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FEATURED Q&A

What Factors Are Driving the Cost of Energy in Colombia?

Q Earlier this year, a World Energy Council report profiled Colombia and found that energy subsidies and high energy prices are the "top critical uncertainties" that impact energy access and social equity in the country. On the other hand, a report last year from Fitch Ratings expressed concerns that continued low energy prices in Colombia could have negative consequences for energy producers and distributors there. Why are perceptions so divergent? Are electricity prices in the country relatively low or high? How are prices for electricity affecting energy-intensive industries in Colombia and the country's economic competitiveness? What initiatives might the government or the power sector undertake in the near future that will drive energy costs?

A R. Kirk Sherr, member of the Energy Advisor board and president of Clearview Strategy Group: "Electricity prices and supply will continue to be an issue for Colombia due to the challenges presented by a combination of geography and a historical tendency toward hydroelectricity. As a result, the electric system favors large hydroelectric projects that aren't necessarily located near growth areas, and the power must be 'wheeled' over long distances to satisfy demand in other areas. These transmission costs and bottlenecks complicate planning for large-scale ther-

mal and renewable power projects. Areas of the country that are not part of the interconnected system pay extremely high tariffs due to the need to import and burn diesel for electric power. Finally, many subsidies (up to 100 percent in remote areas) create numerous tiers of electricity prices, many of them subsidized. Electricity distributors commonly subsidize 50 percent or more of the total customers in the lower tiers. The result of all these factors is wide price and supply variations across Colombia, and industrial tar-

Continued on page 3



OGX Stock Plummets After Company Cancels Projects

Stocks of OGX Petróleo e Gás Participações, one of Brazilian billionaire Eike Batista's companies, dropped 35 percent Monday after it canceled three of its offshore projects northeast of Rio de Janeiro, which sparked concerns of financial collapse. See story on page 2.

File Photo: Mercopress.

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ENERGY SECTOR BRIEFS

Capex SA to Drill First Shale Gas Well in Vaca Muerta This Month

Buenos Aires-based **Capex SA**, a small natural gas and power producer, said this week it will drill its first shale well this month, Bloomberg News reported July 1. The company's CFO told reporters that the well will be in the Agua del Cajon gas field in the Vaca Muerta formation. Capex has an agreement with Houston-based **Halliburton** for the hydraulic fracturing of 11 wells. Biasotti said the company is in talks with the government that may triple the price it gets for new shale gas produced.

Argentina to Continue With \$42 Billion Nuclear Plan: De Vido

Argentina's planning minister, Julio De Vido, said at an energy conference in Russia last week that his country will continue with plans to build its fourth and fifth nuclear power plants, state news agency Télam reported June 27. De Vido estimated that nuclear power could represent 15 percent to 18 percent of the country's total energy supply. Argentina's official nuclear plan, launched in 2006, envisioned spending \$42 billion on nuclear capacity through 2023.

Seadrill, SapuraKencana Sign \$2.7 Billion Contract with Petrobras

Norway's **Seadrill Limited** and Malaysia's **SapuraKencana Petroleum Berhad** last Friday announced that their joint Brazilian venture, **Sapura Navegação Marítima**, was awarded a \$2.7 billion contract from state oil company **Petrobras** to charter and operate three pipe laying support vessels. The contract is for a period of eight years with an option for an additional eight years. Work is expected to commence by the second quarter of 2016.

Oil & Gas News**OGX May Close Oil Wells Next Year in Face of Technical Challenges**

Stock in **OGX Petróleo e Gás Participações**, one of Brazilian billionaire Eike Batista's most talked-about companies when it undertook subsalt oil exploration and production work less than five years ago, plummeted to record lows Monday after it canceled three of its offshore projects, Bloomberg News reported. The company announced its only oil-producing wells may be closed next year, as well. "At this time, there doesn't exist any type of technology available to make investments in this field financially viable with the aim of increasing its production," OGX said in reference to the Tubarão Azul field, for which the company now says it will not need the OSX-2 platform that is being built in Singapore. OGX will pay the lease until it can be sold or relocated, according to a regulatory filing. Compensation to its shipbuilding sister company, **OSX Brasil**, represents 39 percent of OGX's cash, Bloomberg News reported. The company's shares have slumped 87 percent this year following missed targets and production delays. [Editor's note: Hear a [podcast](#) of the Dialogue's 2008 event with the late Francisco Gros, then vice chairman of OGX.]

Leaders from Bolivia, Iran Meet in Moscow on Sidelines of Gas Forum

Bolivian President Evo Morales on Monday met with his Iranian counterpart, Mahmoud Ahmadinejad, in Moscow where the two were scheduled to attend a conference on natural gas exports, *La Razón* reported. "The relations of the Islamic Republic of Iran with independent countries are very close and friendly and cannot be easily damaged," Ahmadinejad said, adding that the country's next administration will also make efforts to expand ties with countries in the Americas. In June, Iranians elected moderate Hassan Rohani, who will replace Ahmadinejad in August as president. Venezuela and Trinidad & Tobago also

attended the meetings, the second summit of the Gas Exporting Countries Forum. Countries that export natural gas are seeking alliances amid worries that the shale gas boom in North America has disrupted global gas markets, which traditionally have been centered along relatively tight geographic boundaries. "Prices must be fair and meet the interests of exporting countries," Maduro told reporters on the sidelines of the event. Ahmadinejad was also scheduled to attend a memorial ceremony to honor late Venezuelan president Hugo Chávez at the Venezuelan Embassy in Moscow during the trip. Concerns in the United States over Iran's ties to Latin American countries have been the subject of [congressional hearings](#) and hand wringing in policy circles.



Morales

File Photo: Bolivian Government.

Technip Wins Contract for Venezuela Refinery Upgrade

Paris-based construction firm **Technip** said Monday it had been awarded a "significant contract" by the **Hyundai-Wison** consortium to supply its proprietary technology as well as engineering and procurement services for two hydrogen reformers in Venezuela. The reformers, which will process 135-million standard cubic feet of hydrocarbons per day, are part of the "Deep Conversion" project at the Puerto La Cruz refinery that is being executed by the consortium for Venezuelan state oil company **PDVSA**. Technip's operating center in Claremont, California will execute the contract, which is scheduled for completion in the second semester of 2014. Technip said the value of the contract is between 50 million and 100 million euros, or about \$38 million to \$76 million.

CAF Approves \$435 Million for Peru Gas Pipeline, Disaster Preparedness

The Caracas-based **CAF Development Bank of Latin America**, a multilateral lender, announced Tuesday it had approved \$435 million for two programs

in Peru. The first, a \$300 million line of credit for emergency preparedness, is aimed at getting public services back up in a timely way after natural disasters. The second, a \$135 million loan, will offer financing for **Contugas**, held by Colombia's **Grupo EEB**, to build a natural gas pipeline network in the department of Ica. The pipeline will bring natural gas to residential and industrial users in an under-served part of the country, according to CAF. As part of the program, CAF will provide \$20 million to finance sustainable forestry development focused on recovery and conservation in Peru's Amazon. Between 2008 and 2012, CAF approved more than \$9 billion for projects in Peru.

Power Sector News

Eletobras to Begin Seeking Contracts For Solar Projects

Eletrosul Centrais Elétricas, a unit of Brazil's state-owned power company **Eletrobras**, announced Tuesday that it will begin pursuing contracts in 2014 to sell power from solar plants it plans to build in the near future, Bloomberg News reported. The director of engineering and operations at Eletrosul, Ronaldo dos Santos Custodio, said the company will select winners of bids to measure solar radiation in two of the country's states at the end of July. He noted that Eletrosul is expanding into solar power so that it is poised to take advantage of the energy source as the price of solar technology makes the source more competitive with other energy sources. "We're starting this work now so we're prepared when the conditions are right," he told Bloomberg. To date, the company has just one large solar installation, a 1 megawatt pilot project at its headquarters in Florianopolis, which is slated to begin operation in the second half of this year. Brazil currently has 14 solar plants that have a total of 2.6 megawatts of capacity and in October will allow solar plant developers to participate for the first time in an auction for contracts to sell energy from their plants, the head of Brazil's federal energy planning agency said in late June.

Featured Q&A

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iffs are in the higher range for the region. Industrial energy costs are generally higher than either Mexico or many areas of Peru, especially along Colombia's rapidly growing Atlantic coast. Energy costs are now an important policy issue as Colombia seeks to export more value-added items to take advantage of its many free trade agreements. Important focus areas for the sector include energy efficiency projects—especially in remote areas and renewable energy beyond hydroelectricity. Despite a good endowment for potential wind projects, Colombia has no significant installed base of wind energy and has not focused on utility-scale wind projects."

A **Jairo León García, technical secretary at the Colombian World Energy Council Member Committee (COCME):** "The energy sector in Colombia is highly competitive (according to the World Economic Forum, it occupies 6th place in a ranking of 148 countries and in the KPMG global network ranks 5th) and is adequately remunerated, a fact that is achieved by the success of the auctions of the Unidad de Planeación Minero Energética to cover increases in energy

demand, assuring adequate energy supply until 2020. On the other hand, the concerns about the high price of energy are related to Colombian industry, which believes that it loses competitiveness to other countries that have lower energy costs. In regards to this issue, measures have been taken. For example, in 2010 the industrial sector was able to dismantle the contribution of 20 percent on the energy bill that represented a cost overrun for businesses. Generally, it can be affirmed that, while there are different points of view about energy prices in Colombia, they are at an intermediate point, allowing companies to be competitive and service providers to have profit margins that allow them to continue developing and investing in new infrastructure to guarantee energy security in the future. The other concern in the country has to do with the inaccessibility of sectors of the population to modern forms of energy due to the inability to pay (affordability), since it is not enough just to have the energy infrastructure so that populations are connected, but the economic capacity of people to access the supply must also be analyzed. The Colombian government could undertake initiatives that seek a balance between the price of energy, the

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IDB Approves \$25 Million for Haitian Energy Sector Funding

The Inter-American Development Bank announced last Friday it had approved a \$25 million "policy-based grant" to support the modernization of Haiti's energy sector. The grant is the third in a series of three policy-based operations focused on providing budgetary support to the government of Haiti as it carries out energy policy reforms. The measures will help strengthen institutional capacity and organization of the energy sector; foster better management and operational efficiency of the state utility **Électricité d'Haïti**, and address problems such as electricity theft and fraud. In recent years, the IDB has provided the Haitian government with \$64.5 million to restore the Péligre hydroelectric plant's generation

capacity and upgrade the power distribution network in Port-au-Prince. The IDB has also financed pilot projects to tap renewable resources such as solar energy in Haiti. The Director General of **Électricité d'Haïti**, **Andress Appolon** said last week that EDH is \$60 million in debt and was seeking to renegotiate contracts with three suppliers, **Haytrac**, **Sogener** and **E Power**, *The Haitian Sentinel* reported.

Political News

Bolivian President's Plane Forced to Land, Searched for Snowden

Bolivia has accused Austria of an act of aggression by searching President Evo Morales' plane Tuesday after a forced landing in Vienna over suspicions that

Advisor Video

Colombia's Mining and Energy Future

an Inter-American Dialogue discussion with

Frederico Renjifo Vélez
Minister of Mines and Energy
Republic of Colombia

View a recording of the June 28 [webcast](#).



En Español

fugitive former intelligence leaker Edward Snowden was on board, Reuters reported. Portugal, France, Italy and Spain abruptly canceled air permits for Morales' plane to fly through their airspace while en route home from a summit of energy exporting countries in Moscow. Austrian authorities found no sign of Snowden on board. Bolivia is among several countries in Latin America where Snowden has sought asylum, a request Morales said he would consider. Bolivian Vice President Álvaro García Linera on Tuesday expressed outrage over the "kidnapping" of President Morales, saying he was "hijacked by imperialism," state news agency ABI reported.

Economic News

Peruvian Economy Posts Weaker Growth in May, June: Gov't

Peru's Ministry of Economy and Finance on Monday estimated that the Andean nation's economy grew between 5.5 and 6 percent in May and June this year, state news agency Andina reported. The ministry added that Peru's gross domestic product will increase 6.5 percent in July this year. Last month, Peru's Central Bank downgraded its economic growth outlook for 2013 to 6.1 percent from 6.3 percent due to concerns about weak global growth and slowing demand for the South American nation's mineral exports, *Forbes* reported. Mining exports

and domestic demand have helped keep the economy growing, according to the report. Policymakers are worried that cooling demand from China could crimp exports further, however, and currency concerns have been increasing. The sol currency's steady appreciation against the U.S. dollar over the last several years could end in 2013, according to economists, who note there has been a "surprisingly sharp" depreciation in the sol since May, Dow Jones reported.

Brazil's Central Bank Ends Small Business Lending Program Early

Brazil's central bank is ending a program of incentives granted to large banks that encourage the transfer of liquidity to smaller institutions through asset purchases sooner than scheduled, Bloomberg News reported Monday. The measures have been aimed at injecting more than \$20.6 billion into smaller banks in order to bring liquidity to "desired levels," according to the government. The program was announced in December 2011 as several mid-sized banks teetered on the brink of collapse and scandal. It will now finish in March next year, five months earlier than originally intended. "This suggests that the health of the financial system, especially medium and smaller banks, is good enough for the standards of our central bank, so it's safe to end this program," Andre Perfeito, chief economist at **Gradual Investimentos**, told Bloomberg News.

POLITICAL & ECONOMIC BRIEFS

Bachelet, Longueira to Face Off in November Elections in Chile

Former Chilean president Michelle Bachelet handily won her party's presidential primary vote Sunday with 73 percent support, *La Tercera* reported. Her closest Nueva Mayoría primary rival for the November 17 election, Andrés Velasco, won less than half that support. Voters from the conservative ruling Alianza coalition of President Sebastián Piñera gave Pablo Longueira 51 percent support, narrowly defeating former defense minister Andrés Allamand's 49 percent, according to preliminary results.

Brazil's Rousseff Confirms Plans for Plebiscite Request to Congress

Brazilian President Dilma Rousseff confirmed Monday that she will ask Congress to begin the process for a plebiscite on political reform in the wake of massive protests in recent weeks, Agência Brasil reported. Her administration will recommend that at least two points be covered in the plebiscite: campaign finance and electoral reforms. Under Brazil's constitution, only Congress can call a public referendum.

Mayoral Candidate in Durango Found Dead of Gunshot Wounds

A mayoral candidate in Durango was found shot dead Monday, the latest victim of violence leading up to local elections on July 7, CNNMéxico reported. Ricardo Reyes Zamudio disappeared after attending a funeral in Durango state last Sunday. His body was found on Monday with bullet wounds. He was the center-left Citizens Movement candidate for mayor of San Dimas. Candidates of all major political parties have come under attack in this election cycle, which authorities generally blame on organized crime.

Featured Q&A*Continued from page 3*

reliability of the supply, and incentives for investment in infrastructure, guaranteeing sustainable development for all sectors of the economy. It is also important to incentivize companies so that they make investments related to the rational use of energy in order to reduce consumption and, thus, the value they pay for consumed energy."

A Luis Enrique Cuervo, partner at Fowler Rodriguez in Houston:

"The question of energy prices in Colombia is comparable to the joke between friends about how is your wife; it depends on who you compare her to. Studies conducted by reputable independent agencies confirm that energy tariffs in Colombia are higher than those in Ecuador, Peru, Argentina and the United States, similar to those in Brazil and Mexico and lower if compared with Chile. The Colombian industrial sector has noted that Colombians pay 13 cents/kilowatt hour, while the price in the United States is substantially lower. Many forget that in 1992 Colombia had an energy crisis caused by a severe drought with nationwide blackouts over several months. Still today, 64 percent of the country's electricity is generated from hydropower sources. Energy prices in Colombia are regulated for individual consumers and unregulated for industrial consumers. One of the main problems is determining whether the state should subsidize the price for some or allow the market to operate. Prices paid by industry and wealthier residential consumers are higher due to taxes imposed to subsidize prices for other consumers. In attempting to answer whether the prices of energy in Colombia are adequate or competitive, philosophical and political issues are involved. Those issues include questions such as the role of the state, the market, foreign investment and politicians. Ultimately, the price of energy will determine who profits from the country's abundant natural resources. Unlike in Alaska and Norway, ordinary Colombian citizens do not receive direct benefits from the exploitation of their nation's non-renewable resources."

A Alfredo Garcia, associate professor in the Systems and Information Engineering Department at the University of Virginia:

"The complex interaction between a cross-subsidization regime and the economic regulation of the electric power industry in Colombia imply that the effective electricity rates charged throughout the country vary widely. For example, industrial customers that are connected to the grid at a high voltage level are charged a much lower rate than, for example, residential customers living in neighborhoods classified in the highest income bracket. Despite this marked heterogeneity, recent attempts to compare electricity costs have for the most part agreed in concluding that Colombia's electricity costs are higher than those of the United States or other neighboring countries such as Peru, Ecuador and Brazil. Notwithstanding the fact that large industrial users were recently exempt from cross-subsidizing electricity consumption by poorer households, the effective electricity rate faced by industrial users exceeds 10 cents per Kwh. This is certainly higher than the rates paid by industrial users in most of the United States. Significant flaws in the regulation of the electric power industry may partially explain this situation. For example, large hydroelectric power plants that were built many decades ago are paid the same (per unit) capacity payment as a newly built gas-fired power plant. The rates of many distribution utilities are based upon highly inflated estimates of their respective asset bases. In addition, these utilities are allowed to fully pass-through their generation procurement costs. After 17 years of operation there is still no demand-side bidding in the daily spot market for electricity. Hence, the possibilities for market power abuse are significant."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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