

Member Portrait: LPG Market Reform in Peru

*In each issue of the ERRA Newsletter we present a member organization through current regulatory issues they are facing that can be relevant and informative for other ERRA members. In this issue of the newsletter we introduce Peru's Regulatory Agency for Investment in Energy and Mining (Osinerghmin) through an interview regarding the ongoing reforms in domestic LPG market with **Mr. Edwin Quintanilla, Manager of Energy Supervision***



Mr. Quintanilla, Peru's energy sector is undergoing some important changes these days. In this interview we would like to ask you about the pending LPG market reform. What are the main challenges for the LPG market in Peru and why is the reform so important?

For the last 20 years, the LPG demand in Peru has grown by 418%. However, the storage capacity has only increased by 2% in Lima and Callao*, which puts the continuous supply of this hydrocarbon at national level at risk.

Additionally, according to the statistics of the General Fire Department, 2020 is the year with the highest number of LPG leaks registered in the last decade (8691 leaks), which has a direct impact on the safety and well-being of the population.

As a supervisory body to the sector, this is a serious concern to us. This is why we decided to go beyond the attributions we have established by law. In this sense, we made an international research to exchange experiences with other countries and carried out a technical analysis, which resulted in seven proposals to improve the LPG market. The fundamental focus is on the search for competitiveness and safety of people, supply and infrastructure. We have already presented the proposals to the Ministry of Energy and Mines and shared them with stakeholders by means of a virtual technical event and a media strategy.

What international practices is Osinergrmin considering in the context of this landmark reform?

We consulted countries that face similar challenges as we do in terms of the size and maturity of the market, safety regulations, inter-institutional arrangements, and cultural practices- especially those associated with informality.

In Latin America we have been in contact with Brazil, Chile, Colombia, Costa Rica, Mexico and Uruguay, with whom we have regular bilateral conversations. We also used the framework of the Ibero-American Association of Energy Regulatory Entities (ARIAE). In the case of ERRA, we contacted the Turkish Energy Markets Regulatory Authority, as the use of LPG has grown a lot for vehicular use both.

Despite the language difference, in South America we have many similarities with Eastern Europe and the Caucasus region as all of us have experienced political transition processes that make us face common challenges. We also reached out to India and Ghana as we were interested in coming up with innovative solutions.

It is interesting to note that the point of the greatest agreement among all the countries we have spoken to, has been the importance of promoting energy education for consumers to become agents of change. This is the only feature that will allow us to have the certainty about robustness and security of energy markets in the long term.



An Osinergrmin technician inspecting LPG tanks

In the LPG reform summary report by Osinergrmin you state that there is no competition on the supply side and that there are needs for more storage capacity. Is the government of Peru planning any incentive scheme for new LPG storage undertakings and if yes, what would it base on?

As I already mentioned, the LPG market in Peru has not grown at the same rate as its storage capacity; this represents a huge challenge. Therefore, our reform proposal includes the expansion of storage capacity at the wholesale level – the idea is to have inventories that promote competition while also strengthening Peru’s energy security by means of an independent operator. It is essential that the new storage infrastructure is built in the central, eastern and southern areas of the country, decentralizing the current concentration in Lima, our capital.

In this regard, we have approached the Corporation for Strategic Reserves of Petroleum Products of Spain (CORES) to learn about their experience in terms of energy security. Although Spain's context is different, as they must comply with the regulatory framework of the International Energy Agency (IEA) and the European Union (EU) in terms of inventories, this Corporation is managed under a public-private alliance that provides a more flexible scheme. This means giving CORES a state institutional framework and at the same time the operational capacity of the industry.

We were also satisfied to learn about the added value that CORES generates in terms of statistical reports - all agents are obliged to update data by law. Another positive feature is that its executive board is of exclusively technical profile, which is guaranteed by its internal governance scheme.

One of the listed solutions for a more modern and safer LPG retail market in Peru is a, so called, "Safety kit". Does Osinergmin or the government consider any additional education programs for the wider public in this respect?

Indeed, Osinergmin proposes the launch of a program to replace Fisher-type regulators in LPG cylinders with a 20 mm regulator and suitable hoses, that will be a part of the Safety kit. The goal is to reduce the number of leaks and accidents.

This change should be accompanied by an intense educational campaign for families, to learn about the active role they play in the proper use of these new solutions in order to guarantee their safety. ■

* Callao is seaside city on the Pacific Ocean in the Lima metropolitan area. Callao is Peru's chief seaport and home to its main international airport. An estimate of 50% of the demand of LPG comes from Callao