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ALERT MEMORANDUM

Venezuela's Electricity Reform: Takeaways for Investors

August 13, 2026

On June 2, 2026, the Venezuelan National Assembly approved a bill amending the Organic Law of the Electric System and Service (the Electricity Bill or the Bill). The Bill comes at a critical moment for Venezuela's electricity sector, which is now experiencing regular country-wide power outages following the devastating twin earthquakes in June. Recently, these outages have begun reaching the traditionally insulated capital of Caracas, sparking protests against the interim government.[1]

If approved by the National Assembly in the second reading, the Electricity Bill would, for the first time in almost twenty years, open Venezuela's electricity generation, transmission, and distribution sectors to private investment. Electricity reform is part of a broader effort by the interim government to signal greater openness to participation from private, including foreign, investors in the Venezuelan economy. Development of the electricity sector is critical to the expansion of the oil and gas sector and the economy more generally.

However, further efforts will likely be needed in order for the reforms embedded in the Electricity Bill to result in widespread improvement to Venezuela's electricity sector. This client alert highlights these key principles as well as the main issues that the Electricity Bill raises for investors and observers.

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[1] The Financial Times, *Venezuelans Take to the Streets as Country Hit by Daily Blackouts* (Aug. 7, 2026).

The Electricity Bill comes at an inflection point for Venezuela's electricity sector. Following the 2007 nationalization of electricity assets, the state-owned utility company, Corporación Eléctrica Nacional, S.A. and its subsidiaries (collectively, Corpoelec), has operated electrical service. While the prior private-mixed model showed considerable success (Venezuela ranked third in Latin America in terms of installed capacity), the Corpoelec years were marked by a deterioration in generation, transmission, and distribution capabilities.

Most experts agree that Venezuela's electricity infrastructure is inadequately maintained and severely underfunded, and the national grid falls short of meeting the country's energy demands. By some estimates, the sector needs between $15bn and $40bn in new money investment.[2] The devastating earthquakes of June 24, 2026 further highlighted the urgency of electricity sector reform. Though services are being restored after the disaster, many existing transmission and distribution lines were damaged.

While much attention has been given to Venezuela's oil sector, which is the main subject of the multi-sector regulatory reform through the amended Organic Hydrocarbons Law,[3] the recovery and reform of the electricity sector is perhaps equally crucial. There is also a strategic connection between the two sectors, as reliable electricity is needed for drilling, pumping, compressing, and refining hydrocarbons. The oil industry is therefore likely both a first-in-line customer for private electricity and a potential investor in behind-the-meter electrical solutions in Venezuela.

The interim government has grasped this point. The amended Organic Hydrocarbons Law outlines a policy objective that new upstream oil projects be electrically self-sufficient, encouraging them to rely in particular on gas-fired combined-cycle generation technology that reuses the gas linked to oil operations.

Reform of the Organic Law of the Electric System and Service

The Electricity Bill contains several key features and changes from the era of Corpoelec monopoly. The Bill allows mixed capital private investment access to the electricity sector under three frameworks: (1) joint ventures in which the state holds more than a 50% stake; (2) jointly-owned companies with a minority participation from the state; and (3) unitary private investment by companies domiciled in Venezuela. Second, and perhaps equally important, the Bill permits private investment to participate across the electricity sector value chain, including at the generation, transmission, distribution, and commercialization stages.

As opposed to in the hydrocarbons industry, joint ventures (mixed companies) will be new to an electricity sector previously run as a state monopoly, so developing a regulatory framework to permit mixed investment will take time. Under the Bill, the formation of joint ventures and their operational mandates must be authorized by Venezuela's executive branch. For electricity generation projects that rely on fossil fuel inputs, the Bill also requires additional approval from the Ministry of Hydrocarbons.

The Electricity Bill permits investors to receive concessions from the state for up to 25 years, extendable by a further 15 years. Concessions can only be transferred to third-parties with the express authorization of the Ministry of People's Power for Electric Energy (the Electricity Ministry). The Bill also provides that electricity distribution concessions are to encompass exclusive geographic service areas, and operators can consolidate their distribution range by building infrastructure in "expansion zones" (currently electrically-unserved areas), indicating the Bill's aim to encourage further new investment.

The Electricity Bill also introduces tax relief opportunities for certain private sector investment

[2] Nexis Newsdesk, *Venezuela: National electricity system needs investment of up to USD 40 billion* (Aug. 10, 2026).

[3] For more infomation, see Cleary Gottlieb, *Venezuela's Oil Reform Efforts: New Opportunities, Unanswered Questions – U.S. Investor Perspective* (July 14, 2026).

initiatives. For example, the Venezuelan executive branch is empowered, at its discretion, to grant total or partial exemptions from national taxes for renewable energy projects, investments in rural, border, or hard-to-access electrification regions, as well as the importation of critical capital goods, machinery, and technologies not produced domestically. Venezuelan state and municipal entities also retain the flexibility to grant their own tax incentives.

Tariff regulations remain to be developed and will be critical in determining the returns available to electricity investors that sell to the grid. This is particularly relevant in a build-own-operate-transfer system, where private investors construct and operate electrical plants and eventually receive a recovery on their investments by selling the plant to the state. In such a scenario, a private investor's returns on these projects is linked to the government's purchasing power capacities. In its current form, the Electricity Bill only states that the tariff structure shall account for all actual costs and allow for a "reasonable return" on investment, tied to efficiency criteria.

Investor Considerations

The Electricity Bill's represents a welcome first step towards opening Venezuela's previously closed electricity sector, but effective implementation will require further reforms and investment innovations. Investors also need to be aware of the ambiguities and potential issues that the Electricity Bill presents, as while it emphasizes public oversight, public safety and protection of national assets and interests, the Bill seems to pay less attention to investor protections.[4] The following aspects of the Electricity Bill are worth particular study.

Asset reversion without compensation. A key concern for many investors is exposure to potential nationalization or expropriation efforts. The Electricity Bill's statement of purpose provides that "the reform is unequivocal in protecting national assets." As a result, if an electricity concession is terminated for any reason, all related assets, including infrastructure, cables, substations, data, and land, revert to Venezuela without compensation or indemnification to the private operator. Given the state's broad discretion to terminate concessions (see the next paragraph), this represents a substantial tail-risk for potential investors, and we suspect few investors will accept this. Only when a concession expires at the end of its natural term is the operator entitled to payment for the non-depreciated remainder of what the Bill describes as "prudently made" investments. The reform would also permit the state to request that electrical facilities supply electricity to Corpoelec in emergencies, but there is no guarantee of fair market compensation for such supply, and operators who refuse face significant fines. These provisions make the prospects of new investment quite challenging and may alone be enough to deter new investment.

Turnover fines. The introduction of turnover fines is likely to only increase investor concerns about potential expropriation. The Bill provides for a 10% annual turnover fine for a variety of violations, including repeated failure to provide the government with required information, and a 2% annual turnover fine for a number of first-time violations, including unjustified delays in providing information.

Broad discretionary powers. As with Venezuela's other recent reform efforts, the Electricity Bill also grants wide-scoped administrative discretion to the executive branch, and the Electricity Ministry in particular. The Bill permits the Electricity Ministry to perform permanent and preventative "interventions" into private operators' conduct. Through these interventions, it can terminate an electricity concession in the case of certain breaches of contract or preventatively intervene if a private operator "faces a situation that jeopardizes the continuity, reliability, safety, or quality of the electricity service, as well as in the event of repeated violations of the provisions of laws, regulations, and resolutions."

[4] Ironically, the bill is referred to as a "Partial Reform" in the accompanying documents that became available to us, but this aspect of its "partiality" may actually be detrimental to the success of the reform.

Intervention can also be triggered for "any other cause as provided for in laws, regulations, and resolutions or in the respective concession." This catch-all provision may leave potential investors hesitant to make the long-term investments required to develop the electricity sector. This is particularly so because the Electricity Ministry's intervention powers are not clearly cabined by judicial or administrative oversight. The Bill also leaves unclear whether investors will be able to contest expropriation under international arbitration or dispute resolution mechanisms, and how damages would be assessed in a wrongful termination scenario.

Operational Limitations. The Electricity Bill reinforces that private operators bear the same duties and obligations to the electricity sector as Corpoelec. Those obligations include that private electricity distribution and commercialization companies must compensate customers for damages caused by power outages or service quality deficiencies. For investors, this creates possible direct financial exposure for operational failures: a meaningful risk given that the poor current state of the electrical system. It could also result in private providers becoming political targets in the event of continued power shortages. Given the unreliability of the system as whole, we see few investors willing to assume this risk.

In addition, the Bill introduces preference obligations such that private operators must prioritize hiring Venezuelan talent and procure domestic goods and services. While such a provision is not uncommon in concession contracts of this nature (with appropriate carve outs and limitations), in the context of the rebuild of the entire electric sector, it is unlikely that this requirement can be met. This requirement could represent a significant drag on private sector productivity in a country historically associated with procurement process corruption. The Electricity Bill also extends personal liability to directors and officers of private electric companies, permitting the Electricity Ministry to open investigations directly against board members or directors who face administrative and civil penalties, as well as criminal liability for certain offenses.

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Venezuela's electricity sector needs considerable reform, as highlighted by the devastation wrought following the recent earthquakes. However, it is also apparent that the Electricity Bill will need to be further revised if the goal of obtaining new investment is to be reached. Beyond the issue of fixing the shortcomings of the Electricity Bill and any subsequent implementing regulation, to attract the type and quantum of new investment that is needed, Venezuela will need to structure new investments in a manner that results in credit worthy counterparties standing behind or guaranteeing new investment. Without this prerequisite, Venezuela will fail to attract the investment to revitalize Venezuela's public infrastructure: a fundamental requirement for both the population as well as the growth prerequisites that Venezuelan creditors will likely expect when negotiating a debt restructuring.

Fortunately, there are an array of financing tools and techniques that can be used to address this issue. These include funding from international financial institutions to help rebuild critical infrastructure, including the electricity sector,[5] as well as the facilitation of financing rumored to be provided by the U.S. Department of Energy.[6] Such efforts have strong precedent. For example, public-private partnerships and Department of Energy initiatives have been critical to revitalizing Puerto Rico's electrical grid.[7] In addition, the World Bank has partnered with the African Development Bank to provide $53 billion for projects across the electricity value chain in Sub-

[5] Jose Ignacio Hernandez Gonzalez, *The Economic Impact of the Doublet Earthquake in Venezuela and Its Effect on External Debt: Exploring a Debt-For-Reconstruction Swap Mechanism* (July 7, 2026).
[6] Wall Street Journal, *Oil Giants Trying to Get Into Venezuela Hit a Wall* (July 30, 2026).
[7] *See, e.g.*, Cleary Gottlieb, *Puerto Rico's P3 Authority in Landmark Agreement With Energiza for Construction and Operation of LNG to H2 Combined Cycle Generation Plant* (Dec. 24, 2024).

Saharan Africa.[8] Similar initiatives, including to incentivize private-public partnerships or provide risk insurance to investors, could be implemented in Venezuela through regional development banks like the Inter-American Development Bank.

Venezuela has yet to leverage this wider range of funding support tools that will be needed to complement the regulatory reforms envisioned. Implementation will also require greater transparency and local institutional capacity: an initiative that the state will need to give priority to in the interest of long-term economic growth.

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Quoted portions of the Electricity Bill relied on machine translations from the original Spanish version.

[8] The World Bank, *Tracking SDG7: The Energy Progress Report* (2026).