Peru is Primed for Natural Gas

Stratas Advisors

This report segment about Peru’s natural gas is from Stratas Advisors’ Latin America and Global Alternative Fuels services.

The volume of natural gas consumed in Peru has risen by 713% over the past ten years, from 0.8 million tons of oil equivalent in 2004 to 6.5 million tons of oil equivalent in 2014, as shown in the figure below. By comparison, oil consumption grew 33% during the same period. The share of natural gas consumption increased from 6% to 28%, while that of oil consumption decreased from 59% to 45%.

Natural Gas

The increase in natural gas consumption in Peru is directly related to the increase in the country’s reserves, which have grown substantially over the past decade. Even though there are controversies among different sources — BP, OPEC and the official figures from the Ministry of Energy and Mines — all of these sources indicate that proven reserves have grown at least by 76% since 2000.

Natural gas is currently produced in two different areas of the country: the province of Piura, located along the country’s northern coast and close to the border with Ecuador; and in the forests located in the southeast hinterland of Cusco and Ucayali provinces. Most of the production comes from the latter region, where lots 56 and 88 of the Camisea gas field are located.
The Camisea field has been explored since 1981 but it only became operational in August 2004, when production began in lots 56 and 88. The concessions for both lots were won by the Consorcio Camisea, a private consortium with Pluspetrol, an exploration and production (E&P) company headquartered in Argentina, as the field’s lead operator. The largest shareholder in the venture is U.S.-based Hunt Oil, which owns 36% of the consortium, along with Pluspetrol (26% share), South Korea’s SK Corp. (18%), Argentina’s Tecpetrol (10%) and Algeria’s Sonatrach (10%).

Natural gas production, consumption and LNG exports in Peru have grown substantially since the exploration of Camisea lots 56 and 88. Considering that only a small portion of the field has been granted permits so far, it is possible that the country’s production will keep growing in the future. As a consequence of the production increase, the government has created programs to promote CNG vehicular use in the country; nevertheless, the availability for exports as LNG remains high.

**Government Policies and Incentives**

Peru’s efforts to develop natural gas began to gain traction in 1999 with the enactment of Law 27,133, which stated the development of the natural gas industry – exploration, production, pipeline transport and distribution to end-user markets – was in the national interest. According to this law, the end goal in developing a natural gas supply chain was to better supply the domestic market with energy. In November 2010, the Ministry of Energy and Mines officially released Peru’s National Energy Policy 2010-2040, reiterating the objective of developing the natural gas sector and its use for domestic, electricity, industry and transportation purposes throughout the country.

With the beginning of operations in the Camisea field in August 2004, the possibility of using CNG as an automotive fuel led to the enactment of three decrees in February 2005 and a fourth in December 2005:

- Decree 002-2005-MTC from the Ministry of Transportation and Telecommunications, which modifies the National Vehicles Regulation and allows the distribution of CNG vehicles by automakers and the installation of conversion kits in gasoline-fueled vehicles;
- Decree 006-2005-PRODUCE from the Ministry of Production, which approves technical regulation for natural gas conversion equipments;
- Decree 006-2005-EM from the Ministry of Energy and Mines, which approves technical requirements for automotive CNG distribution in service stations; and
- Decree 063-2005-EM from the Ministry of Energy and Mines, which reiterated some aspects of natural gas distribution and commercialization to promote mass-scale consumption in the automotive, residential and industrial sectors.

In February 2007, the City of Lima enacted Ordenanza 997, which set specific conditions for CNG distribution in the Lima-Callao metropolitan region.

In 2012, the government established the “Chatarreo Vehicular” (vehicle scrapping) initiative, a plan to remove 4,000 vehicles older than 20 years from the roads in the Lima metropolitan area in 2012. Owners will receive compensation that amounts to up to US$7,000 to purchase another vehicle or start a related business. Initial allocated funding is US$6 million but another US$9.5 million will be progressively added as the program is expanded.

According to the Ministry of Transport and Communications, the Chatarreo program has been implemented for taxis in the municipality of Lima as of July 2012. The program will expand to passenger cars but there is not yet a deadline for this as the Ministry is carrying out some preliminary studies.

In August 2015, Peru’s energy and mining regulatory agency (Organismo Supervisor de la Inversion en Energía y Mineria - OSINERGMIN) approved Resolution No. 172/2015, which established the Program for the Promotion of CNG Conversion (Programa de Promocion de Conversion a GNV). Through this program, OSINERGMIN will help finance the conversion of vehicles to CNG, primarily in the rural areas in Northern Peru. The Program will be funded through the Social Energy Inclusion Fund (Fondo de Inclusion Social Energetico - FISE), which provides a discount for natural gas prices in Peru. Resolution 172/2015 followed Decree No. 035/2014, which authorized the distribution of FISE toward CNG conversion.

On Jan 15, 2016, OSINERGMIN announced that it will finance the conversion to CNG vehicles of taxis and other similar vehicles through the Social Energy Inclusion Fund (FISE) in the Lima, Callao and Ica region. To receive financing, the vehicles must use either gasoline or LPG as a fuel, be authorized to transport passengers, be less than 10 years old, and pass technical pre-inspection in CNG conversion workshops. If authorized for conversion, FISE will cover the cost of sequential conversion kit and cylinder, certification, installation service, training and other guarantees. The beneficiary will have five years to pay back the funding with a favorable interest rate.

OSINERGMIN’s decision was propelled by Resolution No. 172/2015, which authorized FISE funds for CNG conversion. The decision to focus on the cities of Lima-Callao and Ica are mean to benefit the majority of CNG consumers, as 98.5% of CNG vehicles are located in those two cities.
In 12 years, more than 200 fueling stations distributing CNG have been built in the country and more than 170,000 conversions have been performed. From 2011 to 2013, however, there has been a slowdown of NGV conversions mainly driven by two factors: the increase in the CNG price and the lack of a clear policy framework for the massive introduction of CNG in Peru. However, conversions recovered in 2014, with over 21,000 conversions taking place, a 50% increase from 2013. The government's decision to lower CNG prices, as well as a rise in gasoline prices, helped NGV conversions.

CNG consumption decreased 3% in 2015 compared to 2014 as the drop in gasoline prices over the past few months caused by the global drop in oil prices has made CNG less competitive. Although the sector has expanded significantly over the past years, the lack of clearer government incentives remains an obstacle for more growth.

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