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Newsletter

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Brazil

Brazil's oil and gas permanent offer initiative

In November 2017, the Brazilian National Agency of Petroleum, Natural Gas and Biofuels (ANP) approved the procedures for its permanent offer of exploration blocks. The ANP has initially selected 846 exploratory blocks across 13 sedimentary basins that were offered and not awarded in previous licensing rounds or have been relinquished. The areas on offer include offshore blocks in the Sergipe-Alagoas and Pará-Maranhão basins and a number of offshore blocks in the Campos and Santos basins outside the pre-salt polygon.

The draft tender protocol establishing the rules and technical parameters for this new regime was released on 27 April 2018. Interested companies are already able to complete the electronic registration form and pay the participation fee. Once completed, interested bidders must submit a declaration of interest, indicating the sectors that they intend to bid for, along with a bid guarantee. It is expected that the bid submission sessions will take place in November 2018, following Brazil's presidential election.

The key difference between this process and the bid rounds, under which blocks have previously been offered, is that oil companies themselves will be able to participate in the assessment and selection of the areas to be offered in the next public sessions for the presentation and judgment of offers. The ANP has also substantially reduced bid participation fees, minimum signature bonuses, bid guarantees and performance bonds, in an effort to open participation to a wider range of smaller companies.

The ANP intends to more than double the number of exploratory blocks available for permanent offer in a second phase, increasing the number of available blocks to 2,000 by the end of the year. The introduction of this new regime represents an important step reviving oil and gas exploration and production in Brazil, and should create a more diverse, dynamic and competitive sector, particularly in onshore and frontier oil provinces.

Regulation of Petrobras' Divestment Programme

Brazil's state-owned oil company Petr leo Brasileiro S.A. (Petrobras) is undergoing a major overhaul in its contracting practices, both for the procurement of goods and services, and for the sale of oil and gas exploration and production assets.

Over recent months, Petrobras has been adapting its procurement processes to comply with the requirements of Federal Law number 13.303/2016, which is intended to improve the governance of state-controlled companies. This law prevents the use of selective invitations to bid, and requires tender processes to be open to all interested parties that are able to comply with objective qualification criteria, that will be set out in public bid terms. The intention is to increase competition and promote diversity in the supply chain, and to reduce risks associated with cartels and other corrupt practices. The law becomes compulsory from the end of June 2018, but Petrobras trialled its revised procurement processes in certain divisions and has already rolled them out for all new purchases.

In the meantime, as part of its ongoing de-leveraging, Petrobras is conducting a major divestment process, through which it aims to raise USD 21bn in 2018 alone, selling upstream oil and gas assets, as well as gas pipelines, refineries, fertilizer plants, biofuels subsidiaries and other businesses. However, a number of early sales processes, were subject to court injunctions and investigations of the National Audit Tribunal (TCU), alleging that they were not sufficiently open and transparent, and would not necessarily secure the highest possible value.

Petrobras had already revised its sales processes to take account of recommendations of the TCU, and on 25 April 2018, President Michel Temer sanctioned Decree number 9.355/2018, which establishes rules of governance, transparency and best market practices for the assignment of upstream oil and gas rights. This decree broadly mandates the new procedure that Petrobras had adopted. The special procedure for these sales processes requires Petrobras to prepare an economic-financial report of the assets, and to obtain an independent valuation before offering them for sale. Solicitations for expressions of interest and calls for preliminary and binding offers should be made publicly. Bids should be judged on the basis of objective criteria, aiming to achieve the best economic return, which considers not only the offer price, but also liabilities, commercial, contractual, fiscal and environmental conditions and other factors.

It is hoped that the new law regulations will standardise and simplify Petrobras' bidding process, and provide legal certainty for Petrobras and those participating in the bids.

Brazil's A-6 Energy Auction

Brazil's Ministry of Mines and Energy has scheduled the Auction for the Purchase of Electric Energy from New Generation Power Plants (named 'A-6') for 31 August 2018. The Brazilian Government will award power purchase agreements with a term of 30 years for hydro, 20 years for wind, and 25 years for other sources, with power supply scheduled to begin on 1 January 2024. Solar energy projects will not be contracted in this auction.

The key difference in this auction is in the way that wind power plants are contracted. Instead of contracting wind energy through availability contracts, quantity contracts will now be used, which make the operational performance of wind farms more important to the project economics.

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Chile

Ruta Energética considers evaluation of regulatory changes made in the sector

The modernisation of energy in the State, through greater coordination of the public agencies in the sector, is one of the principles that Ruta Energética presented to the Ministry of Energy on 23 May, as indicated by the Undersecretary of Energy in the inauguration of the XVII Elecgas Energy Meeting 2018.

The authority said that *“greater efficiency and coordination between the services and the public agencies of our energy institutions will be sought, incorporating impact evaluations in regulatory modifications, deregulating in some cases where necessary and strengthening the information tools provided by authority to users.”*

The Chairman of the Board of Directors of the National Electrical Coordinator assured that the new functions of the organisation, such as the monitoring of competition and the promotion of innovation and development, will complement the current tasks, ruling out that they could reduce the functions to ensure an adequate operation of the system.

Private and state investment for 2018–2021 rebounds 8.3% with improvements in mining and public works

An increase in the number of mining, public works, energy and real estate projects explains the improvement in private and state investment recorded in the latest report of the Capital Goods Corporation (CGC), with figures as of March this year.

For the period 2018–2021, state and private investment reached USD 34,853m at the end of the first quarter of this fiscal year, an increase of USD 2,660m or 8.3% compared to the amount recorded as of December 2017.

The mining sector has increased its investments the most in 2018–2021, registering a rise of 33.4% in the public sector. In public works, the growth is 18.6% in the four-year period for state investments. In total, the public investment for the 2018–2021 period amounts to USD 9,892m in the first quarter, an increase of 24.7% compared to the report with data to December.

In the private sector, however, the figure amounts to USD 24,961m, an increase of 2.9% in that period. The largest investments to 2021 in the private sector are associated with the energy sector; with USD 7,213m, showing growth of 5.6%. The CGC explains that this performance is due to new initiatives and cost increases.

Pro-investment initiative seeks to reduce the time for environmental approval of projects to 21 months

Reduce bureaucracy to boost investment. That is the message of the Pro-investment Agenda that was signed at the Palace of La Moneda by the President, Sebastián Piñera, and the Economic Minister, José Ramón Valente. In the same act, the authorities also authorised the creation of the Office of Management of Sustainable Projects (MSP) and the National Productivity Commission (NPC) was mandated to carry out a new study to continue in the ‘debureaucratisation’ of the processes, with emphasis on the digitalisation of procedures.

According to the Executive, these initiatives will be an impetus for the revival of investment in Chile, by streamlining and reducing the procedures faced by investors from both the public and private sectors.

The Economy Minister explained the benefits that the proposals will bring. *“We have made an inventory of USD 65bn in projects that could be developed over the next four years and, if those projects do come to fruition, the generation of permanent jobs will be around 250,000.”*



The “Pro-investment Project I” aims to reduce the time required to obtain environmental approval for private projects by six months. According to estimations of the Economy Minister, obtaining permits from the environmental regulation agencies takes an average of 2.3 years (27 months), so if the proposed legal changes are approved, this process would be reduced to 21 months. Currently, the average total duration of the procedures to materialise an investment is between four and five years. In the case of judicially contested projects, the term may increase to ten years.

The Economy Minister, based on the study commissioned by the NPC and the proposals of the MSP office, undertook to present a second pro-investment project later on. The Environment portfolio is also preparing an initiative for deeper changes to environmental permits.

The decree that creates the MSP office also innovates with a Presidential Advisory Committee called the “Interministerial Committee for Large Investment Projects”, which aims to advise the President of the Republic in the follow-up and supervision of the authorisation and approval processes for investment initiatives in the country, whether public or private.

Law 20/25: The goal will probably be reached next year

Everyone says that the National Electric System’s goal of having 20% of its energy supplied by non-conventional renewable energies by 2025, as established by Law 20/25, will be achieved much sooner than anticipated.

The National Electrical Coordinator, NEC, confirms that the 20% goal was achieved in October 2017, on certain days of that month. *“However, in terms of average ERNC energy contribution, 20% is expected to be reached much earlier than the year 2025, probably during 2019, with the incorporation of the contemplated interconnection projects between now and then”,* said the entity.

During the first four months of this year, reports the NEC, *“ERNC sources have generated 3,850GWh of the total 25,186GWh produced by power stations of the National Electric System. This represents a 15.3% share in the total generation of the system.”*

National Electromobility Strategy: The goal is that by 2050, 100% of public transport will be electric

In Chile, in the Smart Cities area of the Ministry of Transport and Telecommunications, they are already developing initiatives associated with the development of new technologies for sustainable mobility.

One of them is the electromobility consortium for public transport, a public-private entity that maintains a framework for detecting technical, financial and regulatory gaps, among others; to contribute towards the introduction of electric vehicles in the future. The goal is to promote electromobility so that by 2050, 100% of public transport will be electric.

For this reason, the National Electromobility Strategy will establish incentives for the incorporation of electric vehicles to public transport, which will be reflected in the bids to be carried out, such as Transantiago soon, and in the redefinition of the subsidies of the *Reneuva Tu Colectivo* programme.

“As a country we assume the challenge of being pioneers and promoters of electromobility, where our public transport systems will be propellers of this technology that will soon be on our streets transporting millions of Chileans,” says Gloria Hutt, Minister of Transport and Telecommunications.

The project also contemplates advancing in the definition of vehicle standards, in the regulation and increase of load points, and promotion of research and human capital in this matter.

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Colombia

Final negotiations of the offshore contract minutes for Colombia

The Board of Directors of the National Hydrocarbons Agency (ANH), regulator and administrator of the hydrocarbon resources of Colombia, is in the process of approving a new E&P contract for offshore exploration and production of hydrocarbons.

In this context, CMS Colombia and CMS Brazil, together with other CMS offices mainly in the United Kingdom and Mexico, have advised the Colombian Ministry of Mines and Energy through a competitive analysis of the Colombian contract model for the award of offshore blocks from the perspective of competitiveness, in order to design an E&P contract that is attractive to investors and that protects the interests of the Nation. This issue is of great importance for the Colombian State in its objective of increasing hydrocarbon reserves, as well as its income derived from production.

The advice has involved our Oil & Gas, Banking & Finance, Public Procurement and Insurance practices.

Oil company and the ANH reach an agreement on contractual dispute

The consortium formed by the companies Optima Oil and Range Resources reached a settlement agreement with the National Agency of Hydrocarbons (ANH) regarding the potential fine that the ANH was entitled to impose on the consortium for breaching obligations, the value of which would total USD 53m. Representatives of one of the consortium's companies, Range Resources, pointed out and recognised the constructive

approach adopted by the parties during the negotiations.

Documents published for a regasification project on the Colombian Pacific coast and the Buenaventura – Yumbo gas pipeline

Recently, the Energy & Mining Planning Unit (UPME) published the preliminary version of the documents for the selection of an investor in charge of the design, procurement, construction, operation and maintenance of a regasification plant on the Colombian Pacific coast and the gas pipeline associated with this project, Buenaventura – Yumbo.

According to the documents, the regasification plant, which will be located in the municipality of Buenaventura, Valle del Cauca, Colombia, should have a regasification capacity of 400 MCF/day and a storage capacity of 170,000m³. In principle, the project must enter into operation no later than January 2021, although UPME will ask the Ministry to modify the aforementioned date and suggest that it be changed to February 2023.

The documents can be consulted in the following link: <http://www1.upme.gov.co/PromocionSector/Paginas/Convocatorias-gas-natural.aspx>. Those interested in participating can send comments and observations relating to these documents by 15 June 2018.

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Mexico

The National Hydrocarbons Commission issued the bidding guidelines of Round 3.1 and 3.2

On 28 September 2017, the National Hydrocarbons Commission published the bidding guidelines of Round 3.1 for the award of production sharing agreements for exploration and production in 35 contractual areas in shallow waters of the Gulf of Mexico through production sharing agreements. The expected hydrocarbon is mainly wet gas and light oil.

On 27 March 2018, 16 production sharing agreements were awarded to 12 bidders. Among the winners are Premier Oil, Repsol, Eni and Lukoil.

The agreements awarded have an investment of approximately USD 8.6bn during the term of the agreements.

On average, the State will be receiving between 72% and 78% of the profits generated in the awarded agreements.

Additionally, on 25 January 2018, the National Hydrocarbons Commission published the bidding guidelines of Round 3.2 for the award of license agreements for onshore hydrocarbon exploration and production, in 37 contractual onshore areas located in provinces such as Burgos, Tampico-Misantla-Veracruz and Cuencas del Sureste.

PEMEX and the signing of hydrocarbon exploration and production agreements

The CNH approved the bidding guidelines to carry out seven procedures of farm-out with Petroleos Mexicanos (Pemex) for oil exploration and extraction in blocks or clusters in onshore areas in the southeast of Mexico.

The presentation of bids will take place on 31 October 2018. Pemex will have 45% in the agreement and companies may participate individually or in a consortium, so private companies will serve as operators, either with 55% of the participation in the case of a company in the individual, or at least 30% participation if it is a joint operator with other partners.

On the other hand, Pemex was awarded a total of seven contract areas in Round 3.1, six of them in consortium and one individually; obtaining four blocks in the Cuencas del Sureste, two in consortium with Total, one with Shell and one individually.

Furthermore, three blocks corresponding to the province of Tampico-Misantla-Veracruz: two in association with Compañía Española de Petróleo (CEPSA) and Deutsche Erdoel AG and one more in partnership with CEPSA.

Bidding for the Interconnection of the Electrical System of Baja California and other items

On December 7, 2017, the Ministry of Energy carried out the bidding for the financing, installation, maintenance, management and operation of the interconnection of the Electricity System of Baja California with the National Interconnected System. This is the first electricity transmission project to be developed under the Mexican Electricity Industry Law under a Management Agreement, which allows private participation in the transmission of electricity.

Finally, on March 23, 2018, CENACE published the bidding guidelines for the 2018 long-term bid. The purpose of the bid is to allow the Basic Service Providers and entities responsible for cargo to enter into agreements in a competitive manner and under conditions of prudence to satisfy its needs for Power, Electricity and CEL (Clean Energy Certificates) that it must cover through the conclusion of agreements in response to the requirements established by the CRE.

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Peru

Energy Sector Initiatives with neighbouring countries

In the electricity sector, the Private Investment Promotion Agency, ProInversión, announced that it will tender six electricity transmission projects, including a line connecting southern Ecuador with northern Peru. These projects could collectively demand investments of more than USD 500m.

In the oil and gas sector, Petroamazonas, Ecuador's state-owned company, announced that it is evaluating the possibility of importing natural gas from Peru, given its growing local demand and the decline in gas production in the neighbouring country to the north. This project could involve an investment of up to USD 100m.

On the other hand, the Minister of Hydrocarbons of Bolivia announced that the highland country was looking to build a liquefaction plant in the port of Ilo (Moquegua, Peru), in order to consolidate its natural gas exports by exporting hydrocarbons overseas, not only to neighbouring countries, as it does today through conventional gas pipelines.

Projects culminated in electric generation

In March 2018, two electricity generation projects were completed; the first regarding Termochilca, which finished the construction of its combined cycle project for

100MW of additional nominal power, in the Termochilca II installation. The work will allow it to increase its nominal generation capacity to 300MW. The construction of the Termochilca project began in December 2015 and involved an investment of USD 180m.

The second project was completed by the Italian company Enel Green Power, which inaugurated the Rubí photovoltaic plant in Moquegua, after investing USD 165m in its construction. Rubí is considered the largest solar plant in the country with 560,000 photovoltaic panels installed over 95 hectares of land, capable of producing more than 180MWp (megawatts in direct current).

Increasing production of hydrocarbons

The increase in extractive activity is based on increased activity in CNPC's block X, block 192 operated by Frontera Energy (considered the most important oil production lot in the country), and in Pluspetrol Norte's block 8. According to Perupetrol figures, oil production nationwide in April 2018 reached 49,960 barrels per day (BPD), an increase of 15% compared to the 43,200 barrels produced in the same month of 2017. This occurs in a context in which work by the Energy and Mines Commission of the Congress of the Republic to improve the legal framework

applicable to the exploration and production of hydrocarbons, through a draft amendment to the Organic Law of Hydrocarbons, to provide greater attractiveness for investments in this sector.

Pegasus announces the sale of PBF to Valero Energy

The North American Pegasus Capital Advisors fund, together with management and minority shareholders, announced the sale of PBF (formerly Pure Biofuels del Perú) to a subsidiary of the US independent firm Valero Energy, one of the world's largest independent oil refiners and marketers, with 15 refineries and 11 ethanol production plants.

PBF intends to continue its operations through its supply plant in the Callao province, which has a capacity of more than 42 million gallons, and by bringing its Paita plant (Piura, Peru) into operation.

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