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Brazil

New Gas Market Resolution

The Brazilian National Council of Energy Policy (CNPE) has published a new resolution (no. 16/2019) to progress its Gas to Grow initiative, a broad discussion between policy makers and the market that aims to liberalise the market and open it up to private investment. The Resolution seeks to improve the current regulatory model established by the Gas Law of 2009 and Decrees 7382/2010 and 9616/2018.

The Resolution seeks to ensure quality and security of supply of gas in Brazil, by expanding competition, avoiding regional monopolies, ensuring liquidity of virtual gas trading, and integrating the gas sector with power generation and industrial sectors.

Unbundling

State-controlled oil and gas giant, Petrobras, is vertically integrated, and the dominant agent, in the gas sector. Together with its subsidiary, Transpetro, it controls a majority of production, distribution and gas-fired power generation, and almost all gas processing and transportation infrastructure.

Petrobras recently signed an agreement with the anti-trust authority, CADE; undertaking to reduce its downstream gas activities by half and to exit the midstream entirely. The Resolution requires Petrobras to dispose of all its shares held in gas transportation

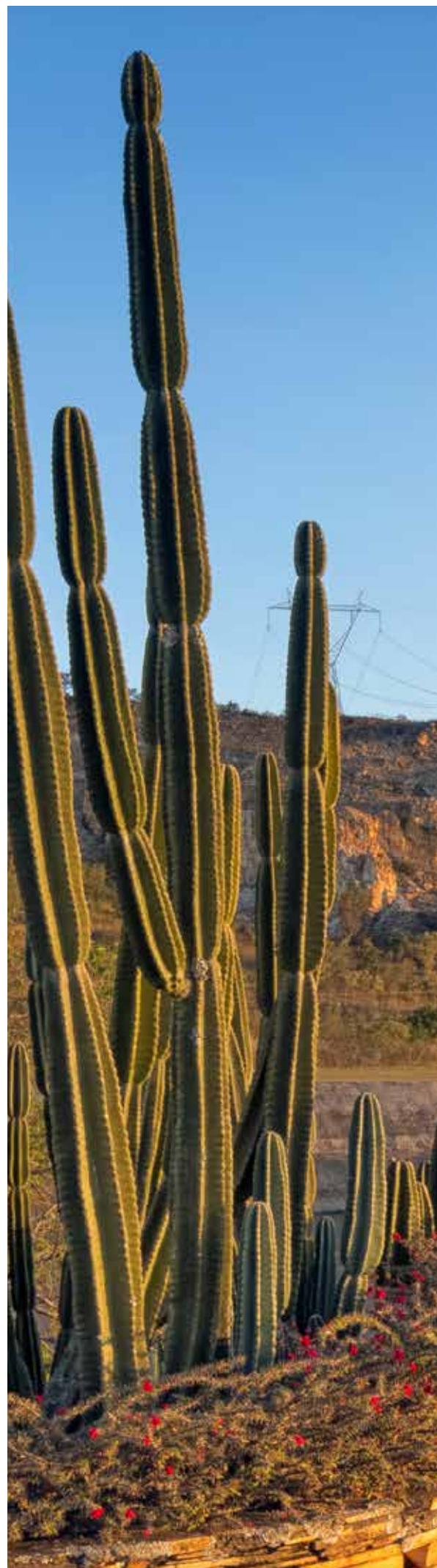
and distribution companies, and to ensure their independent management until it is able to do so.

To facilitate access, Petrobras must define its capacity requirements between different points of the gas transportation system, allowing competitors to use remaining capacity. Petrobras must aid in the transition by being flexible and balanced in its use of the transportation system, providing information to the market, promoting the sale of natural gas through auctions and removing barriers to other traders.

State incentives

The natural gas sector is subject to regulation at both state and federal levels. States tax pipeline transportation across their territories and regulate distribution services, often participating in their local distribution companies.

The changes now proposed by the federal government to increase competitiveness of the gas sector, therefore require support from the states, and the CNPE Resolution provides for the offering of incentives to encourage their voluntary adoption of best regulatory practice, in order to encourage liberalisation, increased transparency and efficiency, and better pricing for consumers. The federal government is seeking to tie financial aid to the states, to these





practices, and to the privatisation of state-owned distributors. Important states, including Rio de Janeiro, Espirito Santo and Minas Gerais have already voiced their support for this initiative.

CNPE will provide technical assistance to the states to create and maintain independent regulatory agencies for the gas sector, including providing training and support with capacity building and promotion of best regulatory practice.

State tax authorities, through the National Council of Treasury Policy (CONFAZ), will also be incentivised to adjust and harmonise the taxation of natural gas activities.

Concluding thoughts

The Resolution is just the beginning of the New Gas Market agenda. Many different agencies, government departments and state-owned enterprises at state and federal levels have a lot of work ahead of them, to make the vision of an open and competitive gas market a reality. Indeed, many of the Resolution's more ambitious objectives will require new legislation or amendments to existing concessions.

Nevertheless, this is an important first step, and the potential rewards are significant. Through this initiative, the federal government hopes to reduce the price of gas

by 40% over three years, which should encourage the resumption of industrial activity in several sectors, including petrochemicals, glass and ceramics, and the steel industry. According to the Minister of Mines and Energy, a 10% reduction in price would represent an increase of 2.1% of the national GDP.

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Chile

Geothermal potential in Chile for the development of clean energy among highest globally.

Recent studies estimate that the geothermal energy potential in Chile is around 3,000MW, which, along with its tremendous possibilities for thermal use, places us, once again, in a privileged position globally for the electric or thermal utilisation of this energy source.

The World Bank Group remains the largest multilateral funder of geothermal development, providing resources of approximately USD 2.3bn in investment financing globally over the last few decades, with a view to help countries to diversify their electricity generation matrices and reduce greenhouse gas emissions.

Countries in Andean region accelerate power link plan that could unite Chile and Bolivia

The Ministry of Energy of the Chilean Government is currently working on diverse projects in that area, amongst which the most noteworthy is the Andean Electricity Integration System (*Sistema de Integración Eléctrica Andina, Sinea*).

The Sinea is an initiative that brings together Chile, Colombia, Ecuador and Peru, and aims to advance interconnection amongst member states. Commercial and operational regulations, as well as regulations related to the electricity coordinator, are currently being developed to facilitate and allow electricity interconnection between member states.

Bolivia is also participating in this project as an observer, this being the first time that concrete

progress is being made towards their joining.

In addition to the Sinea, Chile is also working on the South Electricity System (*Sistema Eléctrico Sur, Siesur*), which promotes interconnection amongst countries in the Southern Cone (Argentina, Brazil, Chile, Paraguay and Uruguay). The new project aims to highlight the importance and the benefits of infrastructure in energy interconnection.

Chile is making swift progress on the way to electric mobility

The Chilean Government has recently reported on the fulfilment of commitments related to energy policy.

Amongst the advances reported by the government, the following are noteworthy: the Energy Efficiency Bill (*Proyecto de Ley de Eficiencia Energética*); the signing of a public-private agreement to promote electromobility; Santiago is the city with the second largest fleet of electric buses globally, after Shenzhen, China; the creation of a digital electromobility platform; the setting in motion of the first technology usage regulations, to mention a few.

The following future goals have been set: that there be at least ten times more electric vehicles on the country's roads by 2022, and that by 2050, 40% of private vehicles and 100% of public buses are run on this technology.

Investment in energy projects rises, totalling USD 3.5bn

The energy industry will be the third highest in terms of capital investment intensity in the current financial year in Chile. At the end

of the first quarter, the sector will complete an outlay for this year of more than USD 3.5bn. 79% of this figure is owing to the development of initiatives in the area of generation, while transmission accounts for 12%, and hydrocarbons, 9%.

This signifies an increase of 15% from USD 3.09bn in the previous financial year.

The biggest driver of this figure is the development of projects related to renewable energy generation.

In 2023, expenditure will exceed USD 8bn, principally driven by initiatives linked to the generation sector, where the list is headed by the Antofagasta and Atacama regions.

Project investment in environmental impact assessment increases by 54% to USD 15.5bn in January-June

The desire to invest in the country is not absent, as demonstrated by the investment figures related to projects in the process of environmental impact assessment that were recorded during the first half of the year. Given that, according to government data, 387 initiatives entered the system for revision during the first six months of 2019, the aforementioned represents a total committed investment

of USD 15.5bn. Furthermore, the number of projects in the process of environmental impact assessment increased by 6.6% from the same period in 2018 (363), while the associated investment increased by 54%, from USD 10bn recorded in the first half of last year.

The government also showed better results in terms of environmental management, given that they revised 408 initiatives in the analysed period, 9.4% higher than the 373 projects revised in 2018.

The best management reported by the government – which comes just as the reform to the Environmental Impact Assessment System (*Sistema de Evaluación de Impacto Ambiental*) is going through the legislative process – was not only evident in the number of projects rated, but also in the times taken to perform said assessment. In this respect, it was highlighted that during the last year, a ‘significant’ drop was recorded in the processing timelines from the total average processing times for the Environmental Impact Declarations (*Declaraciones de Impacto Ambiental*, DIA).

DIAs represent 93% of the requests approved in the Environmental Impact Assessment System (2018) and for them, *‘the average processing time last year was*

312 calendar days, and currently (June 2019) the average total number of processing days for a DIA reached a total of 292 days’.

Similarly, in regards to the Environmental Impact Studies (*Estudios de Impacto Ambiental*, EIA) – which are the most complex and large-scale projects – in 2018, the tendency for processing timelines to increase was reversed, with the average number of calendar days for processing totalling 818 days in 2018.

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Colombia

Call for the second tender for long-term contracting of electric power

After the tender of long-term electric power contracts convened in February 2019 was declared deserted by Resolution 4-0590 of 9 July 2019, the Ministry of Mines and Energy defined and implemented a mechanism to promote the long-term contracting of power generation projects. On the same date, the Ministry issued Resolution 4-0591 calling for a new tender for long-term contracting for electric power generation projects through non-conventional renewable energy sources (NCRE in Spanish). Additionally, on 7 August 2019, the Mining and Energy Planning Unit (UPME in Spanish) published the final tender documents as well as the first draft of the contract.

The tender is a competitive mechanism aimed at bringing supply (generators/sellers) closer to demand (marketers/buyers) and thereby promote a mechanism to develop efficient prices. Only NCRE power generation projects (i) whose date of entry into commercial operation is after the tender award date and before December 2023 and (ii) that have a capacity greater than or equal to 5MW may participate in the tender.

The modality when entering into a contract will be “pay what you

contract”, that is to say the buyer must pay the energy contracted to the seller, regardless of whether it is consumed or not. This generates greater certainty for marketers in energy delivery, which eventually translates into greater benefits for users.

In addition, the generator will commit to a fixed amount of energy supply to the buyer during a specific hour blocks. To that effect, tenders must be presented by hour blocks as follows:

- Block #1: From 12 a.m. to 7 a.m.
- Block #2: From 7 a.m. to 5 p.m.
- Block #3: From 5 p.m. to 12 a.m.

The supply period shall be fifteen (15) years from 1 January 2022, whereupon delivery obligations shall take effect. Nevertheless, providers may extend these periods due to the financial nature of the contract. In accordance with the recommendations of potential funders made in the preliminary stage of the process, this term will allow projects to obtain financing easily.

The amount of energy in the tender will be defined by the Ministry of Mines as “target demand”. The CREG will set the maximum limit on its behalf to determine the maximum value allowed to allocate the tender contracts and will define the conditions under which it is guaranteed that the tender will

not concentrate on a limited number of agents.

The Mining and Energy Planning Unit will disclose both the “target demand” and the “maximum limit” after receiving tenders from buyers and sellers taking part in the auction.

According to the timeline of the process published by the Ministry of Mines, the following are some relevant dates to consider:

- 7 August: Issuance of the Specific Terms and Conditions of the Tender;
- 28 August – 3 September: Period to request a user by participants to use the IT platform;
- 6 September: Reception of Envelope No. 1 from participants with accreditation of the enabling requirements;
- 7 September: Publication of the list of participants;
- 24 September: UPME deadline to publish the names of eligible marketers and their financial statements;
- 22 October: Reception of Envelope No. 2 from participants with tenders, definition of “target demand” and contract awarding.

For more information, please refer to the: (i) Terms and Conditions and the (ii) First draft of the contract



Ecopetrol signed a fracking agreement for the United States with Oxy

Ecopetrol and Occidental Petroleum (Oxy) signed a joint venture agreement in order to develop a plan to start exploration and exploitation of unconventional hydrocarbon fields in the state of Texas, US. The target area of the operation is located in the Permian Basin, one of the highest hydrocarbons production areas in the world, where over 4m barrels of petrol and 15bn cubic feet of gas per day are currently produced.

Oxy will have a 51% share in the association, and will bring its experience as an operator to the table. On the other side, Ecopetrol will have the rest of the share with an initial payment of 50% at the closing of the transaction and the remaining 50% as deferred investment in activities outlined in the development plan.

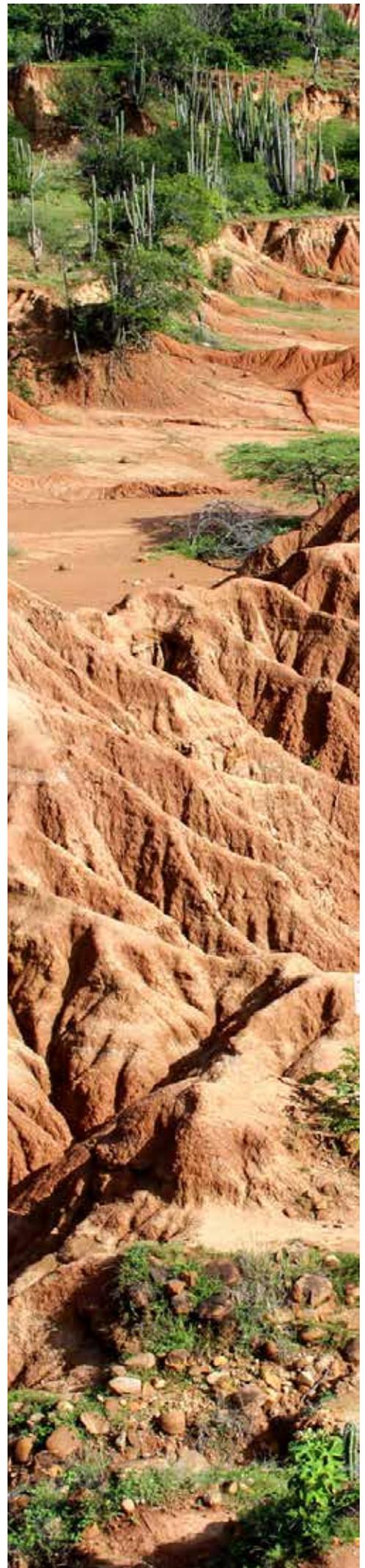
This transaction is still subject to regulatory authorizations in the United States. Meanwhile, it will allow this company to strengthen and grow their reserves and thus increase their value. Ecopetrol expects to bring in 160m barrels in proven reserves and reach a daily production of 95,000 barrels in the next decade.

Likewise, it will give Ecopetrol the possibility to strengthen its knowledge about the evaluation and exploitation of these fields, since the alliance provides for a large component of knowledge and technology transfer. This will allow the company to gain relevant knowledge by the time Colombia gives way to the exploitation of non-conventional fields.

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Mexico



Investment opportunities in the Mexican Natural Gas industry

For many years, Mexico has suffered from a shortage of natural gas production due to the industry's lack of infrastructure. This is why the local demand had to be supplied by increasing the amount of imported natural gas, mainly from the south of the United States.

Since this is affordable fuel when compared to other fuels that are used in the generation of electrical power and many other industrial processes, the demand for natural gas has increased. The increase of demand and the lack of infrastructure for production, distribution and storage of gas, alongside Mexico's large natural gas reserves, represent a sea of opportunities to invest in this industry.

The potential of solar energy

In the search for a transition to clean, renewable energies, Mexico has been spotted as one of the countries with the biggest potential to develop the technology necessary to generate solar energy.

Although in the past years we have seen accelerated growth in the solar energy generation industry due to low operation cost of power plants – as well as the projections that are available for the said market – there is still a huge potential waiting to be exploited.

It is important to mention the need of today's world for a generation of energy from clean sources. The consequences of CO₂ emissions, due to disproportional use of fossil fuels, are now clear, and we must make every effort to reverse the process.

The implementation of more modern technologies has decreased the production cost of solar energy – allowing to reduce the cost of solar panels, and even an increase in their lifetime –, which has reduced the operation and maintenance cost of power plants; and the development of high energy efficiency products in order to reduce the capacity consumed and to cause an impact in Mexico's social and economic life.

Solutions for energy storage in Mexico

The Energy Regulatory Commission is developing general administrative provisions regarding energy storage. According to the Commission, these provisions are not directed to any particular storage technology, and their main objective is to achieve multifunctional energy storage to make it profitable.

The storage of energy will allow deferring the consumption of electrical power, will reduce the momentary power cuts, will reduce tension variations, and will bring many other benefits.

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Peru

Agreements for energy interconnection with Bolivia

During the Fifth Binational Ministerial Cabinet between Peru and Bolivia, held at the end of June, the governments of Peru and Bolivia signed (3) three cooperation agreements for Peruvian-Bolivian energy integration.

The first Agreement is aimed at implementing a project for the design, construction and operation of natural gas distribution networks through pipelines for the benefit of the Peruvian population located in the border area with Bolivia. For this, it will be governed that the company designated by the Ministry of Energy and Mines (MINEM) and the Bolivian State Petroleum Corporation (YPFB) seek to realise the project in accordance with the laws of Peru and Bolivia. The localities that would benefit from this project, subject to confirmation by a technical feasibility study, would be nine (9) districts in the Peruvian region of Puno.

The Second Agreement signed between Peru and Bolivia is aimed at the implementation of an LPG marketing project with the purpose of contributing to the supply of said product for the populations of the southern part of Peru.

The Third Agreement aims to develop studies to determine the

technical and economic viability of the interconnection of the Peruvian project Integrated Transportation System – ITS Gas (formerly called the South Peruvian Gas Pipeline and which would be adjudicated in April 2021) with the future Bolivia – Peru pipeline, and its subsequent execution according to these studies; in order to export Bolivian LNG through the Peruvian port of Ilo.

Promotion of upstream investment

The President of Perupetro S.A., the Peruvian agency for the promotion of investment in exploration and exploitation of hydrocarbons, Seferino Yesquén, said that one of one of its main goals for the next five years is to accomplish the signing of forty-four (44) new exploration and exploitation contracts; of which four (4) are expected to be signed at the end of 2019.

In pursuit of achieving this objective, Perupetro S.A. informed that they will bid for Lot 201, located in the Ucayali basin in the Peruvian jungle, which has an important discovery of light oil (45 API), in addition to great hydrocarbon potential still to be explored. According to the press, there would be four (4) companies that would be interested.

Government continues to promote Renewable Energies

The Minister of Energy and Mines, Francisco Ísmodes, informed that the MINEM is preparing an auction that will allow changing the energy matrix of the Loreto region, from diesel to Renewable Energy Resources (RER).

Furthermore, in June, Congress passed a bill that seeks the promotion and use of RER in river and lake transport in areas where navigable rivers and waterways are predominant.

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