The electric energy industry in Latin America has faced a profound transformation, with no parallel worldwide. New electric sector regulations were set in Chile in 1982, Argentina in 1992, Peru in 1993, Bolivia and Colombia in 1994, and the Central American countries in 1997. Brazil also joined the group and Venezuela, Mexico and Ecuador have initiated actions. Most of the countries of the region have followed the Chilean model (Peru, Bolivia and Argentina in a first stage), while Colombia followed the English approach.

All countries have constituted centralized Poolcos, based on a monopolistic coordination of generator operation and market clearing, seeking to emulate perfect competition conditions based on marginal costs, with a centralised planning of their operation. In general, they have been successful in emulating competition and discarding market power. Contract financial markets have developed in parallel between generation and large consumers.

Following the California line of thinking, criticism has arisen on these centralized pools, formulating the need for a second stage of reform, establishing highly flexible mechanisms of decentralised exchanges, and achieving real market mechanisms. The aim is replacing the centralized pool forcing "perfect" competition by the laissez faire model of the California power exchange (PX), coupled to an independent system operator (ISO) that dispatches essentially based on long-term bilateral contracts plus short term bids. Critics argue that commercial agreements should determine the dispatch through successive markets, with supply and demand independently considering all relevant variables in their decisions, including business uncertainties. This should also allow development of markets for all type of transactions of the electrical product (ancillary services, reserves, load shedding, etc.), including financial derivatives.

With the California crisis developing and its power exchange being closed, the concern arises in Latin-American countries about the validity of this new paradigm for second stage reforms. They question themselves if they are seeking a remedy worse than the disease, assuming unregulated bid based spot exchange markets that also drive system operation are simpler than their counterpart. They also wander about the dominant positions that may develop in highly horizontal and vertically integrated conditions. It is not easy to develop mechanisms to assure free entry to the market of generation, avoiding market power or cartel
agreements, as experience in California demonstrates. Besides, there is little knowledge world wide on market power playing in predominantly hydroelectric systems, such as those in South America, nor on its impact on an adequate reservoir usage and on price volatility.

The presentation will highlight the California crisis as it relates to Latin America, with a parallel of the issues at hand in both latitudes. Issues such as market design, separation between the ISO and the PX, environmental restrictions, market power, and demand price elasticity will be discussed as they relate to California and Latin America.

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References


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