See page 6 (second page attached hereto) for comments by Steven Kargman)

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Featured Q&A *with the Energy Board of Advisors*

Q The Dominican Republic is under pressure from the International Monetary Fund to reform its electricity sector. What chance of reform to the Caribbean nation's electricity sector do you see in the short to medium term? Will there be a return of private investment in the sector?

A Guest Comment: Bernardo Vega: "The cabinet of the Fernandez government is split between those who want to initiate a counter reform and go back to state control of the electricity sector and those who want to continue with the private-sector-oriented reforms started in the first Fernandez administration (1996-2000). The government of Hipolito Mejia (2000-2004) purchased two of the three distributing companies privatized as part of the reform, and the Fernandez administration has not rented them out or sold them to the private sector. The IMF is insisting on cutting the subsidies to the electricity sector, which today exceed expenditures in health and education combined. The main problem is getting the three distributing companies to collect more and reduce fraud. The private sector, which invested substantially in the first Fernandez administration and thus increased generating capacity, is standing idle, waiting to see which of the two sides of the cabinet Fernandez will finally back. The World Bank seems to have given up and is unlikely to disburse funds it previously committed to the sector."

A Board Comment: Roger Stark: "The IMF's calls for reform are unlikely to be effective unless they address structural issues in the Dominican political and regulatory system. On the positive side, the Dominican Republic (DR) begins with a sophisticated electric regulatory framework and a cadre of highly proficient and credible electric sector technocrats. On the other hand, this will be either the sec-

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PHOTO OF THE WEEK

Several foreign oil and gas companies, including Spain's Repsol YPF, signed new contracts with the Bolivian government over the weekend. See coverage on page 2.
Photo: ABI.

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ty rights, provide safe and efficient service, and avoid social discontent among the poor.' This 'calls for [an] imaginative public-private solution.' Any sector reform must be carried out at a negotiation table, with all parties involved participating in order to have a successful sector recovery and reach financial sustainability while protecting property rights. The government has taken several steps to achieve these objectives. It announced the introduction of approximately 1,200 MW of coal-fired generation plants expected to come online during the next three to five years; it has invited generation companies to renegotiate power purchase agreements in order to lower electricity prices; it signed two sector agreements pledging public funds to ensure payment to generators; and it has transferred approximately $1.4 billion to the energy sector during the past two and a half years. In addition, government-owned distribution companies have increased efforts to reduce energy losses and increase collections. Return of private investment to the sector is likely to the extent the government can establish a track record of stability and reasonable returns. The capacity expansion announced this year by the government would probably be developed partially with private investment."

A **Guest Comment: Steven Kargman:** "As a general matter, it is rarely a simple or straightforward process to achieve fundamental reforms in the electricity sector of an emerging market country. Often it is not easy to reconcile the competing interests of the broad range of stakeholders in any given emerging market electricity sector, which may include public and private interests, domestic and foreign parties, and a diverse set of electricity sector participants. Moreover, the issues involved can potentially have major social and political implications, and these issues can also be fairly complex from a legal, regulatory, technical, economic, and financial standpoint. Thus, reaching a consensus and comprehensive approach, especially in a short period of time, can pose significant challenges. However, under certain circumstances, a crisis dynamic can provide additional and important impetus to reaching a solution. Whether or not this will be the case in the Dominican Republic, with all of its current problems in the electricity sector, remains to be seen. Nonetheless, even in a crisis environment, given the complexity of the issues involved and the wide range of interests of the stakeholders, it can still take some time to work through all of the relevant issues. Broadly speaking, the prospects for new private investment in the Dominican Republic's electricity sector would seem to be fairly limited in the near term unless and until the overall situation stabilizes and new, sustainable arrangements for the electricity sector are put in place. Private investors, particularly foreign investors, may very well be reluctant to put their capital at risk in a market that appears to be in as much flux as is the case today in the Dominican Republic's electricity sector. But if and when fundamental reforms of the electricity sector are eventually achieved, private investors may then possibly be willing to take another look at this market. Yet any such new potential private investors would most likely want to carefully review whether existing private investors have been treated fairly, including whether their legitimate interests and concerns have been taken into account in fashioning an overall solution."

Bernardo Vega *is President of Fundacion Cultural Dominicana and a former Dominican Ambassador to the United States.*

Roger Stark *is a member of the* Energy Advisor *board and a Partner at Kirkpatrick & Lockhart Nicholson Graham LLP.*

Lucas Aristizabal *is an Analyst at Fitch Ratings.*

Steven Kargman *is President of Kargman Associates, International Restructuring Advisors, in New York.*

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Phone: 202-822-9002 Fax: 202-822-9553