A UK–Guatemalan success story

Interview with JAIME TUPPER
Chief Executive Officer, Energuate

JAIME TUPPER graduated in electrical engineering from the Universidad Simón Bolívar in Caracas, Venezuela. During his career he has held senior positions including that of Vice President of Commercialisation, Vice President of Operations, Director, Director General and President of telecommunications and electricity companies in Venezuela, Chile, Colombia, the Dominican Republic, El Salvador and Panama. He has served as CEO of Energuate since 2011, advancing changes in the distribution companies and electricity market of Guatemala in order to modernise them and make them more efficient.

Over the last decade, Guatemala has experienced the fastest electricity sales growth of any country in Central America, with a compound annual growth rate of 6 per cent in that time, driven by the demands of a fast-growing economy.

Helping Guatemala meet its rising energy needs is Energuate, which supplies electricity to 1.5 million customers in 20 of the country's 22 provinces, covering 90 per cent of this mountainous and heavily forested country.

Energuate emerged as a result of the privatisation of Guatemala's electricity sector that began in 1996. In the wake of the peace accords that ended decades of conflict, the country embarked on a major programme of infrastructure reform. This opened up energy commercialisation, distribution, transmission, and generation from the control of the then two major stakeholders: Empresa Electrica de Guatemala, Sociedad Anonima (EEGSA) and the Instituto Nacional de Electrificación (INDE), creating a competitive market where only the prices of transportation and distribution are still regulated.

EEGSA sold its generation activities in 2001. Before that, in 1998 the company divested 80 per cent of its distribution assets. In the same year INDE split its own distribution assets, which were subsequently acquired by Spanish outfit Unión Fenosa. In May 2011, UK-based Actis Capital, a private equity firm, bought a majority stake in the company in what was the country's first leveraged buyout, renaming the new entity Energuate.

As a result of privatisation, today there are 49 electricity generation companies, five transmission companies,16 distribution companies, and 18 sales companies in the electricity sector, with 80 per cent of electricity generation originated by private investment. Guatemala has a total installed electricity capacity of around 2,800 MW, according to the US Energy Information Administration.

The electricity sub-sector in Guatemala is clearly defined and regulated: The Ministry of Energy and Mines is the policymaking body, the National Energy Commission regulates the subsector; while the Wholesale Market Administrator is the national operator of the Interconnected National System. Within this regulatory legal framework operate generators, transporters, distributors, large users and marketers.

"The financial health of the electricity sector has improved tremendously since privatisation," says Jaime Tupper, Energuate's CEO, who adds: "Governments were simply not able to provide the financial support needed. Now we have a sector with profitable companies committed to long-term growth through investment. New plants are being built, transforming Guatemala from a country with an electricity deficit into the leading exporter of energy in Central America. We now have one of the most competitive electricity sectors in the region, and life has significantly improved for many people throughout Guatemala."

More than 60 per cent of Guatemala's electricity production comes from renewable sources, with remaining production made up of coal and diesel. The generation sub-sector is already highly diversified and includes hydroelectric, geothermic, biomass, solar, and wind energy plants. As Mr Tupper explains, the Ministry of Energy and Mines is working to transform the energy matrix in favour of renewable energy, opening the opportunity to establish significant investments in renewable energy projects: "The country not only aims to make significant savings as oil international prices keep increasing, but also to reduce prices on electricity and to minimise the impacts of carbon emissions, while shifting the energy mix to promoting renewable sources of energy."

Guatemala's current energy matrix includes almost 50 per cent hydro, 20 per cent diesel, and 14 per cent coal.

The goal by 2015 is to eliminate the use of diesel and to be producing 1,685 MW of power made up of 65.9 per cent hydro, 16 per cent coal, and 17.8 per cent geothermal.

Nevertheless, as Mr Tupper points out, coal remains a cheap, convenient option, and Guatemala is a low-income country that will have to continue to rely on fossil fuels for some time. "We have to promote responsible coal generation, to be as environmentally friendly as possible as we make the move toward sustainable, affordable energy," he says.

Empowering rural areas

Energuate is a key partner in the government's Rural Electrification Plan (PER), which is modernising the electricity sector in Guatemala and expanding coverage to include a larger number of rural households.

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electricity coverage has increased from 50 per cent of the country to 89 per cent today. Most of that increase is into rural areas," explains Tupper.

Development of the electricity sector across the country has been hampered by memories of incidents dating back to the 1980s. This has led to a situation where new projects are met with scepticism and opposition, regardless of the potential benefits to the communities.

Economic and social disparities between rural and urban areas exacerbate the situation. Fears about manipulation often drive resistance to energy projects. These have led to demonstrations, including the blocking of important transit routes in Guatemala.

But as Mr Tupper points out, local communities have been more welcoming of new energy projects. This is partly due to legislation, which guarantees a fixed rate of 4 per cent of net profits to the local municipality, but also due to direct aid programmes set up by Energuate to provide communities with amenities such as schools and medical clinics, along with other small economic development projects included within the companies' corporate social responsibility programmes.

"It is essential to create and develop a good communications programme direct to the villagers in order to share with them the benefits of any particular energy project," says Mr Tupper.

Energuate has taken a softly-softly approach in working with rural communities. "We have focused on social management, aimed at establishing a relationship with our customers and customer representatives by working closely with national, regional, municipal and local authorities, in which we provide solutions and alternatives to the concerns and requirements of our clients. We back this up with a comprehensive CSR programme that supports efforts in education, health, safety and the environment. We focus on providing knowledge and opportunities for children and young people in our coverage area," he adds. This has involved providing information in Mayan languages, as well as scholarships and training programmes for electricians, creating a direct link with communities.

This community-based approach very much reflects Actis' strategy with Umeme, the Ugandan energy distribution company. Through experience gained from running Umeme, and managing Central America's largest wind farm, Actis is well placed to work alongside Energuate's management team to transform the company into a transmission network able to keep pace with demand.

Actis has investments in emerging markets in Africa, China, India, Latin America, and South East Asia. It was formed in July 2004, as a spinout of CDC Group plc (formerly the Commonwealth Development Corporation, an organisation established by the UK Government in 1948 to invest in developing economies in Africa, Asia, and the Caribbean. The Actis management team acquired majority ownership of CDC's emerging markets investment platform.

"We have a very positive relationship with Actis," says Mr Tupper. "We have benefitted from its knowledge of emerging markets, good governance, and safety policies, as a result of which we have improved safety tenfold. Actis decided to appoint an independent board of directors that includes experts in

We've got the power: routine maintenance is carried out to the highest safety standards different areas, underscoring the importance of good governance. Actis has promoted ethical practices. They come over every two months to carry out an in-depth analysis of the business, and this is something from which we also learn a lot."

Long-term commitment

Actis is taking a long-term approach to its investment in Energuate, says Mr Tupper. "Actis' management approach is focused on generating value at the company level, about growing the company, rather than taking money out, or paying big dividends to shareholders."

In fact, Energuate has not met the goals of the business plan during the first two years of Actis' ownership, says Mr Tupper. "This year we are on target, and we are expecting to close the year fully compliant with the plan. Actis understands the constraints we are working under: for example, energy theft. We work within a tariff that recognises a 16 per cent loss from theft of electricity, but the reality so far has been a 19 per cent loss. However, In the first quarter of the year, the trend has reversed, losses have decreased as a result of negotiations with two major communities in the East of the country, added protection of the network, more control at points of energy exchange and decisive action against fraud. This gives us reasons to be optimistic on the outlook for the year."

Energuate has lobbied hard to get the government to take action against criminal gangs that steal energy from the national grid and sell it on to households, a practice that is particularly rife in the western part of Guatemala, says Mr Tupper.

Looking to the future

Central America's electricity system is entering the final stages of interconnection. There is full already full interconnectivity between Mexico and Guatemala, which has allowed for regular supply, while stabilising the market. At the same time, Guatemala and its five Central American neighbours – El Salvador, Honduras, Nicaragua, Costa Rica and Panama – have agreed a regional project known as SIEPAC (Central American Interconnection System) that aims to interconnect their respective transmission grids, allowing power to flow between the different countries.

The final challenge remains the harmonisation of regulations within Central America, says Mr Tupper: "The private sector has an important role to play in SIEPAC, but its success depends on agreements between governments throughout the region; we have to remember that there are major differences regarding energy policy within Central America. But when this process is completed, we will see rapid economic growth and development in this part of the world."

"Guatemala has the potential to play a key role in the regional economy by providing increased energy generation and distribution," says Tupper.

"There is huge potential for other UK-based companies to come here and participate in the expansion of our electricity supply and generation," he says, adding: "We have sustained growth, we offer equal opportunities for foreign investors, and we have a stable, regulated power market." F

There is huge potential for other UK-based companies to participate in the expansion of Guatemala's electricity supply and generation

Reach for the sky: Energuate's CSR programme aims to provide knowledge and opportunities for children and young people