

INTERVIEW

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"OUR OBJECTIVE IS TO CONTRIBUTE TO THE WELL-BEING OF OUR SOCIETY, BY SUPPORTING OUR COUNTRY'S DEVELOPMENT IN ENERGY AND MINING; AND WE DO THIS THROUGH AN EQUITABLE AND APPROPRIATE REGULATION"

When was OSINERGMIN created, and what is its main purpose?

OSINERGMIN was created in 1997, to supervise, oversee and regulate the energy sector, which includes electricity and hydrocarbons. The power to supervise safety and environmental protection aspects in large and medium-sized mining companies was transferred to it in 2007, through a law passed by the Congress, which also changed its name from OSINERG to OSIGNERMIN. This task was formerly carried out by the Ministry of Energy and Mines.

Our objective is to contribute to the well-being of our society, by supporting our country's development in energy and mining; and we do this by applying an appropriate and equitable regulation, supervising and overseeing the compliance with regulations and commitments which the companies in these two sectors, energy and mining, have assumed regarding technical,

safety and environmental regulations. For instance, we supervise that electric companies provide a quality and safe service to users; in the case of gas stations, we supervise that the products they sell have the exact quality and quantity. In some cases, we establish prices for electricity and, in other cases, we supervise the bidding conditions for the sale of electric power, since electric power industry has three stages: generation, priced through bidding contests supervised by us; transmission, handled through boot contracts, and we must supervise that investors competing to obtain new lines comply with these contracts, and we must establish who is going to pay for the income to be obtained by the electrical transmission company; and, in electrical distribution, we regulate electrical distribution rates, as these are regional monopolies and this is the most appropriate way to do so.

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We also handle claims filed by the users of regulated services, because companies are obliged to comply with certain rules based on regulations. When a company does not serve the users according to these rules, in the first instance, the users file a claim with the company; but, if they are not satisfied with the company's solution, in the second instance, they resort to OSINERGMIN; and we must determine who is right, and we demand that both parties comply with their respective obligations.

What happens in the case of natural gas?

We regulate natural gas transportation rates, in those aspects which are monopolies, but not the price, which is free; as you know, the Executive Branch of the former administration signed a contract with the production company, establishing the price for gas; but other natural gas deposits have no restrictions as regards prices, and are only governed by free market forces.

What type of supervision does OSINERGMIN provide with regard to hydrocarbons?

As far as hydrocarbon activities are concerned, we are not a regulatory body in charge of regulating monopoly services, rates, quality and safety standards. OSINERGMIN acts as a supervisory body for the hydrocarbons activities throughout the production chain: exploration, exploitation, transportation, distribution and marketing. In these matters, we supervise that society does not become affected by safety issues, such as explosions, fires or environmental problems.

Through specific legislative decrees we have been assigned other roles, including the control of the quantity and quality of the fuel sold at gas stations; and we have been assigned an additional role: Through OSINERGMIN's web, we must publish the retail prices of all the gas stations in the country; thus, when a user wants to compare the prices in his/her district, he/she accesses the web, enters the name of the district, and the price of different gas stations shows up on the screen, and the user may choose the most convenient price; and thus, we are able to make this a more competitive and transparent market. This is what we call the "informationer" system.

What is the Scop system?

It is the control system for purchase orders. This system connects refineries, wholesalers, OSERGMIN and users, which may be gas stations or end consumers. Users must have a code provided by us, based on the inspection we have conducted in their plants; with this code and through the Scop system, they have access to the delivery of fuel from a wholesaler or a refinery; and, as we are controlling all this online, in a very unlikely case that a refinery should sell fuel to an unauthorized company, we would apply

a sanction, both to the supplier and to the purchaser; but when refineries are aware that these are unauthorized customers that are not included in the system, they do not deliver the fuel; thus, we have greatly reduced non authorized transaction from over 30 percent to less than 10 percent. The remaining unauthorized companies are special cases, mainly those people who sell fuel in cylinders or cans, or those who have reduced the quality of the fuel they store in a hidden place, etc

OSINERGMIN has developed the *Scop* system, and several countries with the same informality problem as ours have resorted to us, to find out how this system operates. In many cases, they have requested our technical assistance, such as the case of Colombia; Brazil has sent several delegations from different states; and the former government of Bolivia expressed its will to reach a cooperation agreement.

What is the GIS-SAT system?

With regard to hydrocarbons, we have developed an information system that enters part of the detailed geography, such as the location of gas stations, hospitals, etc. in the computer, to obtain a risk assessment that will immediately enable the relevant authorities to know where to go, in order to help the population or protect the most delicate centers that are in the vicinity of this risk.

What is the Affidavit of Environmental Compliance?

We conduct a pre-construction supervision and, before the companies commence operations, we assess whether the companies are complying with the above mentioned aspects of technical, safety and environmental regulations. We issue an operating permit based on this procedure, enabling them to start working. In the case of minor units, in order not to delay their implementation, we provide them with information and certain documents; for example, if they want to build a gas station, they must commit to comply with all the requirements included in these documents, and they should submit a certificate of having complied with all these requirements after having implemented them. Once we receive this certificate, we issue the installation permit and then the operation permit; nevertheless, we continue conducting subsequent supervisions. Thus, we shorten the waiting time for these investments, which are not so big and require to be installed as soon as possible, because investors suffer when they have to wait.

What is environmental monitoring?

To perform an environmental monitoring of gas or liquid hydrocarbon activities, we go to the site and check the diverse pollution level parameters, which may be sulfur or water, in the case of an oil well; we measure them and, if they exceed the maximum allowable parameters included in the regulation, then we apply a sanction.

How many methods of supervision do you apply?

There are two types of environmental supervision; one is the regular operational supervision, where we regularly verify the compliance with environmental regulations and approved environmental impact assessments, regarding technical and safety regulation aspects; and the other type of supervision is the especial supervision that takes place when any interested party or citizen denounces an incident, accident or any problem in these sectors, and we must verify whether the company is failing to comply with any regulation; if this is the case, then we apply the corresponding sanctions.

What projects lie in store for OSINERGMIN?

In the case of electricity, in these new contracts of companies which are going to install new transmission lines or expand those they already have, we have to verify that the successful bidders comply with the regulation included in their contracts.

In the case of liquid hydrocarbons, the greatest growth takes place in oil exploration and exploitation; and we have to conduct a series of supervisions where there are several pollution or safety problems; and these may require several supervisions.

In the case of natural gas, it is a very complex issue because, as it is a new sector, it has experienced a growth of about 30 percent per year. Gas pipelines are being enlarged and new gas pipelines are being built; there are also projects for petrochemical plants. We also have to supervise gas pipelines such as that of Kuntur. There is a great amount of work to be done in this area.

What is your opinion about the change of the energy matrix in the country?

This is a very important issue as, although there could be many more natural gas deposits than those proven, we do not know for sure how much gas there actually is, and the gas supply may be interrupted at any time; but this is not going to have a direct impact on prices. An excessive investment in power generation based on natural gas could reduce the possibilities of using natural gas for other applications in the future, and this would not result in the most rational utilization of resources. When we see the hydroelectric potential we have in Peru, of 10 or 15 times the current electricity consumption, we could expand the electric capacity we are now consuming in 10 or 15 times, then, we could have electricity for 100 years.

The issue is that, as it is more expensive than natural gas and, on the other hand, it is necessary to process a series of permits, surmount several obstacles, and, as these projects have a long development period of time of 5 to 8 years, and they require financing and credit, it is difficult to develop projects in those conditions. For all the above issues, we must establish an energy matrix foreseeing what will be the future importance of each energy source, including renewable energy sources. We must analyze all this, foresee diverse scenarios with the capacity for these different sources of electric generation, decide which would be the most reasonable scenarios and why. The energy matrix must be developed by conducting an

analysis, and the results of this analysis must be the basis for determining the energy matrix.

I am concerned about two issues: The new institution that will perform the environmental supervision will be the OEFA (Environmental Evaluation and Supervising Body), which is under the Ministry of Environment. This organization must receive all the resources and support necessary to effectively perform its environmental tasks. Another issue is the good will which the institutions or the government may show, but laws are something completely different. To issue a permit for the operation of a gas station, petrochemical plant, etc., we must prepare a favorable technical report, which means that a group of experts has revised all the regulations and supervised that all specifications have been met. I have asked the government to let OSIGNERGMIN keep the whole permit issuance process in its hands, because, if the environmental area has to be studied by another institution, which is going to bring its own technicians, there is going to be a double expenditure, It is not OSINERGMIN who will suffer because of this; in the end, it is the investors who will suffer. Thus, this situation calls for a legal clarification, as it is going to stop many projects in Peru, and I hope that a solution may be reached as soon as possible, dispelling our concerns.