

ENERGY & UTILITIES

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Telephone: +44 (0)845 345 0456
Fax: +44 (0)121 600 5911
Email: info@financierworldwide.com

www.financierworldwide.com

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Energy & Utilities

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Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in energy & utilities.

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CHILE

JUAN FRANCISCO MACKENNA
CAREY Y CIA LIMITADA

Q OVER THE LAST 12-18 MONTHS, WHAT MAJOR TRENDS HAVE YOU WITNESSED IN THE ENERGY AND UTILITIES SECTOR IN CHILE? WHAT RISKS AND CHALLENGES DOES THE INDUSTRY FACE?

MACKENNA: In Chile, there has been a lot of activity in the power generation sector, especially in projects devoted to generate energy through non-conventional renewable methods like small hydro, solar and wind power plants. There have also recently been studies into sea wave generation, although at an experimental phase. Geothermal is also currently under evaluation and development. Chile may face, in the future, a deficit in power generation that needs to be covered with these kind of projects, especially in its deserted northern area where mining activity is quite intense, placing a high demand on electricity which has become highly expensive.

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Q HOW IS THE CONTINUED RISE OF EMERGING MARKETS, ESPECIALLY THE BRIC COUNTRIES, CHANGING THE PLAYING FIELD OF THE GLOBAL ENERGY INDUSTRY?

MACKENNA: For Chile, the growth of BRIC countries is very important but, among them, China's development is especially sensitive due to the high use of copper in its industry. China is one of the main export markets of copper, therefore, any slowdown in China's growth has an impact in Chile's copper industry and growth. Beyond this, the increasingly intense quest for minerals in northern Chile demands lots of energy that must be supplied shortly by new power generation plants.

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Q HOW DO YOU EXPECT THE ENERGY MIX (NUCLEAR, COAL, SHALE GAS, ETC.) TO EVOLVE IN CHILE OVER THE COMING YEARS?

MACKENNA: Fossil fuel projects are being aggressively contested lately due to their environmental impact, especially those using coal or liquid hydrocarbons. There is a lot of expectation for future shale gas imports to Chile that will allow power plants to burn gas, which is considered the cleanest fossil fuel generator and well accepted in Chile. Nuclear generation has not been considered. People are particularly sensitive to nuclear generation in a very seismically active country like Chile, especially after the Fukushima experience in Japan.

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Q HAVE YOU SEEN AN INCREASE IN RESTRUCTURING INITIATIVES UNDERTAKEN BY ENERGY AND UTILITIES COMPANIES? IF SO, WHAT ARE THE UNDERLYING DRIVERS?

MACKENNA: There have been initiatives in power generation projects that have had to be restructured due to social and environmental issues. In 2009 Chile approved the ILO 169 Convention regarding indigenous communities and their right to be consulted on initiatives or projects that may affect their way of living, territories and customs. This new legal framework has opened a new front of conflict in certain projects that include, within its area of influence, territories and lands that are claimed to belong to indigenous ancestral tribes in Chile. Increasing environmental awareness has raised concerns about the impact of fossil fuel power generation projects, particularly those located close to communities that are complaining about the potential impacts these projects may have on their environment.

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Q HOW WOULD YOU DESCRIBE M&A ACTIVITY IN THE SECTOR? WHAT FACTORS ARE SPURRING DEALS?

MACKENNA: M&A has been growing significantly over the last six to 12 months and is expected to grow even more in the next two to three years. This is due to two main factors: first, high prices for energy, expected in the medium term, which makes investment in this market quite attractive; and second, as it is just beginning, a process of consolidation of smaller generators than have been entering the market in the last 5 years, taking a relevant portion of 15 to 20 percent of the generation market from traditional market leaders.

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Q HAVE THERE BEEN ANY NOTABLE ENERGY POLICIES AND REGULATIONS INTRODUCED IN CHILE OVER THE LAST YEAR OR SO?

MACKENNA: The government is taking initiatives to introduce legislation oriented to expedite and foster the approval process for power generation projects, especially in regard of environmental and social aspects. The government is working with different social actors on the content of the regulation to ILO 169 Convention – which will be enacted in the near future – in order to have a clear set of rules to conduct the consultation of indigenous communities. In addition, the government has recently reached agreement with congress to pass new legislation to take 10 to 20 percent of the portion of energy requirements from non-conventional renewable energy projects by 2025.

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Q WHAT ARE SOME OF THE KEY STRATEGIC CONSIDERATIONS ENERGY AND UTILITY EXECUTIVES ARE FOCUSING ON FOR THE REMAINDER OF 2013 AND BEYOND?

MACKENNA: In our opinion, the most strategic considerations are oriented toward evaluating energy projects from a social and environmental point of view first, and from an economical viewpoint later. Presidential elections in November have also raised the attention of foreign investors, as normally happens, although not to the level we may see in other Latin American countries.

JUAN FRANCISCO MACKENNA

Partner
Carey y Cia Limitada
+56 2 2928 2210
Jfmackenna@carey.cl



Juan Francisco Mackenna is the head of Carey & Cia’s Energy practice group. His practice focuses mainly on advising clients in the development, financing, construction and operation of energy projects. Mr. Mackenna is also the co-head of Carey’s Natural Resources, Energy and Environmental group and has extensive experience in, mining, water, and environmental matters. He is vice-president of the Small and Mid-sized Hydro Projects Association and president of the Australian Chamber of Commerce. Mr Mackenna is also past president of the Power Law Committee of the International Bar Association.



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