

Executive Summary

ENERGY REGULATION IN PARAGUAY

Disclaimer: *This article does not constitute legal advice, nor does it intend to offer recommendations. The analysis presented herein is limited to the interpretation of the current regulatory framework and should not be used as a basis for making legal decisions without the prior advice of a specialized attorney.*

I. Overview of the Energy Sector in Paraguay

Paraguay operates largely on an energy matrix dominated by hydroelectric power, characterized by historically low costs and a centralized supply system managed by ANDE. The global shift toward renewable energies, increased domestic demand, and the need to diversify generation sources have prompted Paraguay to modernize its regulatory framework with a clear goal: to facilitate the development of renewable energy projects. This requires clear rules, predictable returns on investment, and improved access to financing (bankability).

II. Legal Framework of the Paraguayan Energy Sector

The current energy regulatory framework is based on three main legal pillars: (i) Law No. 966/64 (“Law 966”), which establishes ANDE’s organic charter and governs the formulation of energy policies, electricity generation, supply, distribution, as well as the technical and economic regulation of the sector; (ii) Law No. 3009/06 (“Law 3009”), which regulates independent generation, commercialization, and transportation of electricity produced from natural gas or small hydropower (with installed capacity below 50 MW); and (iii) Law No. 6977/2023 on non-conventional renewable energies (“Law 6977”) and its Decree No. 1168/2024, which regulate the promotion, generation, transportation, and use of energy from non-hydraulic renewable sources (“NCRE”). Both Laws —Law 3009 and the Law 6977—share the same regulatory approach but are applied exclusively to the energy type they cover. The legal framework is further complemented by operational administrative resolutions issued by ANDE and other institutions involved in the sector.

Institutionally, the MOPC —through the VMME— acts as the sector’s regulatory authority, while ANDE combines operational duties with technical and economic regulatory powers, including, among others, setting tariffs and supply conditions both domestically and internationally. This structure has resulted in a highly centralized system, with

ANDE maintaining the monopoly on distribution and commercialization, with only one exception: Clyfsa, which has provided distribution services in the city of Villarica since the 1970s.

III. The Renewable Energy Regime: Law 6977 and Law 3009 – How They Work Today

Law 6977 marked a turning point by expanding the scope of entities authorized to generate energy. Along with the well-established auto-generators and co-generators —originally introduced by Law 3009— two new categories are now included: the generator, which produces exclusively for sale, and the exporter, which directs its energy to international markets. All these modalities require a license issued by the VMME, except for projects of up to 1 MW, which are exempt.

Law 6977 establishes that co-generators and auto-generators can inject their surplus into the grid, and ANDE is obligated to purchase up to 1 MW of that energy. Above this threshold, the decision depends on what benefits ANDE. For generators, sales are carried out through competitive bidding processes. Additionally, Law 6977 includes a package of fiscal incentives, though with certain design limitations and contract terms that may prove insufficient.

A distinctive feature of Law 6977 is the NCRE Reference Tariff scheme, which serves as a reference for ANDE’s purchase of energy from co-generators and auto-generators. It is defined as the average generation cost at the relevant voltage level, updated annually by the VMME based on a technical report from ANDE. The tariff system distinguishes between interruptible energy (paid at 70% of the NCRE Reference Tariff) and non-interruptible energy (paid at 100%).

While the design of Law 6977 represents progress and provides certainty, it has also created some practical difficulties. For example, indexing tariffs to the average generation cost makes the scheme excessively rigid. The differentiation between interruptible and non-interruptible

energy adds unnecessary complexity, which delays project implementation. Furthermore, license and contract durations are often insufficient for recovering investments in capital-intensive projects, highlighting the need to extend contractual horizons and introduce pricing flexibility that reflects variables such as opportunity, location, and energy quality.

Law 3009 was the first regulation—since the enactment of Law 966—to open the door for private participation in electricity generation and transportation projects. However, after the reforms introduced by Law 7299/2024, its scope has been limited solely to projects using natural gas and small hydroelectric generation (under 50 MW). Law 3009 is not sufficiently clear regarding the regulatory regime applicable to hydroelectric projects over 50 MW in capacity.

Looking ahead, both Law 6977 and Law 3009 require adjustments to improve and make the current regulatory framework more competitive and attractive. Key measures include: (i) a more flexible and predictable tariff-setting mechanism, (ii) allowing jurisdictional extensions and arbitration as dispute resolution methods, (iii) extending contract terms to at least 30 years, (iv) enabling direct energy sales to private entities, and (v) establishing mechanisms—such as trusts—to guarantee the repayment of investments.

IV. The Bill: Tariff Reforms, Bankability and Market Development

On July 30, 2025, the Executive Power—through the MEF, MIC, and MOPC—submitted a legislative bill (“Bill”) to Congress that implements significant and structural reforms to NCRE regime. The Bill aims to address the weaknesses of the current framework and align it with international standards.

Among the most notable changes, it introduces a new methodology for the NCRE Reference Tariff, taking into account variables such as opportunity cost, point of delivery location, and energy quality. It also grants the

authorities the power to define reference prices for the purchase of electricity from NCRE sources. Moreover, the durations of licenses and connection and supply (PPAs) contracts are increased from 15 to 30 years, and a new option for arbitration as a dispute resolution method concerning private law aspects of contracts between Generators and ANDE is introduced. A payment trust (fideicomiso) is created as a mechanism for managing and ensuring the payment of NCRE contracts, and incentives are extended to projects starting from the pre-operational stage through to operational phases.

In terms of market developments, the Bill incorporates the figure of the “Large Consumer” (demand of ≥ 30 MW). This opening introduces for the first time a domestic B2B channel. Additionally, it is envisaged that ANDE can directly acquire the excess energy not consumed by the Large Consumer, without being subject to the general procurement regime.

V. Conclusion

The current framework laid the foundations, but its development has been limited. The absence of certain essential elements, such as those mentioned above, has hindered the sector’s momentum. In practical terms, the flow of new licenses and project closures has been very restricted, and a regular cycle of awards to scale projects has not yet been observed. The framework exists, but it still does not generate the necessary traction to move the portfolio at market speed.

The Bill aims to fill these existing gaps. Among other aspects, it redefines the Reference Tariff based on an annual methodology with a time-sensitive signal; eliminates the interruptible/non-interruptible distinction for surpluses; creates a payment trust to ensure the repayment of investments; extends contract durations to 30 years, enables arbitration for private law matters, and updates incentives by referencing general investment regimes. Additionally, it incorporates the Large NCRE Consumer, opening a path to a private energy market.

However, the outcome will depend on the quality of regulation and consistency in its implementation. Five immediate milestones will be crucial: (i) publishing a clear and predictable tariff and toll methodology; (ii) operationalizing the trusts with rules for funding, prioritization, and accounts per contract; (iii) harmonizing general jurisdiction with arbitration in private contracts, avoiding overlaps; (iv) ensuring institutional continuity in case of the transfer of the VMME to the MIC; and (v)

establishing a clear process for licensing procedures and approvals.

If these milestones are achieved with technical rigor and predictability, Paraguay will shift from a latent state to an investable cycle, attracting investments —particularly in solar and biomass— and strengthening its supply security for the coming decades.