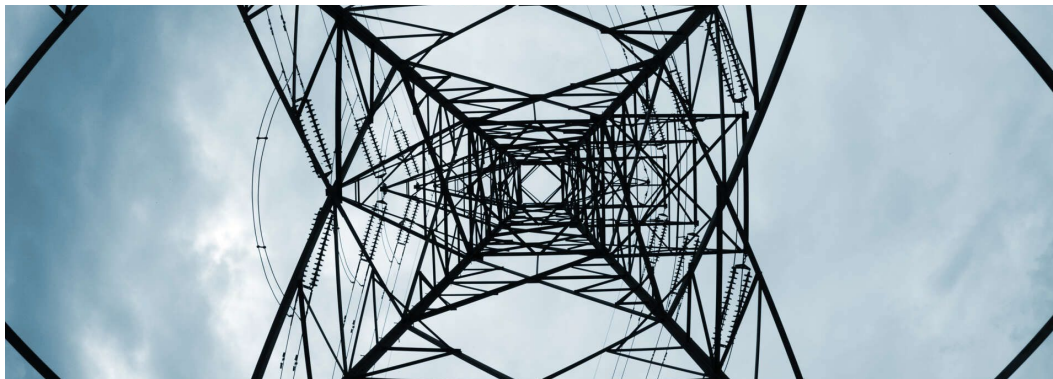


Latin American Utilities

Political interference, high interest rates burden the industry

January 14, 2025

This report does not constitute a rating action.



What's changed?

Increased exposure to extreme weather events. Higher frequency and severity of climate events could represent a new challenge. We expect regulators to demand investments to strengthen the assets' resilience and mitigate the volatility of energy supply, which may not be fully recoverable under existing contractual frameworks.

Political interference. Despite the regulators' autonomous operations, we have observed an increased number of political meddling, such as the proposed regulatory changes in Chile and attempts to freeze energy rates in Colombia. Still, we continue to view regulatory frameworks as supportive, because they allow for timely recovery of operating costs and capital.

What are the key assumptions for 2025?

High interest rates and foreign-exchange volatility to constrain cash flows. Regional currencies have been weakening since the U.S. election.

Hydrology in line with the historical average. As hydrology continues to drive energy prices in Brazil, Chile, Colombia, Peru, and Panama, we expect spot prices to ease in 2025 (except for Colombia). This is because our base-case scenario currently excludes severe El Niño or La Niña events.

What are the key risks around the baseline?

A sharp rise in energy demand. The data-center boom may disrupt the historical pace in power demand growth, resulting in energy price spikes.

Curtailement. Given the rising share of wind and solar energy, its intermittency is causing the risk of curtailment to rise in Brazil, Chile, and Mexico. Batteries are a temporary offsetting factor, while new transmission capacity is deployed.

Contacts

Julyana Yokota

Sao Paulo
+55 11 3039 9731
julyana.yokota@spglobal.com

Candela Macchi

Buenos Aires
+54 11 4891 2110
candela.macchi@spglobal.com

Daniel Castineyra

Mexico City
+52 55 5081
daniel.castineyra@spglobal.com

Gaston Falcone

Buenos Aires
+54 11 4891 2147
gaston.falcone@spglobal.com

Marcelo Schwarz, CFA

Sao Paulo
+55 11 3039 9782
marcelo.schwarz@spglobal.com

Veronica Amendola

Buenos Aires
+54 11 4891 2175
veronica.amendola@spglobal.com

Ratings Trends: Latin American Utilities

Chart 1
Ratings distribution (including project financing)

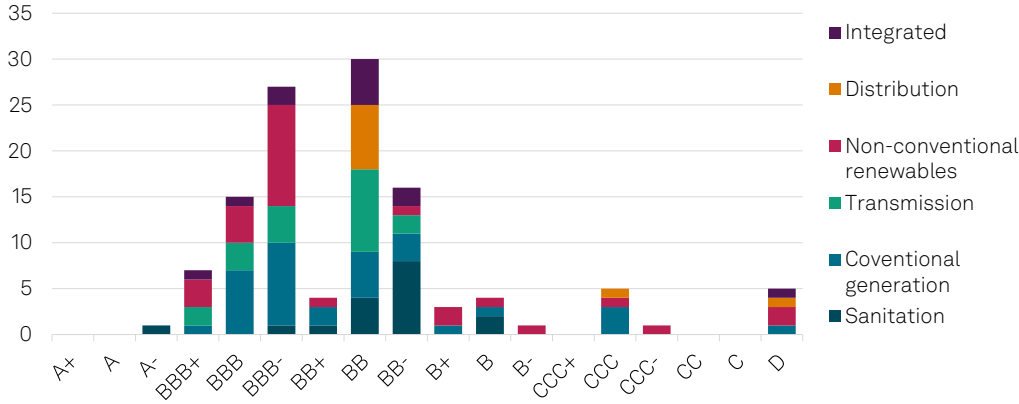


Chart 2
Ratings outlooks

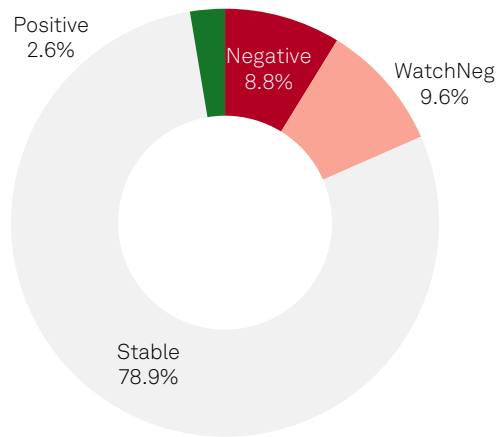
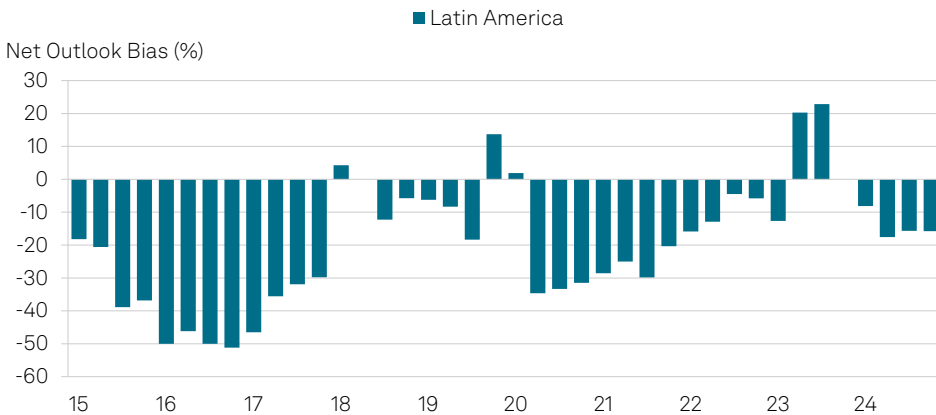


Chart 3
Ratings outlook net bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Credit Metrics: Latin America Utilities

Chart 4
Debt / EBITDA (median, adjusted)

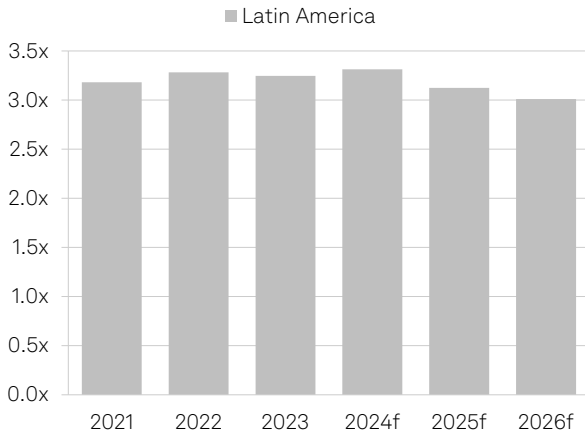


Chart 5
FFO / Debt (median, adjusted)

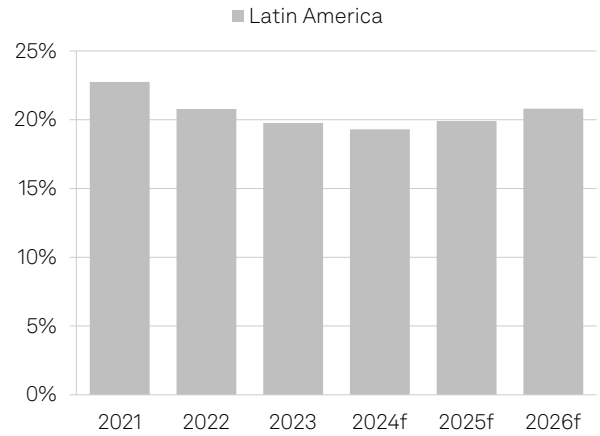


Chart 6
Cash flow and primary uses

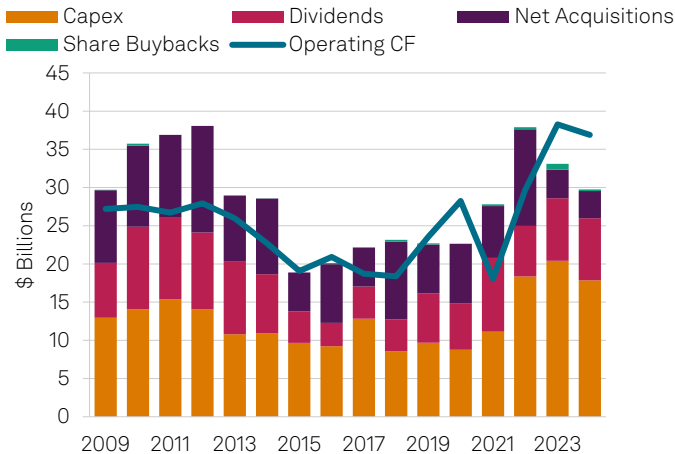
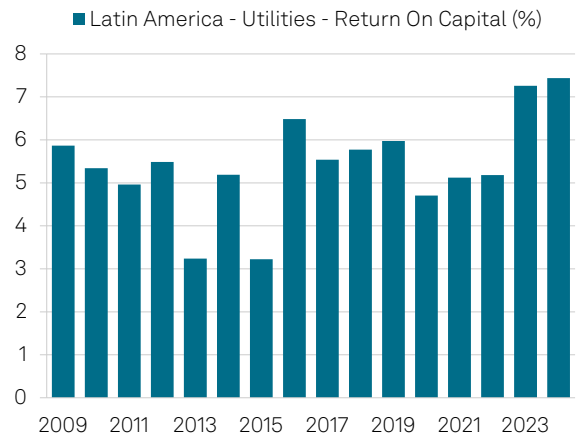


Chart 7
Return on capital employed



Source: S&P Global Ratings, S&P Capital IQ.

Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. Most recent (2024) figures for cash flow and primary uses and return on capital employed use the last 12 months' data.

Industry Outlook

Ratings trends and outlook

About 80% of the rated Latin American utilities have a stable outlook, most of which mirror the outlooks on their respective countries of operations. The sovereign ratings continue to determine most of the ratings on the region's largest regulated utilities.

Main assumptions about 2025 and beyond

1. Energy demand to continue growing in line with that of GDP.

We forecast the region's GDP growth of 2.1% in 2025 and 2.2% in 2026 (see table 1).

2. Drivers of energy prices.

We assume hydrology conditions, as well as oil and gas prices to remain the main drivers of electricity prices.

3. High interest rate and volatility of local currencies.

Borrowing costs are unlikely to come down soon, as the region's central banks adopt a cautious monetary approach considering the slower-than-expected pace of interest-rate cuts in the U.S. and global trade policy changes proposed by the second Trump administration. These factors have lifted volatility in the region's exchange rates and likely to tighten financial conditions.

Table 1

Macroeconomic outlook for Latin America

%	2023			2024e			2025f			2026f			2027f		
	GDP growth	CPI inflation	Interest rate	GDP growth	CPI inflation	Interest rate	GDP growth	CPI inflation	Interest rate	GDP growth	CPI inflation	Interest rate	GDP growth	CPI inflation	Interest rate
Argentina	(1.6)	133.5	100.0	(3.5)	226.0	35.0	3.8	65.0	25.0	2.5	40.0	25.0	2.5	32.0	25.0
Brazil	2.9	4.6	11.75	3.1	4.3	11.75	1.9	4.2	11.25	2.1	3.7	9.5	2.2	3.5	9.0
Chile	0.3	7.6	8.25	2.4	4.3	5.0	2.2	4.0	4.0	2.4	3.7	4.0	2.5	3.5	4.0
Colombia	0.6	11.7	13.0	1.7	6.7	9.25	2.5	3.9	8.0	2.8	3.4	7.5	2.9	3.1	7.0
Mexico	3.2	5.5	11.25	1.5	4.7	10.0	1.2	3.9	8.5	1.9	3.4	7.5	2.2	3.1	7.0
Peru	(0.5)	6.3	6.75	2.9	2.5	5.0	2.8	2.4	4.0	2.7	2.4	4.0	2.9	2.4	4.0
LatAm 6	1.8	-	-	1.5	-	-	2.1	-	-	2.2	-	-	2.4	-	-

CPI inflation data are annual averages. Interest rates are central bank policy interest rates at year-end.

e—Estimate. f—Forecast.

Source: S&P Global Ratings Economics.

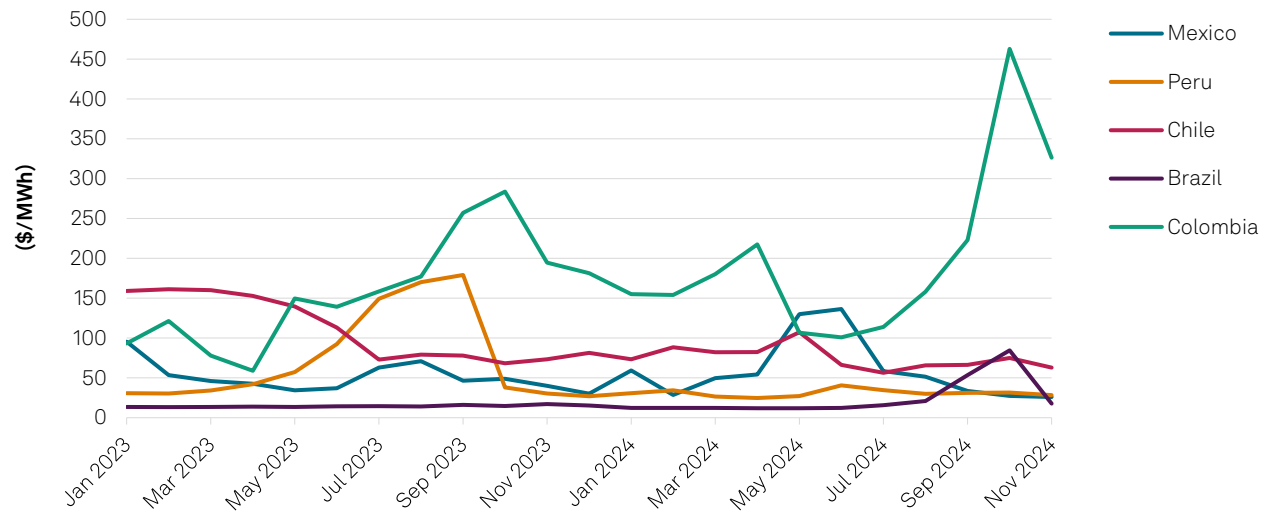
Our base-case scenario assumes demand for electricity to rise in line with our GDP growth forecast. On supply side, thanks to energy transition, net capacity will continue expanding about 3% on annual basis, mainly consisting of growth of solar PV. Despite the expansion of nonconventional renewable capacity of about 10% annually in the region, hydro-based generation still represents around 10% of the installed capacity, which is the main driver of energy spot prices in Brazil, Chile, and Colombia. Meanwhile, energy price volatility linked to Henry Hub gas prices will remain, given Mexico's dependence on thermal generation. Spot prices should remain relatively low, given historical rainfall levels, as the likelihood of a severe La Niña has diminished (see chart 8). However, we continue to see high prices in Colombia, as reservoirs have yet to

Industry Credit Outlook 2025: Latin American Utilities

recover from the drought in 2024. Historically, La Niña causes dry conditions in Brazil and Chile, and the opposite effect in Colombia and Peru. Still, other effects, like peak energy demand due to heatwaves and intra-day volatility due to curtailment, may continue to burden electricity grids in Brazil and Chile.

Chart 8

Spot prices for electricity in Latin America



Source: S&P Global Ratings.

Credit metrics and financial policy

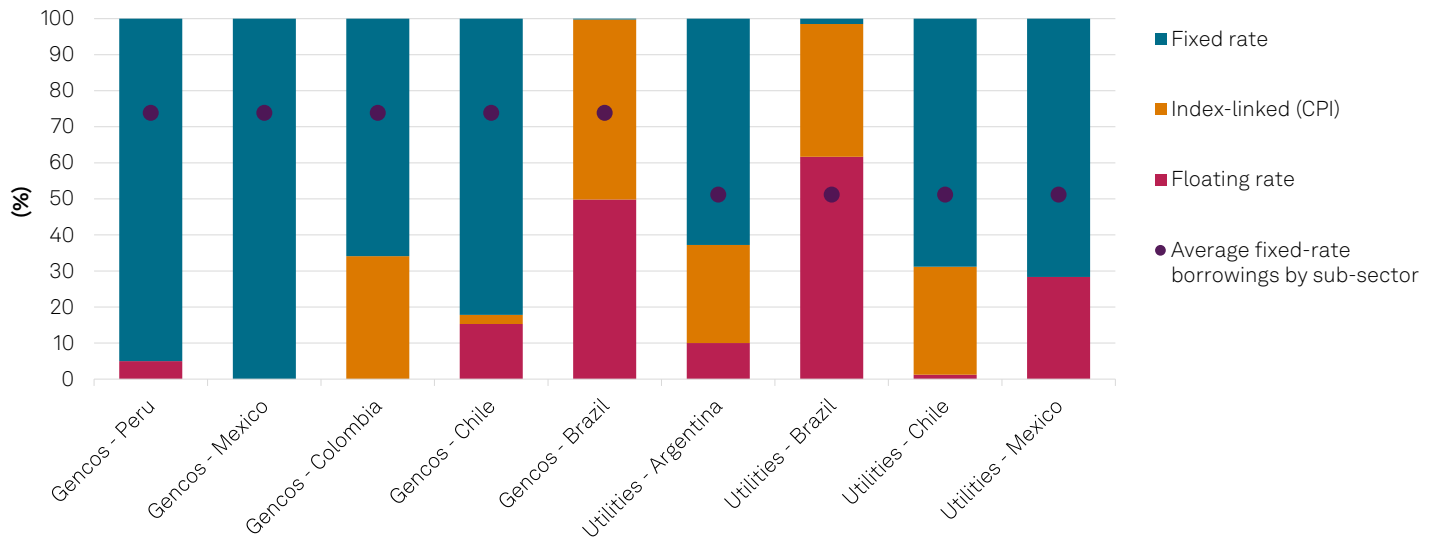
Persistently high interest rates in Latin American countries, except for Chile and Peru, should continue to heighten financing costs and debt service. The recent volatility of local currencies has also increased the operating costs of those entities with higher participation of thermal in the energy dispatch, like in Mexico. However, except for Brazil, most of the generation companies' (gencos') existing debts are at fixed rates (see chart 9). Therefore, the prospects of tightening financial conditions might limit the funding needs for capital expenditure (capex), rather than raising the debt burden, as we don't forecast large refinancings in the sector for the next two years. Similarly, 50% of the regional utilities' total debts are at fixed rate (excluding those in Brazil that operate under a different dynamic). Although positive from an investor point of view, inflation-linked debt increases credit risk, given that credit metrics will suffer initially because of the lag between higher interest costs and the cost pass-through.

We anticipate demand for financing in the first quarter of 2025, mainly fueled by ongoing genco deals. However, we also believe that in a scenario of higher economic volatility and global uncertainties, some companies may decide to postpone capex to preserve free cash flows and cash positions.

Chart 9

Debt composition for Latin America gencos and utilities

As of September 2024



Source: S&P Global Ratings.

Key risks or opportunities around the baseline

1. Surging demand for data centers could pressure energy prices.

The data center sector's boom in the U.S. could migrate to other regions, particularly Latin America, where mostly renewable-based energy mix might attract some developers.

2. Elevated curtailment risk.

The wind and solar capacity addition has outpaced that of transmission in the region. This results in operational challenges, like project cancelations, line saturation as the energy supply can't be stored, and reduced profitability due to energy spills, zero market price, and/or higher intra-day spot prices.

3. Sovereign rating limitations.

Given the utilities' regulated nature, our ratings on most of them are either linked to or limited by sovereign risk.

The rapidly rising demand for data centers, given the rapid advance in artificial intelligence, 5G, and cloud services, is already saturating the U.S. market where nearly 50% of these assets are located. We could see the data-center sector expand in other regions, particularly Latin America, given that the renewables' share of total generation of more than 50% might attract clients seeking to meet net zero targets. Power demand stemming from data centers could cause the overall demand growth to accelerate, resulting in higher prices for power purchase agreements as the energy supply is already tight in the region. Energy supply growth is marginally higher than historical energy demand, mainly driven by energy transition targets, and often constrained by transmission bottlenecks. Still, the development of data centers in the region is in its early stage.

Curtailment is already impacting the energy matrix in the region, such as the decoupling effect in Chile, intra-day spot price variation in Brazil, the cancellation of construction of new renewable assets in Colombia, and energy spills in Mexico. We have incorporated into our ratings the

adverse financial impact of these factors. But the downside risk still exists, in our view, as the development of new transmission infrastructure takes about five years, in comparison to two-three years to build a wind or solar asset. We also acknowledge that temporary solutions, like the integration of hybrid facilities (combination of wind/solar with battery storage), and grid-enhancement technology can mitigate curtailment. But these factors might not be sufficient to cushion against extreme weather events and the rapid pace of distributed generation growth. For example, heatwaves result in peak demand at the end of the day when solar generation is declining, or the transmission grid's saturation stemming from fast growth of self-dispatched distributed generation (mainly solar PV parks) diminishes the operating flexibility of the energy matrix.

Except for Colombia, the ratings on the sovereigns in the region have stable outlooks. However, fiscal conditions are tight in most these countries, which could weaken their credit quality amid the risk of more aggressive trade protectionist policies, and consequently, a deeper hit to growth.

Country Highlights

Argentina

We view more positively Argentina's current rate-setting mechanism, mainly due to the reestablishment of a temporary regime of adjustments that intends to compensate for cost increases for all regulated utilities operating in the country. The new administration granted in early 2024 a one-time adjustment of about 320% for the distribution companies (discos) and 665% for gas suppliers to compensate for last year's high inflation. In addition, the government reinstated a mechanism for monthly rate updates for all energy segments, pursuing an improvement over private investment levels going forward. Still, we believe that the absence of a permanent adjustment mechanism will continue, and a monthly inflation cost pass-through could be an option for 2025 until the framework has been established.

Brazil

We continue to forecast growth opportunities for the electricity sector in the medium to long term. The sector continues to be exposed to hydrology conditions, and the risk of curtailment remains. This is because transmission expansions are planned based on demand, rather on the generation capacity, and we have seen relatively slow demand growth over the last few years.

As Brazilian integrated utilities continue to invest in nonconventional renewables, we have seen intra-day spot price variations, particularly in the Northeast System, which has higher growth potential for solar and wind plants than other grid networks. Energy Research Co. (known by its Portuguese acronym of EPE) forecasts an additional 3 gigawatt (GW) – 4 GW in transmission capacity will be necessary to connect the Northeastern and Southern Systems by 2032. This would allow the export of additional 10 GW, out of the expected 57 GW of wind and solar generation capacity. The transmission capacity auctions in 2024 and 2023 resulted in roughly R\$59 billion in investments to build 17,900 kilometers (km) of transmission lines and substations totaling 20,440 megavolt amperes of transformation capacity. We expect the next three auctions, scheduled for 2025 and 2026, to continue to attract private players to bid for additional 8,000 km with estimated capex around R\$20 billion. This is because they have visibility over the return of this type of asset akin to a fixed income driven by its availability remuneration framework. EPE has also started to monitor the potential demand for data centers, given requests to connect potentially 2.5 GW to the grids in the states of Sao Paulo, Ceará, and Rio Grande do Sul between 2024 and 2037.

The electricity sector is waiting for the regulatory changes that have been under discussion since 2023, which would tackle emerging trends such as the capacity payments necessary to mitigate the higher intermittency stemming from solar and wind, including large-scale batteries, the approval of regulation for offshore wind parks, and the expansion of solar distributed generation that added 8.6 GW in 2024, reaching 35.2 GW of installed capacity, and will likely add 21 GW by 2029 according to EPE.

Chile

We're monitoring closely the proposed bill to overhaul the power industry regulations, given the government's efforts to offset the sharp rise in electricity rates. The bill includes temporary rate haircuts for projects operating under the Small Distributed Generation Means framework. The bill also incorporates the fines related to quality of services on discos and additional carbon taxes.

Chile has a long track record of honoring business contractual agreements, underscoring the opinion among investors and sponsors that the country is one of the most attractive jurisdictions in Latin America to operate. This has been the case also for domestic and international infrastructure players, which sought stability and predictability in business conditions due to the long-term nature of investments in this industry. However, we have seen delays in rate-setting adjustments during the review cycle for regulated utilities, such as transmission lines. In addition, since the social unrest in mid-2019, gencos had to absorb higher working capital requirements related to the rate freeze imposed by the government, while the financial support mechanism (Mecanismo de Protección al Cliente [MPC]) took a long time to implement. In our view, these factors have prompted our reassessment of Chile's regulatory framework to adequate from strong/adequate. This revision now aligns Chile's framework with that of Brazil, where the rate-review cycle for transmission lines is implemented without long delays. Also, in Brazil, the funds to offset the harm stemming from the pandemic and the 2021 drought were disbursed quicker than those of MPC in Chile.

Finally, Chile's ambitious decarbonization plan—aiming to retire all coal plants by 2025—has been impaired by the transmission curtailment, considering that it could jeopardize the grid's security. We have also seen delays in the granting of permits to build new transmission infrastructure. Curtailments caused significant fluctuations in the spot prices depending on the energy delivery point and withdrawn point (the 'decoupling effect') and spot price variations between day and night, considering the amount of new solar projects that were connected to the grid. We believe that curtailment will end once the construction of the large transmission line Kimal- Lo Aguirre, connecting the northern (where most of the new renewable capacity is located) and the central region (responsible for most of energy consumption) is completed in 2030. In addition, an energy reform might be necessary to establish a new framework for dispatch order (considering higher generation from nonconventional renewables), and the inclusion of large-scale batteries. Still, given that Chile was the first country in the region to implement capacity payments for batteries, the country is leading the development of large-scale batteries in the region.

Colombia

So far, President Petro's attempts to impose changes to the electricity framework haven't been successful. However, the government has halted new hydroelectric projects and reduced investments in fossil-fuel baseload capacity, which may pose a risk to the reliability of the electricity grid in the future.

Furthermore, delays in granting licenses and a lack of legal and institutional certainty for unconventional projects, coupled with the need for transmission to integrate energy into the

National Interconnected System in recent years, are additional concerns. Many of the new solar developers, which won the October 2021 renewable auction, had to cancel their long-term energy supply contracts because transmission lines were not built to enable the delivery of energy to the consumption areas.

A new utility bill is underway and could change the framework for both electricity and water utilities. This, coupled with the absence of the construction of new transmission lines, could prevent the construction of new projects.

Mexico

We expect the electricity market conditions and opportunities to improve under President Claudia Sheinbaum, particularly regarding the private players' participation in the generation sector and energy transition goals. Still, we believe the new government will continue expanding the role of Comision Federal de Electricidad (CFE; foreign currency: BBB/Stable/--; local currency: BBB+/Stable/--) and Petroleos Mexicanos (Pemex; foreign currency: BBB/Stable/--; local currency: BBB+/Stable/--) in the energy sector and prioritizing the activities of these public companies over those of private players. We expect a high level of continuity from the previous administration regarding the role and importance of these state-owned companies in the energy sector, and for both companies to continue receiving support from the government. However, CFE has, in our view, limited financial room to bolster its generation capacity, while it needs to invest in strengthening the transmission network in the country.

Therefore, we are still cautious about the sector's future development. We will monitor how the government's proposed energy strategy evolves, like the recent tightening of relations between the regulator and the Ministry of Energy, because investor confidence in the Mexican regulatory framework has weakened in the past few years.

President Sheinbaum was vocal during her campaign about prioritizing fossil fuels, but also about giving more room for private investment in the energy sector, and to foster new unconventional renewable capacity, which expanded by 4.5 GW between 2021 and 2023.

The development of large-scale new renewable projects will be key to allow the country's industrial sector to expand and benefit from nearshoring opportunities, but CFE might be a roadblock, given its monopoly over the distribution network, including the transmission lines. Like other countries in the region, Mexico faces transmission curtailment, which results in price variations among the systems, and energy spills by gencos.

Peru

The driver of the economy has been the mining industry, and we expect it to fuel electricity consumption growth. The port facilities' development also indicates that additional mining capacity is underway, which could be favorable for the utilities, both in terms of additional generation capacity and transmission. After years of political instability, President Dina Boluarte, who is expected to finish her predecessor's term in 2026, has committed to economic and business stability.

Until 2016, the Peruvian electricity market suffered a prolonged period of oversupply. While consumption per capita remains at less than half of that of Latin American peers, energy demand was driven by the mining sector's expansion, large infrastructure assets—such as Lima Metro Line and the Lima Airport's expansion—and the population's greater access to electricity, given geographic constraints in the country.

We estimate that 5.5 GW in capacity will be added in 2024-2028, mostly solar and wind, to the existing 14.3 GW in installed capacity, which mainly consisted of thermal (53%) and hydro (37%) as of September 2024. For such a purpose, the government is proposing changes to the Law 28,832 to diversify the energy matrix and facilitate the development of nonconventional renewables. Changes include the setup of time slots for the sale of energy through the day and the possibility (unlike the existing law) to split the offer between capacity and energy sold in auctions for the regulated segment. We believe this should foster the development of renewables, although the law's approval and implementation may take several quarters.

Related Research

- [Latin American Electric Utility Regulatory Framework: Signs Of Increased Political Interference](#), Jan 9, 2025
- [Data Centers: Can Infrastructure Developments Keep Up With The Increasing Demand?](#), Dec. 4, 2024
- [Economic Outlook Emerging Markets Q1 2025: Trade Uncertainty Threatens Growth](#), Nov. 26, 2024

Copyright 2025 © by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge) and www.ratingsdirect.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/ratings/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.