

## CHILE ENERGY POLICY DISCUSSION

### INTRODUCTION

I would like to start by acknowledging to the Institute of the Americas, the organizers and Mr. Jeremy Martin, Vice President of Energy and Sustainability of the Institute. (*moderator*)

Today we had the opportunity to analyse very relevant topics for the energy sector of the southern cone of our continent, such as the challenges that Argentina and Brazil are facing. These countries have a very close relation with Chile and it has been extremely interesting to hear about energy sector transformation, price volatility (especially of oil and gas), Covid-19 crisis repercussions and measures against the economic recession. All these topics represent a challenge also for our Country indeed.

### OUR REGION

This virtual meeting helps to understand the dynamics of the sector at a regional level and, most of all, shows us how, in these challenging and uncertain times, we must not lose sight of the challenge that our sector is facing in several areas, such as the global climate emergency, the performance of the sector in recent years and the access to clean and good quality energy for the whole population.

**Chile wants to strengthen its regional leadership in the energy transformation process towards cleaner and more sustainable matrices.**

Last year President Piñera declared the national target to reach carbon-neutrality by 2050. A challenge that motivate us to work hard in order to move forward towards this goal.

We want to demonstrate that is possible to reduce fossil fuel dependence, in order to reduce greenhouse gases emissions, which are the main cause of global warming, according to a 2018 study of the Carbon Dioxide Information Analysis Center (CDIAC).

Together with Colombia and Costa Rica, we are co-leading an initiative named RELAC, which was launched at COP25 during Energy Day and in which 10 countries have already committed. **We have taken the regional commitment to achieve at least 70% Renewable Energy in Latin America and the Caribbean by 2030**, with 312GW of installed capacity and favouring the so called Non-Conventional Renewable Energy.

My invitation today is for more countries to join this target by 2030. For that, we are working jointly with Colombia in the creation of a road-map that convenes the other countries of the region.

## **OUR RESPONSE TO COVID-19 PANDEMIC**

The health crisis caused by the spread of Covid-19 obliged us to take several measures with the aim to protect our economies.

First of all, we have immediately focused on **securing the energy supply** throughout the logistic chain in all sectors of the economy, always guaranteeing the health and safety of the workers

**Secondly**, in response to the economic-financial impacts of the pandemic, we have implemented a **contingency plan aimed at helping Chilean families with the payment of their energy bills during the State of Disaster** caused by Covid-19. Service outage due to payment default has been suspended and payment facilities have been granted. This plan benefits more than 3.000.000 Chilean families (approximately 7 million people), which represent the 40% of low-income.

This measure would not have been possible without the commitment of the power utilities to exceptionally suspend the measurement of the "peak hour" during April and May of this year, in order to support Chilean families, economic activity and employment.

**I would like to outline that this agreement shows that the public-private partnerships are a fundamental tool to face such a complex contingency as this health, economic and social crisis. This should be the main guideline for Latin-American governments to face other complex challenges.**

**Lastly**, we are working on a short and mid-term package of measures aimed at providing a **low-carbon economic stimulus to Chile**, that will encourage energy sector reactivation. These measures are based on three main axes:

1. Infrastructure: incentives for the development of public and private investment in infrastructure;
2. Human resources: stimulus to the labour market through training and/or certifications;
3. Stimulus to consumption – demand: demand aggregation policies and mechanisms to encourage consumption.

**We are seeking to turn this pandemic crisis into an opportunity, so that the energy sector can move forward towards a cleaner, more sustainable, secure and resilient model.**

## **OUR AGENDA IN RESPONSE TO THE ENERGY CHALLENGE**

We drafted the **ENERGY ROAD-MAP**, which guides the energy policy of our Government with a horizon to 2022.

The road-map has been compiled through a highly participatory process, which included all the regions of the country and involved the several sector of the citizenship. **It could be best summarized by the motto "TO HAVE BETTER ENERGY FOR CHILE".**

The Chilean Government finds itself in the middle of its mandate. I believe this is a good moment to make a summary of the progress made and the challenges to come. I would like to share it with all of you:

### **1. Social challenge:**

- **Electricity price stabilization:** We adopted a *Price Stabilization Mechanism* for electricity that allowed us to avoid the rise in the bills expected for the second semester of 2019 and freeze the rates until December 2021. The power utilities will initially assume the cost of the stabilization mechanism. Likewise, the latest biddings for power generation presented lower prices due to the entry of new actors in the segment, especially with regards to renewables. The expectation is that this price reduction will be reflected in the bills in the near future. With the Stabilization Mechanism, the decreases in electricity prices that were expected for 2023 are brought forward, so that prices will remain fixed now (instead of rising) and in the future they will be compensated, taking advantage of the falls that come in the new contracts.

- **Deep reform of the distribution sector, Short Law and Long Law of distribution:** The Short Law of power distribution represents a fundamental step to introduce transparency into the rate setting process.

This Law will have the effect to reduce, for the first time, the profitability of the distribution utilities, which will reflect also in a generalized reduction of the rates for their clients. In addition, it will open the way to the **Law of Distribution, which will be the deepest reform of the sector in 40 years.** We will separate the distribution, which is naturally a monopoly, since there is no point in duplicating cables and posts, but we will open the market to competition. The changes that we are driving will introduce competition so that the Chileans can take advantage of the benefits of technological improvements. This big reform, which has been thought to improve the service for Chileans, will also enhance distributed generation.

- **Improved access to energy:** aligned with the commitment of the Sustainable Development Goals (SDG), I would like to underline that we have improved the power supply for stand-alone systems; we worked to ensure fuel availability in rural areas; we carried out various programs with renewable energy in several schools and nursing homes; we promoted the integration of renewable energy in production activities of indigenous communities.

Through the Program Ruta de la Luz, only in the last year, we proceeded to grant power access to more than 2.600 families in the most remote areas of the Country.

## 2. Environmental challenge:

We are aware of the impact of the energy sector in fighting climate change. 78% of the greenhouse gases emissions of the Country are generated by the energy sector.

- **Decarbonization of the energy matrix by 2040:** We achieved an unprecedented agreement with power utilities aimed to withdraw all the coal-fired power plants of our energy matrix before 2040. This plan was bolstered during the COP25 in Madrid with the announcement of the advancement of the phase-out of 4 additional power plants. The decarbonisation schedule foresees the withdrawal of ten coal-fired units by 2024, which represents a quarter of the

installed coal power generation capacity of the country; and the total shut-down of coal-fired power generation by 2040. This plan, which positions Chile at the forefront of international decarbonisation efforts, won't imply any cost for the Chilean people and will allow to move forward faster towards a cleaner and cheaper power generation matrix. It will also favour the energy independence of the country because we will reduce hydrocarbon imports.

- **Carbon Neutrality by 2050:** This is an ambitious goal that involves collaborative work of both public and private sectors. With this aim, in 2019 we developed a strategy on carbon neutrality, which includes detailed analysis of the measures and their prioritization according ratio cost / efficiency. Each measure has been studied in detail in order to determine its cost and its contribution to emissions abatement. The main focus of this plan is the withdrawal of coal-fired power plants, promotion of energy efficiency and electromobility, and industrial and residential sector decarbonization. We estimated that reaching this goal would bring large investment opportunities between US\$27.300 and US\$48.600 million by 2050.

In addition to that, the plan also includes the creation of a new development hub for our country: **green hydrogen, which could potentially be as important as copper mining.** The Ministry of Energy is already developing a Strategy and a future National Hydrogen Plan, which will contain the strategic guidelines to promote this key industry for carbon neutrality.

- **Energy Efficiency:** According to the International Energy Agency forecasts, in order to achieve a sustainable scenario, almost 40% of the emissions reduction should come from energy efficiency programs.

For this reason, in 2019, we sent to the Congress the **first Bill on Energy Efficiency of the country.** This law seeks to create the necessary incentives to promote the efficient use of energy in the sectors of main consumption, such as the heavy industry, mining, transport and buildings, but also to consolidate a stronger energy culture within the population.

### **3. International challenge:**

- **Energy integration:** The last year has been characterized by a significant rise of the gas exchange with Argentina, which represented 30% of the natural gas consumption in Chile.

Both nations are committed to further deepening this Exchange, which represents a clean energy alternative, especially for the southern areas of our Country.

In addition, in the last two years, we moved forward with the preparatory activities for the electrical interconnections with Argentina and Peru. The studies on the economic benefits of the dispatch as well as the regulatory analysis carried out, will be useful as a starting point to reach the common target of a regionally integrated power market.

**Instances like this serve to reflect how we can achieve greater energy integration at the regional level.**

### **FINAL WORDS**

The Ministry of Energy has a key-role in the formulation of public policies, both managing the contingency of the pandemic and facing the long-term challenges of the energy sector.

Our current effort is focused on harmonizing the social, economic and environmental challenges that face the energy sector. Together with the actions already described, we firmly believe in generating public-private partnerships that will allow us to continue moving forward towards a cleaner and more efficient energy system with access for all Chileans.

Many thanks.