

Power surge

By Luis A. Erize ¹

Argentina has begun the transformation of its complex energy sector as part of one of the most ambitious privatization programs in the hemisphere.

At the head of this privatization charge is Domingo Cavallo, Argentina's minister of the economy. Mr. Cavallo is well-known for his previous role in Argentina's debt crisis of 1982. As president of the Central Bank, Mr. Cavallo was credited with a massive private debt restructuring that saved the private sector from a scenario of shutdowns and bankruptcies.

Since being appointed to his new job by President Carlos Saul Menem in 1991 (after a short stint as Foreign Minister), Mr. Cavallo has introduced monetary reform, opened the Argentine economy, and targeted those sectors where state control had incurred excessive costs.

The energy sector is a particularly sensitive area, as it was entirely monopolized by the government in the past and was a fertile ground for hidden deficit financing. Several professionals from the Fundación Mediterránea, a group founded and led by Mr. Cavallo, now have the job of fitting all the pieces together.

Previously, Yacimientos Petrolíferos Fiscales (YPF), the state-owned oil company, was trusted with 1) all oil field operations, where it tried to compensate for its own inefficiency by making service agreements with private sector oil companies, 2) transport pipelines, and 3) regulation of the downstream industry -which it did by fixing all prices- on crude oil and gasoline, transport tariffs, and refineries' margins. More than half of total refinery capacity is owned by YPF itself.

Under the present government, existing service contracts have been renegotiated into private sector concessions or joint ventures, leaving YPF with a minority stake; the downstream industry has been totally deregulated, and crude oil and gasoline prices alike were freed from any restriction, enabling the oil companies to sell freely in the local market, or to export and retain the foreign currency earnings.

Two-thirds of Argentina's total potential exploration areas are being offered on a year-long revolving bidding to any private sector company wishing to take on the expense of exploring them the prize being a 25-year exploitation concession on the oil discovered.

Other areas, already in production, are being transferred to the private sector through a competitive bidding process (the minor ones, on a concession scheme, the larger ones, through an association scheme in which YPF retains a minority interest). The debate on how to sell YPF's own assets still continues, as the provinces rush to get hold of oil rights or the proceeds from YPF's assets, once sold. Even while the discussion goes on about whether the state or federal government should get the cash from YPF asset sales, the deregulation and privatization of the oil industry are firmly in place.

Natural gas comes next. The Argentine Congress now is debating the deregulation of the gas industry. Open access to the gas pipelines will be granted. The debate on whether the gas producers should be allowed to be pipeline and distribution companies as well, will eventually be resolved by allowing the gas producers to have a minority interest in both areas. The existing gas pipelines, divided into two sectors, would be passed to the private sector under a concession scheme. There will be regulated tariffs on transport and distribution, to be reviewed every five years. By means of the open access, the gas producers, (the holders of concessions or joint ventures for the exploitation of previous YPF areas) will compete on the spot market and on contracts for long-term supply to large users, bypassing distributors.

Eight distributors in the country will sell at tariffs that are regulated, except for large industries where competitive contracts are possible.

Some long-term natural gas supply contracts, however, now are being made at fixed prices to enhance the privatization package of certain thermoelectric generation plants that depend on natural gas pricing assurances to

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determine their electricity tariffs. The regulatory agency that defines the price caps, acting as the arbiter between conflicting interests, might become an entity such as the Federal Energy Regulatory Commission in the United States.

The legal framework for deregulation of the electricity industry was passed by Congress in late 1991, setting up three separate sectors: 1) the electric grid that will initially remain in the public sector (keeping a golden share or veto power once the private sector steps in), 2) the generators, with open access to the grid, who will be able to sell electricity to distributors and large customers alike at a free market price for long-term or future contracts; and 3) the distributors who will be granted a concession in return for the obligation to supply power at cost-based, fixed tariffs.

The grid authority will set a price for its current electricity purchases based on the marginal cost -that is, the price for which the least- expensive generating plant (with reserve capacity) is prepared to provide the electricity. A public hearing system will allow conflicting interests to be aired on the pricing system by generators, distributors, and users.

Together with this new regulatory framework, SEGBA, the state-owned corporation that owns generation and distribution of electricity in the Buenos Aires area, called for bids for the purchase of 60 percent of the shares of a corporation created to take over two large thermoelectric generation plants in Buenos Aires. The bidding conditions (eight large international operators showed up) set forth an eight-year electric energy supply agreement to be signed by the privatized company, and a gas supply agreement, thus departing initially from the intention to set both prices free. This is the price to be paid to begin the privatization process. Another generator plant, currently undergoing modernization, is almost ready for competitive bidding.

(HEMISFILE, Volume 3, Special Energy Issue, March 1992)