

Bid rounds mark a new wave of investments in the Brazilian energy matrix

On 27 September 2017 two vital bids processes for the Brazilian Energy matrix were held: A bid for the granting of hydroelectric power plants, as well as the 14th Brazil Round for the prospecting and exploration of oil fields. MSI's Brazil law member Vieira Coelho Advogados provide a brief summary of both two bids.

Hydroelectric Power Plants Bid Process

The Federal Government promoted a bid process for the granting of four hydroelectric power plants that had their concession contracts end between 2013 and 2017, that were not renewed by Brazilian governmental company Companhia Energética de Minas Gerais S/A (Cemig), and this represents another relevant stage in the restart of investments in the Brazilian electric sector.

The winners of the bid may explore the activities for the next 30 years. The Brazilian Government expected to receive at least R\$ 11 billion with the bid for these power plants; however, due to interest from multiple parties, this amount reached R\$ 12.2 billion.

These concessions were included in the Investment Partnerships Program (Programa de Parcerias de Investimentos - PPI), under the terms of Decree # 8,893, of November 1, 2016.

14th Brazil Round

The Brazilian Oil, Natural Gas & Biofuels Agency – ANP held the 14th Bid Round of exploration and production blocks.

In this bid round a total of 287 blocks were offered, spread across 9 sedimentary basins. Although the 14th Brazil round was expected to attract small and medium sized O&G companies, several of the blocks were granted to large O&G companies.

A total of 20 companies presented bids, with 17 of them having been granted at least one block. A total of 37 blocks were granted, with a total estimated Minimum Exploratory Program – PEM of R\$ 845 million. The concession contracts are expected to be signed on January 31, 2018.

Although the ANP and the government expected a total signature bonus of around R\$ 1 billion, this turned out to be a record setting bid round, reaching a total signature bonus amount of R\$ 3.8 billion.

Special mention must be made to the Campos Basin, located in the States of Rio de Janeiro and Espírito Santos. Out of the 10 blocks offered in such basin, 8 were granted, including the 2 blocks with the highest offered signature bonus: (i) C-M- 346, with a signature bonus of R\$ 2.24 billion; and (ii) C-M-411, with a signature bonus of R\$ 1.2 billion.

Future Expectations

These 2 bid processes point towards a promising future, with additional investments being expected in Brazil and in the State of Rio de Janeiro.

Speaking at the start of the 14th Brazil Round, the ANP General Director, Mr. Décio Oddone, stated that 2 bid rounds for pre-salt areas shall be held this year and a further 6 are expected to occur until 2019.

In this sense, on October 27, 2nd and 3rd bid rounds for blocks in the pre-salt areas. The 2nd Round shall offer 4 areas with unusable deposits, that is, areas that are adjacent to blocks with reservoirs extending beyond the concession area. The 3rd Round shall offer 4 pre-salt areas located in the Campos and Santos basins.

These new bid rounds are expected to attract major international O&G companies, looking to make further investments in Brazil.

Finally, looking further into the future, the Brazilian Government has established a multi-year calendar for O&G bids, with 3 rounds being held in both 2018 and 2019.

Vieira Coelho Advogados has vast experience in providing legal assistance to clients in power generation and transmission projects, as well as O&G ventures, both during the implementation and in the operation phase and is at your full disposal for any clarifications related to the development of new businesses in Brazil.