



# LATIN AMERICA'S GROWING ENERGY DEMAND

Delegates from 15 countries engage in policy and strategies for the future

BY JESÚS RODRÍGUEZ DÁVALOS

**F**or Latin America, hastening the pace of power development and anticipating the trends for the region's energy future are top priorities. In March, more than 200 industry stakeholders from 15 countries gathered in Washington DC to address trends and opportunities for power development in national and regional markets.

The "Growing Economies: Latin America Energy Forum," focused on policy and strategy to engage investors, regional energy providers, renewable and gas-to-power development, distributed generation, new energy technologies and financing solutions. Launched with the official support of three Latin America Energy Ministries—Peru, Mexico and Guatemala—the Forum was attended by delegates representing the Americas, Europe and Asia and included a diverse range of energy representatives, regulators, utility providers, developers, technology companies, developers, financiers and other industry stakeholders.

## Opportunities in Natural Gas

I was part of a panel session that addressed the vast natural gas production in the United States and the different opportunities this brings to Latin American countries, many of which are focusing on gas imports to generate power. The creation of new plants—along with the conversion of existing ones to enable them to use natural gas as fuel—open a new market opportunity for countries where it has not been utilized, as well as countries looking to capitalize on the market using gas imports from the U.S.

## A Panel of Experts

Representing the Energy Information Administration, Kathy Dyl addressed the way in which gas abundant countries are looking to capitalize on the gas-for-power opportunity in regional markets. Focusing on the oil and gas ratio, she explained that while the LNG price was historically indexed to oil, this has changed in

recent years as gas prices become more relevant. Therefore, the projection of LNG exports could double due to the high oil prices. The balance between the countries that are able to sell and those which need to retreat from regional trade is highly variable and prices play a major role. One example was when prices were low in Asia, gas ended up in South America. The U.S. has turned to short-term markets and short-term contracts, domestic production and pipelines for natural gas are in a growth stage.

Paul Roberti, Executive Director of Advisory Services at EY Mexico, emphasized the importance Mexico's relationship with the U.S., highlighting the business opportunity for U.S. shale gas to supply the demand in Central and South America. The Mexican government is focused on increasing electricity production from natural gas to ensure the national power supply. Mexico's Ministry of Energy outlined projects underway, stating that the LNG market could be substantially



Representatives from 15 countries came together to address policy and strategy, with many participating on panels like this one on natural gas opportunities.

larger by 2024. By 2019, 10 projects currently under construction will be mostly completed, doubling the transport capacity and allowing gas from the U.S. to play a dominant role in the short and midterm. New elements introduced in the legal framework through the recent Energy Reform—such as open nominations, capacity release or open access, transparency and electronic bulletins—are working to encourage investments.

## Demand for New Infrastructure

Jorge Rivas, Senior Underwriter of Multilateral Investment Guarantee Agency and a member of the World Bank Group, discussed how middle-income countries with larger economies and more adequate infrastructure may find natural gas to be a good fit. This may not be applicable for smaller economies, mainly because gas projections can vary tremendously, and this may pose a risk that a small economy may be unable to absorb.



Because of geographical benefits, Latin America is ideal for exports from the U.S. However, there are many challenges to address, some of which include the need to develop infrastructure like regasification terminals and pipeline networks. Smaller economies present further challenges because they lack, in addition to the infrastructure, the domestic consumption or demand of LNG. Legal framework, political stability, a substantial amount of infrastructure investment and a relative predictable market are critical in liquefied natural gas (LNG) projects. Sometimes renewables may be the answer when countries lack the infrastructure needed to accept LNG.

The Peruvian Minister of Energy, Gonzalo Francisco Alberto Tamayo Flores, gave a detailed account of the Camisea Gas pipeline in Peru and the technological advances that had transformed the country's natural gas industry. The landscape has changed from a scenario of uncertainty to one of success, all within 10 years. However, the supply is currently unable to meet demand, in large part due to lack adequate transportation infrastructure.

Luis Reyes from CN Energía in El Salvador outlined the country's decision to diversify its energy mix and sources. Since power generation is naturally subject to price hikes because of its dependence on fuel oil and diesel, the country recognized that having natural gas would foster new industries. To diversify the energy matrix, it opened bids where fuel oil and diesel were not previously considered. Now they are working to use natural gas in other industries apart from the power generation. A floating storage with

a re-gasification offshore facility that connects a pipeline to a power generation plant was one example of the many options they have sought.

Many Central American countries are in a regional electric market that facilitates the exchange of power. They are aiming to integrate regionally with Mexico. Guatemala is already linked to a lesser extent with a bilateral connection to Mexico but there is the project to integrate regionally. To date, none of the Central American countries use natural gas as a fuel source. However, there are many opportunities that go beyond power generation and offer strong potential for growth.

## The Long-Term Picture

With an increased interest in gas assets, we have an important diversification opportunity for expanding Latin America's energy mix. The International Energy Agency estimates that natural gas fired generation in Central and South America will increase by an average of 2.2 percent annually. It is expected that natural gas will become a larger percentage of total electricity generation, rising to 29 percent in 2035.

As we see a revolution in Latin America's energy industry, there will be an increasing need to adapt our infrastructure to accommodate the growth in this sector. Rapid progress in renewables will require new systems integration, and the region is prepared for the upcoming challenge. ✪



Jesús Rodríguez Dávalos is the Founding Partner of the legal consulting firm, Rodríguez Dávalos Abogados, and specializes in Mexico's energy sector. He is Chairman of the Mexican Rights of Way Association, a Board Member and Secretary to the Mexican Natural Gas Association, legal advisor to the World Energy Council, Chapter Mexico, and founding member of the Mexican Energy Law Academy.