ENERGY
Uncertain future

Solange Monteiro

THE BRAZILIAN ENERGY SECTOR ended 2012 amid a cloud of uncertainties. Since September, when the government announced Provisional Measure 579 (MP 579), which anticipates renewal of contracts for generation and transmission of electricity that expire through 2017 and reduces electricity rates, electricity utilities have had no clear horizon for future investments. Previously considered an option for conservative investors, generating companies listed on the Bovespa stock exchange were the first to feel the impact. In December it was estimated that power companies Eletrobras, Cesp, Cteep, Cemig, Copel, and Celesc had lost US$34.6 billion in market value since August, before the government announcement.

To meet demand, which is expected to grow 5% a year, the energy sector will need to add about 5,000 MW of power a year. The insecurity generated by the MP 579 for new investments is not restricted to operators of large hydropower plants. Charles Lenzi, president of the Brazilian Association of Clean Energy Generation (Abragel), also questions the rules that will govern the contracting environment, because reduction of prices in the regulated market reduces options for the free market. "Today," he says, "we cannot sell energy in the long term, which also takes away the ability to obtain financing from the National Bank for Economic and Social Development, which requires as collateral contracts for at least 10 years."

Among other question marks there are small hydro projects that have had concessions since 2002, but owing to the difficulty of obtaining a license from the Environmental Protection Agency have not yet left the drawing board. For these, a proposal presented to lawmakers resets the concession period as starting not in 2002 but in March 2013. "With that we could recover the economic and financial balance of the power plants, which are aimed at self-production and also at independent production and sale," says Mario Menel, president of the Brazilian Association of Investors in Self-Production of Energy (Abiape).

Menel highlights the efforts of Abiape to amend MP579 to simplify the participation of foreign investment in the self-production segment: "We have received proposals for partnerships, which would bring in foreign capital . . . . When it comes to selling energy to large companies like Votorantim, Gerdau, Vale, the perception of risk that we see today would be reduced." Abiape proposes that 30% of the energy generated by self-producers be directed to the regulated market. Also, it suggests promotion of a model for a company that would launch special-purpose shares of energy production, with 50% of preferred shares for foreign investors, and 50% held by the self-producer group. "Thus, though investors would not have a right to the energy, they would have preferential remuneration of their investments," Menel explains, adding, "If the idea behind all these policy changes is low electricity rates, we need to ensure increased supply and not generate a risk of shortages.".