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FEATURED Q&A

How Soon Can Puerto Rico Restore Its Electric Grid?



A large percentage of Puerto Rico remains without power, weeks after hurricanes battered the island. Pictured is damage caused by the hurricanes. // File Photo: U.S. Department of Agriculture.

Q Three-quarters of Puerto Rico residents are still without power more than a month after Hurricane Maria hit the island. The territory's government added in late October that the Puerto Rico Electric Power Authority, or PREPA, was producing just 30 percent of its normal output. What challenges to repairing electricity infrastructure is Puerto Rico facing? How is the controversy surrounding the no-bid contract awarded to Whitefish Energy Holdings, which Governor Ricardo Rosselló has moved to cancel, hinder the repairs process? What should be prioritized as the territory's electrical infrastructure is rebuilt?

A Rafael Cox Alomar, associate professor of law at the David A. Clarke School of Law at the University of the District of Columbia: "Puerto Rico still is in the dark. With over 80 percent of the island without power, life is at a standstill for millions of Puerto Ricans. The humanitarian crisis is finally here. And while Governor Rosselló has promised that 95 percent of power will be restored by Dec. 15, the dire realities on the ground dictate a much more conservative timetable. It appears likely that power will not be restored to the island in its entirety before next spring. The threshold question then is: Why the delay? It's because the Puerto Rico Electric Power Authority (PREPA), which is currently a government-run monopoly serving more customers than any other public electric utility company in the United States, lacks both the boots on the ground and the necessary capital for jump-starting a dysfunctional and antiquated grid. Moreover, the irresponsible and by all means questionable \$300 million contract awarded

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TOP NEWS

OIL & GAS

Russia, India Offer Venezuela a Lifeline

The Russian finance minister announced that the two countries had agreed to the restructuring of roughly \$3 billion in Kremlin loans. India has also quietly stepped forward to give Venezuela more time to pay back debt.

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RENEWABLES

Colombia to Hold Renewable Auction

Colombia will hold its first large-scale solar, wind and biomass auction before next May's presidential election.

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OIL & GAS

Mexico Announces Largest Onshore Oil Discovery in 15 Years

President Enrique Peña Nieto announced that Mexican state oil company Pemex has discovered 1.5 million barrels of crude equivalent that could represent a total proved, probable and possible reserves of 350 million barrels.

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Peña Nieto // File Photo: Mexican Government.

OIL & GAS SECTOR NEWS

Mexico Announces Largest Onshore Oil Discovery in 15 Years

Mexican state oil company Pemex has discovered 1.5 million barrels of crude equivalent that could represent a total proved, probable and possible reserves of 350 million barrels—the largest onshore discovery in 15 years, President Enrique Peña Nieto announced Nov. 3, the Financial Times reported. Mexico's oil sector had previously seen a steady decline in oil output over the last 13 years. Peña Nieto said the find, in Veracruz State, could be brought onstream “relatively quickly” and that the find contained both oil and gas. The discovery is the third large find for Mexico this year, and it follows a landmark energy-sector reform enacted under Peña Nieto in 2013, which opened the energy sector to private investment after eight decades of it being under state control. Peña Nieto said the find has “great economic value” and is strategically located near existing infrastructure. The announcement comes a week after the state oil company announced a loss of \$5.6 billion in the third quarter after a three-quarter streak in the black.

Russia, India Offer Venezuela a Lifeline

As Venezuela edges closer to a formal default on its debts and with bondholders reporting no sign of full payment on notes due Nov. 3, Russia threw the economically crippled country a lifeline Wednesday, The New York Times reported. The Russian finance minister, Anton Siluanov, announced that the two countries had agreed to the restructuring of roughly \$3 billion in Kremlin loans, a relatively small amount compared to Venezuela's \$120 billion debt load, but perhaps enough to help President Nicolás Maduro's government make hundreds of millions of dollars in payments now due. Traders have been looking for Venezuela to miss a \$1.2 billion payment on a national oil

company bond due last Friday. “Clearly the Venezuelans have been looking for relief anywhere they can get it, and at this point Russia is their most viable source of financing,” said Risa Grais-Targow, director for Latin America at Eurasia Group. India has also quietly stepped forward to give Venezuela more time to pay back debt, Reuters reported Wednesday. State oil company PDVSA has not made debt payments to India's top oil producer, ONGC, for six months on a \$540 million backlog of dividends owed to ONGC, according to the report. “They have got certain challenges at this stage,” ONGC said in an emailed response to Reuters' questions. “They have assured that they are working on it...We have a good working relationship with PDVSA,” ONGC said. PDVSA declined to comment. The U.S. Treasury Department has barred trading of new debt by the government and PDVSA. In related news, the European Union on Wednesday announced plans to ban the sale of arms and surveillance technologies to Venezuela. The measure, endorsed by the bloc's 28 ambassadors meeting in Brussels, will be presented to foreign ministers for approval when they meet next Monday, Bloomberg News reported. In an interview published the same day, Argentine President Mauricio Macri told the Financial Times that the administration of U.S. President Donald Trump should impose a full embargo on Venezuelan oil exports to the United States. The move would have broad support in Latin America, said Macri.

Brazil's Petrobras Disputes Regulator's Oil Volume Estimate

Brazilian state oil company Petrobras on Monday disputed an assessment by oil regulator ANP as to the volume of excess oil in offshore fields that are under the transfer of rights program, Reuters reported. Petrobras said it estimated that the upper and lower limits of excess oil found in the areas are lower than ANP's estimates released on Friday. ANP said it estimated at least six billion barrels of oil equivalent of excess reserves were in areas

NEWS BRIEFS

Former CEO of SBM Offshore Pleads Guilty in Petrobras Scandal

A former chief executive of Netherlands-based oil-services company SBM Offshore on Thursday pleaded guilty to charges related to the Petrobras corruption scandal in Brazil, Bloomberg News reported. Anthony Mace appeared in federal court in Houston, where he admitted to conspiring to violate the U.S. Foreign Corrupt Practices Act. A citizen of the United Kingdom, Mace approved payments to various Brazilians in an effort to secure lucrative contracts with Petrobras. BM said this week that it had set aside \$238 million in anticipation of a fine by the Justice Department.

Colombia to Hold Large-Scale Renewables Auction

Colombian Minister of Mines and Energy Germán Arce Zapata on Nov. 3 announced the country's first large-scale solar, wind and biomass auction will be held before next May's presidential election, PV Magazine reported. More details of the auction and bidding rules were not provided. As of December 2016, 160 solar projects with a total capacity of 1.2 gigawatts were registered. All of those projects may eventually compete in the upcoming and in future auctions.

Brazil's Energy Ministry Drafting Bills for Privatization of Eletrobras

Brazil's Energy Ministry plans to send drafts of three bills within the next 10 days to President Michel Temer that lay out the model for the privatization of state-run power utility Eletrobras, Reuters reported Tuesday. Paulo Pedrosa, Brazil's deputy energy minister, said that the first of the bills, dealing with the sale of distributors owned by Eletrobras, could be sent as early as Wednesday. [Editor's note: See [Q&A](#) in the Sept. 22 edition of the Energy Advisor.]

covered by the transfer of rights program in the pre-salt area. The state oil company said it would carry out further assessments, which should be finished in about 30 days. The amount of excess barrels in the area could help solve a dispute between the government and

Determining the volume could solve a dispute between Petrobras and Brazil's government.

Petrobras over a contract signed in 2010 as part of a Petrobras share offer. The contract had given Petrobras the rights to produce five billion barrels of oil from pre-salt fields, and it included an agreement that the contract could be re-evaluated. The price of oil was at \$90 per barrel when the contract was signed, but Brent oil rose 0.8 percent to \$62.58 on Monday, and Petrobras believes the government owes the company a substantial amount of money due to the drop in oil prices over the past few years.

U.S. Commerce Sec'y Linked to Businesses Related to PDVSA

U.S. Commerce Secretary Wilbur Ross has a stake in multi-million-dollar businesses related to Venezuelan state oil company PDVSA despite U.S. sanctions on Venezuela, Newsweek reported Monday, citing the Paradise Papers data leak. Ross retains an interest in shipping company Navigator Holdings, which is incorporated in the Marshall Islands and has a close relationship with Russian energy company Sibur, which is run by the son-in-law of Russian President Vladimir Putin, according to the leak. Navigator receives millions of dollars annually for providing shipping services to PDVSA. A spokesman for Ross told The New York Times that Sibur is not subject to sanctions and that Ross "recuses himself from any matters focused on transoceanic shipping vessels."

ELECTRIC NEWS

Codelco Expected to Produce Lithium Within Seven Years

Chile expects state-owned miner Codelco to produce its first lithium in the next six or seven years, as miners around the world are racing to keep up with growing demand from the electric vehicle industry, Mining Minister Aurora

Williams said Wednesday, Reuters reported. Most of the country's 7.5 million metric tons of lithium deposits, which are key to making rechargeable batteries for electric vehicles, are found in brine deposits, which take at least seven years to develop. Though there are private developers that are mining lithium in Chile, this will be the first time the world's largest copper producer will be expanding into lithium production. The government is hoping that Codelco will decide on a strategic partner to help develop the resource before a new government is elected and takes office on March

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to Whitefish, a small and utterly unqualified Montana firm, goes to show how vulnerable the Puerto Rican landscape has become to influence-peddlers and impersonators—predators who want to profit from the island's misery. Although in the short-run the island's more pressing challenge is turning power back on, articulating a long-term energy strategy for a bankrupt Caribbean island that could potentially face many more hurricanes the size of Maria in the not-so-distant future will prove to be an even more unfathomable task. Any such strategy should, among its ultimate objectives, pursue the dismantling of an obsolete and corrupt monopoly, and the transformation of ours into a decentralized grid powered by solar energy and the development of a pan-Caribbean grid, with Puerto Rico as one of its structural components."

A Efraín O'Neill-Carrillo, professor in the Electrical & Computer Engineering Department and director of the Power Quality & Energy Studies Laboratory at the University of Puerto Rico-Mayaguez: "There are no clear plans for the effective and ordered transformation of the Puerto Rican power infrastructure. We do not need the same infrastructure we had before; that centralized model has been proven vulnerable and insufficient to face local threats. We need to rebuild the transmission lines and provide some stability to the power infrastructure,

but a more distributed approach should also be included in the reconstruction, which could not only result in faster recovery in some areas, but would also support the much-needed transformation of Puerto Rico's electric infrastructure. Some of the key questions that need to be answered are: How long would it take to transition toward using more renewables? What is the right mix of resources? What is the right mix of approaches (centralized versus distributed, regional versus island, regional versus community)? What is the right mix of funding sources (private, federal, cooperative, foundations, etc.)? One of the key challenges is the mistrust existing among some of the key stakeholders that are needed to answer these questions, especially between those with economic and political power and access, and those representing communities or environmental and social justice issues. Solar communities and microgrids, combined with aggressive demand-response programs, could yield a resilient electricity infrastructure. The local nature of these distributed resources, combined with the work of well-organized communities, can also yield local socio-economic development. However, such a transformation requires us to ponder the social nature of electric power systems, which makes them a powerful tool for either justice or injustice (both social and environmental). The decisions made in

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11. "This is Codelco's decision; the company has its own board. But we hope that this final phase will realistically be over while we are still in government," Williams said. Codelco will most likely already see a benefit from the boom in the electric vehicles sector—an electric car needs approximately 75 kilograms of copper, whereas a conventional fossil fuel-powered car requires only 25 kilograms. Demand for lithium is expected to surge over the next few years.

ECONOMIC NEWS

Timing of Mexico Central Bank Choice Clouded by Politics

The governor of Mexico's central bank, Agustín Carstens, chaired his last meeting of the monetary policy committee Thursday, leaving rates unchanged at 7.00 percent, in line with market expectations. Mexico's peso firmed nearly 0.3 percent after the central bank said that the inflation outlook had worsened and that it would maintain a prudent monetary policy. Carstens is scheduled to leave the Bank of Mexico, or Banxico, at the end of the month to become head of the Basel-based Bank of International Settlements, an appointment he has already put off amid turbulence earlier this year in Mexico's economy. Choosing his replacement, expected to be announced before the end of his current term on Nov. 30, has become more complicated as a result of Mexico's wide-open presidential race, Reuters reported. The new governor must be nominated by President Enrique Peña Nieto, but one leading candidate, Finance Minister Jose Antonio Meade, is also on the shortlist to be the 2018 presidential contender for the ruling Institutional Revolutionary Party, or PRI. His potential candidacy creates a risk of delaying the selection of Carstens' replacement, according to analysts. There have been only three Banxico governors since the institution was made independent in 1994. "Markets are starting to wonder how long the president is going to wait to make the nomination, and that could cause nervousness," said Alfredo Coutiño, director for Latin America

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NEWS BRIEFS

Sons of Former President of Panama Accused in Corruption Case

Panamanian prosecutors said Thursday that two of former President Ricardo Martinelli's sons are suspected of receiving more than \$50 million in "undue payments" from Brazilian construction firm Odebrecht, the Associated Press reported. Ricardo Alberto and Luis Enrique Martinelli have denied involvement.

Mexican Gov't Report Identifies Failures in Fighting Corruption

The Mexican government identified serious failures in combating corruption in a classified report seen by Reuters ahead of an evaluation of the country's efforts to curb money laundering by the Financial Action Task Force (FATF), a global group of government agencies dedicated to curbing money laundering, the wire service reported Saturday. The report estimates that drug trade, tax fraud and other crimes are worth at least \$58.5 billion per year in Mexico, and that the entire sum is highly susceptible to money laundering. The government said the FATF evaluation found Mexico had made "significant" progress in tackling money laundering since the last evaluation in 2008.

Colombians Seize Cocaine Worth \$360 Million

Police in Colombia said Wednesday they had seized more than 12 tons of cocaine with a market value in the United States of more than \$360 million, Reuters reported. President Juan Manuel Santos described the stash, found underground on four farms in northwest Antioquia province near Colombia's border with Panama, as "the largest seizure in history." Authorities linked the cocaine to the Gulf Clan, an organized crime cartel that has become more powerful since a peace deal was signed last year with the FARC rebel group.

at Moody's Analytics. A spokesman for Peña Nieto's office told Reuters he could not say when the new governor would be nominated, but new board members must be confirmed by the Mexican Senate, which goes into a recess on Dec. 15. Although some fear pressure from



Díaz de León-Carrillo // File Photo: Banxico.

the United States over the renegotiation of the North American Free Trade Agreement could strain less independent-minded economic policymakers in Mexico, others see level heads prevailing. "In our view, the two top contenders for Banxico's governorship, Meade and [Alejandro] Díaz de León-Carrillo, would warrant policy continuity," JP Morgan economist Steven Palacio told clients in research note Thursday.

United States Rolls Out Tougher Rules on Cuba Trade, Travel

The U.S. government on Wednesday announced new rules that make it harder for its businesses to work in Cuba and its citizens to travel to the country, the Los Angeles Times reported. As of today, businesses will be required to obey a new set of regulations that are "intended to steer economic activity away from the Cuban military, intelligence and security services," a senior White House official told reporters, speaking on condition of anonymity. Individuals will be prohibited from traveling to Cuba under the new rules but can visit as part of groups registered with the U.S. government. Moreover, when U.S. citizens land on the island, they will not be able to patronize more than 80 hotels and dozens of other businesses that the United States has identified as being tied to Cuba's military, intelligence or security services. The new rules will likely further frustrate the

U.S. airline industry. Sun Country Airlines on Wednesday announced it is relinquishing permission to fly to the island due to "regulatory uncertainties," CNBC reported. Other large U.S. carriers were trimming flights to the island due to weaker-than-expected demand even before Wednesday's announcement. American Airlines recently announced it will drop a flight from Miami to Cienfuegos in January. Advocates for ending Cuba-U.S. trade barriers blasted the Trump administration's announcement. "These new regulations create a more convoluted, confusing and counterproductive approach to Cuba policy," James Williams, the president of Washington-based lobby group Engage Cuba said in a statement. "This 'Keystone Cops' Cuba policy hurts those it claims to help and helps those it claims to hurt," he added. However, some hardliners on Cuba in the U.S. Congress said the administration's decree could have been stronger. "I'm concerned that the new regulations and the State Department's initial list of restricted Cuban entities may not be strong enough to meet the President's goal of protecting U.S. security interests and supporting the Cuban people in their fight for freedom," said Rep. Paul Cook (R-Calif.), chairman of the House Foreign Affairs Committee's Subcommittee on the Western Hemisphere.

POLITICAL NEWS

Venezuelan Gov't, Opposition Agree to New Round of Talks

Venezuela's government and opposition leaders said Thursday they will resume efforts to hold dialogue, the Associated Press reported. Opposition leaders said that a new round of talks would be needed to help ensure free and fair presidential elections, which are currently scheduled for 2018. "We can facilitate the conditions for a presidential election," Julio Borges, president of the opposition-led National Assembly, told a news conference. Information Minister Jorge Rodríguez said via Twitter, "the dialogue continues on Nov. 15 in the Dominican Republic."

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the coming days, weeks and months and the approach taken in the reconstruction of our electric infrastructure will either facilitate or hinder Puerto Rico's chances for a sustainable energy future."

A **Jeffrey L. Farrow, chairman of the Oliver Group and former co-chair of President Clinton's Interagency Groups on Puerto Rico and the other U.S. territories:** "Maria (and Hurricane Irma just before) did a lot of damage to PREPA's electricity distribution system, but not to its generation plants. Repair challenges include: 1) getting a huge number of poles, etc. to the islands and to many hard-to-reach locations within them; 2) the need to bring in hundreds of experienced workers; and 3) the local share of the cost—under the President's Disaster Declaration, it is 25 percent for typical disasters, despite the extent of the devastation and Puerto Rico's bankruptcy. The recent disaster assistance law would loan the territory \$150 million to match federal assistance, but this isn't limited to PREPA. President Trump should waive the 25 percent matching requirement or, at least, lower it to 10 percent, as President Clinton did after the worst hurricane to hit Puerto Rico in modern times (before Maria) battered the commonwealth. In addition, Congress should waive the separate 25 percent requirement for replacements that are better able to withstand hurricanes. What should also be prioritized, though, is a totally new power system, including new generation. Replacing PREPA's old, inefficient, dirty oil-fired plants with natural gas can substantially lower electricity costs that have significantly contributed to the territory's worsening depression. In addition to boosting the economy, this is a priority because new plants will affect the design of the distribution grid. A federal loan guarantee for private investment is needed. (There ought to be more solar and wind power, too, although there was substantial damage to that private infrastructure.) The Whitefish cancellation shouldn't delay repairs because the company was given

30 days' notice and other resources can be mobilized to replace it."

A **José Maeso, co-principal investigator and project director at the Consortium for Integrating Energy Systems in Engineering and Science Education at the Puerto Rico Energy Center:** "The main physical challenges to repairing the electricity infrastructure are access to mountainous areas and the availability of materials and equipment, though private contractors have expressed that they have all of the inventory that's needed. Nonetheless, other challenges might pose a greater risk of affecting the grid's recovery. Plans that come from abroad, without acknowledging the local reality, and agreements on the future of the electrical grid could push for less-than-optimal solutions. In a cash-strapped utility, one would be tempted to concede to some solutions if they come tied to investment, even when they are not necessarily needed or are beyond a settled scope. The priorities are clear: health, safety and economic development. The Whitefish contracting issue has distracted us from restoring power for these purposes, even when the local law allows for that type of emergency contracting. If Whitefish was such a small and inexperienced contractor, why did they have the capability of hiring people and mobilizing teams and equipment so fast, contrary to U.S. Army Corps of Engineers (USACE) contractors? As recently as early November, USACE has completed one of the most important connections between the south (where most of our power generation is) and the north. I think that is a commendable job. Now USACE is increasing Fluor's contract by \$600 million, when they have not demonstrated effectiveness. Besides that, we need an explanation from PREPA as to why it failed to activate the 'mutual aid' arrangement with other utilities until the Whitefish contract was canceled, and we need an explanation about the coordination of such work with the American Public Power Association. That could have been done along with the private contractors."

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