On April 7, a fire damaged a power line in Venezuela and caused the country’s worst blackout since 2009. Top government officials were adamant that Venezuela is now better equipped than in 2009-10 when electricity shortages cramped the economy during a severe drought. However, the recent outage came amid a series of power shortages since March that industry analysts and business owners claim are hampering production. Does the Venezuelan government have the situation under control or is the electricity crisis likely to repeat itself? What steps should be taken to fix the electricity grid? Will the country be able to hit its ambitious economic growth target if the power shortages continue?

Gustavo Coronel, former member of the board of directors of PDVSA: “The origin of the electricity crisis in Venezuela dates back to the early 2000s, when investments in the sector ceased almost completely, in spite of the experts’ warnings. The 2009 drought brought it into the open and about 20 percent of the demand went unsatisfied. In 2010, the government hit the panic button and tried to solve it by installing medium-sized diesel plants throughout the country, at a cost of some $1.5 billion. Today only 25 percent of these plants remain in operation due to lack of maintenance, diesel or both. As expert Victor Poleo has claimed, this is an institutional crisis, due to the ineptitude of Ali Rodriguez, the electricity czar, and Rafael Ramirez, the head of state-owned petroleum company PDVSA. They have turned the energy sector into an ideological market, inviting Cuban and Chinese advisors lacking modern technology. The Cubans, in particular, have been the brokers in the acquisition of the diesel turbines, a totally unnecessary and costly intermediation. Most of the money required for this emergency expenditure has been borrowed..."
**ENERGY SECTOR BRIEFS**

**Chile’s Enersis Plans to Invest $6 Billion Through 2015**

Chile’s Enersis is planning to invest $6 billion through 2015, the regional energy group’s chief executive officer, Ignacio Antoñanzas said Tuesday, Reuters reported. Enersis plans to use 43 percent of the investment for power generation, said Antoñanzas, adding that the rest will be spent on distribution. Endesa, Enersis’ Chilean operation, will receive $2.55 billion. Endesa is a main generator of electricity in Chile, which has struggled with energy shortages due to a drought.

**Vale to Study Alternative Energy Under Deal with Research Body**

Brazil’s Vale will study and develop alternative energy from agricultural products and also conduct research on alternative fertilizers and environmental recovery under an agreement the mining giant signed with Brazil’s federal agricultural research agency, Embrapa, MarketWatch reported Tuesday. Long-term research projects are to be done in Embrapa’s laboratories on using nanotechnology in the production of fertilizers as well as carbon capture and the use of some Brazilian fruits to produce energy, Vale said.

**Petrobras Appealing Local Content Fine**

Brazil’s state-run energy company Petrobras is appealing a local content fine that the government has issued for failing to demonstrate that it met requirements to purchase goods and services from local suppliers, Reuters reported Wednesday, citing Petrobras exploration and production director Guilherme Estrella. Brazil’s energy regulator said last week that it could fine Petrobras up to 28 million reais ($18 million), according to local reports.

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**Oil & Gas News**

**Total, Tecpetrol Announce Major Bolivian Gas Find**

French oil major Total and its Argentine partner, Tecpetrol, on Wednesday announced a major gas discovery in its Aquio block, located in Bolivia’s Santa Cruz province. Bolivian state news agency ABI reported that the discovery will increase the country’s gas reserves by 30 percent to 13 trillion cubic feet, citing the head of the state-run energy company YPFB, Carlos Villegas. A Total spokesperson declined to confirm the size of the field, according to Bloomberg News. Total and Tecpetrol began exploratory drilling last year with an investment of $70 million. According to Total’s Bolivia country manager, Jean Daniel Blasco, the company may invest $800 million to ready the field for production. “This discovery is a strong commitment by Total in Bolivia,” said Blasco, the Associated Press reported. President Evo Morales, who nationalized the gas industry in 2006, called the find “important news for the country” in a speech Wednesday at the Aquio field. Currently, Bolivia exports 30 million and 7.7 million cubic meters of gas per day to Brazil and Argentina, respectively, and gas was responsible for $1.7 billion in income last year, according to the AP.

**The find may boost Bolivia’s gas reserves by 30 percent.**

**Oil Strike in Argentina’s Santa Cruz Province Ends**

After ending a 26-day long strike in Argentina’s Santa Cruz province on Tuesday, most of the oil workers have returned to work, MarketWatch reported. The strike froze production at fields owned by YPF, Pan American Energy and Sinoppec in an area that accounts for nearly 20 percent of Argentina’s oil production. The strike began as a salary dispute but became beset by a leadership crisis as several workers accused union leader Hector Segovia of improperly representing their demands and refused to accept a deal the union had worked out. President Cristina Fernández de Kirchner said Wednesday that the strike cost the federal government between $120 million and $150 million in uncollected taxes in addition to the millions that the province lost. Details of the deal have not been released.

**Canada’s Sagres Energy Granted Extension for Jamaica Drilling**

Canadian oil exploration company Sagres Energy announced Monday that it has been granted a nine-month extension for the initial exploration period of three offshore blocks, the Jamaica Gleaner reported. While the company believes the blocks, located in the Walton Basin, may hold around three billion barrels of reserves, it noted that there is no certainty that the resources will be discovered or be commercially viable. The initial exploration period will now end Dec. 15 and Sagres will then have to decide if it will enter phase two of the contract, which would entail putting a well in place in each of the three research blocks by the following year. The company, which has a 100 percent stake in all the blocks, said it is seeking a partner for the venture and has signed confidentiality agreements with several international energy companies to review the data and evaluate the potential for a partnership. “There is renewed interest in exploration in Jamaica,” said David Johnson, president and CEO of Sagres Energy.
Power Sector News

Heightened Focus on Brazilian Nuclear Program Post Japan

Plans for Brazil’s nuclear program are progressing but authorities are reviewing and strengthening conditions of its facilities, officials from state-run nuclear utility Eletronuclear have said in the wake of Japan’s nuclear disaster. “This is a lesson for the entire industry. We have to increase training to confront this serious accident,” said Leonam dos Santos Guimarães, the assistant to the president of Eletronuclear, in a speech Wednesday, Agência Brasil reported. According to Guimarães, prior to Fukushima, Eletronuclear was already studying the possibility of using an independent source of electricity generation to ensure the power supply of the Angra 3 plant, which is slated to come on-stream in 2015, in case of an accident. He added that the company is studying the construction of additional piers to allow for additional sea evacuation at the Angra dos Reis plant. Eletronuclear is currently monitoring conditions of the escape route from the nuclear facility, which is located in Rio de Janeiro state, after a landslide partially blocked the evacuation route Monday, Dow Jones reported. Meanwhile, Greenpeace activists protested Monday outside Brazilian state-run development bank BNDES, which will finance the construction of the country’s third nuclear plant with a 6.1 billion real loan. “Germany, which holds the technology that would be used in Brazil’s Angra 3, has already raised questions over this technology from the ’70s and is planning to review safety measures, disrupt the building of new plants and halt the ones running,” said Greenpeace’s energy director, Ricardo Baitelo. Arguing that there are “much faster, cheaper and more environment-friendly options,” Greenpeace wants the government to cancel plans to expand the nuclear program and gradually close the possibility of using an independent source of electricity generation to ensure the power supply of the Angra 3 plant, which is slated to come on-stream in 2015, in case of an accident. He added that the company is studying the construction of additional piers to allow for additional sea evacuation at the Angra dos Reis plant. Eletronuclear is currently monitoring conditions of the escape route from the nuclear facility, which is located in Rio de Janeiro state, after a landslide partially blocked the evacuation route Monday, Dow Jones reported. Meanwhile, Greenpeace activists protested Monday outside Brazilian state-run development bank BNDES, which will finance the construction of the country’s third nuclear plant with a 6.1 billion real loan. “Germany, which holds the technology that would be used in Brazil’s Angra 3, has already raised questions over this technology from the ’70s and is planning to review safety measures, disrupt the building of new plants and halt the ones running,” said Greenpeace’s energy director, Ricardo Baitelo. Arguing that there are “much faster, cheaper and more environment-friendly options,” Greenpeace wants the government to cancel plans to expand the nuclear program and gradually close of the sectors, especially industry and commerce. It is impossible that a country without a secure electric system, where more than 40 percent of energy is lost and electricity prices have been kept frozen for the past nine years, can have stable and sustainable growth. On the contrary, the possibility of an economic recession is very high.”

José Manuel Aller, professor at Simón Bolívar University in Caracas: “The national electricity system is not actually in better condition than in 2009-2010, we merely have more power in the hydro-electric system. But the unavailability of thermal units (machinery and fuel) is alarming (greater than 55 percent) and the transmission capacity has not increased since the 1990s. System operation in unstable conditions, transmitting 1,070 MW over the limit of transitory stability (7,900 MW) from Guri to the center of the country, caused a blackout on March 7, losing 65 percent of its load. The possibility of an economic recession is very high.”

Daniel Hellinger, professor of political science at Webster University in St. Louis: “There is no simple solution, nor simple diagnosis behind the electricity shortages—a 20 percent fall in supply. The political cost to Chávez is heavier because the crisis repeats similar problems experienced less than a year ago. There are three underlying causes, none susceptible to a ‘quick fix.’ One problem, which the political opposition prefers to devalue, is the record low water levels at the Guri Dam, which supplies 70 percent of Venezuela’s electricity—equivalent to the power generated by 300,000 barrels of oil per day. Not only vital to the domestic economy, the economic plan was to increase exports of power from Guri to Brazil. A combination of rising sedimentation, forest fires and record low rainfalls have afflicted Guri. A second cause, say its critics, is the Chávez administration’s decision years before to cancel expansion of Guri and instead develop 42 new sources of renewable energy. Although welcomed by environmentalists and indigenous activists, the planned growth of power production from 24 gigawatts per year to 30 has not materialized, and Guri seems to have been ill-maintained in the meantime. The most daunting task is curbing Venezuelans’ voracious appetite for electricity, the highest per capita in Latin America. Rationing seems unavoidable until the seasonal rains—increasingly unreliable—arrive in May. GDP may rise because of high oil prices, but additional earnings may have to go toward imports to compensate for production cuts at home. The opposition blames the government; the government blames the weather. They are both right.”

Continued from page 1

Featured Q&A

from the Inter-American Development Bank and the Andean Development Corporation, adding to an already hefty national debt. There is little doubt that the crisis will continue to develop. There is no miracle solution other than a well-designed and well-executed investment plan, but there is no professional management that can make it happen.”

"Excuses such as the growth in demand, fire or sabotage are intended to cover up a structural problem of major proportions."

— José Manuel Aller

generation deficiencies are evident when observing that, in 2009, we could handle 17,800 MW of peak demand with some difficulty but currently demand is less than 16,000 MW and we cannot handle it. Excuses such as the growth in demand, fire or sabotage are intended to cover up a structural problem of major proportions that is difficult to resolve in the medium term. At the present time, the government doesn’t have control of the situation and, despite its intention to hide the reality, this has become visible to all citizens. Being forced to ration in order not to continue operating unstably will affect all
the existing power plants. Officials, however, have said that the approval of Angra 3 could shepherd an expanded program, with between four and eight reactors to be built by 2030. [Editor’s note: See related Q&A "Should Brazil Continue to Pursue Nuclear Energy?"]

Korean Delegation Discussing Energy Cooperation in Region

A delegation of officials and developers from South Korea are on a 10-day tour of four Latin American countries to discuss issues including cooperation on energy projects, The Korea Herald reported Monday. The delegation is led by South Korea's second vice minister of knowledge economy, Park Young-june, and includes officials from state-run companies Korea Electric Power Corp., Korea National Oil Corp. and Korea Resources Corp. Private builders and developers are also part of the delegation, which is visiting Mexico, Colombia, Venezuela and Peru from April 26-May 5. Among the items for discussion are South Korean companies' participation in projects including nuclear energy and mineral development, according to the ministry. Emerging economies such as China and India have soaring demand for energy, leading South Korea to step up efforts to secure a stable supply of energy. Korea has been working to combine projects to develop resources with infrastructure construction projects, leading public developers including KNOC and KORES in addition to private firms such as SK Innovation to expand their presence in Latin America.

Political News

Humala Leads Presidential Poll Ahead of Peru Runoff

Left-leaning nationalist Ollanta Humala is in the lead ahead of Peru’s June 5 presidential runoff election, according to a poll published on Sunday, Reuters reported. Humala, a former military officer, garnered 42 percent support in the poll, leading Keiko Fujimori, who had 36 percent. The survey of 1,802 voters was conducted April 16-21 by Ipsos Apoyo and was published in Peruvian daily newspaper El Comercio. It had a margin of error of 2.3 percentage points. The poll was the first after the first round of voting on April 10, in which Humala won 31.7 percent of the vote and Fujimori, a member of Peru’s Congress and daughter of jailed former President Alberto Fujimori, had 23.6 percent. "In the weeks ahead both candidates will have to go out and win the support of the 22 percent of voters that have not decided in favor of either of them,” Iposos Apoyo head Alfredo Torres told El Comercio. Although international investors largely trust Fujimori, many voters associate her with the human rights crimes and corruption that resulted in her father being sent to prison, Reuters reported. Humala, who has most of his support among poor and rural Peruvians as well as men over age 25, has caused concern among investors, but is working with experienced technocrats in an effort to soothe the markets. In 2006, Humala ran for president with the support of Venezuelan President Hugo Chávez. [Editor’s note: See related Q&A in the April 15 issue of the Dialogue’s daily Advisor.]

Mexico’s Senate Approves Re-Election for Federal Lawmakers

Mexico's Senate on Wednesday approved amending the country’s constitution to allow federal legislators to run for re-elec-
tion and also let independent candidates run for office, the Associated Press reported. Proponents of the changes, who won their approval on a 95-8 vote with eight abstentions, say they will make politicians more accountable to voters. They argue that because politicians are restricted to one term, they are less accountable to voters and instead spend time seeking favor from their parties in order to win nomination to other positions. Currently, a political party must endorse any candidate for office and all elected officials are barred from running for re-election. The measure approved by the Senate only allows federal legislators to run for re-election, but it permits independent candidates to run for local, state and federal offices. The changes must be approved by Mexico’s Chamber of Deputies and President Felipe Calderón to take effect.

**Economic News**

**Brazil's Rousseff 'Immensely Worried' About Inflation**

Brazilian President Dilma Rousseff said Monday that she is "immensely worried" about rising prices after the country’s central bank slowed its pace of interest rate hikes, Bloomberg News reported. "Under no hypothesis will the government demobilize efforts to control inflation," Rousseff told reporters in Brasilia. The president’s comments came after the central bank decided last Wednesday to increase the benchmark Selic rate by 25 basis points. At their two previous meetings this year, the bank boosted the benchmark interest rate by 50 basis points. Last week’s smaller increase was the "wrong move," Alessandra Ribeiro, an economist at Tendencias Consultoria Integrada in São Paulo, told Bloomberg News. After last week’s decision, economists covering Brazil increased their inflation forecast for the seventh consecutive week. The average forecast of about 100 economists in the survey released Monday was for consumer prices to rise 6.34 percent this year, up from 6.29 percent in the previous week’s survey. For the year through mid-April, consumer inflation rose to 6.44 percent, its fastest rate since November 2008. Brazil’s target for inflation is 4.5 percent plus or minus two percentage points. In a quarterly inflation report released last month, the central bank said it has several tools to curb rising prices. Among those measures are a 50.7 billion real ($32.3 billion) spending cut as well as higher reserve and capital requirements and taxes on consumer loans that will help slow demand. "The government can be signaling that new measures will be adopted," Luciano Rostagno, chief strategist at CM Capital Markets CCTVM Ltda., told Bloomberg News. On March 29, Rousseff's administration boosted a tax on new corporate loans and banks' debt sales abroad to 6 percent. Also, the government doubled the "IOF" tax on consumer credit to 3 percent annually and tripled a tax on fixed-income purchases by foreign investors to 6 percent. In last week’s central bank survey, economists also said they expected the country’s gross domestic product to increase 4 percent this year.

**Colombia May Seek to Limit Peso’s Gains by Keeping $1.5 Bn Overseas**

Colombia’s government may seek to curb gains in the peso by delaying its plans to repatriate $1.5 billion kept overseas, Bloomberg News reported Wednesday, citing Public Credit Director German Arce. "We want to avoid unnecessary pressures on the peso," Arce told the news service in an interview. Colombia has repatriated a "small" part of the money, which is related to dividends paid by state oil company Ecopetrol, said Arce. The government also has used a portion to make payments outside Colombia. The peso has gained 7.5 percent against the U.S. dollar this year.

**POLITICAL & ECONOMIC BRIEFS**

**Dominican First Lady Says She Won’t Seek Presidential Bid**

The first lady of the Dominican Republic, Margarita Cedeño, announced Monday that she will not run for president, the Associated Press reported. Cedeño was recently approved by the Dominican Liberation Party to be a contender for internal elections that will determine the nominee for next year's election. Among other reasons, Cedeño said she didn’t want to be a source of division within the party.

**Colombia to Charge Two Top Uribe Officials in Spy Scandal**

Colombia’s chief prosecutor, Viviane Morales, issued a statement Wednesday saying she intends to file criminal charges against two top officials from former President Álvaro Uribe’s administration, the Associated Press reported. Morales said she will file conspiracy and abuse of power charges against former chief of staff Bernardo Moreno and former domestic intelligence chief Maria del Pilar Hurtado. At least 20 former officials of the domestic security agency have been jailed.

**Uruguay May Raise Reserve Requirements: Central Bank Chief**

Uruguayan policymakers can’t rule out an increase in reserve requirements to help slow inflation, central bank President Mario Bergara said Wednesday, Bloomberg News reported. High commodity prices and low unemployment have driven inflation above the 7 percent limit of the bank’s target range, pushing it to raise the benchmark interest rate to 7.5 percent at its March 23 meeting. According to Bergara, the bank is waiting for April figures before deciding on further measures.
There is no doubt that there is an immediate need for investments in transmission and distribution to fix the electricity sector in Venezuela.”

—Boris Segura

rates have not been adjusted since 2002, which has led to underinvestment in the electricity sector’s infrastructure. Given excessive rains last December, the Guri dam water level is adequate; thus, we should not expect another crisis a-la-2010. However, several turbines at Guri suffered damage due to lack of maintenance (excessive use) during the 2010 crisis and have been off-line this year. As a result of underinvestment in the sector, I anticipate potential weak links in the transmission and distribution segments. More recently, Venezuelan authorities have made major investments in thermal generation with financing from Fonden and PDVSA. There are reasonable doubts as to whether this investment strategy was well-planned and executed. However, there is no doubt that there is an immediate need for investments in transmission and distribution to fix the electricity sector in Venezuela. We expect the economy to grow by an inauspicious 1.5 percent this year. However, recent signals that authorities are to expand fiscal spending more forcefully and much earlier than expected pose an upside risk to our forecast. As long as power shortages do not worsen relative to 2010, we expect contained fallout from them.”

Gustavo Roosen, president of the board of Instituto de Estudios Superiores de Administración in Caracas:

“Venezuela’s energy crisis never ended. It was in remission and has returned more aggressively in 2011. Reality has caught up with government officials. Recent outages have doubled since March 2011, exposing that the country is worse off than in 2010. The reason: authorities’ inability to make good on their ambitious plans of 15,500 new MW by 2015. Current backlog delays stand in excess of 7,000 MW and the deteriorating infrastructure of existing plans struggle to stay on line amid overdue maintenance, especially in the thermal fleet, where close to 6,000 MW out of 10,295 MW installed capacity is unavailable and where the hydro fleet has another 3,500 MW of unavailable generation. Venezuela has around 25,000 MW installed capacity with 14,600 MW of hydro capacity. The government claims that it has 18,000 MW available. Minister Ali Rodriguez’s recent public recognition of management failures in the energy sector may be a first step in the direction of a profound change of management without which Venezuela, flooded with petrodollars, will continue in this agony. Demand, so far, has not exceeded 16,800 MW. So if the government claims 18,000 MW available, what is the problem? The problem is that, in fact, only 15,500 MW are available on average. The crisis continues to escalate and hit hard the quality of life and the productive apparatus of the nation. The challenge of how to bring about change is a very tall order for the silenced majority of a country where one must fight a formidable array of WMDs—weapons of mass deception—which are effective at making lemonade out of sour lemons. 

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