LATIN AMERICA ADVISOR

ENERGY ADVISOR

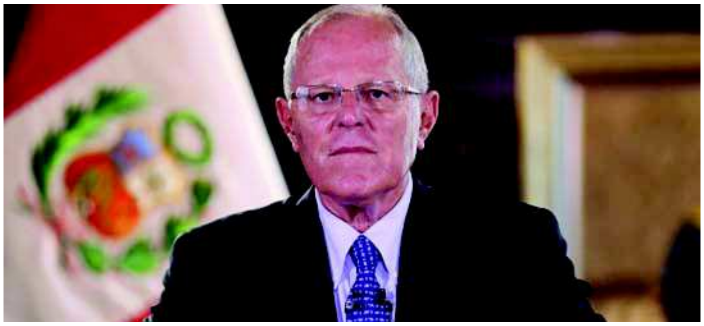
A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

March 17, 2017

FEATURED Q&A

How Will Peru Finance Its Energy Sector Ambitions?



The government of Peruvian President Pedro Pablo Kuczynski has said it may hold a bond issuance this year to pay for energy sector infrastructure projects. // File Photo: Peruvian Government.

Q In the past month, Peru has said it may sell bonds to help pay for the construction of infrastructure projects at state water company Sedapal through 2021, as well as to assist in financing the $3.5 billion expansion of the country's Talara oil refinery. Are Peru's financing plans for its energy infrastructure projects sustainable? What other options should the government seek out in order to pay for the expansion of its energy sector? How long will it take before Peru will see a return on its investment as a result of these new projects?

A Jaime E. Luyo, academic director of the PhD Energy Program at the Universidad Nacional de Ingeniería: "In recent weeks, private participation in the construction of services infrastructure has been seriously questioned by both the public and experts, such as in the case of the public-private partnership (PPP) of Chinchero airport, whose contract has been modified by an addendum that sought to correct the original contract, and the concession of the Peruvian Southern Gas Pipeline to Odebrecht, which is facing corruption allegations. On the other hand, President Kuczynski offered in his government plan of the universalization of water service, the massification of natural gas consumption and the modernization of Petroperú, linked to the Talara Refinery project. Amid this environment of politicization of medium- and long-term investment projects, the macroeconomy continues to grow and has even recently improved its credit rating by Fitch Ratings to BBB+. The latter is encouraging for proposals for greater participation of the public sector in the construction of essential infrastructure for devel-

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TOP NEWS

OIL & GAS

Brazil Court Allows Petrobras to Proceed With Asset Sales

Brazil's federal auditing court, on Wednesday overturned a ruling that had frozen state-run oil company Petrobras' asset sales since December.

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POWER SECTOR

Argentina to Hold Four Energy Auctions This Year

President Mauricio Macri hopes to boost Argentina's generating capacity as well as the country's economy ahead of this year's legislative elections.

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OIL & GAS

PDVSA Offers Russia Joint Venture Stake in Orinoco Belt

Venezuelan state-run oil company PDVSA, headed by Eulogio Del Pino, has offered Russian state-run oil company Rosneft a stake in joint venture Petropiar in Venezuela's Orinoco Belt.

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Del Pino // File Photo: Venezuelan Government.

end of 2018, The Wall Street Journal reported. The TCU said in a statement that Petrobras had presented the court with a document that showed that the "risks" that had originally been identified in the company's divestment program had since been corrected.

POWER SECTOR NEWS

Argentina Planning to Hold Four Energy Auctions This Year

Argentina is planning to hold at least four energy auctions this year that the government expects will attract as much as $7 billion in investment, Bloomberg News reported Friday. The auctions come as President Mauricio

Macri // File Photo: Argentine Government.

Macri hopes to boost the Argentina's generating capacity as well as the country's economy ahead of this year's legislative elections. The Argentine government will hold two auctions for new thermal energy capacity, one for renewable energy and one for power transmission lines, Energy Minister Juan José Aranguren said, adding that the government is considering adding another auction for thermal projects to this year's lineup. The auctions this year will be held in a similar fashion as last year's energy auctions, which are expected to eventually result in $6.5 billion in investment in Argentina's energy sector. "We want to maintain the virtuous cycle of public, open auctions, then national and international capital can collaborate to improve Argentina's electric system reliability and to reduce costs of generation," said Aranguren. "We have also to ensure the expansion of the transmission system in parallel to the new generation capacity." As much as 6.5 gigawatts of new capacity is expected to be added to Argentina's grid over the next three years, including 3.6 gigawatts of capacity from fossil fuels and 2.8 gigawatts from renewable sources other than large hydropower.

Colombian Gov't to Liquidate Electricaribe

Colombian authorities on Tuesday said they are liquidating electricity company Electrificadora del Caribe, known as Electricaribe, despite objections from the provider's parent company, Spain's Gas Natural SDG, in an escalation of tensions between the Colombian government and one of Europe's biggest utility providers, The Wall Street Journal reported. Colombia took over Electricaribe four months ago because, according to Colombian Superintendent of Services José Miguel Mendoza, the company's distribution network, which provides electricity to Colombia's Caribbean coast, was responsible for frequent blackouts, and in his view is unfit to provide adequate services to its 2.5 million customers in the region. He said Electricaribe could not afford the necessary upgrades that would be required in order to provide adequate service. "The company is not in a condition to provide energy with the quality and continuity needed," Mendoza said. "We will have an absolutely public selection process in which we will choose the best option for the coast." The company will continue to provide electricity to Colombia's Caribbean coast while the superintendent's office begins auctioning off the company's assets in order to pay off liabilities amounting to approximately $830 million. Gas Natural, which owns an 85 percent stake in Electricaribe, said in a statement that the liquidation of the company is "contrary to the conversation" the company had had with Colombia over the past few months. Gas Natural said it would seek recourse through the arm of the World Bank that rules on state-investor disputes.

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opment through the sale of bonds and other financing options that are less onerous for the country. Apart from the real-time project, the vast majority of important projects in the energy sector are private concessions; the PPP option should be viewed as correcting the excess of addenda in the contracts, and also in the syndicated credit. In Sedapal's water service expansion, a lower investment will have a great social and economic return both in the short term, to 2021, and as construction is developed. The return on investment in real time will be seen in about a decade."

A **César Gutiérrez Peña, director at Utilities Peru and former president of Petroperú:** "Since taking office six months ago, the Pedro Pablo Kuczynski administration's approval ratings have sunk significantly to between 29 percent and 35 percent; the administration has turned into a precarious one. Under these conditions, it's impractical to try to promote private investment in public companies like Sedapal in Lima, which deals with drinking water and sewer systems, or

> **"It's impractical to try to promote private investment in public companies like Sedapal in Lima ... or state oil company Petroperú."**
> **— César Gutiérrez Peña**

state oil company Petroperú. These kinds of policy decisions need popular and political backing, which the administration does not have. Right now, Sedapal requires no less than $600 million in order to finance its

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investment plans through 2021. Meanwhile, Petroperú requires $4.2 billion in investment. In order to cover the anticipated debt, the government is planning a bond issuance of $3.2 billion, as well as $1.3 billion with the Spanish commercial risk management firm, Cesce. It will be difficult to honor the payment of this enormous debt via tariffs in the case of Sedapal, and the government has to give financial assistance in the fiscal till. In the case of Petroperú, it's the consumers who will pay a higher price for fuel. In fact, this has already been internalized today, in that Peruvians pay 15 percent more than they would for a similar imported product. The competition is limited to importers, due to a lack of storage capacity at a national level."

A **Emilio Zúñiga, vice president at Latin Pacific Capital:** "At present, the energy sector has overcapacity in power generation, but the transmission grid is expanding all over the country. As a result, there is no need for funds for new power generation plants, and the transmission lines are funded through private concessions. Small rural power projects are in place, but the expected budget is around $600 million. The $3.5 billion needed to finance the expansion of the Talara Refinery through government bonds has room in Peru's macroeconomic debt situation, where the ratio of debt to GDP is around 30 percent. However, investing $3.5 billion in expanding the capacity to 30,000 barrels per day will not recover the investment, as the refinery margin will have to be well over the market average. Overall, Peru has a solid financial position, and given its investment grade funding through direct private investment or private debt and fiscal resources, the country has long-term sustainability to finance its energy projects."

> **"At present, the energy sector has overcapacity in power generation."**
> — Emilio Zúñiga

The Advisor welcomes comments on its Q&A section. Readers can contact editor Gene Kuleta at **gkuleta@thedialogue.org**.

LATIN AMERICA ENERGY ADVISOR
is published weekly by the Inter-American Dialogue
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Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1155 15th Street NW, Suite 800
Washington, DC 20005 **Phone:** 202-822-9002
www.thedialogue.org
ISSN 2163-7962

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