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FEATURED Q&A

What Are the Benefits of Andean Electrical Integration?

Q Ecuador and Chile in mid-July signed a bilateral agreement as part of plans to proceed with the creation of an Andean Electrical Integration System that would also include Bolivia, Colombia and Peru, with a goal to begin functioning in 2020. The agreement included points such as boosting infrastructure and regulatory mechanisms to promote electricity integration. How important and feasible is energy integration among the countries? What are the challenges standing in the way of such a project, and what are the possible benefits?

A Anthony Laub, partner at Laub & Quijandría in Lima: "Peru's strategic geographic position is the backbone of future energy integration between Ecuador, Peru and Chile, which can be extended to Colombia and Bolivia later on. The creation of an integrated electrical system will generate a larger market and boost the economic growth of the whole region. Peru's national grid runs from tip to toe, and there is already a power line that integrates the Peruvian system with Ecuador's. This line has been used on a few occasions, when either country was running short on energy. Between Peru and Ecuador, there also exists hydrologic complementarity; when it rains in one country it does not in the other. This integration has already proved to be a successful one. Ecuador and Peru have sufficient primary energy resources to attend their needs and a surplus that can serve well to attend foreign markets. Chile lacks resources, but instead has a thriving economy that needs energy at competitive prices to keep growing, which can be provided by Ecuador and Peru. Geographically speaking, the three countries can interconnect effortlessly. A short power line between Peru and Chile is needed. Under this scheme, all countries win: Ecuador and Peru export excess production to Chile, improving their economies, and Chile benefits from security of supply and better

Continued on page 3

Bachelet Condemns Bombing That Injures 14 in Santiago

A bomb that was placed in a trash can of a Santiago fast-food restaurant exploded at lunchtime Monday, injuring at least 14 people. President Michelle Bachelet, pictured after visiting victims at a hospital, called the attack a "cowardly" act. See story on page 2.

Photo: Chilean Government.

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NEWS BRIEFS

Petrobras Investigating Allegations Raised by Ex-Director

Brazilian state oil company **Petrobras** said Monday that it is investigating allegations of a bribery scheme following news reports that the statements of Paulo Roberto Costa, a former Petrobras director who is in jail for alleged involvement in the scheme, implicated more than 40 politicians, BBC News reported. Petrobras said it has asked a judge for access to Costa's statements and has written a letter to the companies that were allegedly involved, asking for their assistance.

Colombia's Grupo Aval Expects to Raise $1.1 Bn in IPO

Colombia's largest banking group, **Grupo Aval**, said Monday that it is expecting to raise $1.1 billion in its initial public offering in the United States, Reuters reported. Luis Carlos Sarmiento Angulo, Colombia's richest man, controls the company, holding about 95 percent of its outstanding shares. Grupo Aval said Monday in a filing that it expects to price its American Depositary Shares at $14.96 apiece.

Venezuela to Detain Two Student Activists

Venezuela's intelligence service will detain student activists Lorent Saleh and Gabriel Valles who were deported from Colombia last week, judicial authorities announced Monday, the Associated Press reported. The students are members of Operation Liberty, a group critical of President Nicolás Maduro's government. Defense attorney Alfonzo Granadillo said the students violated a 2010 probation agreement under which they were supposed to stay in the area and occasionally report to a judge.

Political News

At Least 14 Injured in Chile as Bomb Rips Through Restaurant

At least 14 people were injured Monday when a bomb exploded during lunchtime in a fast-food restaurant next to a subway station in Santiago, sending victims flying and commuters running and screaming. The explosion occurred in a small underground shopping mall connected to the busy Escuela Militar subway station in the Chilean capital's affluent Las Condes neighborhood, the Associated Press reported. "We heard the blast and ran in fear. When I turned around I saw the heartbreaking scene: there was glass, dust and twisted metal everywhere," Silvana Bobadilla, a waitress at a nearby restaurant, told a local television station, the AP reported. No group said it was responsible for the explosion, but anarchist groups have claimed responsibility for several bombings in the past. Monday's attack was the worst of nearly 30 bomb attacks or attempted bomb attacks this year, and among the most damaging of any attack in Chile since the country's democracy was restored in 1990, BBC News reported. President Michelle Bachelet said she would convene her security committee today to decide how to respond. "What's happened is horrible, an abominable act, but Chile is and will continue to be a safe country," said Bachelet, BBC News reported. Bachelet added that the attack was "one of the most cowardly acts we've seen because it had as its objective to maim, spread fear and even kill innocent people." Bachelet said the government would use its anti-terror laws, which allow authorities to detain suspects for an extended time and also allow for tougher sentences for those convicted. Bachelet's mother, Ángela Jeria, was in the shopping center at the time of the blast, but was not injured, said Chilean Interior Minister Rodrigo Peñailillo, BBC News reported. It was unclear whether Jeria was the target of the attack. Peñailillo added that the government "would not rest until those responsible are behind bars." The bomb had been placed in a trash bin in the restaurant, and subway officials in Santiago said trash cans would be removed from stations as a precaution. Bombs frequently explode in Santiago, at places such as banks, police stations and army barracks. However, most go off at night when there are few bystanders, BBC News reported.

> "We heard the blast and ran in fear. When I turned around I saw the heartbreaking scene: there was glass, dust and twisted metal everywhere."
>
> — *Silvana Bobadilla*

Economic News

Finance Minister to Step Down if Brazil's Rousseff Wins Re-election

Brazilian President Dilma Rousseff said in an interview published Monday that if she wins re-election next month, Finance Minister Guido Mantega would step down, Bloomberg News reported. Rousseff, who is in a tough campaign to remain in office, saw her campaign take another hit as Brazil's economy slipped into recession in the year's second quarter. During his time as finance minister, Mantega has boosted public spending, lowered taxes and increased subsidized credit to consumers and companies as part of the government's efforts to spur growth. However, the policies have increased the government's budget deficit and fueled inflation, leading to lower confidence among consumers and businesses. **Standard & Poor's** said in March that Brazil's slow growth and the government's fiscal policies led it to downgrade its sovereign debt rating for the country for the

Mantega

File Photo: Agência Brasil.

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first time in more than a decade. "Guido Mantega already told me that he's not able to stay in government in a second term because of entirely personal issues," Rousseff told *O Estado de S. Paulo* Monday. "We always have the obligation to improve management. I intend to improve management. I won't do everything the same way I've been doing it." Mantega is Brazil's longest-serving finance minister, taking up the post in 2006. Brazilian Socialist Party candidate Marina Silva has risen in the polls while blaming Rousseff's government for Brazil's struggling economy. "It's too late now" for Rousseff to make changes to her economic team, Silva said Monday night in a television interview. "Brazilian society will be the one to make a change by throwing Dilma Rousseff out of office because she promised to control inflation, make the country grow, lower interest rates. None of this is a reality in the life of our country." Two polls published last week showed that Silva would win a hypothetical runoff against Rousseff. If neither Rousseff, Silva nor challenger Aécio Neves of the Brazilian Social Democracy Party wins more than 50 percent of the votes in the first round on Oct. 5, a second round would be held Oct. 26.

Credit Card Loans in Mexico See Lower Growth on Heels of New Law

A Mexican law designed to help authorities catch tax scofflaws has led to lower growth in credit-card loans, Bloomberg news reported Monday, citing executives at two top banks. Outstanding credit-card loans increased just 4.4 percent in July, the lowest increase in four years, according to regulators. A law that took effect this year allows tax authorities to scrutinize credit-card transactions to find large expenditures that are out of line with taxpayers' reported income. The law has spurred more consumers to use cash instead of credit cards, the head of consumer banking at **Grupo Financiero Banorte** and a bank analyst at **Corporación GBM** told the news service. The law, which took effect in January, was part of the government's efforts to increase tax revenue and strengthen enforcement of tax laws.

Featured Q&A

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prices, which also improves its economy. The challenge to extending integration to all countries relies on a political decision between the authorities of Peru and Chile to promote the building of the power line (plus new generation units) to interconnect both countries, allowing at the same time the integration with Ecuador. Given the current good relations between Peru and Chile, we think it is feasible to expect a positive answer from both countries to such integration."

> "The feasibility ... depends heavily on the ability of the parties to overcome several contentious issues."
>
> — ***Justin S. Miller***

A Justin S. Miller, clean energy consultant for Latin America at Nexant Inc. in Washington: "The July 21 Ecuador-Chile Joint Declaration on Electricity Cooperation and Trading comes as a promising additional step toward Andean power market integration through the Andean Electrical Interconnection System (SINEA) initiative and in the wider context of Andean Community (CAN) regional integration. SINEA's completion would indeed constitute an important economic boon for these Andean countries, but the feasibility of such completion depends heavily on the ability of the parties (i.e., Bolivia, Peru, Colombia, Ecuador and Chile) to overcome several contentious issues. High electricity rates and, in some cases, power shortages weigh on economic growth in these Andean countries; high energy costs and supply disruptions weaken the competitiveness of Andean industry and negatively affect the economic welfare of the region's household consumers. Such has been the case in Chile, which has insufficient generating capacity to meet demand and plans to begin importing U.S. liquefied natural gas starting in 2016 to close this shortfall and reduce rates. Connecting power-surplus countries (for example, Ecuador from 2017 onward) with power-deficit countries such as Chile addresses, at least in part, these problems that plague Andean economic competitiveness and welfare. The challenge that now lies ahead for SINEA parties is the preparation and implementation of a regulatory framework and specific rules, such as those relating to technical standards, power market operation, pricing and requirements on the use of renewable sources. According to Ecuadorean officials, the harmonization of national-level regulation for SINEA is 'most sensitive,' and the Colombian Ministry of Mines and Energy asserts that regulatory harmonization must not diminish parties' sovereign rulemaking authority."

A Enzo E. Sauma, associate professor in the department of industrial and systems engineering at the Pontificia Universidad Católica de Chile: "In 2009, we analyzed electric integration among five countries in the Andes region: Bolivia, Chile, Colombia, Ecuador and Peru. We determined technically feasible interconnection points that allow establishing the approximate operation of interconnected electric markets. Even though we assumed that the generation expansion plans of the countries were not altered with respect to the plans provided by the authorities of these countries (which corresponds to the worst-case scenario for energy integration in the Andes region), we found significant eco-

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Featured Q&A

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nomic benefits of such interconnections from the supply side, the demand side, cost savings and the environmental viewpoints. It is possible to increase economic efficiency among the considered countries by augmenting international energy exchanges. In doing this, it is necessary to have clear market rules and the implementation of mechanisms that both adequately manage market risks and are consistent with the development of financial contracts. Accordingly, we provide the following policy recommendations: (i) Establishing rights and obligations of governments, allowing the modifications of local energy operations and planning policies, (ii) Developing rules that encourage investments in both the international links and local transmission expansions needed to support international energy exchanges in a timely and sustainable manner, (iii) Strengthening appropriate regional initiatives, establishing objective, transparent and non-discriminatory market rules, (iv) Creating the correct incentives to encourage the economy, security and quality of the electricity service in the region, (v) Establishing a domain for the development of the international energy exchanges through the design of both flexible and firm financial contracts, and (vi) Attempting to ensure that the benefits of the energy interconnections reach consumers through mechanisms that modify consumers' bills when some of interconnections' benefits are attained."

> "We found significant economic benefits of such interconnections..."
>
> — *Enzo E. Sauma*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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