LATIN AMERICA ADVISOR

ENERGY ADVISOR

A WEEKLY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

June 17, 2016

FEATURED Q&A

Will PPK's Energy Policies Help or Hinder Peru?

Peru's newly elected president-elect, Pedro Pablo Kuczynski, has expressed openness during his campaign to the renegotiation of contracts with multinational energy companies. // File Photo: Peruvian Government.

Q **Pedro Pablo Kuczynski, known by his initials, PPK, won Peru's presidential election on June 5. Fitch Ratings has said that Peru's growth trajectory under PPK will depend on whether initiatives such as improving the country's energy infrastructure succeed. Known for orthodox economic policy, PPK showed some openness during his campaign to policies he had once rejected, such as renegotiation of contracts with multinational natural gas companies. PPK had previously served as energy and finance minister. How will Peru's energy sector fare under PPK's leadership? Is he likely to bend to political pressure and become more flexible with policies in the energy sector, as was suggested during his campaign? What will be the biggest challenge to the new president as he seeks to strengthen energy infrastructure?**

A **Jeremy M. Martin, member of the Energy Advisor board and director of the Energy Program at the Institute of the Americas:** "Pedro Pablo Kuczynski's administration will need to move quickly and decisively on several issues, most notably completing the touted Southern Natural Gas Pipeline project, as well as confronting the challenges and issues at state-owned electric companies and pausing the natural gas 'massification' initiative to take stock of how to best manage it to succeed. Moreover, his government must assess the current climate for upstream and natural gas E&P. The good news is that the new government will have much to build upon, given the performance and capacity of the nation's electricity sector. Indeed, the new government need not worry about power outages or insufficient supply, should the

Continued on page 3

TOP NEWS

OIL & GAS

TransCanada to Build $2.1 Bn Gas Pipeline in Mexico

Calgary-based energy infrastructure company TransCanada said it would build and operate a $2.1 billion natural gas pipeline in Mexico.

Page 2

OIL & GAS

PDVSA Sees Largest Monthly Oil Output Slide Since 2006

Venezuela's oil production fell by 120,000 barrels per day to 2.37 million barrels per day in May, marking the country's biggest monthly oil-production decline in a decade.

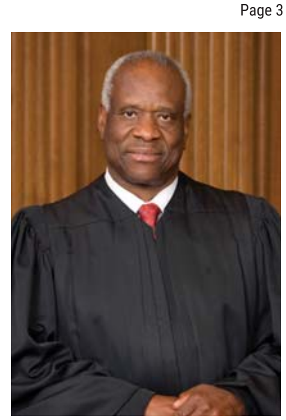
Page 2

RENEWABLES

Supreme Court Rules Puerto Rico Can't Restructure Public Utility Debt

Justice Clarence Thomas delivered the ruling, saying Puerto Rico cannot restructure its electric and water public utilities debts under U.S. bankruptcy law.

Page 3



Thomas // File Photo: U.S. Supreme Court.

Ferrovial in Talks to Acquire 55% Stake in Peruvian Gas Project

Spanish engineering firm Ferrovial is in advanced talks to acquire Brazilian engineering conglomerate Odebrecht's 55 percent stake in Peru's Gasoducto Sur Peruano, or GSP project, Spanish online newspaper El Confidencial reported Tuesday, Reuters reported. The GSP project is a 30-year concession to build and operate an approximately 621 mile-long pipeline that will pump natural gas across the south of Peru. The project is expected to require a $5 billion investment, of which Ferrovial would assume approximately $2.7 billion through its affiliate Cintra. Ferrovial would join Spanish gas operator Enagas, which holds a 25 percent stake in the project and is interested in acquiring another 6 percent. Both Ferrovial and Enagas declined to comment.

One of Caribbean's Largest Oil Refineries Set to Reopen

The Aruban unit of oil company Citgo and the Aruban government have reached an agreement to re-open one of the Caribbean's largest oil refineries in San Nicolas, Aruba, the Caribbean Journal reported Sunday. The refinery had previously been operated by San Antonio-based energy company Valero Energy, and had sat idle for years, prior to the agreement. The new deal is for a 15-year lease with the option for a 10-year extension. The signing ceremony took place in Caracas with Venezuelan President Nicolás Maduro and Aruba Prime Minister Mike Eman present. "This project will transform the refinery into an upgrader for Venezuelan extra-heavy crude within 18 months to two years. This process—which will require an investment ranging from $450 [million] to $650 million, to be obtained from external financing sources—can be compared to a large turnaround," Citgo CEO Nelson Martínez said. After an initial "adaptation" process, the facility will upgrade to refining extra-heavy crude from the Orinoco Oil Belt and transforming it into intermediate crude. Citgo is owned by PDV America, an indirect subsidiary of Venezuela's PDVSA.

RENEWABLES NEWS

Supreme Court Rules Puerto Rico Can't Restructure Public Utility Debt

The U.S. Supreme Court on Monday ruled that Puerto Rico cannot restructure its electric and water public utilities debts and must have congressional approval for legislative action to resolve its debt, The Hill reported. In 1984, Congress ruled that Puerto Rico was not considered a state under U.S. bankruptcy code. In 2014, however, the Puerto Rican government enacted legislation allowing the island to restructure its public water and electric utilities debt separately from how it would handle the rest of its debt. The 5-2 ruling on Monday affirmed a lower court ruling that the 2014 law is not allowed under U.S. bankruptcy law. Justice Clarence Thomas delivered the ruling that Puerto Rico could not rewrite a statute Congress had enacted, saying that "the plain text of the Bankruptcy Code begins and ends our analysis." Justices Sonia Sotomayor and Ruth Bader Ginsburg dissented, saying Puerto Rico is facing a "humanitarian crisis." Sotomayor said that without being able to restructure the utilities debt, "vital public services will be imperiled" which will lead to rolling blackouts, less access to safe drinking water and a lack of adequate road maintenance. Such a ruling "means that a government is left powerless and with no legal process to help its 3.5 million citizens," she added.

FEATURED Q&A / Continued from page 1

economy have a strong recovery. According to system operator COES, there will be sufficient generating capacity to meet demand through 2025. Nevertheless, the PPK administration should continue to insure that Peru's generation base is derived from hydroelectric plants supplemented by natural gas and non-conventional renewable sources. A rarely mentioned but critical issue the new government would be wise to assess is that of Peru's state-owned enterprises in the electricity sector, particularly distribution companies suffering from years of underinvestment and mismanagement. Finally, a longer term but critical piece of a broader energy policy vision must consider how to address the supply-demand imbalance of oil and oil products. The government must begin a process of reviewing options focused on substituting the use of oil products as transportation fuels. Assessment of either natural gas or electric vehicles to substitute the use of oil in Peru's energy matrix should also figure in to the new government's policy framework."

> **"The good news is that the new government will have much to build upon, given the performance and capacity of the nation's electricity sector."**
>
> **— Jeremy M. Martin**

A **Jose L. Valera, partner at Mayer Brown in Houston:** "The Peruvian economy as a whole should fare well under PPK's leadership and growth, and the energy sector will be an important component but by no means the only one. PPK understands that the general welfare of Peruvians will improve principally from widespread economic growth, and that the role of the state in this regard is to

Continued on page 6

FEATURED Q&A / Continued from page 3

provide the conditions for investment and job creation. Peru's macroeconomic situation is very good, but the micro-economy is not—informality, underemployment, narrow tax base, stifling bureaucracy, security and corruption being the main issues. I would not expect PPK to 'renegotiate' contracts Venezuela or Ecuador-style. Legal and contract stability are far more valuable to Peru in the long-term than populist gestures. At 77 and barred from running for another consecutive term, PPK will do what is best for Peru and not for him politically. He is probably the first president who will govern for Peruvians and is best prepared to do so. The challenge concerning energy infrastructure—and the development of the country's large mining resources—is the appropriate conciliation with the interests of affected communities. Smart, informed, constructive and good faith dialogue has been lacking all too often in the past, resulting in many projects being delayed or canceled in a climate of confrontation and conflict. Not all projects will get done, but not all projects need to be stopped either. Good governance and compromise will solve a lot of problems, and I believe that under PPK's leadership we will start seeing some more of this in Peru."

> **"Legal and contract stability are far more valuable to Peru in the long-term than populist gestures."**
> — Jose L. Valera

A **Jaime Luyo, academic director of the PhD Energy Program at the Universidad Nacional de Ingeniería in Lima:** "During his campaign, PPK's plan for the energy sector was the most complete of all the candidates' plans, and included: the development of the natural gas industry (with the first phase of the petrochemical complex completed by 2021) and the massification of consumption with gas pipelines at the national level; the promotion of investment in the electricity sector, in hydroelectricity and in non-conventional renewable sources; electricity integration with neighboring countries; closing the gap in access to electricity nationwide by 2020; and the comprehensive modernization of Petroperú and Perupetro. PPK's leadership will be based on his excellent knowledge of the energy sector, so it's expected that he will reach the goals proposed in his plan. During the campaign, all major candidates raised the issue of the renegotiation of contracts with multinational companies in the case of exporting gas. PPK will have to take into account the requests of all stakeholders in the energy industry; his experience and wisdom will establish the necessary flexibility in the energy sector. The biggest challenge PPK will face in pursuing his ambitious goal of strengthening energy infrastructure, among other goals, will be fostering collaboration with Congress, in which opposition party Popular Force holds an overwhelming majority. Together, they will have to modify the regulatory framework for a more competitive energy sector; revise policies so as to encourage the promotion of investment in the exploration and production of hydrocarbons as well as in the electricity sector; and formulate new mid-term and long-term energy policies."

> **"PPK's leadership will be based on his excellent knowledge of the energy sector."**
> — Jaime Luyo

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
Copyright © 2016

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

Latin America Energy Advisor is published weekly, with the exception of some major U.S. holidays, by the Inter-American Dialogue
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036

Phone: 202-822-9002
Fax: 202-822-9553

www.thedialogue.org

ISSN 2163-7962

Subscription Inquiries are welcomed at
freetrial@thedialogue.org