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Newsletter

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Brazil



Auction for excess volumes from the 'Transfer of Rights' areas

On 18 April 2019 the National Energy Council (CNPE) published Resolution No.6 ("Resolution"), which lays out the parameters for bidding for excess volumes from the areas granted to Petróleo Brasileiro SA (Petrobras) under the Transfer of Rights Agreement. Those areas are called Búzios, Itapu, Atapu and Sepia. In 2010, the Brazilian government gave Petrobras the right to produce five billion barrels of oil from these four areas in the Santos basin pre-salt province in return for the issuance of shares in a value of BRL 74.8bn, as part of a capitalisation of the company.

However, the Brazilian oil regulator has now revised the figure of recoverable oil in the area from 5 billion to 17 billion barrels. The rights to produce this excess oil will now be auctioned by the government under a production sharing agreement (PSA) regime.

In common with other recent PSA bid rounds in the pre-salt, Petrobras has a right of first refusal in the bidding. It announced on 21 May that it expressed its interest in exercising that right for the Búzios and Itapu areas. If it elects not to bid for those areas, or does not submit the winning bid for those areas, it can match the winning

bid and acquire a 30% operated stake in the winning consortium. Nonetheless, it may elect to bid for a different interest alone or in a consortium for any of the four areas.

The judgment criterion for the bids is the percentage of Profit Oil to be awarded to the Brazilian Government. The minimum Government share is 26.23% for Atapu, 23.24% for Búzios, 18.15% for Itapu and 27.88% for Sépia.

Petrobras has already invested considerable sums to begin the development of these areas, and winning bidders will acquire an interest in these assets in return for compensating Petrobras for a share of the expenditures. The criteria for calculating that compensation were set out in Ministry of Mines & Energy Ordinance no. 213.

The surplus auction is scheduled for 28 October 2019 and expected to collect signature bonuses of around USD 26bn.

Consultation on third-party access to GASBOL

The Bolivia-Brazil Pipeline (GASBOL) is, at 3,150km, the longest natural gas pipeline in South America and connects Bolivia's gas resources with Brazil's southeast region.

The Brazilian Petroleum Agency (ANP), has recently consulted on

a draft bid notice that will be used for a public tender to contract available capacity to transport natural gas within GASBOL. Third party access is being introduced following the expiring of the current contract for all capacity within the pipeline between the operator, TBG (Transportadora Brasileira Bolivia-Brasil S/A) and Petrobras.

A Fixed Capacity Transportation Contract will be used, according to entry and exit points. TBG will carry out the public tender under the supervision of the ANP. The tender will be based on the rules of ANP Resolution No. 11/2016 and the Gas Law (Law No. 11.909/2009). Although the contracts for access will run for three years, a competitive process will most likely be held every year.

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Chile

Renewable energy for the development of a cleaner matrix.

In December of this year, Chile will host the most important summit on climate change in the world, the Conference of Parties, better known as COP25. This conference, which will include representatives from 197 countries, is expected to increase greenhouse gas reduction targets. In this context, our country as host of the event will seek, among other things, to promote the development of renewable energy.

Chile has excellent conditions for the development of non-conventional renewable energy (NCRE). This is due to the radiation levels, unique to the planet, and favourable wind conditions throughout the country.

Currently these renewable sources represent 21% of the Chilean energy matrix, but the state is committed to increase it to 60% in 2035.

The Energy Policy 2050, seeks to promote a clean energy matrix, which has competitive prices and contributes to the reduction of the carbon footprint. In addition, the development of wind and solar energy will give greater independence to the country, which will cease to depend on both the price and the international supply of fossil fuels.

Advances Chile-Peru electricity interconnection project.

Both countries are studying the Arica-Tacna interconnection.

The second meeting of the "Study of the Update of the Chile-Peru Interconnection in 220kV" was carried out in the National Electricity Coordinator's offices, whose purpose

is to jointly review the preliminary progress of the feasibility report on the Arica-Tacna interconnection, executed by AF Markets EMI and financed by the IDB.

The Assistant Secretary for Energy noted that, *"the electrical interconnections bring with them important benefits such as providing greater security and flexibility to the transmission systems of the interconnected countries; face energy emergencies that could affect one of them; optimize the use of complementary energy resources; and greater interconnection would also facilitate greater penetration of variable renewable energies."*

It should be noted that energy integration is one of the explicit priorities in the Energy Route. To be realised, the next necessary step is to agree on a regulatory framework that allows for the exchange of electrical energy between the two countries. To this end, both countries are moving forward through a Bilateral Committee on Regulatory Harmonization and Infrastructure Planning.

National Energy Commission confirms that tender for supply of regulated customers will be made in December.

The bidding process for electricity supply to regulated customers will take place in December of this year, considering a total of 3,400GWh to be awarded, in a schedule that already collected comments from businesses around the bases of the tender, as stated by José Venegas, executive secretary of the National Energy Commission (CNE).





The commission made this announcement within the framework of the Participatory Public Account of the regulatory body, which highlighted the main milestones made by the institution, among which was the implementation of 13 technical standards, of which the Complementary Services regulation and the work for the annex of the Technical Standard of Quality of Distribution, with regard to the technology that must have new meters, should be published in the coming months.

Within this year's institutional challenges, mention was made of the Tariff Regulation for Gas Profitability Checking, as well as finalizing the process of setting gas rates in the Magallanes Region.

Another task for the agency is the study of costs and the Distribution Added Value (VAD), whose next tariff process begins in November 2020.

First regulation for electro-mobility enters right land.

This year, the first regulation for electro-mobility should come into force, which will be focused on regulating charging systems for electric vehicles, in a work process that contemplates a national and international public consultation, according to the Superintendent of Electricity and Fuels.

Normative technical specification No. 15 will regulate the installation of charging stations of electric vehicles, which fall within the Regulation of Consumer Facilities (RIC).

“The idea is to define the standard that will be adopted by Chile in the field of electro-mobility, defining clear rules for this market to be developed safely and efficiently, putting as the objective, together with the Ministry of Energy, its entry into force during the second half of this year,” said the authority.

The drafting of these regulations considers the participation of the private sector in a technical committee, where an instructive proposal was presented, in which *“certain definitions are established that cover safety issues, technical requirements of the facilities, interoperability criteria and the definition of the standard of the loading system that will be used in Chile from now on. This seeks to give certainties to the industry on the path they should follow in developing their projects.”*

Ministry of Energy develops thermal strategy to promote renewable sources.

The Ministry of Energy is preparing the construction of a thermal strategy for the country, which aims to promote the use of renewable energy and energy efficiency in terms of heat production in the industry, said the Economy Undersecretary.

The authority participated in the opening of the seminar “Solar Power Concentration a Key Option for the Chilean Energy Transition”, carried

out by Corfo Solar Committee, GIZ Chile and the Solar Power Concentration Association (ACSP), where the role of this solar technology was highlighted in the process of decarbonisation, to be a replacement alternative, in addition to its contribution for the flexibility in the operation of the national electrical system, due to the thermal storage systems that it incorporates.

“As the Energy Ministry we are working to outline the process of building a thermal strategy, whose main objective will be to promote the use of renewable and energy-efficient sources for the production of heat in Chile, thus reducing information asymmetries between suppliers and eliminating barriers to incorporate technologies such as solar thermal, among others,” said the authority.

The future potential for CSP in Chile is up to 10,000MW.

Lithium: An ally for solar energy.

Chile is one of the countries in which lithium can be found, and this business gathers momentum due to its great implication on the energy market. According to studies carried out by the Chilean Copper Commission, in our country the portfolio of projects around this mineral grew by 276% between 2017 and 2018, which would,

according to projections, allow us to reach a production of close to 240,000 tons per year by 2022 (triple of what was recorded two years ago).

Particularly in the field of solar energy, this mineral has been an extremely useful ally in order to store the energy generated during daylight hours. Lithium batteries can be charged at any time and have a longer shelf life, as well as being energy dense, thereby storing more energy in a smaller space.

In this way, if during the day the batteries are charged with photovoltaic energy, they can be used at night to provide clean energy to the grid without interrupting the supply.

The lithium market is one of the most beneficial to Chile due to its implication in the energy industry, catapulting the country as an attractive hub for the development of the NCRE.

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Colombia

Measures of the National Development Plan on energy

On 7 May 2019, the Congress of the Republic approved the National Development Plan 2019–2022 (NDP), which outlines the goals of the Government for this four-year period. In the plan, several strategies were included to further the energy transition by which the Government aims to migrate from fossil fuels to the use of clean renewable energy. Below we indicate some of the main measures adopted in the NDP law for the fulfilment of this objective.

Incentives for the generation of energy from unconventional sources

Law 1715 of 2014 was issued in order to promote the development and use of non-conventional renewable energy sources (NCRE). To this end, the law introduced tax benefits for those interested in making investments in renewable NCRE projects that can be accessed once the requirements and procedures established in the law are met.

One of these incentives is the special deduction in the determination of income tax established in article 11 of Law 1715. Income taxpayers who directly make new expenditures on research, development and investment for the production and use of energy from NCRE will be entitled to deduct up to 50% of the value of the investments, for the five (5) years following the taxable year in which the investment was made. Additionally, it establishes that the value to be deducted annually cannot exceed 50% of the taxpayer's net income.

One of the changes introduced by the NDP relates to the aforementioned article, extending the term for the use of the special deduction in income tax for investments in power generation with NCRE from five (5) to fifteen (15) years. This means that the incentive, which applies only to investments in power generation, now has a deduction of 50% but applicable for a term of fifteen (15) years.

Another measure adopted by the NDP was the inclusion of solar panels within the assets excluded from sales tax (VAT), so that as of coming into force of the law, the sale or import of these devices will not attract this tax. This seeks to encourage the adaptation of solar panels to increase the generation of this type of energy in the country.

Complementary energy matrix

One of the objectives of the NDP in the field of energy is that Colombia has a complementary energy matrix, resilient and committed to reducing carbon emissions. For this, one of the articles introduced in the NDP points out that the marketing agents of the Wholesale Energy Market will be obliged to ensure that between 8% and 10% of their energy purchases come from NCRE through long-term contracts assigned with certain market mechanisms. However, the article points out that agents may even implement a percentage higher than that provided.

For the foregoing, the Ministry of Mines and Energy shall have the obligation, directly or through a delegating entity, to regulate said obligation as well as the mechanisms for monitoring and controlling compliance thereof.





Memorandum of understanding between Colombia and the United States for cooperation on energy issues

On 13 May 2019, the President of the Republic and the Secretary of Energy of the United States signed a memorandum of understanding (MoU) within the framework of the Concordia Americas Summit 2019 in order to establish a framework for cooperation in energy matters between both countries. The MoU establishes different cooperation activities depending on the source of energy, but in general, the document seeks the provision of technical assistance, the exchange of knowledge and information and the offering of training and services between the countries. The MoU and the measures included therein seek to promote the energy transformation of the country, one of the priorities of this government, as well as the responsible development of natural resources and the promotion of investment in the energy sectors of the respective countries.

The MoU states that for the electricity market, the countries will cooperate, in general, in the analysis of the operation of the electricity market and initiatives to modernize it. To do this, they will seek to exchange practices to strengthen the development of the electric transport market by studying the technical requirements of vehicle loading facilities and commercial operation models and thus update the system. Additionally, the countries will focus on developing initiatives to improve the coverage and electrical quality of the non-interconnected areas of the country. Lastly, the MoU states that one of the objectives will be to strengthen the resilience

and reliability of the supply channels and the electricity distribution system in the face of contingencies.

Regarding hydrocarbons, the most relevant measures are related to the promotion of best practices for the development of unconventional deposits and the deployment of technology for the development of deposits offshore. Likewise, the exchange of best practices for the improved recovery of hydrocarbons was agreed as one of the relevant topics.

Additionally, the MoU seeks cooperation between the countries to strengthen the development of renewable energy sources in Colombia, for which the development of “renewable plus” networks, including the promotion of renewable energy generation, energy storage and the generation of thermal energy, was foreseen as a first step. Finally, the government of the United States undertook to provide assistance to the entities in Colombia that are in charge of the energy auction processes by guiding them via the inclusion of industry best practices when defining prequalification requirements for those seeking to participate in these auctions.

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Mexico



PEMEX and SENER to Build Dos Bocas Refinery

Petroleos Mexicanos (PEMEX), Mexico's state-run oil company, has announced that it will build the Dos Bocas refinery in conjunction with the Ministry of Energy (SENER), as part of the new administration's strategy to achieve energy independence and national security for Mexico. Construction of the refinery, which is budgeted at over USD 8bn and will create 100,000 jobs, will begin in June and completion is due by May 2022. The Mexican Government expects production of 340,000bpd once the refinery is operational, split between 170,000bpd of gasoline and 120,000bpd of ultralow-sulphur diesel. A restricted tender was issued to four potential bidders, but this tender was cancelled as the bidders pitched over the proposed budget.

Mexico's O&G Sector Continues to Attract Private Investment

Mexican President Andrés Manuel López Obrador's (AMLO) administration suspended oil and gas licensing rounds on assuming the presidency in December 2018, citing the need to review the 100 contracts awarded under the rounds that took place prior to his inauguration. This news unsettled the industry as it approached a period of transition, but there are welcome signs as private sector

investment in Mexico's O&G industry remains positive. Some recent examples include:

- (i) The Mexican subsidiary of an Egyptian oil company secured financing granted by oil reserves with respect to upstream assets located in Mexico.
- (ii) Deutsche Ersierdoel Ag completed the acquisition of Sierra Oil & Gas, an independent Mexican upstream-focused company, for c. USD 500m.
- (iii) BHP will invest c. USD 80–90m for drilling and abandonment of a well in the ultra deepwater Trion field.
- (iv) Installation of Eni's Miztón platform has been completed, signifying the first foreign offshore oil asset installation in Mexico.
- (v) Cairn Energy announced plans to drill three wells in Mexico this year, two as operator and one as a partner, in Blocks 7, 9 and 15.

CFE Head Manuel Bartlett Announced Tender for 5 New Combined-cycle Plants

Bartlett, Managing Director of the Federal Electricity Commission, announced the tender to ensure Mexico's electricity demand was met by the State rather than by private investors. Commenting that the previous government neglected proper maintenance of

the CFE's plants, he outlined that construction of the plants would take three years and ensure that the current administration would keep them properly maintained. The plants will be constructed under a *Pidiregas y Estructurador* scheme in San Luis Potosí, San Luis Río Colorado, Baja California Sur VI and Salamanca, the latter of which will be the first to begin construction.

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Peru

New investments in upstream

At the end of April 2019, Irish oil company Tullow Oil obtained formal approval from the Ministry of Energy and Mines (MEM) to acquire a 35% stake in the Hydrocarbons Exploration and Exploitation License Contract in Lot Z-38, from the Australian oil company Karoon Energy. In addition, in May 2019, Tullow Oil obtained formal approval from MEM for the signing of the License Agreement for the Exploration and Exploitation of Hydrocarbons in Block Z-64.

The License Agreement for Lot Z-38 includes the "Navy" prospectus, whose drilling, to be carried out in 2020, will be the first drilling performed in deep waters in the South American Pacific. Both lots are close to the prolific Talara basin, which has produced 1.7bn BEP/BOE since 1880.

Conversely, the MEM also approved the acquisition of Perinti Limited, a subsidiary of the French capital company SCDM Energy, with a 30% stake in the Lot 108 License Agreement, located in the central jungle of the Junín region, by Argentina's Pluspetrol. This lot also has great potential, in which reservoirs of natural gas and light oil are sought.

Natural gas news for the south of the country

The new Peruvian South Gas Pipeline project, now called "Integrated Transportation System", will become

a reality in 2020, as part of the package of projects that will be awarded by the Peruvian State, under the form of a private co-financed initiative.

To further clarify the financing scheme of the project and determine its design, the Peruvian Government hired international consultant Mott McDonald.

Official sources indicate that it is very likely that the original line will be maintained, which would also strengthen the "seven regions project" on Natural Gas Mastery in the regions of Cusco, Puno, Ayacucho, Huancavelica, Apurímac, Ucayali and Junín, which will be tendered in the first half of 2019 and is valued at USD 400m.

Electrical interconnection with Bolivia, Chile, Ecuador and Colombia

The Minister of Energy and Mines, Francisco Ísmodes, has reported that he has been working on technical proposals to build the regulatory framework for a sustainable energy exchange between Peru and its neighbouring countries Bolivia, Chile, Ecuador and Colombia.

In relation to this, the minister indicated that there are already two proposals for interconnection clearly identified with Bolivia, in addition to having two interconnection projects with advanced studies with Chile, and an electric transmission line with Ecuador.

The Peruvian Government has announced that it will soon have the necessary regulations for the integration of the Peruvian electricity system with those of Colombia and Ecuador as members of the Andean Community.

Projects in the field of renewable energies

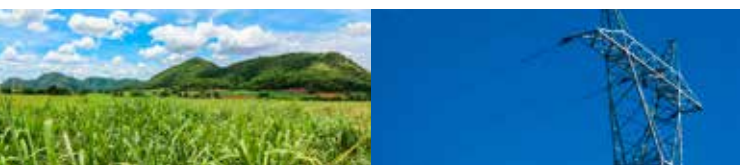
In the field of wind energy, Italian Enel Green Power announced the expansion of its Wind Farm "Wayra I", located in the Ica Region, which will be called "Wayra Expansion" and will have 30 wind turbines that lead to an investment of USD 130m. Additionally, also in the Ica Region, Bow Power (belonging to the Spanish ACS) plans to invest USD 187m in what would be the "Torroco" Wind Farm, with 34 wind turbines and a capacity of 112MW.

Likewise, in the field of hydroelectric generation, Kallpa Generación plans to develop a hydroelectric plant called CH RS-3, for which it presented its Environmental Impact Study to the Competent Authorities. CH RS-3, to be built in the regions of Apurímac and Cusco, is planned to produce 373MW and would entail an investment of USD 932.5m.

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