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LATIN AMERICA ADVISOR ▸ ENERGY

FEATURED Q&A

What Is Propelling Uruguay's Fast-Growing Wind Sector?

Q Uruguay's energy ministry recently said that it expects seven wind farms with a total installed capacity of 340 megawatts to come online between April and June of this year, adding that by 2015, it expects wind sources to generate 30 percent of the country's energy. What's been driving the surge in wind projects in the country? How economically competitive is wind with other power sources in the country? Would you describe Uruguay's experience with wind power as a success that other countries in the region should follow?

A Ramón Méndez, Uruguay's national energy director: "By next year, Uruguay expects to have 1,000 megawatts of installed wind power as a result of projects that are in process or finished. The inclusion of wind energy in Uruguay is part of Energy Policy: Uruguay 2030. The plan includes diversification of the national energy matrix, with an emphasis on renewable energy. One objective of the energy policy is the reduction of dependence on oil and the use of cleaner and Uruguayan energy sources. Having taken advantage of almost all of the large-scale hydraulic potential, and due to the continued growth of supply needs, we have explored since 2006 the possibility of including other renewables in the energy matrix. Various factors, including the international maturity of the sector, resource accessibility in the country and the security that Uruguay offers for investors and financial agencies, have shown the potential and feasibility of wind power. The cost of wind power is less than other current generation alternatives, such as fossil fuels and even other renewable sources. For example, the price of wind energy is currently about one-third the cost of generation from fossil fuels. Also, wind energy is predictable in the long term, as are its generation costs. Various

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Mexican Government Unveils Energy Sector Opening Rules

Mexican Energy Secretary Pedro Joaquín Coldwell on Wednesday announced the details of the government's proposal for enabling rules governing the opening of the country's energy sector to private and foreign companies. See story on page 2.

Photo: Mexican Government.

Inside This Issue

ENERGY SECTOR BRIEFS

Repsol Names Imaz as CEO, Brufau to Remain Chairman

Spanish oil major **Repsol** announced Wednesday that it has named Josu Jon Imaz San Miguel to replace Antonio Brufau as the company's CEO, according to Bloomberg News. The move comes as Repsol looks to grow and boost reserves through acquisitions following a $5 billion compensation agreement with Argentina's **YPF**. Brufau will remain chairman.

ICA Fluor Signs Deal To Construct $734 Million Pipeline in Mexico

ICA Fluor, a joint venture between **Fluor Corporation** and **Empresas ICA**, announced Wednesday that it has signed a contract with **TAG Pipelines Sur** to construct the 1.42 billion cubic feet per day capacity Ramones II Sur Gas Pipeline. The $734 million project, to be completed in the second quarter of 2016, will run through states of San Luis Potosí, Querétaro and Guanajuato in Mexico and is part of the Los Ramones transportation system, which supplies central Mexico with natural gas from the United States.

Rame Energy Announces PPA, Turbine Deal for Chilean Wind Project

U.K.-based **Rame Energy** announced April 25 that it has secured a 10-year PPA with Chilean energy fund **Empresa Electrica** for its 9-MW Punta Chrome wind project, located 270 miles south of Santiago near the town of Concepción. Construction will begin in 2014 with power output expected in 2015, subject to project financing. Rame said Danish turbine manufacturer **Vestas** will supply three of its V126 3.3-MW turbines, created for use in low-wind situations, their first use in the Americas, according to Clean Technica.

Oil & Gas News

Colombian Gov't May Declare Emergency Over Pipeline Dispute

Colombia's government may be forced to declare a national emergency as a dispute with the U'wa indigenous group over the Caño Limón-Coveñas pipeline continues, threatening the country's ability to meet oil export targets, the country's minister of mines and energy, Amylkar Acosta told Caracol Radio Tuesday, according to Bloomberg News. "This almost merits a declaration of emergency by the national government," he said. "There are reasons of state, and there's a public interest that takes precedence." An attack on March 25 by suspected guerrillas halted operations at Colombia's second-most important pipeline and has cut state-owned **Ecopetrol**'s exports by 2.7 million barrels so far. The U'wa group has demanded that the pipeline be partly rerouted and that exploration activities end at the Magallanes oil project in the province of Norte de Santander. The U'wa have also demanded compensation for social and environmental problems caused by transportation infrastructure and have said they will continue peacefully resisting the government's attempts to repair the pipeline. U'wa leader Yimmy Aguablanca told Caracol Radio, "We are willing to continue the dialogue, but will not stop the mobilization of our people [against] repairs to the Caño Limón-Coveñas until [the government] actually moves forward with agreements that guarantee the economic and social of the U'wa people," Colombia Reports reported Saturday. An emergency declaration would allow President Juan Manuel Santos to rule by decree and circumvent standard protocol for dealing with indigenous groups. Representatives of the government, U'wa and Ecopetrol are expected to meet Thursday following previous failures at ending the conflict.

> "This almost merits a declaration of emergency by the national government."
>
> — *Amylkar Acosta*

Mexican Government Announces Rules for Opening of Energy Sector

The Mexican government on Wednesday announced the details of its proposal for enabling rules governing the opening of the country's energy sector to private and foreign companies, the Associated Press reported. Energy Secretary Pedro Joaquín Coldwell said contracts and production licenses will be auctioned publicly and be awarded to the company that offers the best return. Coldwell added that private companies will not immediately be able to open gas stations, but will be allowed to do so gradually as distribution and other infrastructure is ready. Currently, state-owned oil company **Pemex** runs all gas stations under franchise or other agreements. Mexico will also look to have a 25-percent "national content" goal in energy projects, and Mexican suppliers will be given preference over foreign companies when they offer the same contract terms. Pemex would also have to hold a 20-percent stake in exploration and production deals in oil and gas deposits that cross international borders. In all, the proposal includes three new laws and modifications to eight laws that will "allow for a transformative opening of the sector in a way that will allow private participation in the entire energy sector," the **Eurasia Group** said in a note circulated Thursday. The proposed rules must be approved by a majority of Mexico's Congress. "Despite delays, secondary laws necessary for implementing energy and telecom [reforms] will likely be approved in extraordinary sessions held in June," the Eurasia Group said in a note circulated Wednesday. "And while they will most likely be approved by June, there is some risk of them being delayed to the second half of the year given the magnitude of the changes that need to take place." Mexico passed a constitutional reform of the energy sector last year which opened up the state-dominated industry for first time since 1938 in response to declining oil production. The overhaul allows for profit- and production-sharing agreements and licenses that allow companies to pay royalties and taxes for the right to explore and drill. Pemex gets first consideration for licenses.

Peruvian Indigenous Groups End Week-long Pluspetrol Protests

Argentine state oil company **Pluspetrol Norte** said Sunday indigenous protesters who had taken over installations at the country's biggest oil concession have agreed to end their demonstration, Dow Jones reported. Activists demanding better public health services, environmental safeguards and a bigger share of tax revenue effectively shut down 70 percent of the block 1AB concession in northern Peru starting April 21, according to the report. In ending the occupation, which cut production by more than 11,000 barrels of oil per day, protesters agreed to participate in discussions organized by the government to address their demands.

Pemex's Monthly Crude Output Slides to Lowest Level Since 1990

Mexican state oil company **Pemex** said Friday its crude output last month fell to the lowest level in more than two decades, Reuters reported. Production in March totaled 2.469 million barrels per day, the worst level of monthly output since June 1990. At its peak, in 2004, Pemex produced 3.38 million bpd. Mexico's Congress is rolling out historic energy reforms aimed at spurring investment that will end Pemex's monopoly on oil production. Pemex Chief Executive Emilio Lozoya, attending the annual conference of the Export-Import Bank in Washington last week, said Mexico's energy sector "needs the hundreds of companies that are trading in the United States to come to Mexico." He added, "The impact on the economy will be great," noting that the energy reform is expected to increase investment in Mexico to more than $50 billion annually. Energy Minister Pedro

Lozoya

File Photo: Mexican Government.

Featured Q&A
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agencies worldwide, such as IRENA, have highlighted advances in Uruguay. The process carried out by our country is based on the development of conditions for public and private projects, making them attractive to the parties involved. For this purpose, we conducted a thorough analysis to promote the sector's development, which included changes to the regulatory framework, generation and dissemination of information about the source and human resources training. In addition to these factors, there were other external aspects, such as the reduction of the costs of investment in equipment and availability of financing, which allowed the incorporation of this source at competitive prices and without subsidies."

A Justin S. Miller, clean energy consultant at Nexant in Washington: "The April inauguration of the 50-megawatt-each Maldonado and Peralta Wind Parks, together with 180 megawatts from five additional wind parks to come online by June, moves Uruguay toward meeting its self-imposed goal of having 1,000 megawatts of installed wind power generating capacity and meeting 90 percent of its power demand with energy from renewable sources by 2015. These figures are far more ambitious than those in the government's current energy plan, and are particularly notable given that Uruguay had no wind power generating capacity in 2006. While Uruguay's recent successes in this regard augur well for wind power project roll-out in Uruguay, other Latin American countries should avoid assuming these successes are easily replicable; Uruguay enjoys a mix of circumstances making it more attractive for wind power project development than others. For example, Uruguay has an above-average wind resource, which has allowed for development of several wind projects competitive with fossil-fuel alternatives, with little or no subsidy support. Also, with limited refining capacity and sophistication, Uruguay must import at a premium considerable amounts of the gas, fuel and diesel oil from which it generates a significant share of its electricity, thus making domestically-generated wind power competitive. Nonetheless, what energy policymakers in other Latin American countries might wish to replicate in order to diversify power generation in their own countries are the Uruguayan government's sustained efforts to modify long-standing legislation and rules that had limited the prospects for renewable energy generation project development in Uruguay."

> "Other Latin American countries should avoid assuming these successes are easily replicable."
>
> — *Justin S. Miller*

A Brian Gaylord, senior analyst for Latin America at Make Consulting in Chicago: "Similar to many other power markets throughout Latin America, Uruguay is highly dependent on hydroelectricity to produce its power. Consequentially, its electricity market is tested during periods of drought which often force increased reliance on expensive petroleum-based generation assets. For example, Uruguay produced more than 80 percent of its electricity from hydroelectric power in 2010, but only just over half in 2012. This forced it to generate more than 40 percent of its electricity at more expensive fossil fuel generation facilities that year. Power procured from these plants is often contracted at prices in excess of $200 per megawatt hour in its

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Joaquín Coldwell said last week that Mexico's government is granting Pemex its biggest annual budget ever, Pemex said on its Web site. Pemex will receive 357 billion pesos ($27 billion) for 2014, up 31 billion pesos from 2013. Coldwell said that with the new reforms, Pemex will need to exploit areas of opportunity that arise, even indirectly related to the oil industry, such as shipbuilding.

Power Sector News

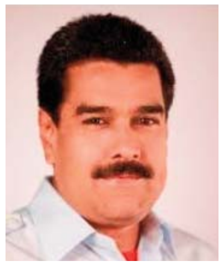
Acciona Wins $107 Million Contract for Mexico Thermal Power Station

Spain's **Acciona** said Monday that it won a $107 million contract by Mexico's Federal Electricity Commission to design, procure, build and commission a 46.8-megawatt thermal power station in the state of Baja California Sur. The plant, called Baja California V, will be located in La Paz, the state capital, and will be brought into service in June 2016. The power plant will make use of residual fuel oil to generate electricity from internal combustion motors. "The technology re-uses oil residues in order to optimize the crude oil cycle and minimize its environmental impact in a region of great ecological value like the Baja California peninsula," the company said in a statement. In order to comply with the World Bank's international emissions standards, Acciona will install a nitrogen oxide emissions reduction system to mitigate the power plant's impact on the environment. The new plant will supply electricity to La Paz and nearby tourist resorts, with output sufficient to meet the demands of 200,000 people, the company said.

Political News

Venezuelan Students Protest Crackdown on Demonstrations

Approximately 100 students on Monday chained themselves to the front gate of a United Nations agency in Caracas in protest of a ruling by Venezuela's Supreme Court that requires protests to be approved in advance by the government, Agence France-Presse reported. The students, some of whom carried signs reading "we are fighting for everyone's future," held the rally in the capital's Chacao subdivision. Last Thursday's ruling by Venezuela's Supreme Court bans protests that do not receive government approval in advance. The court ruled that authorities could disperse unapproved protests in order "to guarantee the right to free movement." Violent anti-government protests have wracked Venezuela since early February and have left a confirmed 41 people dead and more than 700 injured. The protests have died down in recent weeks, but some have continued in wealthy areas of eastern Caracas that are staunchly opposed to President Nicolás Maduro. In the protests, demonstrators have expressed anger about Venezuela's high rates of crime and inflation and the country's widespread shortages of basic goods.



Maduro

File Photo: Venezuelan Government.

Preparations for Rio Olympics Are 'Worst' Ever: IOC Vice President

Preparations for the 2016 Summer Olympics in Rio de Janeiro are so far behind that the International Olympic Committee has placed experts in the local organizing committee to ensure that the games occur, said International Olympic Committee Vice President John Coates, according to a statement from the Australian Olympic Committee. Rio de Janeiro's preparations are "the worst I have ever experienced," Coates said at a forum in Sydney. "We have become very concerned, they are not ready in many, many ways. We have to make it happen and that is the IOC approach, you can't walk away from this." Coates, who has traveled to Rio de Janeiro six times to help oversee preparations for the games, said that construction has not even started on some venues, infrastructure remains problematic and that water quality is a major concern. "The city also has social issues that need to be addressed," he said.

Economic News

Rousseff Announces Income Tax Cut, Hike in Cash Handouts to Poor

Brazilian President Dilma Rousseff on Wednesday announced that her government would lower income taxes and increase cash handouts to the poor, Bloomberg News reported. The announcement came amid a slide in Rousseff's support and five months ahead of the country's presidential election in which she is seeking another term in office. "We will continue making whatever changes are necessary to improve the lives of Brazilians, especially the poor and the middle class," Rousseff said in a televised address. The president said she signed a decree to change the country's income tax table, a move that will increase workers' take-home pay. Also, Rousseff said the government would implement a 10 percent increase in the value of payments in the Bolsa Família welfare program. She said the boost in the cash handouts would help keep the 36 million Brazilians receiving payments through the program above the poverty line. Rousseff has seen her support decline as growth slows in Latin America's largest economy and inflation rises. In a survey by conducted April 20-25 by pollster **MDA**, Rousseff's support declined to 37 percent from 44 percent in a February survey that asked voters about their support for Rousseff in comparison to their backing of two opposition candidates—Sen. Aécio Neves and Gov. Eduardo Campos. Support for Neves, of the Brazilian Social Democracy Party, or PSDB, rose 4.6 percentage points to 22 percent. Campos, of the Brazilian Socialist Party, or PSB, saw his support grow 1.9 percentage points to 12 percent. The April survey had a margin of error of 2.2 percentage points. Rousseff's declining support recently led 20 legislators from her coalition to urge former President Luiz Inácio Lula da Silva to replace her as the Workers' Party's presidential candidate. Rather than entering the race, however, Lula said in an interview published last month that Rousseff should present concrete plans to boost Brazil's economic growth. The country's gross domestic product grew 2 percent annually during

Rousseff's first three years in office, the slowest annual pace since the presidency of Fernando Collor de Mello, who was in office from 1990 to 1992.

Venezuela to Increase Minimum Wage by 30 Percent

Venezuela's government will boost the country's minimum wage by 30 percent, President Nicolás Maduro announced Tuesday, BBC News reported. Maduro, who announced the increase in a speech to workers from key economic sectors, said pensions would increase by the same amount. The minimum wage hike, however, is less than Venezuela's level of annual inflation, which stood at 56.2 percent in 2013, according to official figures. Maduro's announcement comes after nearly three months of anti-government protests, many of which have been violent, that have left at least 41 people dead. The government will consider hiking the minimum wage again in the fourth quarter, said Maduro, Bloomberg News reported. Tuesday's minimum wage hike came just months after Maduro's government increased it by 10 percent. "If another increase is needed, the working class can rest assured that I will do it," Maduro said in the speech at the presidential palace in Caracas. "I am a worker president committed to the class that works and struggles." On Thursday, May Day, Venezuela's minimum wage increases from 3,270 bolívars ($520) monthly to 4,252 bolívars, Maduro said. Critics, however, pointed out that Venezuela's strict currency controls have led to more severe shortages of dollars in the economy and have driven up their price on the black market, BBC News reported. Opposition leader Henrique Capriles called the 30 percent minimum wage hike "insufficient" and added that a significant improvement for workers would only occur if the government increased wages above the country's rate of inflation.

World Bank to Provide $510 Million in Loans to Jamaica

The World Bank on Tuesday agreed to provide Jamaica with $510 million in loans over the next four years in an effort to help boost the country's flagging economy, the *Miami Herald* reported. The loans are intended to help the Caribbean country implement reforms, which include decreasing the amount of time it takes to register businesses and pay taxes as well as modernizing customs collections, the newspaper reported. "This agreement signifies our intention to stay the course, buoyed by the support from international development partners such as the World Bank Group," said Jamaican Finance Minister Peter Phillips. The finance minister has backed economic reforms, saying the only way for Jamaica's economy to recover is to "grow our way out." Tuesday's loan approval by the World Bank's Board of Executive Directors came as Jamaica holds ongoing talks about its $5 billion budget. The global economic crisis dealt a severe blow to the Caribbean country's economy. Between 2007 and 2010, Jamaica's poverty rate increased from less than 10 percent to more than 17 percent, while unemployment jumped to more than 15 percent, according to the World Bank. "This new strategy is about changing the growth trajectory of Jamaica and boosting competitiveness and private sector development," said Sophie Sirtaine, the World Bank's director for the Caribbean. "It also comes with support in scaling up successful programs in social protection, early childhood development and community development." Jamaica's reform efforts have started to restore confidence in the country's economy, said Sirtaine. The country has also successfully passed quarterly reviews of a program overseen by the International Monetary Fund to restructure debt, she added. Over the coming years, Jamaica is expected to implement reforms including changes to its public pension system, improvements at the Kingston port and a reduction in the amount of time needed to register new businesses.

Phillips

File Photo: Jamaican Ministry of Finance.

POLITICAL & ECONOMIC BRIEFS

Former Venezuelan Intelligence Chief Killed Outside Caracas

Former Venezuelan intelligence service head, Major Eliecer Otaiza, was shot and killed outside Caracas on Saturday, officials said Tuesday, BBC News reported. Otaiza, a friend and ally of late President Hugo Chávez, was elected a local councilman for the PSUV party in the Libertadores area in December. Officials said they will investigate the "suspicious" circumstances of the killing of Otaiza, whose body was found without identification.

Mexico's Army Begins Disarming Vigilantes

The Mexican army has begun disarming self-defense groups in the western state of Michoacán that formed as a response to the Knights Templar drug cartel in the region and began an offensive against the cartel almost four months ago, BBC News reported. Mexican officials said the registration of high-powered rifles and automatic weapons, which vigilantes will be able to keep but not carry in public, will be done by May 10, allowing future uses of the weapons to be traced.

World Bank Names Familiar as VP for Latin America and Caribbean

The World Bank announced today that Jorge Familiar has been named vice president for Latin America and the Caribbean where he will oversee a portfolio of more than $30 billion worth of regional projects in the region. The Mexican national, who replaces Hasan Tuluy, is the first Latin American in 30 years to hold the position. Familiar was previously an executive director of the World Bank Group and CEO of Mexican state lender Instituto del Fondo Nacional para el Consumo de los Trabajadores.

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spot market. Taken from this perspective, UTE's decision to sign long-term PPAs for wind power at around $65 per megawatt hour is a solid economic proposition. It is too early to call the Uruguayan experience a success, however. The most major challenge facing Uruguay's wind industry is integrating such a high level of wind power penetration into the country's electric grid. Wind generated electricity represented less than 2 percent of the country's total generation in 2013 so successfully adapting the country's power infrastructure to absorb in excess of 30 percent will be difficult. This level of wind power has only been achieved on a consistent level in Denmark, which averaged roughly 30 percent in 2013. Denmark has decades of experience managing wind power, so achieving this same feat in just two years will be very difficult. If Uruguay is able integrate the wind power capacity it has contracted to date, that would be a true success."

A **Steve Sawyer, secretary general of the Global Wind Energy Council:** "For some years now, Uruguay has been a small but powerful beacon for wind energy in Latin America, showing what can be done with clear determination from the government and a strong and stable policy platform. The development of wind energy is part of Uruguay's strategy to completely decarbonize its electricity sector, and with strong winds and a favorable policy framework, the up to 900 megawatts of wind energy currently envisaged will supply Uruguay with reliable, very affordable and 'inflation-proof' electricity for decades to come, insulating the economy from price shocks due to international fossil fuel price fluctuations. This first major tranche of projects completed this year will be 'proof of concept,' but I'm confident that the program will be a success. Along with its northern neighbor, the Brazilian state of Rio Grande do Sul, the country will benefit from the interconnection currently under construction between the two countries, and the penetration rate of wind and other renewables could be even higher in the future. Uruguay is a small country, but I think the focus and determination of the government to make maximum use of its indigenous renewable energy sources not only improves its balance of payments, strengthens the local economy and reduces air pollution and CO2 emissions, but it can also serve as an example to other governments in the region, while at the same time increasing the country's attractiveness as a destination for foreign investment."

> "It is too early to call the Uruguayan experience a success, however."
>
> **— *Brian Gaylord***

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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