

Special Report **Investing in Mendoza****Renewable energy****Mendoza business climate gives Argentina the energy edge**

From shale gas to renewables, the province aims to be a net exporter



Fair winds: with further investment, Mendoza aims to generate a 10th of Argentina's renewables © Paop/Dreamstime.com  
Benedict Mander MARCH 21, 2018

Mendoza may not boast the cream of Argentina's energy wealth. The core of the gigantic Vaca Muerta shale formation lies to the south in Neuquén province, the wind blows hardest in Patagonia and the sun shines strongest in the far north.

Yet the province remains enticing for energy investors, who have accounted for the bulk of foreign investment in the province over the past year. This is because of its attractive business climate, agreed delegates to an FT energy roundtable in Mendoza this month.

"As it does not have the best resources, Mendoza has to find other ways of being more competitive," said Doris Capurro, chief executive of the renewable energy company, Luft Energia. She drew comparison with conditions in neighbouring Neuquén, where combative trade unions and strikes are more of a feature. "You can do business here," says Neil Bleasdale, president of Edemsa, the main electricity distributor in the province.

Under the governorship of Alfredo Cornejo, a political ally of President Macri, Mendoza is making a push to return to its former position as a net energy exporter.

Traditionally one of Argentina's oldest and biggest oil and gas producing provinces (Mendoza accounts for about 15 per cent of Argentina's oil output), it reflects a widespread decline in Argentine energy supply under the Kirchner administrations in power for most of this century. It has been forced to import energy in recent years.



Mendoza governor, Alfredo Cornejo © Maira Garcia

“We want to recover our role as an energy producer that can sell to the rest of the country,” said Mr Cornejo. He plans to set in train projects that will double the province’s installed capacity to more than 3,200 megawatt hours.

**We do not depend on one single commodity. If one leg from the table is removed, we can still keep going**

**Martín Kerchner**

A large section of the Vaca Muerta formation, which holds the second largest reserves of shale gas in the world, stretches from Neuquén under Mendoza’s arid scrubland. In a move designed to lure investors away from Neuquén, Mr Cornejo has been leading efforts to facilitate more fracking — the hydraulic process used to extract shale oil and gas — in the province.

Agreements due to be signed should provide a clear framework in law that protects companies that follow correct fracking procedures from legal action.

Meanwhile, the UK-listed company Phoenix Global Resources became the first group to start fracking in Mendoza, drilling its first well in the Malargüe region in the south last year.

Mendoza is making a concerted effort to increase its generation of renewable energy, aiming to produce 10 per cent of the national total. The province wants “a different matrix”, said Mr Cornejo: “Not just fossil fuels, but renewables too.”

With more than 300 days of sun a year in the semi-desert of Mendoza, solar energy is plentiful. There is also potential for wind power. New renewables projects generating 400MW/h are due to be finished next year as a result of the auction of projects promoted by the Macri administration.

Rivers running down from the Andes can be harnessed for hydroelectric projects. With legal barriers cleared last month by the Supreme Court after complaints from a neighbouring

province were rejected, an auction is expected to be held for the long-delayed Portezuelo del Viento dam. It is estimated that it will cost \$800m and generate 200MW/h.

Mendoza wants to increase the output of renewable energy in two ways that set it apart from the rest of the country and both are contentious.

First, the state energy company Emesa has been taking part in national auctions to provide renewable energy to the grid, on the face of things to accelerate the process. But some market participants say that Emesa has actually struggled to find private partners.

Second, Mendoza puts emphasis on promoting the use of components produced locally and nationally for renewable energy projects, such as wind turbines or solar panels. “We are never going to be able to compete with China, but we can do a part of the job,” said Martín Kerchner, the economy, infrastructure and energy minister.

“It’s a very difficult equilibrium,” said Ms Capurro, a former vice-president at the state oil company YPF. “If we force this too much by insisting on developing our national industry, we could delay getting cheap energy.”

It remains to be seen how these policies will play out with foreign investors. “Mendoza has done excellent work in promoting its exports and tourism, but it still faces an enormous challenge in promoting investment,” said Juan Cruz Díaz, managing director of Cefeidas, a risk consultancy.

But Mendoza has the rare advantage of being able to fall back on a rich mix of energy sources, and a much more diversified economy in general, says Mr Kerchner. “We do not depend on one single commodity,” he says, arguing that this provides enough stability to survive the impact of a fall in oil prices.

He adds: “If one leg from the table is removed, we can still keep going.”



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