

CHILE'S LONG-TERM ENERGY POLICY: "ENERGY 2050"



BACKGROUND

Over the last decade, Chile has faced several energy-related difficulties (i.e. long drought periods, dependency on fossil fuel imports, lack of energy market players and energy infrastructure). All of these have contributed to a shortage of energy supply and to significantly high marginal costs and prices (among the highest in Latin America), resulting from an inefficient development of the electricity system. According to the recently launched *Energy Agenda*¹, dependency on imports makes Chile susceptible to the unsteadiness and volatility of prices of the international markets, and supplies shortages, all influenced by economic, climatic or environmental factors.²

Additionally, energy project developers – and investors in general – have claimed in the recent past that Chile does not have a clear energy policy. This refers to a comprehensive vision of what the country wishes for in the long term: secure, sustainable and equitable energy development at reasonable prices. Along with the apparent lack of clarity and certainty on energy policies, our energy market is not particularly competitive in the generation sector. Furthermore, the trunk transmission system of the Central Interconnected System ("SIC") has evidenced failures and restrictions – resulting from short-term economic criteria in the expansion of the grid – which put certain areas at risk of shortage and raise the electricity prices as a consequence of the sub-exploitation of Chile's energy potential.³

Finally, we have noticed an increasing judicialization prompted by discussions on the compatibility of local activities and energy facilities, a growing citizenship opposition to certain generation sources given their socio-environmental impacts, and the lack of participation of the stakeholders who do not directly benefit from the projects.⁴

It is almost unanimously agreed that Chile lacks a clear, certain and comprehensive vision of the energy sector. This has affected investments in energy infrastructure and, consequently, competitiveness, innovation and productivity, which, in turn, have directly affected growth. Therefore, we need strategic Government support, a consistent and integrated long-term energy policy and legal framework in order to generate, transmit and distribute electricity in a safe, environmentally-friendly and economic manner.

1. The Energy Agenda

With the objective of addressing the issues mentioned above, the Government's Energy Agenda seeks to provide a reliable, efficient, sustainable, inclusive, reasonably priced, diversified and equilibrated energy matrix, aiming for long-term goals while considering immediate and short-term urgencies through the following foundations or pillars:

(i) *New role of the State in the energy sector.*⁵ The Chilean State will play a leadership role in the energy challenges, by strengthening the Ministry of Energy; making Empresa Nacional del Petróleo ("ENAP") a strong, modern and active company; developing a State Energy Policy which is socially, politically and technically validated; enhancing human capital, science

1 Document available at www.minenergia.cl/documento/descargar/id/10526.

2 Energy Agenda, page 12 onwards.

3 Energy Agenda, page 14 onwards.

4 Energy Agenda, page 13 onwards.

5 Energy Agenda, page 19 onwards.



and energy innovation; strengthening energy security and the emergency situations plan at a national and regional level; fostering transparency of energy information to the public; and creating a greater engagement in the energy sector for environmental and social safeguards in project areas.

*(ii) Reduction of energy prices and greater competition, efficiency and diversification of the energy market.*⁶ The Energy Agenda seeks to promote greater competition and diversification of the energy matrix by allowing new entrants to the tenders for power supply to distribution companies,⁷ and by fostering higher participation of liquefied natural gas ("LNG") to replace diesel. This is expected to maximize the use of existent LNG infrastructure and reduce prices. Finally, the Energy Agenda seeks to promote efficiency in the gas distribution network.

*(iii) Enhancement of national energy resources.*⁸ Chile has to take advantage of the abundance of its natural resources, which should entail enormous potential for electricity generation. The State will support and boost

sustainable hydroelectric developments, non-conventional renewable energies ("NCRE") integration aiming for the 20/25 goal, development of socially efficient and transversal self-supply NCRE, local development of geothermal energy, development of special plans for extreme and isolated zones, and the improvement of firewood use.

*(iv) Connectivity for energy development.*⁹ A secure and diversified generation matrix has to ensure the global optimization of the grid, considering the intervention of the authority in order to create long-term national benefits beyond short-term local benefits, which also reduces entry barriers for NCRE. Additionally, the expansion of the transmission system, the improvement of the methodology for transmission facilities costs, charges and payments, and the interconnection of the SIC and Interconnected System of the North ("SING") are essential, and will involve significant advantages for the whole electric system resulting in a reduction of prices.

*(v) Encouragement of efficiency and consumption management.*¹⁰ A

priority for the State is to reduce 20% of energy consumption by 2025 compared with the expected consumption, through measures related to public lighting, appliances and household electricity (including subsidies for thermal conditioning). Legislation will be discussed to regulate energy efficiency in industry and mining; homes, small industries and shops; in the public sector and the Army. Finally, massive campaigns and educational programs on energy efficiency will be implemented.

*(vi) Boost in investments in energy infrastructure.*¹¹ The Energy Agenda seeks to monitor growth, investment plans and development strategies of the main energy-related companies, as well as the projects under construction and those with administrative delays. Other aims are to: launch new tender processes for public land for generation projects; support sustainable development of thermoelectric projects which supply safe and economical energy; and study and define mechanisms to share the benefits of energy projects with the communities located in the same area as the projects.

⁶ Energy Agenda, page 33 onwards.

⁷ This requires a redesign of the existing bidding rules.

⁸ Energy Agenda, page 43 onwards.

⁹ Energy Agenda, page 57 onwards.

¹⁰ Energy Agenda, page 65 onwards.

¹¹ Energy Agenda, page 75 onwards.

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(vii) Citizenship participation and zone planning. Considering that the multiple and disintegrated zone planning regulation creates uncertainty and conflicts, it is essential to have consistent, integrated, clear and politically, socially and technically legitimised zone planning. Convergence and integration of zone planning regulation should entail better protection of the environment while promoting participation of stakeholders in local, regional and national development. The Energy Agenda considers the mapping of water basins; an efficiency and sustainability-focused integrated zoning plan; and design of standards and institutions for the participative development of projects.

2. The National Energy Strategy: Energy 2050

Along with the Energy Agenda, President Michelle Bachelet's administration committed to undertake a participative planning process for a long-term energy policy, called Energy 2050. Its purpose is to build a shared view for the development of a national energy strategy as an answer to the question what energy matrix do we wish to have in 2050?

Seeking to validate and legitimise the nation's approach towards energy socially, politically and technically, Energy 2050 considers different stages and levels of participation in which Chilean citizens will have a unique opportunity to contribute and share their visions. These include several opportunities for discussion and participation during its 18 months duration, a strategic consultant committee integrated by key players, technical working groups, regional workshops, and a virtual platform for public participation.

In connection with this, President Bachelet's Government is preparing a bill of law named the Associative Law. Its purpose is to get communities involved in the development of projects and allow them to participate in the benefits of these projects. In this way projects would be validated through a social license and would be considered as a concrete growth opportunity for these communities.

Considering Chile's abundance of natural resources and its consequent enormous and sub-exploited potential for generation (around 1,865 GW in wind, solar and mini hydro projects), it is imperative to promote the implementation of a national strategy for a sustainable exploitation of our natural resources and to consider a legal framework which allows NCRE to compete with conventional means under equal conditions. A high participation of NCRE is economically efficient and sustainable. These energy sources entail short implementation processes and offer competitive costs for regulated clients. It is therefore paramount to balance the risks associated with NCRE in the market, for example by means of encouraging distributors to buy NCRE from small generators located in the areas of their distribution concessions.

Although the Energy Agenda is supposed to foster NCRE, wave and tidal energy is almost forgotten. Considering its more than 4,000 kilometres of coast, Chile should take an active role by introducing financial support mechanisms for marine energy development, which would allow Chile to take the lead in this market (i.e. wave-powered water pumping and desalination projects for mining industry).



The expansion and integration of our transmission grids is likely to boost geothermal, wind and solar generation technologies and energy transfers from the "Energy Valley" located in the north of Chile. This will help to avoid future energy bottlenecks. Perhaps the grid integration with our bordering countries should also move forward from a mere discussion to definitive action.

Finally, we also need to encourage the adoption of effective energy efficiency measures – at national,

regional and local levels – in order to reduce 20% of energy consumption by 2025.

There are several other issues that should be analyzed in this process, by the end of which its conclusions should result in guidelines and/or regulations, which are validated, legitimised and supported by all the relevant actors, establishing univocal rules for an efficient, sustainable and socially responsible use of different territories of the country for energy production. Thus, once we have a shared

vision of our energy policy, every single project to be developed will be validated not only technically, but also politically and socially.

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