

Latin America: market mechanisms and supply adequacy in power sector reforms

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Abstract-

The process of transformation in government and operations in the power sector leads to interaction between increasing integrated markets and public agencies in charge of policy making, regulation and control. This is examined for Latin America where state and marketing power sector planning, contract auctions to assure supply adequacy in an uncertain market environment, cross-border contracts, financing challenges for generation investments, and auctions of contracts to secure supply adequacy in the second stage of power sector reform are discussed. First, the state and market in power sector planning reform and state policies in Latin America are considered. Here, present concerns; the state-market relationship (the position of regulation, globalisation, internationalisation), and state market in the energy sector (correction and adjustments) are reviewed. Case studies for Argentina and Brazil are briefly outlined. The paper then examines contract auctions to assure supply adequacy in an uncertain energy environment that are being explored to face supply problems over recent years in the Chilean electricity market, taking into account the unexpected restrictions in natural gas transfers from Argentina. Also discussed are supply adequacy mechanisms and cross-border contracts in the Central American regional electricity market including firm transmission rights and financing challenges for generation investments.

The final part of the paper discusses auctions of contracts and energy call options to ensure supply adequacy in the Brazilian power sector reform. Here, first stage of power sector reform, what went wrong, the second stage of reform and the move towards energy supply auctions, energy supply auctions so far and what's next in the challenges of environmental constraints and electricity-gas integration are reviewed. The reform being proposed to the electric regulatory framework for wholesale transactions in Peru is also reviewed. Considered are bids for the supply of electricity, and improvements to market design. It represents an effort to solve some problems with the electricity market, particularly the perception that investment in new generation resources is, or may be in the future, inadequate.

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