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Alert | Energy & Natural Resources

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Latin America Energy Updates

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Introduction

This GT Alert highlights significant recent advancements within the energy sector in several countries throughout Latin America.

A. Argentina

The lack of diversity in the country's energy matrix sparks debate.

Argentina's recent proliferation of incentives for gas and oil projects has caused controversy. The Environment and Natural Resources Foundation (FARN) criticized the lack of a concrete plan that would transition the country away from fossil fuel dependence. Santiago Cané, FARN's legal affairs coordinator, stated, "*There is no energy or sector transition plan to meet the environmental commitments to reduce greenhouse gas emissions. Therefore, all the investments and actions that are made around energy respond to the situation and not to a planned vision that allows the aforementioned objectives to be achieved.*" He continued, *"There is a misconception, which is to consider gas as a bridging energy or a fuel that can be part of a transition plan. But it cannot be, or not in this type of investment that, due to its size, points to very long terms*."

Cané added that had Argentina invested in the development of renewable and decentralized energies years ago, the country would no longer depend on international entities. Consequently, he demanded the return to public tenders for renewables and stated the importance of incentives in encouraging the transition to renewable energy. Rather than promoting the use of gas and oil, Cané believes those efforts should be directed towards cleaner energies.

B. Brazil

Over R$252 billion in investments results in increased solar capacity.

Brazil continues its energy transition and incorporation of renewables: 17 GW of solar capacity were installed, which represent 8.5% of the operational power of the country's energy matrix. Although the majority of solar power comes from more than one million connections in distributed generation (a record in the region), centralized photovoltaic energy also maintains a substantial rate of increase. According to the Brazilian Photovoltaic Solar Energy Association (ABSOLAR), the country has invested more than R$252 billion into solar energy.

Additionally, during Brazil's New Energy Auction A-4, five plants using photovoltaic modules were selected, adding up to 166.06 MW of solar capacity at R$178.24 per MWh (estimated US$34.00 per MWh) to the supply of electricity between 2026 and 2040. Combined, all the solar and wind projects already contracted in the auction will total nearly 6,000 MW of power to Brazil's electricity system. This number could increase after the New Energy Auction A-5, for which 1,345 enterprises of photovoltaic power, totaling 55,822 MW of supply, are registered.

Significant investment leads to record-breaking installation of one million solar power generation systems.

Brazil broke another record: the country has installed one million solar energy generators on roofs, facades, and small parcels, totaling over 10.6 GW of power, and solar plants of up to 5 MW were built in or near the consumption zones, representing an increase of 67% of country's total solar power verified in 2020 (from 10.7 TWh to 18 TWh).

Residential consumers lead in the use of distributed solar energy, representing 77.6% of the total systems connected to the network and an installed capacity of 45.4% of the country's total. Small companies in the commerce and business sectors follow with 12.5% of the connections and 32.3% of the power. Rural consumers, industries, public authorities, public services, and public electricity employ solar generators as well.

It is estimated that the energy sector has already received around R$57,400 million (estimate of US$10,000 million) in total private investments since 2012; however, 2022 may be the year with the highest recorded investment. Operational power is expected to double the 2021 total, surpassing 17 GW. Larger solar plants have also increased capacity from 5.09 GW to 5.3 GW over the past month. Equally important, the installed capacity grew by 3 GW in five months, of which 1 GW was mobilized in the past month alone, allowing solar generation to reach 8.4% of the electric matrix in the country (a +0.3 increase compared to June) (estimate of US$91,000 million).

C. Chile

Rejection of draft of new constitution prompts replacement of Ministry of Energy.

Voters in Chile rejected the draft of a new constitution on Sept. 4, with almost 62% voting against the "progressive" draft. The draft had received the backing of Chilean President Gabriel Boric and the wide rejection margin was seen as a "slap in the face," considering that almost 80% of Chileans had previously voted in favor of replacing the old constitution (drawn up under Gen. Augusto Pinochet's military rule) in an October 2020 referendum.

The result prompted the removal of many members of the President's cabinet, including the replacement of the former Minister of Energy Claudio Huepe for Diego Pardow, a former presidential advisor. The new minister will be in charge of accelerating Chile's plans to its de-carbonization, outlined in the Ministry of Energy's plan for 2022 to 2026, which aims to make Chile carbon-neutral by 2050.

Even though the rejected draft contained a number of new protections for the environment, the rejection of the new draft is seen as a positive for foreign investment in renewable energy in Chile. While the process of reforming certain aspects of Chile's institutions remains ongoing, either through a new constitutional convention or amendments approved by Chile's Congress, the rejection of the draft provides legal certainty to property rights and the current concession regime necessary for the development of new projects, considering that, among others, the draft had contemplated the establishment of autonomous Indigenous territories, had put in doubt the independence of the judiciary vis-à-vis the executive, and had shifted the executive's power to decide on economic matters to a joint process with Chile's Congress.

D. Colombia

Enel Group begins construction of a solar park with 132.2 MW of capacity and will install more than 244,800 solar panels.

Enel Green Power began construction of the Fundación solar farm, one of the 11 projects awarded in the third long-term auction called by the Minister of Energy in October 2021. The park is located in Pivijay, Province of Magdalena and would have a capacity of 132.2 MW. Additionally, it would deliver approximately 227 GWh per year to Colombia from 2023 to 2037. The company will invest close to US$109 million and will install more than 244,800 solar panels on a 237-hectare site. Eugenio Calderón, manager of Enel Green Power in Colombia and Central America, stated, "*With the long-term contracts awarded to us, Fundación will become a source of protection for the National Interconnected System (SIN) in the face of market contingencies or climate changes such as the El Niño Phenomenon*."

Enel Green Power also recently began construction on Guaypeyo I and II (486.7 MW in direct current)—the largest photovoltaic complex in Colombia. Calderón continued, "*We currently have close to 1,100 MW of renewable capacity under construction in Colombia and around 60 MW in Central America, which means that our green capacity in the region will exceed 5,000 MW in the next three years. On this growth path, we will invest around $3 billion pesos in the same period*."

E. Ecuador

Execution of Electricity Master Plan continues.

To comply with the Electricity Master Plan, Ecuador is in the process of awarding concessions to projects that will expand the country's generation and transmission park. With regard to network expansion, the Public Selection Process (PSP) has been implemented for the Northeastern Transmission System and regarding generation, PSPs are underway for the 400 MW Natural Gas Combined Cycle Block, the first 500 MW Block of Non-Conventional Renewable Energies, and the Santiago Hydroelectric Project of more than 2,400 MW.

The Santiago Hydroelectric Project, due to its magnitude, would cost US$3,000 million. Though the investments for other projects would not be as large, they nonetheless require investments of up to US$1,500 million combined. As a result, multiple sources of financing are already being evaluated to allocate funds to energy projects in Ecuador. Additionally, Erwin Pazimo, Genera Max Capital's investment specialist, explained that the cases currently being evaluated are not representative of the total number of open PSP competitors; for more than a year there has been a clear intention to develop renewable projects and to find financial support beyond the local banking system. Among the options some investment banks are considering, Erwin Pazmino indicated talks about equity and project finance or mezzanine mixes that would make the structuring more complex and would incorporate additional players to handle the financial aspect responsibility of renewable energy projects.

F. Honduras

Ministry of Energy seeks to expand the generation and transmission park and will involve communities to promote certain initiatives.

Honduras's Secretary of Energy (SEN) is conducting meetings with the goal of expanding the generation and transmission park. During the month of August, Secretary Erick Tejada accelerated the meetings between his technical team and members of the Regulatory Commission of Electric Energy, headed by Rafael Padilla. Some of the topics discussed were: (1) rate sheet, (2) future energy tenders, and (3) Islas de la Bahía case.

The government is also focused on developing renewable energy projects and encouraging initiatives that integrate communities into these projects, in accordance with the Universal Access to Electricity for Honduras Policy. Malcolm Stufkens, subsecretary of Environment of Honduras, stated, "*Community empowerment and free, prior and informed consultation are the first steps to achieve sovereignty and climate justice*." Similarly, the General Bureau of Electricity and Markets, with Subsecretary Tomás Rodriguez, advanced explanations of new government initiatives, including the Law of Social Electrification of Honduras.

G. Mexico

AEEP seeks to incorporate renewable energy in schools and different sectors of the State of Puebla.

The Energy Agency of the State of Puebla (AEEP) is preparing a public meeting to incorporate renewable energies in different sectors. The agency seeks to install photovoltaic panels on the roofs of several schools in the state. Emilio Barrera, CEO of AEEP, said, "*We will make an investment throughout 30 schools in 23 municipalities of Puebla, under the model of distributed generation and energy efficiency, in addition*

to conducting workshops and training for parents, students and teaching staff." He added, "*The process has already passed the technical feasibility and viability stage. And between the 30 schools there will be an installed power of just over 500 kW*." The installations are expected to be completed this year.

AEEP also plans to promote the use of photovoltaic systems for irrigation in the Puebla countryside, for which an investment plan is needed. This initiative is in line with recent agency developments, including the investment of MXN$1,700,000.00 (estimate of US$85,000) in solar pumping equipment in San Lorenzo Joya de Rodríguez, Tepeaca. This project will benefit 1,800 inhabitants, reducing the cost of electricity by 55% and resulting in savings of close to MXN $10,000,000.00 over 25 years (estimate of US$500,000.00)

H. Guatemala

The country prioritizes renewable energy, begins bidding process for long-term electrical energy contracts.

On Aug. 5, Guatemala launched the Open Bidding PEG-4 2022, demonstrating the country's commitment to renewable energy. This mechanism will facilitate the signing of long-term contracts with electricity distributors for a total of 235 MW.

In general, contracts will be for 15 years. While participants will be able to submit offers from generation plants in operation, they will have to adjust to a supply starting on May 1, 2026. Those investing in new projects may commit to a supply starting on May 1, 2026; May 1, 2027; or May 1, 2028.

I. Puerto Rico

Second renewable energy auction begins: "RFP Tranche 2."

On Aug. 12, Accion Group, independent coordinator of the "Tranche 2 RFP," opened registration for the new briefing on the second renewable energy auction. Participants must first register on the PREB-IC website to access the registration for the new briefing. After stating their intention to attend, participants will receive access details by email 24 hours before the briefing begins. During the meeting, the coordinator plans to discuss updates to the Tranche 2 RFP process and share supplemental information that may be relevant to stakeholders, including LUMA updates and guidance.

For now, the award for Tranche 2 is expected to have at least 500 MW of Renewable Energy Resource capacity and at least 250 MW (1,000 MWh) of Energy Storage Resource capacity with an effective duration of four hours. However, those numbers may grow, considering that in "Tranche 1" not all the required power was covered.

Conclusion

During the month of August 2022, advancing toward a sustainable energy market, several Latin American countries have embarked on a variety of projects to increase renewable energy. Projects range from nationwide efforts to local initiatives involving communities in the establishment of green sources of energy, as well as state projects aimed at installing energy-efficient methods on a small scale. Countries have been implementing these sustainability measures to ameliorate the effects of climate change. New large-scale projects could also increase the capacity and supply of renewable energy, consequently propelling countries toward carbon neutrality.

** This GT Alert is not applicable to U.S. law.*

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˘ Not admitted to the practice of law.