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Newsletter

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Brazil

Privatization of state-controlled power company Eletrobras targeted for mid-2018

The further privatization of state controlled power company, Centrais Elétricas Brasileiras (known as Eletrobras) moved a step closer to occurring this year. In January, draft legislation published by the government set out the terms on which Eletrobras' privatization could occur. The Government has identified Eletrobras as one of the state-companies to be sold as part of its fiscal strategy to lower national debt. If the legislation is passed, the privatization would be Brazil's largest since mining company Vale SA was privatized, over twenty years ago.

Eletrobras is the largest producer of electricity in Brazil, generating nearly a third of Brazil's power. It also controls almost half of the country's high voltage power transmission lines. It has been estimated that the capital increase and potential secondary public offering of shares could net the Brazilian government up to BRL 12.5bn (USD 3.84bn).

Although encouraged by the government and Eletrobras itself, the privatization is unlikely to prove popular with the public. Some 70% of Brazilians currently oppose privatization of state companies. In January, the Supreme Court of Brazil overturned an injunction granted by a federal judge in Pernambuco, which had suspended President Temer's provisional measure permitting the sale of Eletrobras and its subsidiaries.

The terms of the draft legislation for the privatization show that following the sale, the government will retain control of significant decisions made by the company. The draft legislation also plans to give the government a golden share, cap private shareholders' voting rights to a maximum of ten percent each, and restrict block voting by multiple investors to ten percent. In return, the government will extend electricity generation concessions granted to the company, under Laws 12,783 (2013), 11,943 (2009) and 13,182 (2015), for a further 30 years.

As drafted, Eletronuclear, which has a monopoly on nuclear power generation, Itaipu Binacional, which controls the Itaipu dam, and the revitalization of water resources of the São Francisco River will be hived out of Eletrobras and remain under the control of the government. Passing of the draft legislation will need to occur imminently, if the privatization is to occur before this year's presidential elections.





Brazil set for further hydrocarbon licensing rounds in 2018

Building on the momentum created by the 14th concession and 2nd and 3rd pre-salt production sharing rounds in 2017, Brazil will hold its 15th concession and 4th pre-salt bid rounds on 29 March and 7 June respectively.

The 15th round includes 49 offshore blocks in the Ceará, Potiguar, Sergipe-Alagoas, Campos and Santos basins. The basins are estimated to contain unrisked in place volumes of around 25bn barrels of oil. The royalty rate for each of the offshore blocks has been set at 10%, apart from in Ceará, which will have a 7.5% royalty rate.

Meanwhile, the 4th production sharing round will offer the Três Marias, Dois Irmãos, Uirapuru, Saturno and Itaimbezinho blocks, located in the Campos and Santos basins. In accordance with Decree 9.041/2017, Petrobras has taken up its first right of refusal to operate and be a 30% stakeholder in the Dois Irmãos, Três Marias and Uirapuru blocks. Petrobras may also bid on the remaining two blocks on equal terms with other bidders. The minimum government profit oil percentages and signing bonuses will be: (i) Itaimbezinho - 7.07% and BRL 50m, (ii) Três Marias - 8.32% and BRL 100m, (iii) Dois Irmãos - 16.43% and BRL 400m, (iv) Saturno - 14.12% and BRL 1.45bn and (v) Uirapuru - 22.8% and BRL 2.65bn.

Minimum local content requirements for offshore blocks in both rounds have been set at: (i) 18 percent during the exploration phase; and (ii) during the development period – 25 percent for well construction, 40 percent for the oil and gas gathering and export system and 25 percent for the stationary production unit.

A third auction may occur this year as the government seeks to auction off additional oil reserves in blocks that were awarded to Petrobras under the 2010 Transfer of Rights Agreement. The original agreement gives Petrobras the right to produce 5bn barrels of oil from certain pre-salt areas. However, these areas are estimated to contain reserves of 6 - 15bn barrels, which could generate USD 35bn for the government. However, with national auctions prohibited in the run up to Brazil's presidential election, the auction must occur before 7 July. The process is currently being held up by a dispute between Petrobras and the government regarding contractual adjustments to remuneration due under the Transfer of Rights Agreement.

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Chile

Authorities define the aspects of the Regional Energy Plan with an emphasis on attracting investment.

Looking ahead at energy development by the year 2030, the criteria of territorial ordering and environmental evaluation plus local participation is set to define the four to eight year Regional Energy Plan (REP) in Coquimbo.

Under this framework, the Regional Energy Development Commission presented the final results of the REP, an initiative that highlights areas of the region with the greatest potential for the installation of energy projects (especially renewables), and that focuses public policies on the sectors lacking access to energy.

One of the most important advances of the committee was the naming of places with energy potential in the areas of Combarbalá, Canela, Monte Patria, Ovalle, Punitaqui, La Higuera, Andacollo and Vicuña, among others.

Based on this information, the authorities concluded that the investment potential will be high. The Regional Minister for Energy stressed that, "clearly, it will be an opportunity to attract foreign and domestic investment associated with improving and the continued cleansing of Chile's energy matrix".

Chile's solar potential will be promoted globally.

Chile has the highest solar radiation on the planet and the solar industry is currently experiencing a boom putting Chile in the global spotlight. Considered the "Saudi Arabia" of the sun, there is enormous potential for the development of the solar industry owing to an agreement between the Corfo Solar Committee and Imagen Chile.

The unification of the electrical systems that cover the national territory will provide greater support for the operation of the Chilean electrical system, favouring the security of the supply of the resource.

The impact of interconnection has resulted in a price decrease that has already been internalised by the market. With greater competition and availability of technology, reductions are obtained between USD 10 to USD 15 per MWh.

IEA highlights Chile for encouraging investment in renewables.

In recent years, the development of a policy that encourages non-conventional renewable energy projects has allowed Chile to become an internationally recognised destination for this type of investment, especially for those focused on solar and wind energy.

In the International Energy Agency's (IEA) report on the country's energy policies, the agency said that the nation "has emerged as a world class destination for investment in various types of renewable energy", particularly for solar and wind energy.

Paul Simons, the former US ambassador for Chile and current deputy executive director of the IEA said that since the previous review in 2009, "there has been a tremendous improvement in Chile's electricity security because of the investment that has been made, but also by the laws and new policies that have been implemented."

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Colombia

Ministry of Mines issues FENOGÉ operational manual

The Ministry of Mines and Energy issued the operating manual of the Fund for Non-Conventional Energy and Efficient Energy Management – FENOGÉ, through resolution 41407 of 12 December 2017. FENOGÉ is the first public fund created exclusively to finance unconventional energy sources and efficient energy management programs in the country. This manual primarily regulates three aspects: (i) the general operation of FENOGÉ; (ii) the sources of financing, including resources which transfer or contribute in any way to any public, private and mixed entities; and (iii) the allocation of resources for the total or partial financing, reimbursable or not, of plans, programs and projects in these matters. CMS Colombia, together with the Global Green Growth Institute, advised the Colombian government on the structuring and operation of the fund, including in the preparation of Decree 1543 of 16 September 2017, the process and selection terms of the fiduciary company and the operational manual.

Government announces incentive for investments in hydrocarbons and mining

The Colombian government has determined the parameters and guidelines for the granting of incentives offered by Tax Refund Certificates (CERT) to those taxpayers that increase their

investments in exploration and exploitation of hydrocarbons and minerals (Decree 2253 of 2017). CERT is a mechanism created in the latest tax reform (Law 1819 of 2016. Art. 365) and may be used for the payment of national taxes. For the hydrocarbons sector, this incentive may be requested by those who increase their investment in the discovery of new hydrocarbon reserves, the addition of proven reserves or the incorporation of new recoverable reserves, either through exploration activities or through activities aimed at increasing the recovery in water basin projects on the mainland, including in the final case, the relevant pilot tests.

Although the CERT quota that may be granted by the Ministry of Finance and the Ministry of Mines and Energy has not been defined, Decree 2253 indicates that this incentive will be granted upon request by the interested party to the ANH and ANM, as appropriate. The application must be submitted between 1 August and 30 September of the year prior to the realization of the investments that would lead to the obtaining of this incentive. For the period of 2018, the request must be made within the month following the publication of the respective regulations issued by the ANH or ANM (which at the current time has not been published).

The process of democratization of Grupo Energía Bogotá begins

The Bogotá City Council has approved the democratization program of 1,836,235,403 shares in the Bogotá Energy Group (GEB) owned by the District of Bogotá and representing 20% of the capital stock of the company. The sale will take place in stages and, up until the present moment, only the terms of sale for the first stage, exclusively for workers, associations and unions, employee funds and former employees of the GEB have been published. This stage will end on 26 February 2018.

Following that, the relevant information will be published for the second stage and the remaining shares will be offered to the public in local and/or international markets. With the sale of this percentage of participation, the District expects to receive approximately COP 3.5bn (USD 1.23bn). Some analysts have indicated that this sale would increase the liquidity of the share and could be among the three most liquid shares on the COLCAP index.

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Mexico

Mexico joins International Energy Agency

Mexico has officially become the first Latin American member of the International Energy Agency. It is the Agency's 30th member country. The membership came after the signed IEA treaty (the IEP Agreement) was deposited with the government of Belgium, which serves as the depositary state, following ratification by the Mexican Senate.

The IEA Family of 30 Member countries and seven Association countries now accounts for more than 70% of global energy consumption, up from less than 40% in 2015. Mexico's accession is a cornerstone of the IEA's on-going modernization strategy, including "opening the doors" of the IEA to engage more deeply with emerging economies and the key energy players of Latin America, Asia and Africa, towards a secure, sustainable and affordable energy future.

Deepwater Round 2.4

Deepwater Round 2.4 was held on 31 January and exceeded expectations, with 19 of 29 blocks awarded. 9 blocks were won by Anglo-Dutch supermajor Shell, which is new to the Mexican offshore market. Eleven firms from ten countries, placing bids individually and in consortia, won blocks in the Perdido Fold Belt, Cordilleras Mexicanas area, and the Salina basin of the Gulf of Mexico. The winning bids comprised 44,178 km², 23 well commitments, and USD 525m in tiebreak payments.

Further Licensing Rounds Announced for 2018

In 2018, the last year of President Peña Nieto's administration, a total of 101 blocks are to be made available through licensing rounds. Shallow water round 3.1 will be held on 27 March and is expected by the Ministry of Energy to bring in USD 3.8bn of investment, while Round 3.2 should bring in USD 3.3bn. Licensing round 3.2 for onshore conventional resources will take place on 25 July 2018, offering 37 blocks.

Of the blocks to be licensed in Round 3.2, 21 are in the Burgos basin, nine in the Tampico-Misantla and Veracruz basins and seven in the Southeast basin. The Burgos basin, where production has almost halved since 2010, currently only produces non-associated natural gas. It contains Mexico's most important natural gas field, Nejo, which produced 136,300 MMcfd in 2017. All of Mexico's largest oil fields are in the Southeast Basin.

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Peru

Investment portfolio

At the end of 2017, the value of electricity sector investment in Peru was estimated to be more than USD 9bn over the next six years, according to the figures of the projects registered by the regulator OSINERGMIN as well as by the agency in charge of granting ProInversión concessions.

The projects include the Chadín II and Molloco hydroelectric plants, the Rubí solar plant, the Wayra I wind farm and the Machu Picchu - Tintaya, Montalvo - Los Héroes and Azángaro - Puno transmission lines.

Completion of new License Contracts

Irish oil company, Tullow Oil has concluded the negotiation process for the exploration and/or exploitation of five offshore lots (Z-64, Z-65, Z-66, Z-67 and Z-68) off the north coast of Peru. If one also counts the three offshore contracts signed by American oil company, Anadarko Petroleum in August 2017, eight new offshore contracts have been completed in the last 12 months.

Additionally, Tullow Oil has reached an agreement with Australian company, Karoon Gas to acquire a 35% stake in Lot Z-38, also located on the north coast of Peru.

The state oil agency has opened up direct negotiations for areas in several basins in Peru, which has led oil companies to return to the country. It is also expected that, in the coming months, a new legal framework will be issued to make investments in oil and gas in Peru more attractive. One of the first measures adopted by the Government was the creation of the Vice Ministry of Hydrocarbons as part of the Ministry of Energy and Mines, a sign of its commitment to promoting the development of such an important sector.

More Natural Gas in Camisea

China National Petroleum Corporation (CNPC) plans to invest USD 4.4bn in the development of the Block 58 natural gas fields. The Project seeks production synergies with Lots 56 and 88, in production since 2004, in the Camisea area and contemplates the construction of new infrastructure that will include, among others, a gas processing plant.

On the other hand, Block 76 - which returned to the State in August 2017 - considered by some hydrocarbon experts as the new Camisea because it is estimated that it could have 8.7 TCF of gas in prospective resources, has attracted the attention of five oil companies, among which are Pluspetrol, CNPC and Hunt Oil.

Interconnection to the north and the south

Chile and Peru are planning to start up their electric interconnection in 2019. The Chilean Ministry of Energy is accelerating the pace so as to hold a tender for the construction of a power line linking the cities of Arica and Tacna, which would mark the beginning of the interconnection between the two countries, at the beginning of March 2018.

Additionally, a tender for a project for a high-voltage line between Peru and Ecuador is planned for mid-2018. In short, the Government will soon call for tenders for a USD 500m project to build a high voltage transmission line, with capacity for the transport of 500 kilovolts (kV) of electric power between Peru and Ecuador.

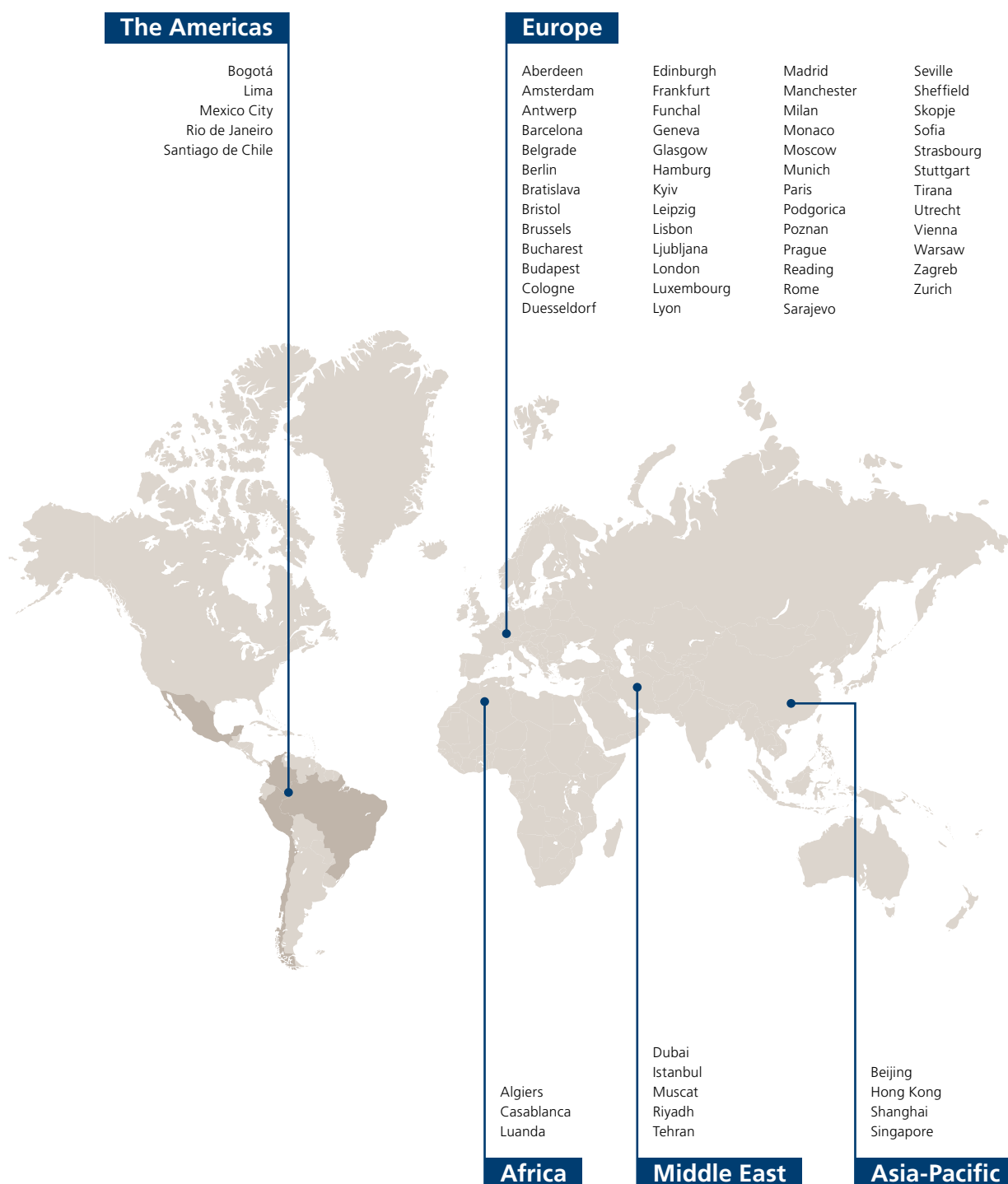
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