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Newsletter

August 2017

Latin America Quarterly Energy Update



Brazil

Details of upcoming licensing rounds released

The National Petroleum Agency (**"ANP"**) has released further details in relation to Brazil's 14th exploration and production licensing round on 27 September in which it will offer 287 blocks in nine sedimentary basins in offshore (Sergipe-Alagoas, Espírito Santo, Campos, Santos and Pelotas), onshore frontier (Paraná and Parnaíba); and mature onshore areas (Potiguar, Recôncavo, Sergipe-Alagoas, and Espírito Santo). The blocks are estimated to hold an unrisks volume of 50bn barrels of oil equivalent. The final tender protocol was released on 19 July.

In addition, the second and third pre-salt production sharing contract rounds will offer further pre-salt concessions on 27 October for eight areas in the Santos and Campos basins. The initial tender protocol and draft concession contracts in relation to both were published in the first week of July. Petrobras has announced plans to exercise its preferential bidding rights in three of the eight areas.

The ANP expects to raise billions of dollars in these rounds, especially in the pre-salt province, which saw production of over 1.5m barrels of oil equivalent per day in May, and currently plans to hold 10 bid rounds in total between 2017 and 2019.

Brazil approves new upstream policy

The National Council for Energy Policy (**"CNPE"**) approved an extensive review of the upstream sector in June, including a new policy for the continuous offering of certain exploration and production areas previously approved by CNPE and offered in bids, but which were not awarded. The policy will not apply to pre-salt areas.

Government proposes reorganisation of the Brazilian electricity sector

At the beginning of July, the Ministry of Mines and Energy (**"MME"**) launched a public consultation on reforms to the Brazilian electricity sector. The proposal released by MME indicates plans for broad changes to electricity sector

regulations over the next two years, which have been described as the biggest proposed reform to the sector since 2012. The proposal provides for the privatisation of Eletrobras hydroelectric plants with an installed capacity of 14GW. The acquirers of the plants will charge market rates for energy and will be required to pay bonuses estimated to be worth up to BRL 53bn. The proposal notes that this income would be split between the Treasury, Eletrobras and the Energy Development Fund.

These proposals are in line with the current administration's continuing aim to encourage private investment into the energy sector to raise funds. Contributions to the public consultation can be made until the beginning of August.

Ted Rhodes

T 55 21 3722 9832

E ted.rhodes@cms-cmno.com



Chile

Interconnection between Chile and Peru, Argentina

In July the heads of state of Peru and Chile met with the Chilean Peruvian Business Council ("**CEChP**") and agreed on two key projects to be advanced by both countries: the expansion of the Arica-Tacna train line, and the construction of a transmission line between Tacna and Arica. This latest initiative is already advancing through energy integration studies, at an estimated cost of USD 250,000, financed by the IDB. The business communities of both countries also decided to join the initiative, agreeing to form a group of experts in this area to advance the proposal of a regulatory model before March 2018. The ministries of energy of both countries will work in parallel to advance technical and economic studies.

The Chilean Ministry of Energy is also operating on a tentative timetable for five other interconnection initiatives to be realised between 2023 and 2040, and which will unite the country with both Peru and Argentina. The first to be realised would be a line from Parinacota (Arica, Chile) to Los Heroes in Peru, with a capacity to transport 200MW. This would be followed by the line connecting the Kimal substation, 9km east of the Encuentro and Crucero substations, to the Montalvo substation in Peru, with a capacity of 1,000MW. This is anticipated to be launched in 2028.

Meanwhile, in the case of Argentina, three other interconnections are being analysed in addition to the existing Andes-Salta (345kV), owned by AES Gener. All of them would have a capacity of 1,000MW, and would be connected in 2025, 2027 and 2040.

Electrical tender: bid submission on 11 October 2017

The National Energy Commission has confirmed that, on Wednesday 11 October, bids will be presented for the next national and international public tender for power and electric power supply (2,200GWh), to meet the energy needs of regulated customers from the Central and Norte Grande Interconnected Systems ("**SIC**" and "**SING**") from 1 January 2024 for a period of 20 years.

This Supply Tender (2017/01) began last December with the submission of preliminary terms to electricity distribution companies and continued with the publication of the final terms of this process in January this year. On Friday 3 November, the public awards will be made.

By 2050, 90% of energy in Chile to be from renewable sources

This new commitment of the Chilean state is very ambitious, with non-conventional sources currently making up 17% of the energy matrix. The goal for 2025 is to increase this percentage to 20%. Chile accounts for two-thirds of all installed capacity of non-conventional renewable energy in Latin America, demonstrating the strong transition the country has made towards these sources.

Ministry of Energy announces Indigenous Chapter of Energy Policy 2050

The Minister of Energy presented the Indigenous Chapter of the 2050 Long-Term Energy Policy 2050, in which 1,335 representatives of the nine indigenous groups in the country made their interests and demands known in relation to the development of energy projects.

The main guidelines of the document are as follows:

- Energy development which ensures respect for the rights of indigenous peoples;
- Promotion of energy generation by indigenous peoples;
- Equitable access to energy services for the indigenous population;
- Energy education for the indigenous population; and
- Energy efficiency and indigenous peoples.

National Electricity Coordinator publishes transmission expansion supplement

The National Electricity Coordinator released a report proposing a development plan for the electric transmission system composed of 21 projects, with an investment of about USD 600m, to be tendered in 2018. Four of these initiatives correspond to the development of the national system (USD 480m) while the remaining 17 correspond to zonal initiatives (USD 100m).

In this exercise, the National Electrical Coordinator analysed the behaviour of the expected power flows in the transmission system and the possible expansion requirements, following a methodological development that includes the risk of hydrological variability, supply at a minimum price, effects on extreme hydrological conditions and the level of resilience of the system to natural disasters.

Luis Felipe Arze

T +562 24852 073

E luis.arze@cms-ca.com



Colombia

Government in the process of regulating renewable energy and energy efficiency fund

In recent years the Colombian government has embarked on a process to promote the use of environmentally friendly energies and efficient energy management. One of the most significant steps has been led by the Ministry of Mines and Energy of Colombia, which has published a draft decree for comment that would amend the Single Regulatory Decree in the sector (Decree 1073 of 2015) by adding stipulations in relation to the Non-Conventional Energy and Efficient Energy Management Fund ("**FENOGÉ**" – *Fondo de Energías No Convencionales y Gestión Eficiente de la Energía*). FENOGÉ is a fund created by Law 1715 of 2014 (Law of Renewable Energies) and will be managed by an autonomous "*patriomonio*", or trust to finance non-conventional energy sources and efficient energy management.

Although approximately 70% of energy in Colombia is produced by way of hydroelectric plants, support for these initiatives seeks to provide stability to the power generation network, which is vulnerable to drought and climate change, and to promote alternative energy in areas which are not connected to the grid and which currently depend on diesel and coal. CMS Colombia, through its partner Daniel Rodríguez Bravo, is currently advising the Ministry of Mines and Energy, with the Global Green Growth Institute, on the structuring and constitution of FENOGÉ.

World Bank to support expansion of rural electrification in Colombia

The Colombian Ministry of Mines and Energy and the World Bank signed a cooperation agreement with the aim of providing technical assistance in the expansion of electrification in areas which are not currently connected to the national grid. It is hoped that as a result of the agreement, a rural electrification policy model, contract drafts and the terms of reference needed to implement the proposed World Bank solution will be established.

Ministry of Mines to present proposal to modify public consultations

Following a growing wave of public consultations acting against the exploitation of hydrocarbons and natural resources, the Ministry of Mines and Energy have announced they are preparing a bill seeking principally to avoid clashes between national and local authorities, and prevent the consultations prohibiting the development of projects in this sector. At present, 44 municipalities are conducting public consultations to ban projects in their territories, which jeopardises the exploitation of these resources and an industry which currently represents 7% of Colombia's GDP.

Daniel Rodríguez

T +57 1 321 8910

E daniel.rodriguez@cms-racla.com

Mexico

Results of oil & gas exploration round 2.1

The results of bidding Round 2.1 for hydrocarbon exploration contracts were announced on 19 June 2017. Ten out of fifteen available shallow-water contracts were awarded, exceeding the Energy Minister's goal of 40%. Thirty-six bidders took part compared to nine bidders in Rounds 1.1 and 1.2 (held in 2014/2015).

Both Italian Eni and new Mexican player Citla Energy were awarded three production-sharing licences (alone and in consortia). Other winners included Cairn Energy, Shell, Lukoil, Petronas, Total, Repsol and Pemex. The winners were awarded production-sharing contracts.

Interest has increased in the Mexican fields since Eni announced earlier this year that it has made a significant oil discovery in the shallow block it acquired in Round 1.2 that indicates a meaningful upside to its original estimates. In the most recent round Eni was awarded blocks in the same area.

CENACE calls the third Long Term Auction and introduces the Clearing House

CENACE, the Mexican electricity system operator, has called the third Long Term Auction for the purchase of clean energy, capacity and Clean Energy Certificates. This year, for the first time, companies other than CFE (a profit-making government subsidiary) will be

able to participate in the market as purchasers. This is due to the implementation of the Clearing House (Cámara de Compensación). This organ will assess market participants' financial credibility and socialise the risk of default. It is hoped that this auction will build on the success of the first two. The mechanism is the first of its kind in the world and has yielded some of the lowest clean energy prices ever. The results of the third auction will be announced in Q4 of 2017.

Veolia signs contract for Mexico City energy-to-waste plant, the first in Latin America

The Mexico City government has awarded a 30-year concession contract to design, build, operate and maintain a massive USD 160m waste-to-energy plant to Veolia's Mexican subsidiary, Proactiva Medio Ambiente Mexico. The project, which will be developed on the site of the now-defunct 927-acre Bordo Poniente landfill will produce energy to power the Mexico City metro. Construction on the Bordo Poniente plant is expected to begin this year, and to take three years to complete. Operations would then begin in 2020. According to government figures, the city's inhabitants generate just under 13,000t of waste per day, around one third of which is to be treated at the new plant.

Mexican government awards three geothermal exploration permits

Mexico's Ministry of Energy ("SENER") has issued three exploration permits to ENGIE, a global energy company, and Reykjavik Geothermal, an Icelandic geothermal development company. These permits authorise their holders to spend three years exploring geothermal resources located in three zones, each measuring 150km², in Sangangüey (in the state of Nayarit) and in Cerro Pinto and Las Derrumbadas (in the state of Puebla). SENER, the Mexican National Development Bank ("NAFIN") and the Inter-American Development Bank ("IDB") jointly backed the development of a programme designed to curb the risks of exploration. This has played a key role in attracting private developers.

Derek Woodhouse

T +52 55 2623 0552

E dwoodhouse@wll.com.mx



Peru

Petroperú bond issue one of the biggest in Peru's history

Petroperú's corporate issuance in June was one of the largest in the history of the country, placing USD 2bn in the international market with 15 and 20 year maturities, with rates of 4.75% and 5.25%, respectively.

USD 23bn of investments in mining, energy and hydrocarbons

The Ministry of Energy and Mines has announced several planned projects in the mining, electricity and hydrocarbons sectors, adding up to approximately USD 23bn in investment, to be executed in the short and medium term. In the mining sector, projects such as Quellaveco, Mina Justa, and the expansion of Shougang and Southern Peru, among others, are expected in the next 12 to 18 months, totalling USD 9.972m. In the electricity sector, investments of USD 4bn are expected over the

next eight years, of which more than USD 700m corresponds to high voltage transmission projects.

CNPC to present a development plan for Lot 58

Oil company CNPC will present an initial development plan for Lot 58, located in La Convención province (Cusco), with the aim of beginning commercial production in the Urubamba, Picha, Taini and Paratori field, with production scheduled to begin in 2021.

Project to bring gas to seven northern cities reaches 65% increase

The project to expand the use of natural gas use in seven cities in the north of Peru, awarded to the Consorcio Gases del Pacífico (made up of Promigas and Surtigas) reached a 65% increase, according to a March report by Osinergmin, which is in charge of the works. However the same report also noted that the network installation works

in Chimbote, Nuevo Chimbote and Trujillo were paralysed by the effects of "*El Niño Costero*", which causes heavy rains and flooding in those areas.

Carlos Hamann

T +51 1 513 9430

E chamann@estudiograu.com



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