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FEATURED Q&A

How Should Power Grids Be Updated to Satisfy Demand?



Infrastructure continues to be a major challenge for expanding access to power in Brazil and other countries in the region. Electricity workers in the Brazilian city of João Pessoa are pictured above. // File Photo: Prefeitura de João Pessoa

Q **Sterlite Power, an India-based transmission infrastructure developer, committed earlier this year to investing \$1.7 billion over the next four years in power transmission projects in Brazil and plans to invest an additional \$4 billion across Latin America, the company said in May. As electricity demand continues to grow, infrastructure limitations constitute one of the region's main obstacles for distributing power to every corner of the region. Three percent of the population of Latin America last year still had no access to electricity, according to a World Bank report. How much investment does Brazil's power transmission infrastructure require, and where else in the region are investment needs most urgent? Should Latin American governments take steps to integrate their power grids? What else is needed to increase access to electricity?**

A **Carlos St. James, board member of the Latin American and Caribbean Council on Renewable Energy (LAC-CORE):** "That final 3 percent of the region's inhabitants still without electricity is unlikely to be served by new long-distance traditional transmission and distribution (T&D) service lines, but rather through micro-grids and distributed energy solutions; this is the more cost-effective solution. Latin America as a whole has an outdated transmission grid network. Those countries with the greatest deficits are either very poor or are doing the most to add renewable-energy generation. However, since these are typically wind and solar photovoltaic, and therefore intermittent, it opens the door to other transmission congestion issues. This is where battery energy storage solutions are likely to make their first appearance

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TOP NEWS

RENEWABLES

Brazil's Wind, Solar and Biomass Output Up in July

Brazil's wind, solar and biomass power output was up during the first 15 days of July, according to data from the Power Trading Chamber. Meanwhile, hydropower generation dropped year-on-year.

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OIL & GAS

Incoming Mexican Gov't Analyzes Site for New Refinery

The incoming government of Mexican President-elect Andrés Manuel López Obrador is reportedly analyzing Puerto de Dos Bocas in the state of Tabasco as a potential site for the construction of a new oil refinery.

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OIL & GAS

Argentina to Begin Exporting Gas to Chile in October

Argentina will restart gas exports to Chile after an 11-year hiatus, Argentine Energy Minister Javier Iguacel (pictured) said July 20 after a meeting with his Chilean counterpart, Susana Jiménez.

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Iguacel // File Photo: @JavierJiguacel via Twitter.

OIL AND GAS NEWS

Mexico's Incoming Gov't Analyzes New Site For Refinery

The incoming government of Mexican President-elect Andrés Manuel López Obrador is reportedly analyzing Puerto de Dos Bocas in the state of Tabasco, located on the Gulf of Mexico, as a potential site for the construction of a new oil refinery, El Universal reported Wednesday. State-run oil company Pemex owns a 173-acre terrain there. The Port Authority for Dos Bocas, or APIDB, submitted a study on the area to Rocío Nahle, López Obrador's choice for secretary of energy. "The Dos Bocas port

López Obrador has said his government will build one large or two medium-sized refineries.

has the potential to increase activities related to the hydrocarbons industry, particularly crude exports, which would spark multiple productive and logistics processes related to exploration, extraction, transformation and commercialization," the study says, El Universal reported. Moreover, new investments by both private and foreign companies that won contracts in Mexico's 2013 energy reform for exploration in Dos Bocas are expected to yield a 75.3 percent increase in oil cargo movements over the next 20 years. López Obrador said earlier this month that he will build either one large or two medium-sized refineries during his term, without specifying how such projects would be funded. In a new report, Moody's Investors Service says the construction of new refineries presents a huge financial risk for Pemex. "If the refinery plans take effect ... it would weaken Pemex's credit metrics to finance such an investment with debt, while also diverting funding the company badly needs to spend to help increase oil and gas production," Nymia Almeida, a Moody's senior vice president, wrote in the report.

Exxon Increases Estimates for Guyana Block by 25 Percent

ExxonMobil estimates the Stabroek Block offshore Guyana will yield more than four billion barrels of oil equivalent, a 25 percent increase from its previous calculations, the oil company said in a statement. The announcement comes after testing at the Liza-5 well, a new discovery at its Ranger prospect, the incorporation of last month's discovery at the Longtail well and the completion of the evaluation of the Pacora discovery, the company said. "There's multibillion barrel potential remaining on the block," said Ruairaidh Montgomery, an analyst at Wood Mackenzie, Reuters reported. The block is approximately 1,000 times bigger than the average in the Gulf of Mexico, Montgomery added. Although other oil companies such as Total, Tullow Oil and Repsol have not made any substantial discoveries offshore Guyana, ExxonMobil is moving forward with plans to build offices in the South American country and has invested \$10 million in research and conservation to support Guyana's oil and gas industry, Kaieteur News reported last week. The Guyanese government is preparing to become a global oil producer by 2020, OilNow reported in June. Earlier this month, Guyanese President David Granger told reporters that the country will have a "fully functional" department of energy within the Ministry of the Presidency by the end of August, according to Guyana's Department of Public Information. [Editor's Note: See related [Q&A](#) in the Jan. 12 issue of the Energy Advisor.]

Argentina to Begin Exporting Gas to Chile in October

Argentina will begin exporting gas to Chile in October after an 11-year hiatus, Argentine Energy Minister Javier Iguacel said in a statement on July 20. Iguacel and his Chilean counterpart, Susana Jiménez, met that day to discuss

NEWS BRIEFS

Venezuelan Electricity Workers Hold Strike in Demand of Higher Wages

Venezuelan electricity workers protested low wages in the power sector, which average around \$1.50 per month, by slowing down maintenance work at state-run power company Corpoelec on Monday, Reuters reported. Employees showed up to work to avoid being fired, but they refused to attend to any power outages or emergencies, according to union leader Ali Briceño. The strike, which organizers said would continue indefinitely, is expected to have limited effects on the power sector.

Guatemalan Energy Exports to Mexico Rise by 548% from January to May

Guatemala increased its electricity exports to Mexico by 548 percent in the first five months of this year, as compared to last year's entire amount, according to Guatemala's central bank, Diario de Centroamérica reported Monday. From January through May, Guatemala's power export sales amounted to some \$7 million, compared to \$1 million in all of last year. A 400-kilowatt electric interconnection between Guatemala and Mexico was originally intended for imports into the Central American country, but Guatemala has been increasingly exporting its cheaper electricity to southern Mexico since October.

Brazil's Wind, Solar and Biomass Output up in First Half of July

Brazil's wind power output was up by 11.1 percent in the first half of July, as compared to the same period last year, totaling 6,149 average megawatts, according to data from the Power Trading Chamber, Renewables Now reported Tuesday. Solar and biomass power production also increased in the first 15 days of July, but hydropower output dropped year-on-year.

advancing the integration of both countries' energy sectors. The ministers also reviewed the possibility of opening four new electricity lines between the two countries, Reuters reported. "Power integration with Argentina will bring significant benefits for both countries, for example, more security and flexibility for our systems and the beginning of a future regional integration in the Southern Cone," said



Chilean Energy Minister Susana Jiménez and Argentine Energy Minister Javier Iguacel met in Santiago on July 20. // Photo: @JavierJiguacel via Twitter.

Jiménez. Earlier this year, Jiménez told Reuters that imported gas from Argentina could boost Chile's electricity generation, replace imports from other countries or be a source of heating in regions that still depended on wood, a major pollutant. The announcement comes as a production increase in the Vaca Muerta shale in Argentina's Neuquén Basin brings the country closer to a gas surplus, the wire service reported. The growth in output also prompted the Argentine government to allow for the country's electricity generators to bid for their natural gas supply. President Mauricio Macri announced on July 20 that the gas auction is scheduled for August, Reuters reported.

Colombia Plans to Make Changes to Oil Auctions: Velandia

Colombia will change its oil bidding process with the aim of boosting investment and finding new reserves, Orlando Velandia, head of the National Hydrocarbons Agency, or ANH, told Reuters Monday. Modifications include adjusting contracts to international oil price fluctuations and providing companies with the opportunity to propose exploration plans

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in the region: located at overloaded nodes as a mechanism to alleviate the need to make greater T&D investments. Given the trend toward increased use of smaller distributed energy grids, there is likely going to be a declining need for neighboring governments to further expand existing international connections. It is also the beginning of the end of the even longer transcontinental and multi-country transmission line projects, which historically have encountered delays and end up costing far more than initially planned. What is needed to increase access to electricity for all is twofold and interrelated: first, greater access to capital—both equity and debt—for distributed energy solutions, and second, maturing of successful business models that allow for easy replication of these smaller distributed energy solutions and that are bankable."

A **R. Kirk Sherr, president of Clearview Strategy Group:** "The success of Brazil's late June transmission line auction adds an onshore energy sector 'exclamation point' on the heels of the successful early June offshore upstream auction. The transmission auction will be followed by planned electric generation and distribution auctions and privatizations later in 2018. By continuing with the broad energy sector reforms, opening the sector to competition and attracting new investment, Brazil is setting the stage for long-term electric sector stability.

Sterlite Power's success in the Brazilian transmission line auction is no surprise and is good news for Sterlite, Brazil and the region. Sterlite Power will use its low-cost production capacity for steel (India is a leading steel exporter), power cables and

Brazil is setting the stage for long-term electric sector stability."

— R. Kirk Sherr

conductors to make the project profitable, assisted by the deep pockets of owner Anil Agarwal's Volcan Investments. In Brazil, 16 states will benefit from investments coming out of the transmission auction including both Brazilian and international companies. The transmission upgrades will strengthen both inter- and intra-state electric grids and make renewable generation projects more economically viable while connecting their output to urban load centers. In addition, by enhancing renewable generation, Brazil will help create local jobs and stimulate further renewable investment and local technology development. Regionally, the success of this auction will further demonstrate the effectiveness of well planned and executed

Continued on page 6

on land that is not on offer, with the hopes to "improve conditions for the country, to achieve competitiveness and motivate companies to make proposals about areas," Velandia told the wire service. The new system will prioritize the first company that solicits access to other areas. Velandia said he expects the changes to double reserves to 10 years of consumption. Colombia is hosting its first bidding round after four years. In late April, the ANH delayed its latest oil auction until the second half of this year after companies requested the

change, marking the round's sixth postponement. Along with the changes, Velandia said Colombia could offer at least 20 onshore and offshore blocks in the Caribbean. Increasing oil production will be one of the incoming administration's main priorities as a means to bolster economic growth, the wire service reported. On July 18, President-elect Iván Duque named María Fernanda Suárez, who currently serves as executive vice president of state oil company Ecopetrol, as the country's next mines and energy minister, El Colombiano reported.

POLITICAL NEWS

Nicaragua's Ortega Rejects Call for Early Elections

In an interview broadcast Monday, Nicaraguan President Daniel Ortega rejected calls for an early presidential election in the Central American country, where more than 300 people have been killed in three months of violent clashes. "To move up the elections would create instability, insecurity and make things worse," Ortega said in the interview on Fox News. In the interview, Ortega also denied that he is in control of paramilitary groups that have been blamed for the majority of the killings. Foreign interests and his political opponents control the paramilitaries, he said. That assertion is contrary to findings documented by international organizations and Nicaraguan human rights groups, the Associated Press reported. Last week, the Organization of American States approved a resolution condemning rights abuses committed by police and armed groups of pro-government civilians.

Parties Begin Selecting Presidential Candidates in Brazil

Brazilian political parties on July 20 began officially selecting their candidates for this October's presidential election, including Ciro Gomes of the leftist Democratic Labor Party, O Estado de S.Paulo reported. Gomes was the first candidate to be confirmed in a party convention ahead of the Oct. 7 election, and 500 members of his party confirmed his candidacy in a voice vote, The Wall Street Journal reported. "Brazil is a great nation and has resources to ensure its people live a happy life," Gomes said in accepting the nomination. "But the people have already given everything they have ... It's time for the government and the rich to give their share." Gomes' stance on economic and business issues have rattled investors,

ADVISOR Q&A

Will U.S.-Colombia Relations Thrive Under Duque?

Q Colombian President-elect Iván Duque met with U.S. Vice President Mike Pence in Washington on July 6 to discuss Colombia's peace process, as well as economic engagement and illegal immigration. Duque and Pence also committed to continue battling drug production and trafficking, and they exchanged concerns over the "collapse of democracy" in Venezuela, the White House said in a statement. Duque and U.S. President Donald Trump spoke by phone about Colombia's security challenges after Duque's June 17 victory. What will U.S.-Colombia relations look like under Duque? What is the future of U.S. cooperation and aid for Colombia? How will the two countries approach the political and economic situation in Venezuela? How will joint security and counter-narcotics efforts evolve under the Trump and Duque administrations?

A Carolina Barco, former Colombian ambassador to the United States and former minister of foreign affairs in Colombia:

"When considering the relationship between Colombia and the United States during the Duque presidency, one must start by recognizing the very constructive, bipartisan friendship between our countries. Colombia's strong leadership and the bipartisan commitment of the United States during Plan Colombia starting in 2001 and more recently during Peace Colombia have been instrumental in helping to reach the peace agreement. That agreement ended 50 years of guerrilla warfare and has reduced

violence and brought more opportunities for growth and greater prosperity. However, peace building also encompasses huge challenges. Addressing the major issues of the post conflict means addressing the wounds and establishing state presence in large parts of the country where the government had been absent throughout Colombia's history. The challenge of providing security, education and health services, as well as economic opportunities, while building trust and addressing the necessary issues of justice and reconciliation, is immense. The Duque government's clear priorities and leadership will be more successful with strategic support from the United States. We have been successful in addressing the challenges before and should continue this work together. Without a doubt, the Duque government will address the issue of reducing drug production. This illegal activity is a curse on Colombia and is the seed of violence and other illegal activities that undermine democracy and security. However, drug production and consumption are also a challenge for the United States and the hemisphere. We must address consumption and production policies and programs together. We must also expand trade and accelerate economic growth so that we can create more jobs. These are all areas of a continued bipartisan relationship between two allies who are also good friends."

EDITOR'S NOTE: More commentary on this topic appears in the Q&A of the July 20 issue of the Latin America Advisor.

however. Earlier in the week, Gomes, a former finance minister, state governor and member of Congress, sent aircraft manufacturer Boeing

a letter asking it to scrap its recent deal with Embraer, citing national security concerns. Earlier this month, the companies announced

NEWS BRIEFS

Ecuador May Evict Assange From Embassy as Early as Next Week

Ecuador appears to be moving ahead with plans to end its asylum protection for WikiLeaks founder Julian Assange, USA Today reported Monday. Ecuador will reportedly turn him over to British authorities as soon as next week. Assange took refuge in the Ecuadorian embassy in 2012 to avoid extradition to Sweden where he was wanted on sexual assault and rape charges. Sweden has since dropped its investigation, but Assange has remained in the embassy for fear that the United States could seek his extradition over the leak of classified documents.

Temer Asks China's Xi to End Surcharges on Brazilian Imports

Brazilian President Michel Temer said Thursday that he asked Chinese President Xi Jinping to end the surcharges applied to Brazilian poultry and sugar in order to boost the South American country's exports, O Globo reported. Temer also expressed interest in exporting soy products, such as oil and grain meal, to the Asian country. He made the request in Johannesburg, where Brazil, Russia, India, China and South Africa are holding the 10th BRICS Summit this week.

Former FARC Rebels Take Seats in Colombian Congress

Former FARC rebels took their seats July 20 as lawmakers as a new session of the country's Congress was sworn in, Reuters reported. Under the terms of the guerrilla group's 2016 peace accord with the government, the FARC was awarded 10 seats in Congress through 2026. In his final address to Congress, President Juan Manuel Santos called on Colombians to protect the peace deal.

a \$3.8 billion deal for Chicago-based Boeing to acquire the Brazilian aircraft manufacturer's commercial airplane and services business. Brazilian President Michel Temer is expected to approve the deal later this year. Critics of Gomes also fear that he could reverse efforts to plug the government's budget deficit if elected president. On Sunday, far-right presidential hopeful Jair Bolsonaro officially launched his campaign. Bolsonaro, a former army captain leads in polls that exclude former President Luiz Inácio Lula da Silva, who was jailed in April following his conviction on corruption charges. Bolsonaro has insulted groups including gays, blacks and women. He softened some of his incendiary stances with a more inclusive tone, but blasted Brazil's political center, Reuters reported. He kicked off his campaign after centrist parties backed former São Paulo Governor Geraldo Alckmin. "Once again, thank you Geraldo Alckmin for uniting the scum of Brazilian politics," said Bolsonaro. Bolsonaro, who has pledged to fight corruption and loosen gun controls, spoke to a rowdy crowd of about 3,000 supporters in Rio de Janeiro, which has been beset by high levels of violent crime. Bolsonaro has the backing of a small fringe party, which will give him little free broadcast air time for advertising his campaign. "We don't have a big party. We don't have election funding. We don't have television time. But we have what the others don't have, which is you, the Brazilian people," Bolsonaro told supporters.

ECONOMIC NEWS

López Obrador Seeks Cooperation in Letter to Trump

Mexican president-elect Andrés Manuel López Obrador on Sunday made public a letter he sent to U.S. President Donald Trump calling for the two countries to "begin a new stage in U.S.-Mexico relations." U.S. cabinet officials who met with López Obrador in Mexico City on July 13 brought the letter to the U.S. president, El Economista reported. In the letter, López Obrador proposes cooperation on trade, migra-

tion, economic development and security. He highlights the importance of making "an effort" to conclude NAFTA renegotiations, expressing concern about slowed investment in the medium and long term, which would affect Mexico's economic growth. Talks on the 1994 trade deal restarted Thursday in Washington, where a representative of López Obrador joined the Mexican delegation. Mexico's chief trade negotiator, Economy Minister Ildefonso Guajardo, last week said Mexican negotiators will aim to agree on a preliminary deal by the end of August so that the U.S. Congress will have time to vote on it before the November midterm elections, The Wall Street Journal reported. On migration, López Obrador proposed an economic development plan that mainly focuses on creating jobs in Central American countries with the aim of stopping the flow of migrants into Mexico and across the U.S. border.

IMF Expects Inflation to Hit One Million Percent in Venezuela

Inflation in Venezuela will reach one million percent by the end of the year, according to calculations by the International Monetary Fund. Alejandro Werner, director of the IMF's Western Hemisphere department, wrote in a blog post Monday that the South American country's GDP will fall approximately 18 percent this year as a result of a significant decline in oil production, micro-level distortions and large macroeconomic imbalances. The country earns 96 percent of its national income through oil sales, but oil production has been stalling, reaching a 30-year low of 1.5 million barrels a day in June, according to OPEC data, Agence France-Press reported. This would be the third year in a row that Venezuela has experienced double-digit drops in GDP. "We expect the government to continue to run wide fiscal deficits financed entirely by an expansion in base money, which will continue to fuel an acceleration of inflation as money demand continues to collapse," Werner wrote. Hyperinflation and a lack of foreign exchange have triggered the collapse of economic activity in Venezuela, leading thousands to leave the country, the AFP reported.

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auctions. Equally important, the Brazilian success provides a clear model for private sector-led transmission to bring more remote wind and solar generation to urban markets.”

A **Pietro Erber, director of Instituto Nacional de Eficiência Energética in Rio de Janeiro:** “In regards to Brazil, there will certainly be significant opportunities for transmission systems investment, including intra- and inter-regional interconnections, plus the lines required to bring wind and solar power to the market. However, the last 10 years have been exceptional, with the construction of three large hydro plants in the Amazon area—the two Madeira River developments (7 GW) and Belo Monte plant (11 GW) on the Xingu River, which required very long transmission systems (more than 2,000 kilometers) to bring their generation to the southeast. There was also the connection of Manaus to the national grid, across approximately 1,000 kilometers of Amazon territory. There are still extant opportunities for hydro development closer to the Bolivian border or inside its territory; the large Tapajós development (11 GW), also in the Amazon, has been postponed, and recent demand growth does not contradict this measure. Not in the near future, but in a

few decades, more important transmission projects may be developed, such as a strong interconnection of the lower Amazon basin plants with those of the South American northern hemisphere, mainly Colombian and Venezuelan rivers’ hydro plants, in order to

“In a few decades, more important transmission projects may be developed.”

— Pietro Erber

profit from their diversity of seasonal flows. About 3 percent of the region’s population does not yet have electricity supply. In Brazil, this percentage is lower, but the main point is that the major factor for power service coverage increase is distribution and not transmission expansion, besides distributed generation associated to minigrids and storage facilities. Finally, regulatory conditions for transmission facilities present low risk for investors, since their only major obligation, besides complying with their contractual commissioning schedule, is to provide the facilities’ availability, as required by the interconnected system operator.”

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