

Overseas Business Insights

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Colombia: Resolutions Set Stage for First Long-Term Clean Energy Auction

The Ministry of Mines and Energy (MME) released Resolution 4-0791 on July 31 and Resolution 4-0795 on August 1 to allow for the first quarter 2019 implementation of Colombia's first long-term energy auction. The resolutions allow for the implementation of Decree 570 of March 23, 2018, which first estab-

lished the objective of holding the long-term energy auction, and are the result of a series of regulatory reforms beginning in 2014 intended to encourage the integration of renewable energy into Colombia's energy grid. The



auction will run for up to five months, after which the MME will award 10-year power purchasing agreements to multiple energy projects to generate a total of 3.443 gigawatt (GW) hours of electricity annually starting in December 2022. The

MME anticipates this contract will represent roughly 4.35 percent of Colombia's estimated electric power demand in the year 2022, and will require about 1000MW of installed capacity. The change of administration in Colombia has not affected auction plans.

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U.S. - Mexico Border: Tamaulipas Seeks to Lead Nation in Wind Energy

The Tamaulipas Energy Commission estimates that by 2021 Tamaulipas will surpass all other Mexican states in installed wind capacity. Possessing one of three areas in Mexico with significant wind energy potential, the state's areas with the highest potential also sit relatively

close to the United States. Five new wind parks completed in the last two years currently operate in Tamaulipas, including one of the largest in Latin America, which is located in Reynosa, the state's largest city sitting directly across from McAllen, Texas. Seven

more wind farms are under construction. More than \$2.4 billion has already been invested across the state in wind-related projects. By late 2019, Tamaulipas is expected to generate 20 percent of Mexico's total wind energy.

Framed by Mexico's 2012 General Climate Change Law, electricity generated from clean energy sources must increase to 35 percent by 2024 and 50 percent by 2050. Experts say the law's 2018 target of 25 percent pushed Mexico to build more wind farm capacity in three years than



Mexico: Wind Energy (continued)

Canada did in 23 years. Initially, environmental concerns provided the motivation for producing wind power. Cost savings now supersede other considerations. As wind turbines get bigger, cheaper, and better, the long-term wind electricity price comes in at about half the cost of natural gas power.

Mexico's 2013/2014 energy reform also opened electricity markets to private sector participation, which attracted multinational investors to develop power generation projects aimed at serving heavy manufacturing and commercial industries. Part of the border's appeal was the large amount of industrial cli-

ents, known as potential qualified end users, who would likely seek cheaper alternatives to the state-owned Federal Electricity Commission (CFE). As reforms unbundled the CFE monopoly to minimize its market power and create a competitive environment for new entrants, more than 40 qualified suppliers have registered with the Secretariat of Energy (SENER) to supply contracted energy to potential qualified end users (though only about 10 are currently active participants).

The Tamaulipas Energy Commission (CETAM) promotes and attracts investments in the energy sector. The one-stop shop advocates, informs, and even partners with

investors, as well as the National Hydrocarbons Commission (CNH) and CRE. Its Governing Board includes the governor, several state secretaries, the director of the Tamaulipas Council of Science and Technology, a mayor, and one citizen representative.

Market-driven rules favor low-cost providers and promote more efficient generation capacity such as natural gas and wind energy. The North American Development Bank provided \$125 million in financing for some wind farms in Tamaulipas. The list of investors building in Tamaulipas now hail from across the globe.

The focus on electricity generation will require additional investment in developing transmission and distribution

grids. The distribution grid and the installed capacity of substations and transformers should grow in the same proportion to absorb new generation. A 2016 Mexican National Electric System Development Program (PRODESEN) estimate calculated 25 percent of the total electricity infrastructure investment needed through 2030 should go towards transmission and distribution.



Colombia (continued from page 1)

A key element that makes this auction unique in Colombia and encourages the participation of renewable energy projects is the fact that it will award 10-year contracts. Energy supply contracts in Colombia have historically been awarded for only two or three years. Short-term contracts expose energy producers to the risk of receiving depressed energy prices once the contract expires, and give investors a shorter time horizon to recoup their investments. Renewable energy producers are more likely to accept locking in a fixed price over the long term than producers reliant on fossil fuels, as renewable energy producers are not subject to fluctuating fuel costs. Furthermore, the longer period of reliable revenue guaranteed by a power purchasing agreement helps these projects receive loans to finance the large up-front capital requirements that characterize renewable energy projects.

In addition to the 10-year term of the contracts, the bidding evaluation criteria also favor renewable energy projects. Colombia will first evaluate bids using four technical criteria: resilience, complementarity, regional energy assurance, and emission reduction. The resilience and regional energy assurance criteria are related to a project's ability to withstand disruptive events, which can include demand or supply shocks such as droughts, storms, and physical or cyber-attacks. Renewable energy installations, which do not rely on traditional supply chains for fuel, and which generally comprise multiple solar panels or wind turbines (and thus have more redundancy than a single power plant), can help assure an uninterrupted energy supply in the event of an emergency. The complementarity criteria will benefit energy sources that supplement Colombia's current energy mix, which draws nearly 70 percent of its energy from large hydroelectricity projects. Drought conditions associated with El Niño events depress hydroelectric power generation and raise electricity prices, while these same conditions often increase power generation from wind and solar projects. Resolution 4790, released on July 31, recommends expanding solar and wind generation from the combined 5 percent of Colombia's electricity that they supply today to 19 percent of total energy supply by 2031. Finally, the emission reduction criteria will prioritize projects that help Colombia achieve its national commitment under the Paris Agreement to reduce its projected greenhouse gas emissions by 20 percent (up to 30 percent subject to international assistance) by 2030 compared to "business as usual" projections. After the first round of technical evaluations, the projects will be evaluated on economic considerations, with preference for projects offering the lowest cost per MW hours of energy.

Establishing the regulatory framework to support the auction and designing a long-term contracting model has been a goal of high-level interactions between the United States and Colombia, and a focus of USAID's Environment Office over the last nine months. U.S. support has enabled regular visits from technical experts from USAID's Scaling Up Renewable Energy (SURE) program, the Overseas Private Investment Corporation (OPIC), the National Renewable Energy Laboratory (NREL), and the United States Energy Association (USEA) to help Colombia design the auction in a way that will encourage strong international competition and provide Colombia with low-cost clean energy. The auction represents a significant business opportunity for U.S. companies involved in the construction, operation, and financing of renewable energy projects.

In addition to supporting Colombia's large, long-term auction, the Department of State and USAID are encouraging private sector energy



Colombia (continued)

consumers to conduct their own renewable energy auction through a program called the Clean Energy Investment Accelerator (CEIA). CEIA is a public-private partnership with significant financial support from the State Department's Office of Global Change. The CEIA team, comprising NREL, Allotrope Partners, and the World Re-

source Institute is partnering with large, industrial energy consumers in Colombia's National Association of Businesses (ANDI) to aggregate their energy demand in order to issue a request for proposals from rooftop solar energy developers and financiers. CEIA will provide the technical expertise to develop the auction model and associated power pur-

chasing agreements and to support the evaluation of the bids. Agglomerating the demand of these firms allows them to attain economies of scale and should provide lower energy costs than they could receive individually. The first pool of projects involved 7 potential buyers and received bids from August 15 to September 26. Participating firms self-reported an average of

15 percent savings using this novel procurement model, which could serve as a replicable template to hasten the adoption of renewable energy in Colombia and create market opportunities for U.S. solar project developers and investors. CEIA plans to assemble additional pools of ANDI companies in the future to issue additional requests for proposals.



Mexico: New Financial Technology Regulations

Mexico's National Banking and Securities Commission (CNBV) released financial technology ("FinTech") regulations on September 10, six months after Mexico passed the first FinTech law in Latin America. The law and subsequent regulations standardize, supervise, and sanction all FinTech Institutions (FTIs), including crowdfunding, peer-to-peer lending, banking and trading, and electronic payment (e-wallet) firms. Mexico's FinTech law is based on the principles of financial inclusion, consumer protection, financial stability, competition, and financial integrity (i.e. anti-money laundering and counter-terrorism finance – AML/ CFT). The drafters intended it to extend alternative financial services to more than 40 percent

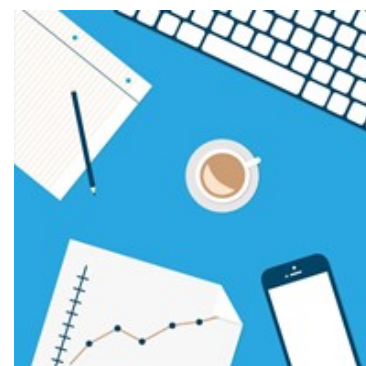
of the Mexican population without a bank account. As such, minimum financial requirements to open a FinTech company are relatively low -- \$158,000 to \$221,000 in initial investment depending on the financial services offered, with a limit of \$16,000 of that raised through crowdfunding. The regulations limit e-wallet users to payments of \$3,200 per month in an effort to mitigate money laundering. E-wallets are online payment accounts customers can replenish to make e-commerce purchases. They are popular with Mexicans who do not have access to bank accounts and credit cards to make online purchases. The regulations further allow FinTech companies to conduct transactions using approved cryptocurrencies.

Analysts hailed Mexico's

April 2018 FinTech law as the first in the region to include foundational guidelines for FTIs' operations, and subsequent regulations for filling some significant gaps in the country's initial framework. The statute creates the Committee on Financial Technology Institutions, which is responsible for any additional regulations and clarifications in March and September 2019, following periods of public review. This committee comprises two representatives each from the Ministry of Finance (Hacienda), Mexico's Central Bank (The Bank of Mexico, "Banxico"), and a banking supervisor from the National Banking and Securities Commission (CNBV). New FinTech regulations address requirements for registering as an FTI, soliciting investments for a new FTI, minimal capital investment, limits to funds transfers by FTIs, ac-

countability and reporting, funding limits for crowd-funding organizations, and contingency planning. The CNBV is also authorized to publish lists of sanctioned FTIs and FTIs under investigation on its website, per the financial reforms of 2014.

The regulations also established a FinTech Advisory Group consisting of financial authorities and private sector representatives. The government Committee on Financial Technology Institutions is engaging with banking and other financial sector representatives for the public review period preceding the next tranche of regulations.



Peru: Snapshot of the Electricity Sector

In 1972, the Government of Peru (GOP) nationalized the main distribution company Electrolima and created the state owned enterprise Electroperu to maintain exclusive rights to generation and sector management under the direction of the Ministry of Energy and Mines (MEM) and the Electric Tariff Commission. Due to inefficiencies, wherein electricity prices only recovered 40 percent of costs, the government passed the Electricity Concessions Law (ECL) in 1993, unbundling the state monopoly and reprivatizing the sector. The ECL and subsequent legislation narrowed the authority of the MEM to focus on sector planning and policy as well as to coordinate concessions. Many of the issues affecting investors in the electricity sector today revolve around differing GOP interpretations of the ECL.

The ECL also created a class of free users, defined as entities bypassing distribution companies to contract their electricity supply directly with generation companies. Consumers of between 200 kilowatts (kW) and 2.5 megawatts (MW) can choose to become free users; the ECL requires consumers of more than 2.5 MW be free users, which are primarily large mining and industrial complexes. Consumers of under 200 kW must contract their electricity supply through distribution companies. In 1996, the GOP created the Supervisory Body for Energy, with mining responsibilities added in 2007 to become OSINERGMIN, as the sector regulator reporting to Peru's equivalent of a prime minister's office, the Presidencia del Consejo de Ministros. OSINERGMIN assumed the duties of the Electric Tariff Commission in 2000. The GOP created the Committee of Operations for the Interconnected National System (COES) in 2006 to operate

the power system. By statute, COES is an independent body funded by private sector participants in the electricity sector. The ECL and subsequent GOP policies and reform in support of the sustained privatization of the sector contributed to the expansion of energy supply and access to electricity, which grew from 72 percent in 2001 to over 95 percent of Peru's population enjoying access to electricity in 2016. Private sector companies complement Peru's public and nonprofit energy sector entities. Generation is currently the most competitive sub-sector.

High mineral prices and related large-scale extractives projects largely drove Peru's economic growth from 2000 to 2017, which averaged over five percent annually. Energy supply did not match GDP growth and, in response, the GOP quickly developed and implemented plans to increase electricity supply through expanded investment in generation projects. These

policies were largely effective, for example increasing generating capacity by nearly 30 percent from 2014-2016 alone. However, by 2016 a decline in worldwide mineral prices combined with social conflict over large-scale extractives ventures placed many extractives projects on hold, in part slowing Peru's economic growth and demand for electricity.

The GOP is sensitive to the potential for overdependence on one source of energy and invested in hydroelectric and renewable projects over the past decade in part to offset rapid growth in thermoelectric generation, which eclipsed hydro-power as Peru's main source of energy in 2012 and 2013. In 2017, however, hydroelectric power generation increased by nearly 20 percent, accounting for over 56 percent of energy supply, whereas thermoelectric generation comprised around 40 percent. The GOP prioritized increasing the share of renewable energy both as an environmental objective and as a means of diversify-

Peru (continued)

ing energy supply. Under the 2008 Renewable Energy Law, MEM set a renewable energy share of five percent of national energy consumption. MEM anticipates that renewable energy, including wind, solar, geothermal, and hydroelectric projects under 20 MW, will account for 4.3 of energy supply by 2019. MEM has conducted four renewable energy tenders since 2008.

The glut of cheap energy induces consumers of over 200 kW to declare themselves free users under the ECL and purchase directly from gen-

eration companies. The number of free users significantly increased in recent years, now representing around nearly 56 percent of total energy consumed. Free users bypass distribution tariffs, calculated by OSINERGMIN every four years to include generation production costs, transmission costs, and tolls; the latter factor includes subsidy costs for renewables and other government incentives. Distribution companies estimate subsidies account for a 50 percent increase in the distribution tariff over the past decade. The exodus of consumers to free user status also leaves distribution companies with

stranded costs, as they are obligated to continue to pay generation companies for energy capacity contracted under 20-year power purchase agreements. To address the concerns of distribution companies, in September MEM issued a supreme decree allowing the companies to renegotiate the period of performance of the power purchase agreements with generation companies so they could recoup their losses over time.



Due to the abundance in electricity supply, the GOP's near-term focus is improving energy transmission and distribution infrastructure, including potential projects to increase transmission capacity between Peru and Ecuador. ProInversion, the private investment promotion agency in Peru, estimates \$920 million in investment from 2018-2020, projecting \$490 million in investment in 2018 alone for a gas distribution pipeline network through seven eastern regions, the Carabayllo transmission line serving Trujillo, and a substation compensator.

Other resources for anyone interested in overseas business news:

For **Caribbean and Latin American Markets**, the Department of Commerce has many resources to assist U.S. firms including market research, trade show calendars, trade delegation calendars, etc. Check out their “Trade Americas” and “Look South” websites:

<http://export.gov/tradeamericas/index.asp>

<http://export.gov/tradeamericas/looksouth/index.asp>



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