6-25-2012

Can Central America overcome its energy woes?

Inter-American Dialogue's Latin American Energy Advisor

Q and A: Can Central America Overcome its Energy Woes?

Citation: Inter-American Dialogue's Latin American Energy Advisor, June 25-29, 2012; pp. 1, 6. Also online at **www.thedialogue.org.**

Earlier this month, an ECLAC executive said that Central America would be more competitive once the regional energy integration system SIEPAC comes online and reduces energy costs. Meanwhile, four Central American nations are in the top 10 countries in the region in terms of fostering a climate for renewable energy projects, according to a report by the Multilateral Investment Fund of the Inter-American Development Bank and Bloomberg New Energy Finance. After years of energy woes, is Central America finally makes strides? What challenges does the region face and are its efforts to address them adequate?

A: Cristina Eguizábal, editor-at-large of Foreign Affairs Latinoamérica:

"Despite the positive news concerning SIEPAC's potential and the interest of Central American countries in developing alternative energy sources, the region continues to face tremendous challenges regarding energy production and consumption as the following figures attest. While in most countries, city dwellers enjoy the comforts of electricity, only Costa Rica has an electric grid that covers its entire territory (99.3 percent). At 80 percent total and more that 90 percent in urban areas, El Salvador and Panama are making progress. However, the situation is appalling in Honduras, Nicaragua and Guatemala: only 69 percent, 55 percent and 42 percent of their respective territories are covered by the national power grid. It is true that electricity comes mostly from renewable sources (hydraulic and geothermal), but it only constitutes 12 percent of the region's energy consumption. Hydrocarbons generate 45 percent of the total and more than half of that is oil used for transportation. More of the third of the energy consumed in the region (38 percent) is in the form of firewood for cooking. The extended use of wood stoves is the main cause of deforestation and an important source of air pollution which contributes to global warming. The World Health Organization considers dirty cooking smoke to be one of the five biggest health hazards for women and children in developing countries. Central America needs more efficient energy sources, beginning with clean stoves."

A: Angel Baide, independent energy consultant:

"Central America will definitely become more competitive if energy costs are reduced and regional integration can achieve that result if it is allowed to work. SIEPAC is delivering only a starting platform. An active market requires a robust regional grid, and, since everybody benefits from the grid, all should contribute to pay its cost. But governments look at the regional system and see little activity. They therefore think that no more transmission is called for. This low level of activity is in part due to the misguided definition of 'regional' transactions in the treaty as only those where buyers and sellers are in different countries. The cost of SIEPAC is charged only to 'regional' transactions. Since there are few of those at the beginning, the cost per transaction is high. Thus, agents shy away from doing business across borders, in a vicious circle. Governments have to open the door to private players and invite them to come in. Many potential market agents are not aware of the options the regional market offers them. They have to be informed and encouraged to take advantage of those options. As the market rules are currently written, national system operators can withhold information on prices from the regional system operator. The governments have to change this so the regional operator receives all the information on costs and is able to do a regional dispatch and optimize the use of resources for the whole region. Today, governments are not fostering these developments. To make these changes that will allow Central America to fully exploit the physical, institutional and regulatory infrastructure created by SIEPAC is the challenge the region faces."

A: José María Blanco, regional director of the Biomass Users Network-Central America:

"As I have seen energy prices increasing after the privatization process took place in this region, I have my doubts that energy costs will be reduced once SIEPAC goes online. For a region that needs to mobilize at least $500 million in fresh investments annually for the power generation sector alone in order to cope with a growing demand after the recent world financial crisis, the cost of capital for the lending share of the investments will be higher than in the past. There are several reasons. One is external to this region, due to a higher risk perception of major private lenders in many OECD countries for investing overseas in large infrastructure projects. The other is internal. Most are costly renewable energy projects due to strident environmental regulations and growing social pressures from locals that have delayed many good projects from coming online in recent years, in particular, medium and large hydro developments."

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*