

ARGENTINA'S ENERGY FRAMEWORK:

Preparing for an Onslaught of Renewable Energy Investment

■ By Carlos St. James

Argentina recently began a massive new energy investment program with a goal of reaching 8% of its energy matrix from clean energy sources such as wind, solar, and biomass by 2016. This article is a brief primer explaining the basics of Argentina's energy policy and legal framework for those looking to participate in one of the most exciting energy investment opportunities in the region that will attract US \$5 billion dollars in the next few years.

■ Key Players

Argentina's energy planning is the domain of the Ministry of Federal Planning, Public Investment and Service, under which the Secretariat of Energy executes. The country's electricity distribution system, known as SADI (Sistema Argentina de Interconexión) is administered by another government entity, the Compañía Administradora del Mercado Mayorista Eléctrico SA, aka CAMMESA.

In 2004 the government also established Energía Argentina SA, aka ENARSA, which is currently owned by the government but has plans to sell shares in the open market at some point. ENARSA is taking the lead in renewable energy projects. The company's mandate is broad and includes pursuing the exploration, extraction and production of hydrocarbons. It also conducts business in the field of generation, transportation, distribution, and electric power trade, and is entitled to trade all types of energy assets. These activities are undertaken by ENARSA itself, or by means of agreements with third parties, or associated to other parties, domestic and foreign.

All of these above entities typically work with the private sector through the Argentine Renewable Energies Chamber (CADER), an industry trade association established formally in 2008, for matters pertaining to clean energy solutions.

In Argentina, all roads lead to Buenos Aires -- and so do the power lines. The country's electricity grid is set up to lead into

the mass demand markets in and around Buenos Aires. As a matter of fact, fully two-thirds of the country's energy demand lies in the corridor between the cities of La Plata and Buenos Aires on the banks of the Rio de la Plata, and up along the Paraná River to the city of Rosario, in Santa Fe province. However, this area generates 43% of the country's total energy, thus having to bring in power from the rest of the country -- and at times from neighboring Brazil. This existing grid spanning the country has the ability to take on new energy generation projects before significant new power lines need to be added.

■ Legal Framework

Law 25.190 dating to 1998 and known as the National Wind and Solar Energy Law, established the initial framework for clean energy providers. It states that these two are "of national interest" and creates fifteen-year investment incentives for the private sector: deferment of payment of the Value Added Tax (currently as high as 21%) on capital equipment, or accelerated depreciation of these assets. It also demands the creation of a Renewable Energy Trust Fund that will fund the higher cost of these energy sources, funded by a new energy tax.

This was followed by Law 26.190 in 2006, known as the Renewable Energy for Electricity Law. This law was significant in that it established a goal of 8% of the country's primary energy matrix be derived from renewable sources within ten years; it is currently still well below 1%. Given a current installed capac-

ity of some 28 gigawatts in Argentina, this represents a new market for no less than 2.2 gigawatts (2,200 MW) of new clean energy by year 2016.

The specifics of this law needed to be regulated by the Executive branch of government through the Ministry of Federal Planning, but this did not occur until mid-2009 under Decree 562 and thus investment languished. Decree 562/2009 provides greater detail on the incentives offered for investment in renewable energy projects. The subsidies available from the Renewable Energy Trust Fund were increased to ranges from 1.5 centavos/KWh for wind, geothermal, and other sources, to 9 centavos/KWh for solar PV projects. This new law and its decree, coupled with the establishment of ENARSA in 2006 and the trade association in 2008 gave the industry the push it needed.

ENARSA has very successfully received numerous proposals under its Renewable Energy Generation Tenders (aka GENREN), to date approving 32 new private sector investment projects representing 895 MW of wind, solar, thermal-biodiesel and mini-hydro technologies which require in excess of US \$2 billion in investment. If all of these are completed, over 3% of the country's energy matrix will be comprised of clean sources and sufficient inertia will be established to reach the 8% goal by 2016.

Another mechanism commonly used to add power to the system – be it fossil fuel, natural gas or clean energy -- is through Resolution 220 that dates to 2007. It allows for the execution of electricity supply contracts between a new producer and CAMMESA on ten-year terms, and must include the participation, in any form, of a government agency such as ENARSA. Some cleantech investors are opting to enter the Argentine energy market via Resolution 220 rather than the fifteen-year GENREN tenders.

As is often said in the media, Argentina is poised to become the Saudi Arabia of renewable energy in the 21st century. Inves-

tors, vendors, technology providers and lenders are increasingly gathering in the country to take part in what is becoming one of the largest shifts in energy supply ever seen in Latin America.

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