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### FEATURED Q&A

#### Does Brazil's Blackout Reveal a Weakness in Its Power Grid?

**Q** A blackout in Brazil and Paraguay left millions of people in the dark on Nov. 10 after a short circuit in the grid apparently shut down the massive Itaipu hydroelectric dam. Does the blackout show a structural weakness in Brazil's power grid? What should the governments of Brazil and Paraguay do to prevent further blackouts?

**A** Jose Soares, assistant vice president and analyst at Moody's Investors Service in Sao Paulo: "The recent electricity outage on Nov. 10, which left over 50 percent of the Brazilian population in darkness for around six hours, raised concerns about the reliability of the Brazilian electric system. Questioning system reliability would sound uncalled for considering the massive investments that have been made to the Brazilian electricity infrastructure since 2002. Most of the players in the electricity industry agree that important investments have been made since then, not only to expand generation capacity but also to enhance system reliability. New transmission lines have been added, stations constructed and existing infrastructure upgraded. The two previous electricity outages in 1999 and 2001 differ from the recent one in that they derived from insufficient investments in the generation and transmission infrastructure. The lack of investment led to the system oper-

ating under severe stress, which culminated in a 10-month electricity rationing program that began in May 2001. The recent energy outage shows that the Brazilian electricity system is not immune to technical failures and that there is room for further enhancement. Given the size and complexity of Brazil's integrated system, it is reasonable to expect occasional electricity outages in the future. An effective system, however, should minimize their number and reduce their size and duration. Transparency and promptness will be key in the diagnosis of the origins of this

*Continued on page 3*



#### Lula Welcomes Ahmadinejad, Pledges Energy Cooperation

Iranian President Mahmoud Ahmadinejad (R) visited Brazil on Monday as the two countries signed accords for technical cooperation on energy issues. See story on page 2.

Photo: Agencia Brasil.

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## ENERGY SECTOR BRIEFS

**Anadarko Confirms Presence of Oil in Offshore Brazil Well**

U.S.-based **Anadarko Petroleum** on Monday announced positive results from an exploratory well in the Campos Basin off Brazil's coast in an area the company said could become its "next mega project." Drilling in the Wahoo 2 well in the BM-C-30 block confirmed the presence of oil five miles north of the company's Wahoo 1 prospect, Anadarko said. The company is operator of the block with a 30 percent working interest, while **Devon Energy** has 25 percent, **IBV Brasil Petroleo Limitada** has 25 percent and **SK Energy** has the remaining 20 percent.

**Elecnor to Build \$186 Million Transmission Line in Chile**

Spanish energy group **Elecnor** said Tuesday it won a 124.7 million euro (\$U.S. 186.4 million) contract to build, operate and maintain a new electricity transmission line in Chile. The 258-kilometer line will provide power to the Santiago metropolitan area from a substation in the Maule region, near generation plants. The concession from the grid regulator is the first investment in Chile's transmission system for Elecnor, which has a presence in Brazil and Peru.

**Blackout Cuts Power in Rio de Janeiro for Hours**

A blackout Tuesday left upscale Rio de Janeiro beach neighborhoods without power for hours in Brazil's second blackout in as many weeks, the Associated Press reported. **Light SA** said 12,000 customers were affected in Rio's Leblon neighborhood. Power was also out in the Copacabana, Ipanema and Lagoa areas. The outage started when the power company shut off electricity to fix a cable, Light SA said.

## Power Sector News

**Brazil Welcomes Iran's Ahmadinejad and Promises Energy Cooperation**

Brazilian President Luiz Inacio Lula da Silva on Monday welcomed his Iranian counterpart to Brasilia, saying world leaders should engage the Middle Eastern country rather than isolate it. During Iranian President Mahmoud Ahmadinejad's first to Brazil, the two governments signed various agreements to share expe-

riences on energy projects, particularly Brazilian expertise on electricity generation and transmission, state news service Agencia Brasil reported. "Brazil has a wide range of experience in the constructions of hydroelectric dams and transmission lines of medium to high voltage. So we signed agreements to exchange experience in these areas," Marcio Zimmermann, executive secretary of the Ministry of Mines and Energy, was quoted as saying. Zimmermann added that the Iranians had offered expertise on pipeline construction and fuel refining. The two countries already have accords in place to facilitate technology transfer to Iran from Brazilian state oil company **Petrobras**. Jorge Zelada, Petrobras' director of international operations, said Nov. 16 that the company was considering withdrawing from Iran due to poor performance at two wells in the country. On nuclear energy, Lula has said Iran has the right to continue with its controversial nuclear program as long as it is for peaceful purposes. Israel has accused Iran of using its nuclear program to develop nuclear weapons, which Iran denies. Ahmadinejad said Sunday that Brazil and Iran might explore a partnership in nuclear energy development. "We can build partnerships to build nuclear plants," Ahmadinejad told Brazil's Globo TV News, the Associated Press reported. "Our two countries need nuclear power to

generate electricity. Both Brazil and Iran are entitled to benefit from nuclear technology." On Tuesday, Ahmadinejad traveled to Bolivia, where he and Bolivian President Evo Morales signed a joint declaration to defend "the right of all nations to the use and development of nuclear energy for peaceful means." The statement also condemned Israeli officials for "crimes in Gaza and Palestine." Iran increased Middle East tensions on Sunday when it started large-scale war games designed to protect its nuclear installations from attacks. Dozens of

“Both Brazil and Iran are entitled to benefit from nuclear technology.”

— Mahmoud Ahmadinejad

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**Former ABB Executive Arrested in Mexico Bribery Scheme**

The former general manager of the Sugar Land, Tex. unit of Swiss engineering group **ABB** was arrested by U.S. authorities last week for his alleged role in a conspiracy to bribe Mexican officials to secure contracts with state-owned power utility **Comision Federal de Electricidad** (CFE), the U.S. Department of Justice said Monday. John Joseph O'Shea, 57, was charged in an 18-count indictment that included conspiracy, violations of the Foreign Corrupt Practices Act, international money laundering and falsification of records in a federal investigation. The indictment alleges that O'Shea arranged payments to multiple officials at CFE in exchange for contracts worth nearly \$100 million dollars. The indictment alleges the ABB business unit managed by O'Shea contracted with a Mexican company to serve as its sales representative in Mexico,

kicking back a percentage of the revenue generated from business with Mexican governmental utilities including CFE. After an internal investigation by ABB stopped the transfers, the company voluntarily disclosed the payments to the Department of Justice and the U.S. Securities and Exchange Commission and said it is fully cooperating with their investigations.

## Oil & Gas News

### PDVSA Reports 67 Percent Drop in Profits for First Half

Venezuela's state-run oil company **PDVSA** last Thursday reported that its profits for the year's first half fell 67 percent, Bloomberg News reported. The drop was due to falling oil prices and OPEC output cuts, after the Organization of Petroleum Exporting Countries reduced targets, PDVSA said. The company's net income declined to \$3.15 billion. Crude oil exports dropped 4.9 percent to 2.75 million barrels per day, PDVSA said, adding that output of crude and natural gas liquids declined 5.4 percent to 3.22 million bpd. Following the plunge in oil prices, PDVSA froze employees' salaries and slashed managers' wages 20 percent in April. So far this year, the company has sold \$6.3 billion in bonds to compensate for revenue shortfalls and to pay debts to suppliers. Venezuela, an OPEC member, agreed to reduce production by more than 350,000 barrels daily in order to help support oil prices. The country's oil sector contracted 9.5 percent in this year's third quarter. Overall, the economy shrank 4.5 percent in the quarter, bringing Venezuela into its first recession since 2003. PDVSA's revenue for the first half dropped 52 percent to \$32.5 billion. Its contributions to government social programs, such as health clinics and subsidized food programs, dropped more than 50 percent to \$642 million. PDVSA's total assets increased 4 percent, mainly due to Venezuela's nationalizations of some oil services companies. PDVSA's debt to its suppliers increased to \$8.15 billion at the end of June, an increase of 7.8 percent from the end of 2008.

### Featured Q&A

*Continued from page 1*

most recent electrical outage. These will assure that corrective measures are implemented. In addition, they will lead to a more comprehensive discussion on the alternative ways to strengthen the electrical system and the associated financial costs."

**A** **Georges D. Landau, head of Prisma Consultoria in Sao Paulo:** "The massive power failure that plunged 18 Brazilian states into darkness on Nov. 10, causing havoc among 60 million residents for several hours, has since become a game of political football. The Lula government has given conflicting explanations and disavowed any responsibility, but technicians point the finger at the vulnerability of the electricity transmission system. Since Dilma Rousseff was responsible for planning the system when she was minister of mines and energy, much of the

blame can be ascribed to her, although she declines any such responsibility. The opposition, which for many years suffered with jibes and charges of poor planning resulting in a national blackout in 2001 under President Cardoso, is joyfully making hay of this new incident and demanding impartial investigations. Should these efforts succeed, they would probably reveal that the power sector in Lula's administration is the domain of the PMDB party, and specifically of Senate President Jose Sarney, who has staffed the sector—from the minister down to technical positions in most federally-owned power companies—with political vassals. It is clear that the national power grid is prone to natural or man-made accidents, and that this is principally due to lack of investment in the system. The government ascribes this particular incident to foul weather conditions that caused the shutdown of every turbine at Itaipu

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### Ecuador, China Forming Joint Company for Oil Development

Ecuador's and China's state oil companies have agreed to form a joint venture to develop oil fields in the South American country's Amazon region, Reuters reported Tuesday, citing Germanico Pinto, Ecuador's minister of nonrenewable natural resources. "The forming of the company implies an investment of \$1.1 billion, which is very important for Ecuador and will help us develop our oil industry," Pinto told the wire service. The joint firm, which China will "basically" fund, will be created within days, said Pinto. The company will explore and drill for oil in Ecuador's Oglan block. Ecuador will own 60 percent of the company and China will own the remaining 40 percent, said Pinto. Pinto's comments came during this week's visit of a top Chinese Communist Party official to Ecuador.



Pinto

*File Photo:  
Ecuadorean Gov't.*

### Workers at Repsol Refinery in Peru Begin Two-Day Strike

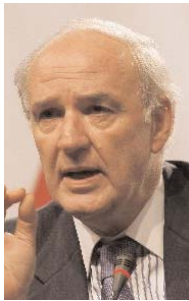
Workers at a **Repsol** oil refinery in Peru began a two-day strike Tuesday, demanding better benefits and a stop to required overtime, Reuters reported. La Pampilla, which is located near the Pacific coast, is Peru's largest refinery. It has a capacity of approximately 107,000 barrels per day. "It's a 48-hour [strike]," labor union official Jose Guerrero told Reuters. Approximately 100 Repsol workers gathered outside the Spanish oil company's office in Lima on Monday, chanting and carrying signs. On Monday, Madrid-based company said it had made preparations so that output would not be "significantly affected" in the event of a strike.

## Political News

### Peru Foreign Minister: Chile Spy Case a Bilateral, Not Regional, Issue

The Peruvian government does not plan to use Friday's meeting of the Union of South American Nations, or Unasur, as a

forum to address a recent spy scandal that has elevated tensions with neighboring Chile, Foreign Minister Jose Antonio Garcia Belaunde said Monday. "I think it's a bilateral issue and that we have to keep it on a bilateral basis," Belaunde said in a telephone interview with the *Advisor*. His comments came a day after Ecuadorean Foreign Minister Fander Falconi asked Unasur's defense council to look for ways to resolve regional disagreements during Friday's meeting in Quito, alluding both to the Peru-Chile spy case and elevated tensions between Venezuela and Colombia over a deal to boost U.S. troops' access to Colombian military bases. Chilean authorities on Monday also rejected Ecuador's offer to address the espionage case at the Unasur meeting, saying the matter is a bilateral issue. On Tuesday, Belaunde said the foreign ministry received a pledge from the Chilean government to fully investigate the case of a Peruvian air force officer who allegedly passed along top secret information to Santiago. "This is what Peru has called for, an investigation, to identify those responsible and to punish them," Belaunde said in a statement.



Belaunde

File Photo: Agencia Andina.

## Nicaraguan Opposition Leaders Call for Unity Against Ortega

Leaders of Nicaragua's opposition on Tuesday called for a united front against President Daniel Ortega's brand of 21st century socialism and his drive to seek a third term in office but stopped short of saying who they would pick to challenge Ortega's Sandinista party in the 2011 presidential elections. "Daniel Ortega is hellbent on creating a dictatorship, a family dictatorship in Nicaragua," Francisco Aguirre Sacasa, a deputy in Nicaragua's National Assembly and secretary of the Constitutionalist Liberal Party, said during a panel discussion at the Inter-American Dialogue in Washington. "The opposition has finally begun to coalesce because of the pressure that Ortega is

bringing to bear on it." That pressure came to a head last Saturday, when thousands of anti-government protesters descended on Managua, demonstrating in opposition to Ortega's re-election drive and marking more than a year since the Sandinistas claimed victory in municipal elections marred by allegations of fraud.

## Economic News

### Fitch Ratings Lowers Mexico's Credit Rating to BBB

**Fitch Ratings** on Monday lowered its investment-grade credit rating for Mexico to BBB on the heels of falling oil production and the most severe recession since the 1930s, Bloomberg News reported. The downgrade gives Mexico the second-lowest credit rating from Fitch, putting the country in the same category as Thailand and Russia. The ratings organization also changed Mexico's outlook from negative to stable. The reduction was Fitch's first for Mexico since it assigned the country an initial BB rating in 1995. Mexico in 2000 was the second Latin American country to receive an investment-grade rating after the North American Free Trade Agreement increased the country's exports. On Friday, Mexico's national statistics agency said the country's economy grew 2.9 percent in the third quarter as compared to the previous three-month period, marking the end of Mexico's recession. The economy contracted 6.2 percent year-on-year in the third quarter. Mexico's economy will shrink as much as 7.5 percent in 2009, the most in seven decades, the central bank has said. Oil, which accounts for 38 percent of the country's budget, has dropped 47 percent since its high of \$147.27 a barrel in July of last year. Production at Mexican state-run oil company **Pemex** last year dropped at the sharpest rate since 1942, causing Mexico to forgo 300 billion pesos in revenue, Finance Minister Agustin Carstens has said. On Nov. 1, Mexican lawmakers approved increasing the sales tax 1 percentage point to 16 percent. However, they rejected a 2 percent consumption tax, which President Felipe Calderon had proposed.

## POLITICAL & ECONOMIC BRIEFS

### Police: El Salvador Seeing Record Number of Homicides

El Salvador is experiencing a record number of murders this year, EFE reported Tuesday, citing the PNC national police force. "This year we will have an unprecedented number," said Carlos Asencio, the police force's director. "We're not far from closing [2009] with 4,000 and some." Through Nov. 22, the country had recorded 3,882 homicides, as compared to 2,826 for the same period last year. For all of 2008, El Salvador had recorded 3,179 murders. Authorities blame gangs including Mara Salvatrucha for many of the killings.

### Venezuela Cites Operational Problems in Seizure of Four Banks

Venezuela's government last Friday seized four small banks, due to a range of operational problems, Reuters reported, citing Finance Minister Ali Rodriguez. The government seized **Banco Confederato**, **Banco Canarias**, **Banco Provienda** (Banpro) and **Bolivar Banco** on concerns about unexplained sources of funds, credit problems and failure to adhere to some obligations, Rodriguez said.

### Former State Dept. Analyst, Wife Plead Guilty to Spying for Cuba

A retired U.S. State Department analyst and his wife last Friday pleaded guilty to charges of spying for Cuba over three decades, Bloomberg News reported. In federal court in Washington, Walter Kendall Myers, 72, pleaded guilty to three counts of conspiracy to commit espionage and two counts of wire fraud. Gwendolyn Steingraber Myers, 71, pleaded guilty to one count of conspiracy.

**Featured Q&A***Continued from page 3*

(14,000 MW), but it is suspected that there is more than meets the eye. Indeed, federal investments in infrastructure are pitiful; by the end of August, Eletrobras had only invested 38 percent of its budget for infrastructure. No wonder there are blackouts."

**A Ricardo Canese, coordinator for Paraguay's Commission on Binational Hydroelectric Entities and a member of the Mercosur parliament:**

"First of all, it should be noted that events of this type can happen. Only a technical investigation can determine if the protection systems are poorly designed or configured, or if the entire system is overloaded or too weak, lacking alternative interconnections. When an event involving a significant charge to the power grid occurs, there's always the risk that protection systems will act prematurely and drag the whole grid into a blackout, which is what happened in this case. However, if protection systems are well designed and in optimal working conditions; if the grid isn't overloaded and there are alternative networks than can substitute for those that go offline, the blackout should have been limited to the area where the problem occurred. It shouldn't have propagated to the wider Brazilian electric grid and much less to the Paraguayan one. While it's clear that the event was an extraordinary one, it's also clear that the Brazilian and Paraguayan electric grids have deficiencies that need to be corrected. What the Brazilian and Paraguayan governments should do is analyze the causes of this massive blackout, which was much larger than it should have been. This event requires that the protection systems be closely examined, so that such a blackout doesn't happen again or as frequently. Also, the networks and the substations need to be checked to see if they are overloaded, and explore the possibility of using an alternative source, from other networks, in the case of similar events. Better electricity links within Brazil and between Paraguay, Brazil and the rest of Mercosur, with adequate protection systems,

without a doubt will avoid cases like this one and create a safer and more reliable electricity supply."

**A Erasto Almeida, analyst in the Latin America practice of the Eurasia Group in New York:**

"While the exact cause of the blackout remains unclear, the outage does not appear to be the result of a major infrastructure problem, so the likelihood that new blackouts of this magnitude will occur frequently in coming months does not appear to be high. As a result, Brazil's economic recovery and the robust growth rate of close to 5 percent expected for 2010 do not seem to be at risk. If more blackouts do not occur in the coming months, the political fallout will also be limited. The government may receive additional negative press over the episode. It also has to manage concerns from its largest congressional ally, the Brazilian Democratic Movement Party (PMDB), that the blame will fall on Minister of Mines and Energy Edison Lobao. Some fear that Lobao, a member of the PMDB, could be scapegoated by the administration in an effort to shield its candidate for the 2010 presidential election, Chief of Staff Dilma Rousseff. Still, the administration is likely to remain politically strong, and Rousseff will remain on track to make a strong run next year. As Brazil resumes economic growth, it will face some important hurdles to meet its energy needs, and the biggest challenges to the government are dealing with environmental constraints on new projects and reconciling its premium on low tariffs for consumers and the need to attract more investments to expand capacity. There has been some noteworthy progress on both fronts, but more is needed to avoid future supply risks."

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*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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