FEATURE CHILE ARGENTINA POLITICAL RISK & MACRO OIL & GAS

‘We’ve got the gas but not the infrastructure’

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Energy was in the spotlight in Chile and Argentina this week when the countries’ respective presidents, Gabriel Boric and Alberto Fernández, and other government officials met in Buenos Aires.

One area explored was energy integration, including in the sphere of natural gas.

The nub of the matter is that Argentina – at least during the warmer months – usually has gas to spare and can pipe this to its neighbors.

In the winter months, though, Argentina has a supply shortfall, which it tackles by importing LNG, a costly option, particularly in today’s red-hot global market where questions have also emerged over availability.

The Argentine government has a gas pipeline project underway to ease a dispatch bottleneck in the Neuquina basin, which should support an increase in domestic gas production that, in turn, would be used to substitute imports. Government officials are aiming to bring the first phase online around the middle of next year, seen as a challenging goal by the private sector.

Industry players have also mulled the possibility of eventually exporting year-round to Argentina’s neighbors under firm contracts, an area touched on during Boric's visit. Stars would need to align. Supply security and volume guarantees would be key.

Argentine LNG exports are another, but seemingly slimmer, possibility, a step that would likely require midstream investment running into the billions of dollars. Two liquefaction projects were proposed – by state hydrocarbons company YPF and by US midstream player Excelerate Energy and local gas transporter TGS, respectively – but have stalled.

Chile is a year-round major gas importer, currently getting a large chunk in the form of LNG shipments under long-term contracts indexed to Henry Hub prices. Chilean generators are central buyers of Argentine piped gas, usually under non-firm seasonal contracts – an arrangement unlikely to change within the next couple of years.

On the main Chilean power grid, gas-fired power stations account for 5.03GW, or 15.9%, of installed capacity, according to data from grid coordinator CEN. Gas-fired plants produced 1,223GWh, or 18.8% of total output, in February. The power stations, along with battery storage units, are poised to play a key supporting role in Chile’s energy transition, helping mitigate the intermittency of wind and solar farms and replace heavily polluting coal-fired generation, which is due to phased out by 2040.

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Against a backdrop of climbing output from the Vaca Muerta play, exports of Argentine gas grew 131% year-on-year to 235Mm3 (million cubic meters) in February, after soaring 508% in January, according to data from Argentine energy think tank the General Mosconi institute.

National production averaged 127Mm3/d in February, up 11.1% year-on-year. Around 84Mm3/d of this was pumped out of the Neuquina basin, up 22.9%.

To find out more and drill down into the topic of LNG, BNamericas spoke with Francisco Romano, partner at Argentine law firm Pérez Alati, Grondona, Benites & Arntsen. Romano is also co-director of the Energy Institute of Argentina's Universidad Austral and is director of its postgraduate hydrocarbons law diploma program.

BNamericas: Is there a general consensus within the local hydrocarbons industry regarding the steps Argentina has to take to spur exports of natural gas to its neighbors in the medium and long-term?

Romano: In reality, there’s no consensus at the moment. The war in Ukraine, with the increase in prices of commodities and the associated consequences, is driving home the need for a state policy.

The consensus would require clear signals on prices, free disposition of production and free disposition of exports proceeds. This would require an array of macroeconomic policies and the political will to restore confidence.

It would also require a change in the paradigm. Exports should not be only for surplus production but also a means to increase production and generate the inflow of hard currency required to address shortages. This will require careful planning with the participation of the government and the producers/exporters and the political decision to continue exporting even at times when some local demand is not fully satisfied. In the long run, Argentina will become a net exporter at all times.

BNamericas: There is discussion about the potential to export LNG to global markets. What needs to happen for Argentina to advance in this area?

Romano: We’ve got the gas but not the infrastructure. Infrastructure means pipelines and liquefaction plants, which require significant investment and various years to be achieved. What needs to happen is that a decision is made at state policy level.

For this, different [legal] treatment is required for liquefied natural gas, or LNG, projects based on incremental gas [production]. These investment projects would enjoy, from the declaration of technical-economic approval, the guarantee of exclusive use of the production of the dedicated deposits for the production process in question. This, in turn, would prevent the LNG supply and transport contracts associated with the project being affected by present or future measures on preferences in the allocation of production, interruption measures, redirections, or intervention in the conditions of their sale and/or transportation, either directly or indirectly, during the lifespan of the project.

The activities of LNG projects must fall outside the public service regime of law No. 24,076. The capacity of the plants and services provided, as well as the conditions for their allocation, use and sale, must be freely agreed upon.

In the same way, the gas pipelines and associated new facilities that increase the natural gas transport capacity firmly committed for the supply of natural gas to liquefaction projects or the export of natural gas, for up to the guaranteed volumes of incremental production generated by the project, must be identified as exclusive dedicated transport capacity and not be covered by the public service system until the repayment term of the invested capital established in the technical-economic approval declaration of the project, as determined by the regulations.

Added to the above is the possibility of obtaining long-term firm export permits for natural gas or LNG for the entire incremental production capacity generated by the project. LNG export authorizations must be firm, without being able to be revoked or interrupted later.

In ideal terms – or those deemed ‘good to have’ – it would be advisable to create a new legal concept, the LNG concession. The new concept, with legal status, independent of the other concessions, could be used by third parties outside of oil and gas permits and concessions and would grant rights that are incorporated into the concessionaire's assets as vested rights.

This autonomy would facilitate a better platform for financing the project and generally provide greater legal stability, certainty and security. It would also be advisable to safeguard the benefits for the entire term of the concession and its possible extensions.

BNamericas: Finally, do you think that, with the way the world is today, integration and cooperation among countries within the region is more important than ever?

Romano: We’re seeing it right now with Bolivia and Brazil [countries with which Argentina is holding gas supply talks amid forecasts of potential winter shortfalls].