RENEWABLE ENERGIES IN ARGENTINA - THE OUTLOOK

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THE CURRENT STATUS

▪ Despite Argentina’s proven gas reserves and great potential for the development of renewable energies in view of impressive load factors for both solar and wind power generation, to date, power generation in Argentina is highly dependent on imported fossil fuels.

▪ The current system is not feasible in the long run especially in view of the insecurity presented by a power matrix dependent on imported fossil fuel.

▪ In practice, updating the power matrix is not even a strategic or environmental requirement. As the newly appointed Minister of Energy and Mining pointed out, 75% of the installed thermoelectric power plants are over 40 years old which translates into high rates of unavailability and huge O&M costs.

▪ COP 21 commitments, the Argentine electric energy crisis (as declared by Decree 134/2015) and plunging prices for solar and wind power across the region (such as Mexico, Peru and Chile) have also reinforced the need to diversify the matrix and helped to consolidate the interest of the newly appointed government in Argentina.

THE LAW & REGULATION

Law 27,191 – PPA Mechanisms

100% RE Mandate

Tendered PPAs
(Government Instructed)

Large Users
Direct Private PPAs*

Self Generation

* From IPPs, traders and utilities

SOURCE: SUBSECRETARY OF RENEWABLE ENERGY
The Renewable Energy Law- Law 27.191 was passed in late 2015 before the election of President Macri, with almost unanimous approval implying long term commitment from all political parties towards the diversification of the energy matrix and the incorporation of renewable energies.

**The goal:** Unlike prior law 26.190, the Renewable Energy Law imposes a goal (i.e. to have 8% of the electric consumption from renewable energy sources in 2018 and to reach the target of 20% of electric consumption from renewable energy sources by 2025) but also an obligation since large electricity consumers with power demands equal to or greater than 300kW are required to individually comply with such goals and face penalties in case of non-compliance.

**Tax benefits:** In order to promote the interest of investors, the Renewable Energy Law and Implementing Decree 531/2016 introduce a number of tax benefits and exemptions which include: i) accelerated depreciation of assets; ii) anticipated reimbursement of VAT on purchases of fixed assets (provided the assets continue to be held by the beneficiary at the time of the request); iii) income tax loss carry-forward extended to 10 years (provided losses from the promoted activity may only be computed against net tax gains also resulting from such activity); iv) minimum presumptive income tax exemption for new assets incorporated after the approval of the project; v) tax exemption on dividends reinvested in the promoted activity; vi) a fiscal certificate which may be computed against other national taxes (although certain limitations apply, since they cannot be computed against social security obligations, for example) for beneficiaries holding at least 60% local content (or less in certain cases).

**Beneficiaries:** beneficiaries of the promotional regime are developers of renewable energy projects (which include hydroelectric power plants of up to 50 MW). The current legislation requires the projects to qualify as “new projects” In other words, the promotional regime applies to new power plants or amplifications or repowering of existing power plants, provided new fixed assets are incorporated. Projects under previous Resolutions 220/2007, 712/2009 and 108/2011 that have not begun construction and are selected by the Ministry of Energy and Mining may qualify provided that the previous PPA is terminated. Projects under such resolutions which started construction may also qualify to the extent they accept changes to the PPA in order to adapt to the current regime.

**Certificate of Inclusion:** the Ministry of Energy and Mining will analyze the projects and establish an order of merit for selected projects and will assign the promotional benefits on that basis, including the detail of assets which may be imported.

**Fund for Renewable Energy Development or FODER:** the law provides for the establishment of a trust or fund which will offer beneficiaries: guarantees, financing options and fiscal incentives and which will be divided into two accounts: i) long term financing (with contributions from the National Treasury), and ii) payment guarantees (funds from electricity consumers, other than large electricity consumers). Although investors are insisting on other financing options besides FODER, many multilateral agencies are evaluating financing FODER rather than financing a specific project, at least in the short run.
THE AUCTION & PPA

- The Federal Government through the governing authority (Ministry of Energy and Mining, led by former Shell CEO Aranguren) will conduct public auctions in order to reach the 20% goal by 2025, aiming to incorporate 10 GW of power from renewable energy sources in less than 10 years.
- The government has announced that the details for the first renewable energy tender auction (which is to be public, competitive and expedite) will be published shortly and the market expects the auction to take place within the first semester of 2016.
- Large electricity consumers can either participate in such auctions in order to individually comply with their obligations or opt-out and purchase their own energy through private PPAs or develop self-generation/ cogeneration plants.
- The auction is to promote different sources of renewable energy in different regions (i.e. the different sources will not compete against each other like in other jurisdictions such as Brazil). The incidence of each of the factors has not yet been disclosed, nor have authorities defined the regions.
- Selection will be based on lowest price and fastest entry into commercial operation.
- The Offtaker will presumably be the state owned Compañía Administradora del Mercado Mayorista Eléctrico - CAMMESA, company in charge of delivery coordination, responsible for wholesale price setting and management of the economic transactions done by the argentine interconnection system-SADI or, alternatively, a new entity to be defined.
- The term of the PPA will exceed 10 years (not subject to limitations set forth in the Civil and Commercial Code)
- The price of the receivables under the PPA will be established in USD
- Dispute resolution may be by commercial arbitration

![Tendered PPAs - Cash Flow Diagram](source: Subsecretary of Renewable Energy)
OPEN ISSUES

In our opinion renewable energies in Argentina will be a great investment opportunity. However certain issues must and will be solved, considering the pro market view of the current government.

- The Credit rating of the Offtaker
- Connection to the grid. Argentina must avoid problems faced by other countries such as Brazil in which projects were ready for commercial operation but access to the grid was not. Under the current legal framework, the developer of the project is responsible for determining feasibility in a distribution grid that has lacked investments in the past decade.
- Environmental licenses: will the Ministry of Energy and Mining be flexible in terms of environmental licensing requirements?
- Local renewable energy laws: as a Federal country, provinces and municipalities will ultimately determine the application of the law.
- Efficient projects vs. regional promotion: will the governing authorities ultimately promote the most efficient projects or will pressure from local governments play a role in the selection of projects?
- Legal stability. Will the government be able to convince players that the current legal framework will be the definitive one? Proposing to accept projects under previous programs subject to changes to existing PPAs is not a good sign for a government attempting to secure long term investments even if this is because demand for energy is urgent and there are only so many projects in the pipeline.
- Certification of projects. It is not yet clear how projects will be certified (e.g. capacity factors for wind power plants) nor what the timing requirements will be.
- Local content. Another relevant issue for investors is how local content (and more importantly, the inexistence of local machinery in the conditions and timing required) will effectively be scrutinized.
- Cost and availability of Guarantees. In order to obtain the referred tax benefits, beneficiaries are required to submit guarantees equal to 100% of the benefits assigned to the project. We understand that the cost and actual availability of guarantees will end up playing a decisive role.
- Tradeoff between attractive prices & long term auctions. The ultimate open issue is how the new government will position itself in the tradeoff between low prices and long term interest of investors seeking certain rates of return on their investment, especially in view of recent experiences in other countries of the region where prices plunged in recent auctions.

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