

May 21 National Address: Energy and Environment Announcements

Probably, the results of the measures announced by the President are not going to be visualized in the short-term, but this does not prevent from advancing in those issues which are highly relevant for the country's energy future. Therefore, it is advisable not only to promote the study of new measures to improve the operation of the electric system, but also to give the right signals concerning the country's real alternatives for fulfilling the future energy demand.

In his second national address, President Sebastián Piñera reviewed his first government year, with special mention to the achievements obtained in the seven key factors announced last May 21st (growth, employment, citizen security, education, health, poverty and democracy). He also referred to other Government's relevant matters, such as culture, sports, family, natives, human rights, foreign relations and defense, among others.

The most commented announcements were related to energy issues, although references to the environmental subject were also important. Concerning the latter, the President stated that "growth and environment care, far from competing, are complementary objectives", which is completely right.

In fact, it is surprising to confirm that in the public debate, the leading idea is that economic development – so necessary for growth and poverty uprooting – is constantly in tension with environment care. However, as living in a clean environment, respectful of the flora and fauna, is a desirable good, we hope that as the development level increases, the access to that which society appreciates, such as the environment, also improves. This is precisely what we observe in higher income countries. If we see it like this, and contrary to the perception of some people, every time a productive project is

stopped, development loses points which could have generated more environment care.

The President referred briefly to the achievements of 2010 in environmental issues, highlighting the new institutional framework, which includes the Ministry of Environment, a new Environmental Evaluation System and the Superintendency of Environment. Additionally, the new Environmental Courts will begin to operate soon, and later on, the Service of Biodiversity and Protected Wild Areas. He also mentioned the creation of the Motu Motiro Hiva Marine Park, of 150 thousand km², and the enactment of a new regulation regarding the emissions of thermoelectric plants and quality of the air, including particulate material 2.5. Moreover, the President referred to other measures and programs, such as decontamination plans, incentives for the use of electric or hybrid cars, the study of a new environmental regulation for wood heating and the heaters' substitution program, among others.

But the energy issue had generated more expectation as a consequence of the violent protests following the approval of the environmental impact study concerning the construction of the five HydroAysén plants. This situation created a quite belligerent environment, both inside and outside the Congress, throughout the national address journey. President Piñera mentioned the energy needs to keep growing which, given the schedule involved in the implementation of the different stations, introduce the obligation for the authority to take decisions well beforehand. In this perspective, he also talked about the need to "reconcile the necessary power generation with the equally necessary protection of our environment".

With regard to nuclear technology, the President said that studies will be undertaken, but it will not be planned nor built during his government. In turn, he stated that his government's priority will be the energetic efficiency and the generation of clean and renewable energies, for whose study and research US\$85 millions have already been provided. At any rate, he was clear to point out that non-conventional renewable energies are not the future's solution – among the richest countries group, the OECD, they only represent 4% of the energy matrix; therefore, he stated that "we cannot renounce to the thermo- and hydroelectric power" to keep growing and thereby uproot poverty. The President made special mention to Chile's water availability for power generation and the fact that hydroelectric generation is more economic; a relevant factor if we observe the high relative prices of electric power in the country.

On the other hand, the President referred to the need of relying on a State policy concerning power transmission and distribution matters. He urged the recently formed *Comisión Asesora para el Desarrollo Energético* (Energy Development Consulting Committee) to conciliate this policy, by analyzing subjects such as the construction of mega transmission lines and the interconnection between the northern and southern electric systems (SING-SIC), and also to consider the possibility of an open access public electric highway, in addition to the creation of an electric multicarrier. We will particularly refer to these two last announcements, due to its relevance to the electric system and its large coverage in the media.

Electric Highway

The President announced a research concerning the establishment of an “open access public electric highway, allowing multiple generators, including mini and medium hydroelectric, solar, eolic, and future geothermic and tidal power stations, and also distributors and consumers, to integrate the National Interconnected System”. This has given rise to quite a number of surmises, since no more details were given on this matter.

In subsequent interviews, the Minister of Energy and Mining, Laurence Golborne has indicated that the electric highway may introduce more competition to the power generation by allowing the construction of a power transmission line parallel to the existing one. This, on the grounds that the country’s energy needs – which imply duplicating the matrix in the next 10 to 15 years – will require the building of more lines over time, because strengthening the current ones will not be enough to satisfy the demand.

However, seemingly, the proposal does not aim at the State for building the transmission lines. It is more reasonable to establish a land strip or rights of way, where the State expropriates lands from private actors and leases the transmission lines construction to the private sector, with open access so that any project can use these transmission lines. In this context, the procedure will probably be the same as the existing one, where the stringing construction is leased and a usage charge is paid. Nevertheless, unlike the current situation, the leasing of the lines construction to the private sector will occur once the rights of way in the lands where the route passes have been granted, and the power concessions and related environmental permits have been obtained. These strips could even

be cross-cutting, enabling the development of projects which are farther away from the transmission lines crossing the country lengthwise.

The reason for the State dealing with these matters is because, in the last years, energy project developers have faced increasing difficulties to install their transmission lines. In fact, even after the approval of the environmental studies and the electric power concessions, the negotiations with each owner of the lands affected by the line's route and tending to obtain the right of way have meant an increasingly longer delay in the respective power stations' commissioning. This delay turns into a barrier for entering the generation market (only a few actors manage to deal with the costs of these processes in economic and lead time terms), which limits the necessary competition for the energy industry to operate efficiently.

In these terms, the initiative proposed by the Executive could be successful, because if the State has a stripe it could enable the use of the lands and thus give more certainty in relation to the projects' development within a reasonable time, and without incurring in the increasing costs of the judicialization of these processes.

The possible impact of the creation of an electric highway on the HydroAysén project development has also been discussed, but its effects are difficult to predict with the available information. To bring power to Santiago through a direct current transmission line could be the cheapest option and it would involve a single electricity post erection and lighter structures. However, for the builders of the transmission line it could entail a long negotiation process with the land owners. Alternatively, the company could be urged to build its line from, for example, Aysén to Puerto Montt, and develop from there two or more parallel alternating current post erections so that other stations may transport their power by paying the corresponding usage charge. This could make the rights of way negotiation easier, but it would mean an easement stripe up to four times wider than the former pattern. Consequently, it is not clear if the company gains or loses with this measure, but it does seem reasonable to evaluate the most appropriate alternative for the country from a global perspective.

In brief, since the transmission issue has become a bottleneck for the development of energy projects – as a result of the long environmental proceedings and the judicialization of the processes –

and an obstacle for competition, the idea of an electric highway could turn into a favorable proposal for the country. In fact, with the configuration of an easement stripe, the country would rely on a support for building transmission lines for several years. We should bear in mind that the country's highest generation potential will be increasingly available in areas which are farther away from the consuming centers, so that the improvement of the transmission system could mean a reduction of this energy's implementation time and, moreover, an energy cost reduction in the country. Nevertheless, there is a danger that the announced electric highway is a step towards a more centralized planning, something which always entails the risk of introducing more inefficiencies than improvements to the system.

Electricity Distribution

President Piñera announced that ways for making the electric system distribution more flexible and competitive will be studied, thus urging to consider the possibility of creating an electric multicarrier. In doing so, the Government seeks to give consumers more options to choose their power generators.

In the Competitive Stimulus Agenda, the authority already expressed his concern due to the high energy costs, which was the reason for proposing two specific measures. The first one seeks to introduce alternative plans to the consumers in the distribution market, which require the study of regulatory amendments enabling to improve the available tariff menus, to promote energy saving, and to enable the aggregation of users. The second measure aims at studying the option of incorporating electricity traders to the distribution system, who would intermediate between generators and final customers, with due precautions in financial risk exposure and supply matters.

The proposal put forth by the President in the national address follows the same direction. Although no further details are known, it is to expect that it will increase competition and the alternatives offered to the final customers. In fact, Minister Laurence Golborne has stated the wish to advance towards a system where people may choose the power source they prefer, at different prices.

In practice, a multicarrier system should increase competition at the generation level – transmission and distribution would remain under a regulated tariff scheme such as the prevailing one – since insofar as new energy projects enter the system, we should observe an

increasing dispute over free customers, which entails a potential improvement in the conditions faced by these final customers.

The aforementioned would be theoretically reinforced by the introduction of traders, provided that due safeguards are taken to guarantee the financial stability of the trading companies and a higher supply risk is avoided for the customers. The traders would have a higher independence level than the actors who operate in the market today, allowing them to actually compete more with distributors in capturing energy suppliers and delivering services to the final customers. All this would be subject to the existence of enough generation to commit the supply at competitive prices.

On the other hand, it is also possible that the authority decides to reduce the limit which defines free customers – currently, those whose connected capacity is at least 500 kW – because they are the ones who can freely negotiate electricity prices with the generators and fix the conditions by means of supply contracts¹. In this case, these smaller customers could choose their suppliers and even the type of energy source they want to be provided with, which would enlarge the market to be disputed and would disclose the real preferences for the different energy sources.

Nevertheless, the former comes across certain limitations, insofar as the distributing companies have to make long-term biddings to supply the regulated customers, as of Short Law II (Law N° 20,018 of 2005). Such a change would entail an eventual reduction of these companies' customer portfolio, with the consequent legitimate opposition from the distributors who, by virtue of the imposed obligation, have contracted energy for extended periods. In this context, any change should be progressively introduced, and we will probably not notice an immediate effect on the market.

Hopefully, the interest for operating as a free customer will be limited, insofar as today's regulated customers have tariffs which are, in general, better than those of the non-regulated ones. This means that the real impact of the measure will probably be much delimited during the next years, thus frustrating the expectations generated by the measure.

All in all, the proposal is a good signal for the future, even though it is not expected to have major effects in the short-term. Possibly, it has the power to generate a perception of more freedom to choose and less dependence on the distributing companies, even though it does

not bring significant changes in the short and medium-term with regard to the current situation.

Conclusion

The proposals outlined by President Sebastián Piñera in his second national address concerning the energy subject, have drawn great attention. Although the details of these measures are not known, since they will have to be analyzed by the Energy Development Consulting Committee during the following months, it seems that the proposals are going in the right direction, insofar as they could foster competition and increase the available options for the final customers.

Probably, the results of the measures announced by the President are not going to be visualized in the short-term, but this does not prevent from advancing in those issues that are highly relevant for the country's energy future. Therefore, it is advisable not only to promote the study of new measures to improve the operation of the electric system, but also to give the right signals concerning the country's real alternatives for fulfilling the future energy demand, an essential supply to continue in the road of sustainable growth. This introduces more rationality to the debate which takes place frequently among scarcely informed citizens and, therefore, subject to be convinced with wrong arguments.

ⁱ This distinguishes them from the regulated customers, whose prices are fixed by the node price decrees issued by the CNE (National Energy Council).