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# Latin America Quarterly Energy Update



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# Brazil

## **Brazil's 4th pre-salt licensing round results**

The results of Brazil's 4th bid round under the production sharing regime, for areas located in the pre-salt region, were released in June. The bid rounds saw a high level of interest and strong competition from a number of oil companies and raised a total signing bonus of BRL 3.15bn. Petrobras had reserved its preferential rights to acquire a 30% participating interest as operator in three out of the four areas available: Dois Irmãos, Três Marias and Uirapuru.

The Uirapuru block, located in the Campos basin, saw intense competition, receiving offers from four consortia including: Petrobras, Equinor, ExxonMobil, Total, BP, Chevron and Shell, among others. Petrobras won this area but, for the first time, failed to do so with its first choice of partners. Petrobras was outbid by a consortium of ExxonMobil, Equinor and Petrogal, which offered the government a profit oil share of 75.49%, three times the minimum established in the tender protocol. Petrobras decided to exercise its preferential right to match that percentage and acquire a 30% operated interest. The consortia will pay a fixed signature bonus of BRL 2.65bn.

The Três Marias area was also competitive and Petrobras was again outbid by a consortium made up of Chevron and Shell. As with Uirapuru, Petrobras exercised its preferential right and entered the winning consortium with an operating 30% interest along with Shell and Chevron holding interests of 40% and 30% respectively. The government will receive a fixed signature bonus

of BRL 100m and a profit oil share of 49.95%, more than six times the minimum established in the tender protocol.

Petrobras faced no competition in its bid for the Dois Irmãos block in the Campos basin, and acquired the block with Equinor and BP, offering the minimum profit oil share of 16.43%, and paying a fixed signature bonus of BRL 400m.

The final area, Itaimbezinho, failed to attract any bids.

Notwithstanding that, this competitive bid round is further evidence of the attractiveness of Brazil's oil and gas reserves.

## **Brazil mining auction rounds**

The Brazilian government has published a preliminary draft of the bid documents for an unprecedented auction of two large mining areas. The areas on offer include Candiota (Rio Grande do Sul) which contains over 20 hectares of coal reserves and Palmeirópolis (central Tocantins) where there is evidence of zinc, lead and copper in a polygon of 5.5 hectares. It is expected that bidding will take place between 13 and 17 December 2018.

The bidding process will be organised by the Geological Service of Brazil (CPRM), a state owned company, which is linked to the Ministry of Mines and Energy. This will be the first time that this particular model has been used, whereby the government, through the CPRM, auctions the rights to mining areas.

The Candiota area is divided into four lots. The contract term will be 25 years, which may be renewed successively until the reserves are

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exhausted. Signature bonuses range from BRL 627,000 to BRL 984,000 and the minimum rate for payment of royalties is 4%. Because Candiota is less than 100 kilometres from the Uruguayan border, there are restrictions on foreign ownership, and the winning bidder or consortium must have at least 51% national capital.

The Palmeirópolis area is a single lot and the contract has a duration of ten years, which may also be renewed until the reserves are fully exploited. The signature bonus is BRL 300,000 and the minimum rate for payment of royalties is 2%.

**Further details released on Brazil's power generation auction**

Aneel, Brazil's power sector regulator, has approved the price limits for the power generation auction which is scheduled to be held on 31 August 2018. This tender will contract power from wind, biomass and hydropower plants along with thermal power plants that use natural gas and coal. Of the renewable energy sources listed, biomass has the highest maximum bidding price of BRL 308/MWh. Hydropower plants have a maximum bidding price of BRL 290/MWh and wind has the lowest maximum price of BRL 227/MWh.

Brazil currently has an installed wind capacity of 13.4GW and expects to award approximately 1GW of wind capacity in the upcoming auction.

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# Chile



## Ministries of Energy and Transport reiterate the Government's commitment to electromobility

"From this year, Chile will be the protagonist of this trend, incorporating 200 electric buses in Santiago's public transport system. Along with the fleet, we will implement the first electric corridor in Avenida Grecia. This will continue with the next Transantiago tender, where we will include greater incentives for operators to bet on electromobility", announced the Minister of Transport and Telecommunications, Gloria Hutt, at the opening of the seminar, *Chile's challenges in electric mobility*, organised by the Electric Mobility Group of Chile (Amech).

The Minister of Energy, Susana Jiménez, stressed that, "we are strongly promoting electromobility, because it promotes energy efficiency, reduces pollution (with subsequent health benefits) and improves the economy. One of the Mega Commitments is to increase the number of electric vehicles in use in Chile by ten-fold at least."

In order to achieve the goals established at the government level, Minister Jiménez explained that the necessary market conditions must be created to accelerate the introduction of electromobility to the country: "It is a goal that we have set ourselves. In 2018, the

different lines of work will include all the relevant persons and those who generate concrete products to continue strengthening our progress in the matter".

According to estimates, by 2050 40% of the fleet of light vehicles in Chile will be electric vehicles and the electricity generation matrix is expected to comprise more than 70% of renewable energy. This is why the entry of electric vehicles will reduce almost 11m t of CO<sub>2</sub> per year and will reduce the country's energy expenditure by more than USD 3,300m annually.

## Governments of Chile and Argentina reaffirm commitment to energy integration

The energy ministers of Chile and Argentina, Susana Jiménez and Javier Iguacel, met in Santiago, where they both reaffirmed their commitment to energy integration.

The focus of the meeting was on measures to implement the Agreement Protocol for the export, import, commercialisation and transportation of electricity and natural gas signed last April by Presidents Sebastián Piñera and Mauricio Macri.

The agreement establishes that these operations can be carried out provided they do not compromise the internal supply, do not affect

the safety of the operation, nor the quality and reliability of the transportation and distribution services of natural gas and electricity of each country.

The protocol will allow international operations of electric power and natural gas, without the need for compensation or return of the energy resource. "The energy integration with Argentina will be highly beneficial for both countries, for example, there will be greater security and flexibility in our systems, and the future regional energy integration in the southern cone", said Minister Jiménez.

The authority highlighted that President Sebastián Piñera named the regional energy interconnection as one of the Mega Commitments of the Energy Route that drives the portfolio.

## Chile has a geothermal potential of up to 3,800MW and investments of USD 25bn

Based on the resources currently available in Chile, there is sufficient exploration to calculate the technically exploitable potential of the explored areas between 1,300MW and 3,800MW, with a range of investments between USD 9 and USD 25bn.

This is one of the conclusions of the "Geothermal Table" public-private sector promoted by the Ministry of Energy, and that brought together geothermal dealers, service providers, trade associations such as the Geothermal Council, Achegeo and Acera, the academy, the public service and professional schools. This request was financially supported by the World Bank, which contributed USD 128m.

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72% of the geothermal potential for electricity production is concentrated in the Arica and Parinacota, Tarapacá and Antofagasta regions and the other 28% is distributed in the existing mountain range between the Metropolitan region and Los Lagos. More than 25% of the active volcanoes in the world are concentrated in Chile.

### Chile could become a “green” hydrogen producer

Currently, hydrogen is being used in a variety of areas such as energy storage, transportation, fertiliser production and in industries such as metallurgy, glass, health and food, among many others.

Its application is diverse and its potential is very promising, which is why many experts call it one of the fuels of the future. So far, 96% of the world’s hydrogen is extracted from fossil fuels which emit greenhouse gases in the process. In Chile’s case, this production could be carried out in a more cost effective way by using renewable energy (solar or wind) through electrolysis (hydrogen from water).

From this it could develop a local market and achieve energy and economic security in a sustainable way. In any case, to achieve this, the use, storage and distribution of hydrogen in Chile must be normalised. The Renewable Energy and Energy Efficiency Programme 4e, of the German Agency for International Cooperation (GIZ), implements, together with its official counterpart, the Ministry of Energy, on behalf of the German Ministry of the Environment (BMU), various initiatives to increase the sustainability of the energy sector in Chile. Some of these relate to hydrogen.

They have carried out a study, published a book, organised an international conference and participated in a meeting with Corfo to identify opportunities for the use of hydrogen in mining operations. At the moment, a second international conference is being organised in September and a document to calculate and define viable configurations of the production and use of hydrogen under Chilean conditions is being prepared.

### Application in transport

The flexibility and versatility of hydrogen allows it to be used in several ways. One of them is as fuel for transportation. This can be burned directly as gas or mixed with another fossil fuel in a combustion engine.

However, its most sustainable use can be seen through a device called fuel cell, which converts hydrogen into electricity to run electric motors, obtained as waste water and heat. Energetically speaking, one kilo of hydrogen contains more than double the energy than that contained in one kilo of diesel. In tests conducted on buses with fuel cells in California, a fuel efficiency of 40% was obtained in relation to diesel and almost twice as much in the case of natural gas. This means higher mileage per unit of energy consumed.

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# Colombia

## Government regulates energy auction in Colombia and establishes that the first auction will be held in 2019

A few days before the end of President Juan Manuel Santos' government, the Ministry of Mines and Energy issued Resolutions 40791 and 40795 of 2018. These new standards are part of the regulatory package that the Santos government issued in recent years to diversify Colombia's electricity matrix, where approximately 70% of the energy is generated by hydroelectric plants, which have proven to be unreliable in times of drought.

Through these resolutions, (i) a regulatory framework was defined for the implementation of a mechanism to promote long-term contracting for electric power generation projects complementary to existing mechanisms in the Wholesale Energy Market and (ii) convened the first auction of long-term electricity contracting.

Resolution 40791 determines the auction as a long-term contracting mechanism for the generation of electric power, complementary to the existing mechanisms in the Wholesale Energy Market. The entities responsible for its implementation and administration are: the Mining Energy Planning Unit – UPME and the Energy and Gas Regulation Commission – CREG. The first is in charge of the implementation and administration of the mechanism and the second

will adopt the necessary measures to integrate the provisions on this mechanism to the operation regulation and will define a transmission scheme for those projects with unconventional sources of renewable energy, in such a way that its integration into the national interconnected system and its participation in the wholesale energy market is guaranteed. Likewise, the Market Operator and Administrator will be responsible for monitoring the obligations related to the delivery and generation of energy. The contract to be assigned will be a long-term annual average energy contract, which may be valid for 10, 15 or 20 years, as defined by the Ministry in each auction.

Resolution 40795 calls the first auction referred to in the previous resolution and aims to auction the long-term contracting of electric power equivalent to 3,443m MWh, that is, 4.35% of the electricity demand projected by the UPME for the year 2022. The contracts to be auctioned will have a term of 10 years. For the qualification of the proposals, importance will be given to the generation projects with renewable energy and their contribution to the reduction of greenhouse gas emissions.

## Achievements of the Santos Government in energy matters

It is worth noting the achievements of Juan Manuel Santos' government in energy, one of the sectors that Santos prioritised in his government

plan of 2010–2018. According to the outgoing Minister of Mines, Germán Arce, this sector contributed the historic figure of COP 381bn between 2010 and 2017 (approximately USD 127bn). Additionally, the energy coverage in the country was increased, particularly in those areas affected by the violence. In our opinion, this achievement is the result, among other factors, of a government open to investors, economic stable growth and a series of public policies and regulations that represent great advances against the recent state of affairs. It is also worth highlighting the CONPES 3934 of 10 July 2018, Law 1715 of 2014, the creation of FENOGÉ which we have discussed in previous editions and a large number of regulations that determined the rules and incentives in energy matters. Currently, Colombia has a relatively clear plan for the diversification of sources of electric power generation, with greater emphasis on the principle of sustainability and development of renewable energies. To summarise, Colombia today is a much more attractive country for investment in these types of projects.

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# Mexico

## **Building of two refineries and update six refineries**

The elected president Andrés Manuel López Obrador announced plans to build one large and two medium refineries, located in Atasta, Ciudad del Carmen Campeche and another one in Dos Bocas, in Paraíso, Tabasco. He anticipates that they will be completed in the first three years of his government. The cost is estimated to be USD 8,579m.

Moreover, Andrés Manuel plans to upgrade six refineries so that they will operate at 100% capacity in two years with an investment of USD 2.627bn and thus prevent the importation of gasoline abroad.

## **The National Hydrocarbons Commission signs the last 16 oil contracts prior to the elections**

On June 2018, the Mexican government signed the last 16 production sharing agreements with 14 companies, in order to explore fields in shallow waters in the Gulf of Mexico, as a result of Round 3.1.

With the award of these last agreements, all areas available since the implementation of the Energy Reform and up to the election day have been handed over.

Former Energy Secretary Pedro Joaquín Coldwell announced that with these last 16 contracts, 107 oil contracts have been awarded. Mexico has now more than 70 international companies operating in the country.

In case the contractual areas are commercially successful, in 50 years the investment can increase up to USD 160,000m.

## **New Administration plans to substitute natural gas with hydroelectric generation**

The elected president Andrés Manuel López Obrador has presented his Nation Plan for 2018–2024 that set to reduce the use of natural gas by increasing the hydroelectric generation, with the purpose of reducing the tariffs of the low domestic consumers in order to increase the generation of the Hydroelectric Centrals and develop new ones.

The strategy is based on the installation of 125 Hydroelectric Centrals, 112 of which will be private. In order to move forward with the proposed plan, an investment of USD 1,218m is required to generate a total of 7.108TWh. Moreover, in order to progress the plan to install 112 small Hydroelectric Centrals, the required investment will be up to USD 6.3bn which will generate a total of 13.255TWh in 2030. The government estimates that this investment will be 100% private.

## **Manuel Bartlett Proposed as the New Head of the Federal Electric Commission**

Manuel Bartlett was recently proposed by the elected president Andrés Manuel López Obrador as the head of the National Electric Commission (CFE).

His appointment has been controversial as it is thought that his election was not based on his experience and preparation, but a political move of the elected president to control the electricity sector in Mexico.

## **TransCanada Topolobampo Gas Pipeline**

On 16 July 2018, TransCanada announced the installation of the Topolobampo natural gas pipeline in northern Mexico. This will have capacity to transport 670m ft<sup>3</sup> of natural gas daily to the markets located in the states of Chihuahua and Sinaloa. The project represents an investment of approximately USD 1,200m and will be able to provide the interconnection to supply the Mazatlán pipeline, also managed by TransCanada.

The Topolobampo Project involves the construction of approximately 560km of 30-inch diameter pipelines from El Encino, Chihuahua, to Topolobampo, Sinaloa. Both pipelines create a system that will bring more than 870km of energy infrastructure that will be fundamental in providing natural gas to electric power plants, industrial and urban centers, also promoting the economic development of the northwest region of Mexico.

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# Peru

## **The new Hydrocarbons Law in its final stage**

The hydrocarbons industry is waiting for the Congress of the Republic to approve the amendments to the Organic Law on Hydrocarbons, the main purpose of which is to reverse the low levels of production that have been registered in recent years and to encourage and reactivate exploration activities. It is expected that the Law will impact Lots 64, 67 and 39 first at the end of this year, which will see investments of approximately USD 3bn.

The project to modify the Organic Law on Hydrocarbons proposes extending the term of the contracts to a maximum of 60 years, which would allow extending the operation of eight lots that are expected to conclude their contracts between 2021 and 2026.

## **More wind energy / photovoltaic plants**

The Ministry of Energy and Mines is developing improvements to the legal framework applicable to renewable energy resources, whose procurement mechanism would no longer necessarily be through auctions. Meanwhile, investments and projects in this sector continue. Thus, "Wayra I", the largest wind farm in Peru, built by Enel Green Power, with an investment of USD 165m and a capacity of 132MW, was inaugurated. In August, Engie Energía announced plans for the development of a wind farm in the development of Ica, which would have a capacity of 300MW and would be valued at USD 350m.

In addition, the generation company Grenergy Renovables has announced that it expects to develop two solar

energy projects in Arequipa and Moquegua, for which it plans to invest approximately USD 368m; while the Spanish capital company Continua Energías Positivas plans to invest USD 299m for the construction of a photovoltaic plant also located in Arequipa.

## **New gas pipeline to the South**

The current government is working on an alternative project to transport gas in the south of the country and it is expected that the scope will be defined in the second half of 2018. In parallel, the Agency for the Promotion of Private Investment (ProInversión) launched a tender for the distribution of natural gas in Apurímac, Ayacucho, Huancavelica, Junín, Cusco, Puno and Ucayali (tracking).

## **Distributed Electricity Generation**

The Ministry of Energy and Mines published a draft Supreme Decree to regulate a new type of electricity generation, modifying the traditional distributor business model by allowing small generation plants, businesses and end users to inject energy directly into the distribution networks, without having to go through transmission lines. This project is under evaluation.

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