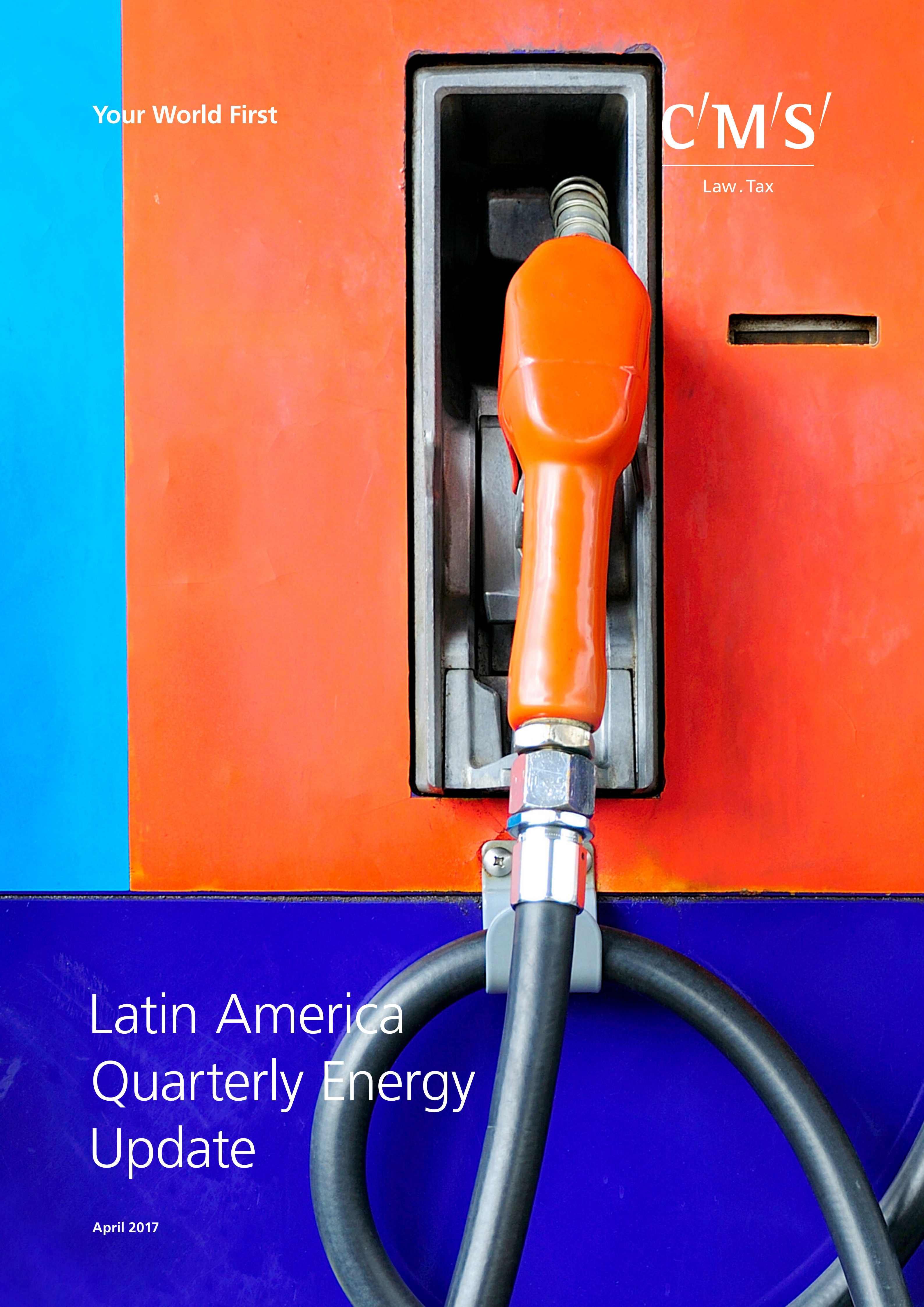

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Latin America Quarterly Energy Update

April 2017

Brazil

Changes to Local Content Rules

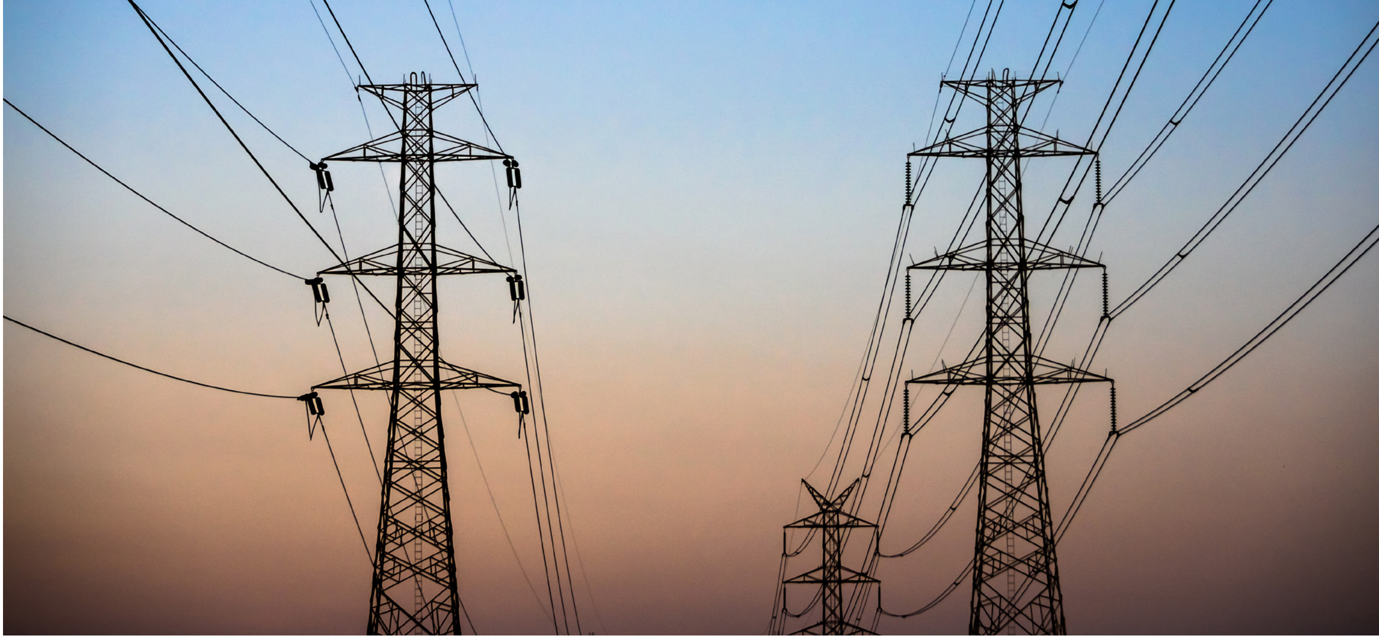
Late in February, the Brazilian government announced proposed changes to the rules on local content requirements for the oil and gas industry, slated for introduction in the 14th licencing round, expected later this year. The local content commitment is currently a bid criterion for the award of oil and gas concessions and requires operators to procure a certain percentage of goods and services from Brazil in a large number of different categories. These requirements have protected local industry and been blamed for project delays and cost overruns. Failure to meet these requirements is subject to very high fines, and the industry has accumulated a backlog of requests to have the requirements waived by the Petroleum Regulator ("**ANP**"). The proposed changes, if approved by Brazil's National Council of Energy Policy ("**CNPE**"), would simplify the current regime and reduce local content requirements by around 50% for offshore exploration and development. Fines would also be reduced, although operators would no longer be able to apply for a waiver for non-compliance.

Gas Market Reforms

Progress is being made in relation to the *Gás para Crescer* ("Gas for Growth") initiative to transform the country's natural gas sector by reducing the role of Petrobras and opening up the market. A resolution by the CNPE, resolution nº 10 of 14 December 2016, was published in the Brazilian Official Gazette in April. The resolution outlines the strategic aims of the policy, such as introducing international best practices, attracting investment, and promoting active, diverse and competitive sector participation. A key proposal is the creation of a gas coordinating entity, similar to that of the National Electricity System Operator for the electricity industry, as well as reform and harmonisation of state and federal regulations. A public consultation was held by MME at the end of 2016, and a Technical Committee for the Development of the Natural Gas Industry ("**CT-CN**") has been established by the CNPE. The CT-CN comprises subcommittees for topics such as LNG, processing and regasification, transportation and storage, tax and power sector integration. Meetings of these subcommittees, with representatives from a range of public and private entities, were held in February. The next step will be the submission of a work plan by the subcommittees to the CT-CN.

Energy Storage R&D Projects

The Brazilian National Agency for Electricity (*Agência Nacional de Energia Elétrica* – "**ANEEL**") has approved 23 Research and Technological Development Projects (twelve were approved with some recommendations) with an estimated total investment of R$405.8m. The aim of these projects is to develop energy storage in a sustainable and integrated manner and to create conditions for the development of technology, intellectual property and national production infrastructure. The companies eligible to bid were those with R&D investment obligations regulated by ANEEL under Law 9.991 of 2000, namely concessionaires involved in the distribution, transmission or generation of electricity and companies authorised to independently produce electricity. The proposals received contemplated a number of energy storage technologies including lithium-ion, lead acid and hydrogen batteries, pumped storage plants and compressed air energy storage in salt caverns. The selection criteria were based on originality, applicability, relevance and cost. The approved companies are CELPE, CESP, CELPE Paulista, CETEEP, RGE, TRACTEBEL, ENERGISA MS, PETROBRAS, CPFL PIRATININGA, CEMIG D and ELETROBRAS AM. If these projects move to the development phase, the completion deadline will be 10 March 2021.



Chile

Introducing new rules for the electricity tenders of October 2017: encourage international competition and avoid speculation

A new electricity tender will be held this year in Chile with the intention of awarding 4,200 GWh per year. The National Energy Commission and the Minister of Energy have announced changes in this bidding process, aiming to secure supply, encourage international competition and avoid speculation. The amendments will include:

— specific pricing per day that will be subject to tender. It will also be possible to bid for 24 hours in total;
— the option to tender bids for four quarterly blocks: from January to March, from April to June, from July to September and from October to December;
— the obligation to comply with a risk rating report, which has been incorporated as a requirement to ensure the seriousness of the offer; and
— doubling the amounts of the required bank guarantees.

Introducing Green taxes

Following the adoption of law no. 20.780, "Green Taxes" were introduced within the framework of the tax reform developed by the Government.

These charges apply to emissions of particulate matter (PM), nitrogen oxides (NOx), sulphur dioxide (SO2) and carbon dioxide (CO2) produced by establishments whose fixed sources, boilers or turbines, individually or as a whole, have a thermal power greater than or equal to 50 MW, considering the upper limit of the energy value of the fuel.

To control the emissions, the authority defined a series of fixed sources of emissions in the national territory that will be affected by this new tax. In the opinion of the authority, this policy is based on the concept that pollution prevention is profitable and that green taxes should be understood as an important tool to consider in decision making by businesses.

Development Zones: a new tool in the Chilean electricity system

In the second half of 2018, the Ministry of Energy will have to define areas with a potential for renewable energy resources, so as to give life to the so-called "Development Zones", a new concept incorporated in the national Transmission Law, creating *"areas that are territorially identifiable in the country where there are resources for the production of electricity from renewable energy and that will be included in the planning of the expansion of the transmission system."*

The regulation on long-term energy planning was published at the end of 2016, stipulating that every five years the Ministry of Energy must define strategic objectives as well as identifying the Development Zones in accordance with the law. It first preliminary report is due to be published in August 2017.

Colombia

Ecopetrol bets on the exploration of the Caribbean deep sea for 2017

Ecopetrol announced a gas discovery in the Caribbean Sea at its Purple Angel 1 well. The exploration of this block is a result of a partnership between the company and Texas-based Anadarko Petroleum, each party holding a 50 percent interest.

The well reaches a total depth of 4,795 meters with a registered gas pay thickness of up to 34 meters. This finding, along with the one reported on July 2015 in the nearby Kronos–1, confirms the potential of the southern Colombian Caribbean Sea. Based on the information obtained from these two wells, Ecopetrol estimates that the field has a gas column of at least 520 meters.

As announced by the company, the drilling of this well is part of the exploration goals foreseen by Ecopetrol for 2017 which includes drilling five wells in the Colombian Caribbean, with an estimate investment of USD$650 million.

Accordingly, as part of a strategy to increase its presence in the area, Ecopetrol and Mexico's state-owned petroleum company, Pemex, signed a memorandum of understanding to establish a framework of cooperation that will allow the exchange of technical knowledge, information and experience. Pemex further stated that business development opportunities with diverse segments of the hydrocarbon industry will also be explored.

ANH approved substantial changes for the exploration blocks offering

In March the board of directors of the Colombian National Hydrocarbon Agency ("ANH") approved Agreement No. 2 of 2017 which introduces new terms and conditions to award exploration and production rights over oil blocks, partly superseding Agreement No. 4 of 2012.

The most significant change to be introduced by Agreement No. 2 of 2017 is that areas will be permanently offered by the ANH under a direct negotiation system and on a first come, first served basis. This means that, unlike the competitive bidding processes performed every two years established in Agreement No. 4 of 2012, interested companies will be allowed to propose work programs for the available areas. These work programs will be made public (although the proposer will remain anonymous) by the ANH so that other players may present their bids. The original bidder will have the opportunity to modify the terms of its original offer once all other bids have been submitted and, in case of a draw, its offer shall prevail.

In addition, the ANH will no longer assess offers on the basis of an additional percentage share in production after royalties. Rather, the ANH must decide exclusively on the basis of the number of investments in exploration activities.

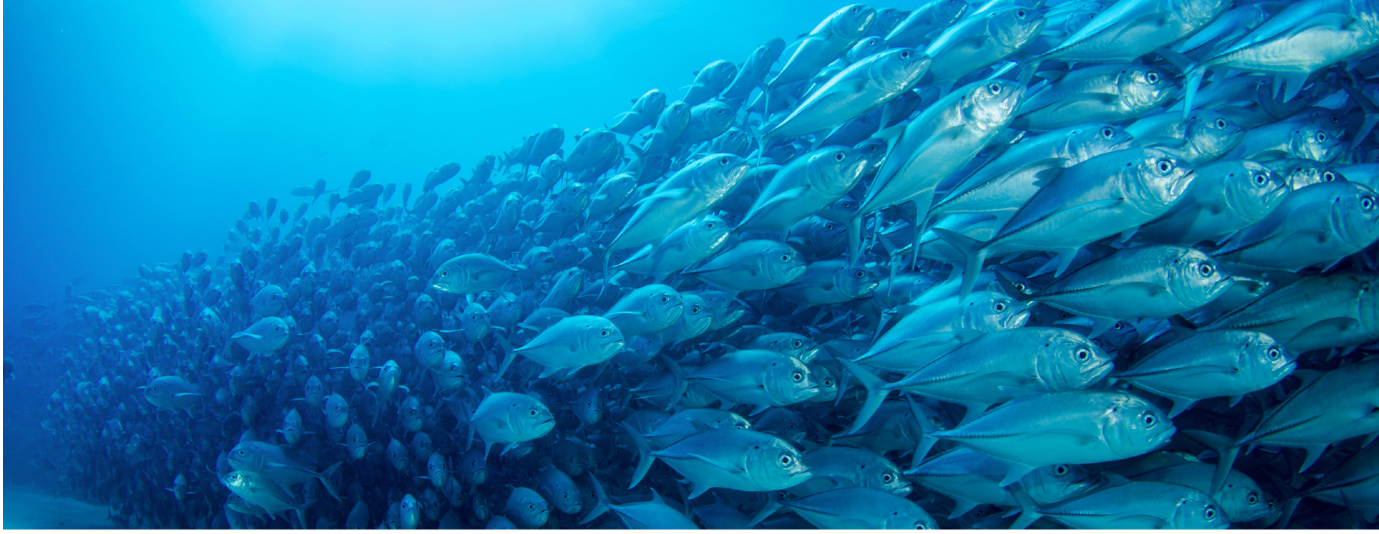
According to Orlando Velandia, the president of the ANH, once the agreement takes effect, the ANH will offer the first 20 exploration areas following the introduction of the new scheme, most of which are located in the northeastern part of the country in the in the provinces of Sucre and Cordoba.

Termocandelaria sanctioned with record fine for breach of capacity obligations

The Colombian Superintendent of Public Utilities has announced a record fine of approximately USD 12.2 million against thermal generator Termocandelaria for a breach of its obligation to supply electricity under the existing capacity mechanisms. The company was sanctioned for jeopardising the country's grid during the 2015 drought despite receiving over USD 210 million in reliability charges over the years.

Colombian Government orders liquidation of Gas Natural Fenosa's Electicaribe power company

Multinational energy company Gas Natural Fenosa has filed a claim before the International Centre for Settlement of Investment Disputes at the World Bank against Colombia in relation to decision of Superintendent of Public Utilities to liquidate the group's Colombian subsidiary, Electricaribe. This decision follows a first contrast between the Spanish based company and the Colombian government, after the decision by the Superintendent of Public Utilities to effectively take over the operations and assets of Electricaribe because it was believed that the company was no longer able to operate to guarantee security of supply in the region.



Mexico

SENER runs the first Mexican Capacity Market

The first ever Mexican Capacity Market took place in late February 2017. The price offered for capacity in the National Interconnected System, the largest capacity zone in the country, was 1,207,304 $/MW-year. This price suggests that the system currently has sub-optimal levels of generation capacity.

The Capacity Market was added as a new feature to the national electricity system during the reforms in 2015. It aims to ensure there is optimal capacity level in the system by sending a price signal to potential investors. The market allows suppliers to purchase the capacity that they were required to have over the previous year. If there is a lack of capacity the price will be higher. This in turn incentivises investment, as the capacity payments help to cover the fixed costs of construction of a new generation plant.

The price offered in the first auction was higher than some expected. It is hoped that this will encourage further private investment in the Mexican electricity sector to bring capacity up to the optimum level.

ENI discovers significant oil reserves in the Gulf of Mexico

The Italian oil company ENI announced in March that it has made a "meaningful" oil discovery at the Amoca-2 oil field in Campeche Bay, in the Gulf of Mexico. The discovery is the first of its kind since international companies entered the market following the industry reforms in 2013.

Before the liberalisation of the Mexican oil industry, Pemex, the state oil company, had sole rights to explore Mexican oil fields. It focused on the easier to access shallow water oil reserves. Following the reforms the National Hydrocarbons Commission ran several competitive tenders to allot rights to explore several deep water blocks. ENI was awarded the rights to the Amoca-2 field in September 2015.

The discovery has sparked interest in the area and its potential. Three further tenders will be conducted later this year.

BP to open first filling station in Mexico City

Having won two deep-water exploration blocks in December 2015, BP plans to expand further into the recently deregulated Mexican oil industry by opening petrol stations across Mexico. Its first station was opened on 9 March in a suburb of Mexico City. BP has plans to open as many as 1,500 stations over the next 5 years along with significant investment in other fuel infrastructure in the county.

BP is not the first petrol station provider to enter the Mexican market, and grocery chain Walmart has plans to follow suit later this year. The move will put BP in direct competition with Pemex, which is the only serious provider of petrol stations in Mexico City and which dominates the market throughout the country. BP's stations will initially sell fuel purchased from Pemex, as it is currently the only provider.

This is the latest in a string of significant changes in the market since the end of Pemex's eighty-year monopoly. Last year Pemex opened five petrol stations north of the border in Texas.

Peru

CNPC to develop natural gas fields in southern Peru

In February 2017, CNPC Peru S.A. started the exploitation phase of Block 58, where it holds a 100% interest following an announcement in November 2016 that Block 58 (Camisea basin) holds 3.9 TCFs of natural gas reserves. The company must now begin the construction of production facilities and evaluation of the most suitable transportation pipeline. It is worth noting that the Peruvian Government was expecting CNPC Peru S.A. to use the now defunct *Gasoducto Sur Peruano* pipeline, and must now either accommodate a new transporter concessionaire to match the expectations of CNPC Peru S.A. or relaunch the project.

PETROPERU keeps credit rating amid behemoth refinery and pipeline refurbishing efforts

Fitch Ratings ratified the credit rating of PETROPERU as BBB+ with a stable outlook. PETROPERU, one of the most important midstream and downstream players in the country, is currently in the process of revamping Talara Refinery, a project worth US$ 4.5 billion, which has been contested by the press due to the delays and price increases involved. PETROPERU is also devoted to resuming the operation of its *Oleoducto Nor-Peruano* pipeline, which halted its services following an order of the regulator after a number of ruptures occurred over the last 24 months, some of them reported to be man-made.

Judge cancels E&P license for failing to implement consultation under ILO Convention 169

The Fourth Constitutional Court of Lima (first instance) declared that the License Contract for the Exploration and Exploitation of Hydrocarbons in Block 116 held by Canadian operator Pacific Stratus Energy in association with French company Maurel et Prom was null, as it was subscribed without the implementation of the previous consultation to indigenous communities in the area, as required by ILO Convention 169. Peru ratified ILO Convention 169 in 1994 but implemented the local procedure for consultation just after 2010, while the Block 116 contract was agreed in 2006. The Ministry of Energy and Mines as well as PERUPETRO (Peruvian Government Agency for E&P Contracts) announced that they will appeal this decision. It is worth mentioning that this decision implies a change from previous criteria when similar nullity demands where presented and where the Constitutional Court did not accept license contract nullity.

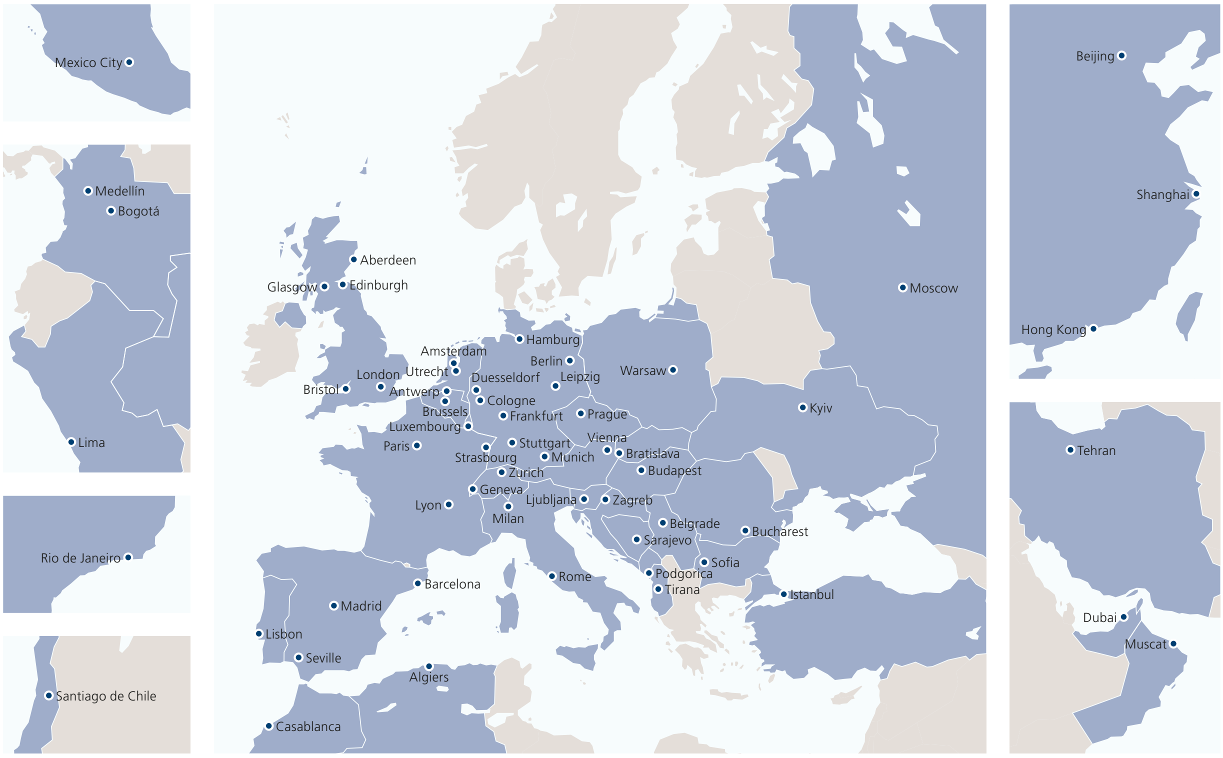
Enel to expand solar plant project

Enel Green Power has expanded the scope of its "Rubí" solar power generation project. The company received approval for the Technical Support Report where it requested permission to increase the number of panels for its photovoltaic park "Rubí", which is to be located in the southern Peruvian region of Moquegua. This would suggest an increase in the envisaged value of the project from US$ 170 Million to US$ 300 Million. In February 2017 (wet season), solar power generation contributed only 0.5 % of the total power generation capacity in Peru, while wind power generation contributed 1.5%, thermal (mostly natural gas) contributed 30.8% and hydro contributed 67.3%.

Transboundary energy integration

The first official steps towards a power interconnection with the Chilean grid are scheduled to begin by mid-2017. The presidents of the two countries, Michelle Bachelet and Pedro Pablo Kuczynski are due to meet by July 2017; by which time the technical representatives from both countries expect to have agreed a work schedule that shall commence with the connection of the cities of Tacna (Peru) and Arica (Chile).

Peru has also subscribed to an agreement with Ecuador for the construction of a transmission line linking both countries' grids and has also proposed the using the Oleoducto Norperuano to transport the production of the Ecuadorean oilfields located close to the Peruvian border.



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