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# Latin America Quarterly Energy Update

February 2017



# Brazil

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## Injunction to prevent Petrobras sales of oilfields

A Brazilian appeal court lifted an injunction, allowing Petrobras to continue the competitive sale process of mature oilfields in shallow water in Brazil's north-eastern coast. The sale had been blocked by the Federal Court of Appeal – Fifth Region, as requested by members of the Oil Workers Union of the states of Alagoas and Sergipe (Sindipetro AL/S).

The consent of Brazil's federal audit tribunal (TCU) will also be required. The TCU has ordered that Petrobras' divestment programme be reviewed to ensure it complies with transparency and competitiveness requirements. Petrobras will have to report to the tribunal in February to obtain consent for any deals that have reached the signing phase. Petrobras is undertaking a divestment programme of US\$21bn for 2017-2018, which includes a wide range of different assets.

Deals that were in advanced stages have been allowed to progress without consent from the TCU, including the sale of the Bauna and Tartaruga fields to Karoon Gas, although this deal has been blocked by a separate injunction.

## Government considering two pre-salt auctions this year

The Ministry of Mines and Energy confirmed on 17 January that it is considering holding two pre-salt auctions in 2017. The first auction will offer blocks thought to contain extensions of the Carcará and Sapinhoa fields in the Santos Basin and the Tartaruga Verde and Gato do Mato fields in the Campos Basin.

In addition to the pre-salt auctions, in 2017, the Government plans to hold a 14th licensing round offering exploration blocks outside of the pre-salt area, as well as a 4th bid round for marginal fields onshore.

## Brazil provides energy to Argentina on an emergency basis

Brazil exported electricity to Argentina during three operations between 22-24 January. Argentina sent the emergency energy request to Brazil via the operator Cammesa in order to comply with current high demand. Brazil provided 1,000 MW on the 22nd and 500 MW on 23-24 of January via the energy trading company, Tradener. This trading was based on Cooperation Agreements that Brazil has with neighbouring countries, such as Argentina, Uruguay and Chile, which allows the countries to work together to ensure energy supplies through importation and/or exportation between the countries in emergency situations.

# Chile

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## Ministry of Energy creates a round-table to analyze potential opportunities for geothermal energy in Chile

At the end of 2016, the three associations in charge of promoting the development of geothermal energy in the country (Chilean Geothermal Energy Association, Geothermal Council and Chilean Association of Renewable Energies) met with the Minister of Energy to reinforce Chile's strong potential and explore the best opportunities to promote it as a relevant option for the country.

The initiative was well received by the Ministry of Energy and it launched a round-table, including authorities, ministry staff and non-governmental organizations interested in these issues.

It is hoped that this initiative will translate into a significant boost for the development of geothermal energy in Chile.

Currently, there are 24 countries producing geothermal energy, reaching a total installed capacity of approximately 12,600 MW. Chile has potential capacity of between 2,440 and 3,500 MW.

## National Energy Commission to incorporate energy storage in transmission expansion analysis

The Executive Secretary of the National Energy Commission said that in the analysis of the transmission systems expansion to be carried out this year, energy storage systems will be incorporated along with the new power lines and electrical substations, in order to give greater strength to the electricity system.

The energy storage will also be taken into account in the regulation of complementary services, which will be addressed by the National Energy Commission this year.

Independent Coordinator of the National Electric System proposes construction projects worth US\$600 million

The Independent Coordinator of the National Electric System (an entity that replaced the CDEC and started operating on January 1st this year), presented a new study regarding expansion of the electricity system, which recommended projects worth a total of approximately US\$600m.

In particular, it proposed the construction of a new 500 kV double-circuit transmission line, from Concepción to the south of the country, to accompany the future development of generation facilities, as well as to adapt to expansions of load and demand that the energy grid will face in the coming years.

The report includes other projects, such as the installation of a new substation called 'Nueva Taltal 500/220 kV', located in the Region of Antofagasta, which would reduce the dumping of the Non-Conventional Renewable Energies in the area, as well as allowing for the connection and development of new energy sources.

## Environmental approvals fall, but investment amounts increase 84%

Despite the reduction in the number of projects approved by the Environmental Impact Assessment System (SEIA) in the last quarter of 2016, there was an improvement in the investment values of these initiatives.

During the fourth quarter of 2016, 86 projects were approved by SEIA, 6.5% less than in the same period of the previous year. However, the total investment authorized in the period was US\$ 8.114 billion, 84.3% higher than in the fourth quarter of 2015.



# Colombia

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## Colombia is preparing for Renewable Energy tenders in its Regulated Energy Market

The Colombian Energy and Gas Regulatory Commission (CREG) has started, with document CREG-161/2016 a consultation process to introduce the necessary regulatory changes to allow for the integration of large scale renewable energy projects in Colombia's energy matrix.

CREG intends to introduce centralised renewable energy auctions for the award of power purchase agreements with a term of 15 years, proposing four alternatives mechanisms for the promotion of renewable energy projects:

- (i) *Green Premium* is a feed-in premium scheme that guarantees additional top-up payment for each kWh of renewable energy generated;
- (ii) *Energy Generated Agreement* is agreement that would allow generators to be remunerated on the basis of a fixed price for all the electricity delivered during the time of the power purchase agreement;
- (iii) *Energy Purchase Agreement* would instead remunerate the generators the basis of a fixed monthly tariff based on an annual capacity commitment; and
- (iv) *Open Bid Energy Agreement* assumes that renewable energy resources need not benefit of any particular incentive scheme and can compete on equal footing in the auctions with other conventional energy generators.

For the first three options, CREG proposes the creation of ad-hoc auctions open only to renewable energy generators with projects with a capacity superior to 20 MW. If the fourth type of mechanism is selected, renewable energy generators would participate in auctions open to all types of generators and sizes.

The consultation is expected to be completed by the end of the month of February with CREG issuing a final determination within the end of the year.

## Celsia kick-offs construction of Colombia's first solar power plant

Celsia, through its subsidiary Epsa, has announced that it will begin construction of the country's first ever solar power plant in Yumbo, Valle del Cauca, in Q1 2017. The 9,9 MW photovoltaic plant is expected to start operating by the end of the year and will generate approximately 16 GWh of renewable electricity a year, meeting the needs of approximately 8.000 households.

Interest in the development of solar projects has increased considerably in the past year, with over 1.2 GW of solar projects being registered for development over the course of 2016.

## End of year energy statistics show lower demand and increase hydroelectric generation

The Colombian National Interconnected System operator, XM Compañía Expertos en Mercados, revealed that energy demand decreased slightly by 0.2% in 2016 despite the 4.2% consumption increase occurred in 2015.

Recent concerns of blackouts have been overcome thanks to the positive effect of electric consumption reduction policies as well as increase rainfall that helped the country's hydroelectric energy generation reached 81% of the total generation mix.

# Mexico

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## Mexican Federal Electricity Commission (CFE) announces increase in electricity prices

On Monday 2 January 2017, the CFE announced that electricity prices in January 2017 will increase by between 3.7% and 4.5% for the industrial sector and by between 2.6% and 3.5% for the commercial sector, and by a rate of 2.6% for high consumption households. The CFE assured that electricity prices for households with low consumption would not change from the rates recorded for December 2016, and explained that 99% of Mexican households fall under this category.

The CFE explained that such increases were a consequence of the hike in prices of fuel used to generate electricity. The announcement added that electricity prices now reflect realistic rates due to the privatisation of the oil and gas and electricity industries as part of President Peña Nieto's energy reforms.

This announcement was made a day after the entry into force of new gasoline and diesel prices which excluded government subsidies and sparked several protests across Mexico City.

## Dramatic increase in gasoline and diesel prices in Mexico

On 27 December 2016 the Mexican Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) announced that with effect from 1 January 2017 the prices of gasoline and diesel would increase by 14.2% for Magna gasoline, by 20.1% for premium gasoline and by 16.5% for diesel. This is by far the biggest hike in gasoline and diesel prices in Mexican energy history.

The Mexican Government explained that it was necessary for national fuel prices to match international levels and to reflect the real cost of fuels, and that therefore the Government had to eliminate the subsidies which were previously in place. This is largely because Mexico imports much of its fuel from international markets and, with the devaluation of the Mexican Peso,

it was no longer economically viable to provide such subsidies. This decision has caused turmoil across the country and given rise to many protests in the main cities.

The country will be divided into 90 price regions, where each region will have different price ceilings, reflecting the cost of transporting and distributing the gasoline and diesel, as well as local taxes.

## Electricity Reform in Mexico facilitates the use of solar energy for small generators

The Electricity Reform in Mexico and the implementation of a wholesale electricity market will promote the usage of clean energy distributed generation so that electricity users can generate their own electricity and inject any surplus in the market. This new regulatory framework will particularly lead to an increase in the use of solar photovoltaic energy, considering the large potential of solar radiation in Mexico and the lower cost of this technology.

On 10 January 2017, the Mexican Ministry of Energy presented the brand new Business Manual for distributed generation for power facilities with an installed capacity of less than 0.5MW, which provides new technical and administrative guidelines for small electricity generators to connect their power plants to the distribution grid, in order to distribute any surplus of electricity to the wholesale market.

The Ministry of Energy estimates that the solar panels installed as a result of this initiative will produce 1% of the total electricity generation capacity of Mexico, will lower carbon emissions by 1.3 million tons and will save 680 million litres of water associated with the generation of electricity each year.





# Peru

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## Peruvian government seeks to increase oil production by introducing incentives for oil producing companies

Perupetro, the Peruvian Government agency for Oil & Gas exploration and production licences, has introduced incentives for production companies by allowing for the reduction of applicable royalties for hydrocarbons obtained from: (i) new discoveries; (ii) secondary recovery projects using natural gas and water injection; and (iii) reactivated oil fields closed for more than six months, among others. Likewise, heavy-oil projects initiating production in the next three years will have reduced royalties corresponding to the current international prices, which will be increased in accordance with those prices. Moreover, direct negotiation will now be allowed to apply for new exploration licences.

## Termination of the Gasoducto Sur Peruano NG transportation concession

Following Gasoducto Sur Peruano's (GSP) failure to secure the concession financing within the required contractual schedule, the Ministry of Energy and Mines called the performance bond and terminated the concession. GSP's failure to secure the required financing was due to the banks' reluctance to fund a project where the embattled Brazilian contractor Odebrecht held a majority stake. During the last year, the project was frozen as Odebrecht failed to secure a

purchaser for its stake in GSP. The Peruvian Government will name a contractor for maintenance of the existing works and has announced its desire to call a new tender within nine months.

## Private Investment Promoter launches 2017 Power project portfolio

Private Infrastructure Promotion Agency (ProInversion) announced the projects to be awarded in 2017. For Power, this includes the 'Mantaro – Nueva Yanango – Carapongo 500kV transmission line and associated sub-stations and the Nueva Yanango – Nueva Huánuco and associated sub-stations' project. The project is for the design, financing, construction, operation and maintenance of two 500kV transmission lines (390 km and 184 km long) with 1,400 MVA and 600 MVA capacities, respectively, which will support power transmission within the Mantaro region and allow connection of new hydroelectric projects there.

Additionally, ProInversion announced the 'Tintaya – Azángaro 220kV Transmission Line' project for the design, financing, construction, operation and maintenance of a 220kV transmission line with a length of 128 km and capacity of 450 MVA. This project will reinforce power transmission in Southern Peru.

Other projects announced include transmission lines and sub-stations in Pucallpa, a city located in the Peruvian Jungle, in the northern cities of Chiclayo and Cajamarca in Trujillo and in Peru's capital city Lima.

# Contacts

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## Brazil

**Ted Rhodes**

T +55 (21) 37229832

E [ted.rhodes@cms-cmck.com](mailto:ted.rhodes@cms-cmck.com)

## Chile

**Luis Felipe Arze**

T +56 (2) 24852073

E [luis.arze@cms-ca.com](mailto:luis.arze@cms-ca.com)

## Colombia

**Daniel Rodriguez**

T ++57 (1) 321 89 10

E [daniel.rodriguez@cms-racla.com](mailto:daniel.rodriguez@cms-racla.com)

## Mexico

**Derek Woodhouse**

T +52 (55) 2623 0552

E [dwoodhouse@wll.com.mx](mailto:dwoodhouse@wll.com.mx)

## Peru

**Carlos Hamann**

T +51 (1) 513 9430

E [chamann@estudiograu.com](mailto:chamann@estudiograu.com)





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CMS Cameron McKenna LLP  
Cannon Place  
78 Cannon Street  
London EC4N 6AF

T +44 (0)20 7367 3000  
F +44 (0)20 7367 2000

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