuals could make requests for the incorporation of areas and for the Agency's Board of Directors to delimit and classify them, to also be assigned through the new PPAA. Thus, the PPAA will remain open for any other available area and individuals will have the possibility of choosing for which of them to submit a proposal for the award of a contract at any time.

Subsequently, on 1 February 2019 the Board of Directors of the ANH approved the draft terms of reference of the PPAA, which is already published for the submission of comments by interested parties.

Some of the features that stand out from the draft terms of reference published are the following:

- (i) the qualification of a proponent is valid for the entire PPAA and
- (ii) allows any proponent to present a counteroffer against the initial proposal for hiring of an area.

According to the published schedule, the stage of qualification of the interested parties will be carried out initially from 15 February, opening the possibility for new interested parties to be presented later. The contracts are expected to be concluded at the beginning of June of this year.

Adjustments to the offshore E&P contract model

In order to respond to the expectations and concerns of companies in the oil industry and communities, on 1 February the ANH approved some modifications to the form of the Offshore E&P Contract to continue with the



reactivation of the sector. These adjustments are mainly related to four issues:

- (i) the designation of the seat of the arbitration tribunal to resolve disputes that arise in the framework of the contracts and the moment when this is to be agreed;
- (ii) the inclusion of a percentage of additional participation of at least 5% for the state at the time of extending the contracts;
- (iii) the addition of a clause that extends the terms of coordination and concurrence between the state and the regional authorities, as required by judgment SU-095 of 2018; and
- (iv) the inclusion of improved conditions for the communities surrounding the operations in the clause relating to the Communities Benefit Programs.

In addition to the foregoing, the structuring of the number of phases of the Minimum Exploratory Programs was made flexible for nine (9) blocks that currently have an Evaluation Contract (TEA) and have requested the conversion to the Offshore E&P Contract. With the above, the ANH hopes that in the coming weeks these nine (9) first contracts can be signed with companies such as Andarko, Shell, Repsol, ExxonMobil and Ecopetrol.

There are 27 companies interested in the first auction of unconventional renewable energy contracting in the country

The Ministry of Mines and Energy, through the Mining and Energy Planning Unit (UPME), called for the first long-term electric power auction through which the government seeks to award long-term annual energy contracts to cover an objective demand of 1,183,000MWh/year.

On 31 January, the deadline for interested sellers and buyers to present the packet of documents to prequalify closed. As a result, 27 companies expressed their interest in participating in the auction.

For the generation and sale of energy, 15 companies with generation projects presented interest, representing a total installed capacity of 1,500MW, from non-conventional renewable energy sources (FNCER) comprising of: 17 solar energy, 4 wind energy and 1 of biomass. Concurrently, 12 companies presented themselves for the purchase and subsequent distribution and commercialization among users.

On 20 February, the UPME will inform the interested parties, which projects meet the requirements (technical, financial and legal) for the sale of energy, as well as the companies interested in the distribution and commercialization that were authorised for the purchase. These are the only companies who will be able to participate in the auction that will take place on 26 February.

Within the characteristics of the auction, the following are highlighted:

- (i) the start date of the generation obligations will be 1 December 2021 for a term of 12 years and
- (ii) the auction will only consider new generation projects, that is, only those that have started operations after 31 December 2017, with installed capacity equal to or greater than 10MW.

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Mexico

Cancellation of the long-term auction 2018.

On 31 January 2019, the National Energy Centre and the Energy Secretariat issued orders for the cancellation of the fourth long-term auction. This auction was suspended since 3 December because, according to a statement by the authorities, it was necessary to analyse the objectives and purposes sought through this mechanism.

Now, after the declarations made by the Secretary of Energy and the National Energy Centre, it is uncertain whether an auction will be held for the year 2019 and even for subsequent years.

As a result of the above, groups of businessmen, participants in the wholesale electricity market and political opposition parties, amongst others, have expressed their disagreement with the decision taken by the authorities.

Integration of the Energy Regulatory Commission

The Governing Body is the supreme decision-making body of the Energy Regulatory Commission. It is composed of seven commissioners, including the president commissioner. The commissioners are appointed by the Executive Branch and ratified by the Senate of the Republic.

Currently, four positions are vacant. President Andrés Manuel López Obrador has presented several short lists of candidates, but the candidates have disappointed the Senate Energy Commission by demonstrating a lack of knowledge in energy matters.

Members of the political opposition parties, propose to reform constitutional article 28 to implement a process transparent and independent of political interests in the selection of vacant positions. This proposal is being analysed by the United Commissions on Constitutional Points and Legislative Studies.

Provisions in the field of energy storage

The Energy Regulatory Commission is in the process of preparing general administrative provisions regarding energy storage. As stated by the commission, these provisions are not aimed at a particular storage technology; its main objective is that energy storage has multifunctional features to make it profitable.

Storage will allow the deferral of time for consumption of electrical energy, to diminish momentary cuts and to reduce voltage variations, amongst multiple other benefits.

Currently, the project is still being prepared by the Energy Regulatory Commission and no preliminary version has been published for consultation by individuals.

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Peru



Bolivia brings its gas to the Peruvian market

The Minister of Energy and Mines of Peru, Francisco Ísmodes and the Bolivian Minister of Hydrocarbons, Luis Sánchez, held meetings on the possibility of importing Bolivian gas to supply the southern regions of Peru.

Likewise, the Bolivian Minister announced that Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), the Bolivian state oil company, will participate in the tender for the “Seven Regions” project, an initiative that would be tendered by the Private Investment Promotion Agency – ProInversión, in the first half of this year and which seeks the construction of a natural gas distribution system by pipeline networks in the regions of Cusco, Puno, Ayacucho, Huancavelica, Apurímac, Ucayali and Junín.

He also mentioned his interest in installing an LNG plant in southern Peru to diversify the markets where Bolivian gas arrives.

New regulation of citizen participation for hydrocarbon activities reinforces population’s confidence

In order to improve the system of access to information and transparency of the towns neighbouring the projects, on 5 January the new Regulation of Citizen Participation for Hydrocarbon Activities was approved.

The changes incorporated are intended to improve the communication process between the State and the populations that will be affected by the development of oil and gas activities in their area. According to the regulations, it is important to take into account the cultural and social reality of the communities to be communicated with, as well as the holding of hearings for such purposes. Likewise, clear rules have been established to determine the participants that should be called, both for the events referring to the lots located on land (*onshore*) and at sea (*offshore*).

It is hoped with optimism that this new regulation will contribute to increase the confidence of the population in investments in the sector.

Sempra Energy and Statkraft

As part of a strategy to strengthen the development of its US businesses and Mexico, Sempra Energy announced the sale of its shares in Chilquinta Energía (100%), one of the largest electricity distributors in Chile, and its shares in Luz del Sur (83.6%), one of the main distribution companies of electric power in the city of Lima. Although the potential buyers are unknown as of yet, sales are expected to be completed by the end of 2019.

Conversely, the Norwegian company Statkraft plans the reactivation of a business development area geared towards solar and wind projects

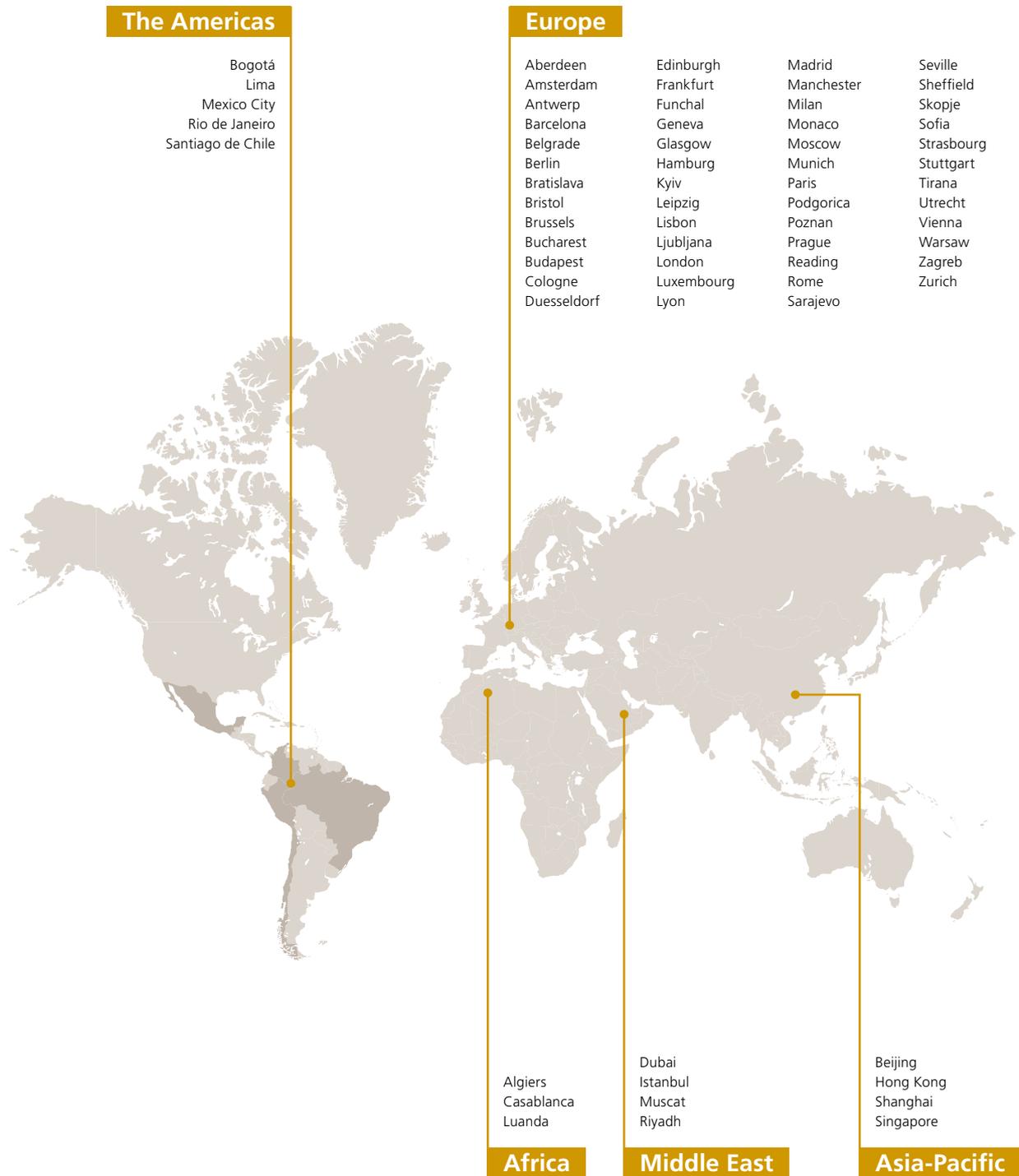
in Peru. In this way, they hope to develop Greenfield projects in the coming years; however, they do not rule out possible acquisitions in projects of this type.

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