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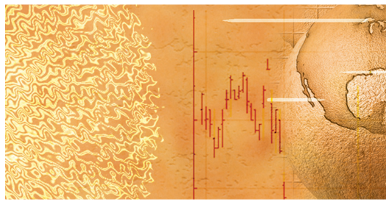
Economic Consulting

Reporting on energy regulation issues around the world

Global Energy Regulation



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European News

UK

Government Allocates Rights To Develop Offshore Wind

The UK government has granted "Round 3" rights to develop offshore wind generation projects in nine coastal zones, where it estimates there is potential for 6,400 additional turbines, or 32 GW of generation capacity. The government allocated rights to sites with a potential for 8 GW of wind generation in previous rounds.

DECC website, 08/01/10

Electricity Distribution Networks Accept Price Control Proposals

All seven owners of the British electricity distribution networks have accepted Ofgem's final price control proposals for the years 2010-2015. As part of the settlement, Ofgem has reduced the "vanilla" real weighted average cost of capital to 4.7%. Ofgem also expects companies to carry out £7,200 million of investment, including £500 million of investment in trials of smart grids and other technology aimed at reducing CO2 emissions. The impact on household electricity bills will be an increase of £4.30 per year on average across the country.

Ofgem website, 08/01/2010

Gas Distributors Form Partnerships To Deliver New Gas Connections

The four British gas distribution networks (GDNs) have set up "partnership agreements" allowing them to extend their networks to customers that currently rely on other fuels to heat their homes. The work will be funded through grants and subsidies targeted towards fuel-poor customers. The GDNs will conduct the work in partnership with organisations such as the government's "Warm Front" programme to identify homes eligible for financial support.

Ofgem website, 11/01/10

Ofgem Allows New Transmission Investments

Ofgem has allowed electricity transmission companies to undertake £319 million of investment from April 2010 to help connect new renewable electricity generation capacity to the grid. In addition, the transmission companies are providing Ofgem with further information to support their case for additional projects due to start construction by April 2012, totalling a further £764 million of investment. Ofgem intends to address future transmission investment funding arrangements as part of the next transmission price control review process.
Ofgem website, 19/01/10

Ofgem Sets Out Emerging Thinking On RPI-X@20 Review

Ofgem has published its "Emerging Thinking" consultation document, as part of the RPI-X@20 project, which is looking at possible reforms of the way British energy networks are regulated. Ofgem's consultation has set out a potential new regulatory framework for consultation. This framework seeks to ensure network companies deliver investment when and where it is needed, and to stimulate innovation in the way networks are run. Ofgem's proposals include expanding the use of competitive tendering to construct network infrastructure, and requiring energy network companies to lease or sell assets. Any changes to the current regulatory framework would be implemented in time for the 2013 gas distribution and transmission price control reviews.
Ofgem website, 20/01/10

Austria

Regulator Reports On Claims For Reimbursement Of RES Subsidies

The Austrian regulator, E-Control, said that it received more than 2,200 applications for reimbursements totalling more than €23 million (US$32 million) in relation to payments towards the support of Renewable Energy Sources (RESs). Austrian electricity consumers contribute between €250 million (US$347 million) and €320 million (US$445 million) in subsidies towards electricity produced by RESs every year. The revised green electricity law of 2009 allows companies whose RES contribution exceeds 0.5% of their net production value to a partial reimbursement.
E-Control website, 14/01/10

Belgium

Regulator Approves Gas Transport Programme

The Belgian regulator, the Commission de Régulation de l'Electricité et du Gaz (CREG), has published its decisions on the indicative gas transport programme of Fluxys, on the basis of article nine of the royal decree of 4 April 2003.
The programme covers Fluxys's gas transport and storage activities, as well as its LNG terminal, over the period 2010 to 2011.

CREG website, 12/01/10

Regulator Accuses Utilities Of Maintaining High Prices

In the press, François Possemiers, president of the Belgian energy regulator, CREG, accused utilities of artificially maintaining high gas prices. According to the Belgian industry association FEBEG, Mr. Possemiers based his comments on a confidential CREG report submitted to the Minister for Energy. Mr. Possemiers explained that CREG had investigated the sudden increase in gas prices in 2007 and found that part of the increase came from adjustments in the market index that was used in customer billing. However, a number of suppliers created other indices that led to the price increase. Electrabel responded in a statement saying that it rejected "all accusations of manipulation of gas prices" and that gas prices were on average 30% lower in December 2009 than in December 2008 following a reduction in oil prices.

lalibre, 25/01/10; FEBEG website, 24/01/10; lalibre.be, 23/01/10; DeMorgen.be, 23/01/10

Bulgaria

New Grid Fee Proposed For Renewables

In a proposed amendment to the Energy Act, E.ON Bulgaria and the Energy ministry are asking for renewable energy developers to pay for the grid development work required to provide them with grid connections.
Under existing arrangements, the costs of connecting new renewables are recovered through a charge levied on consumers.

ADP Renewable Energy Track, 13/01/10

Bulgaria To Introduce Quality Of Service Incentives For Distributors

The State Energy and Water Regulatory Commission (SEWRC) has renewed plans to introduce quality of service incentives for Bulgaria's electricity distribution companies. Under the proposals, companies will be allowed to raise tariffs to fund extra investment in areas experiencing poor service quality. However, if service quality does not improve as a result, the regulator indicated that it would penalise companies. Three years ago, SEWRC published plans to link companies' regulated tariffs to the number and duration of outages, but the scheme was not implemented.

South East Europe News Digest, 27/01/10; dnevnik.bg website, 27/01/10

European Union

Commission Investigates Electricity Price For Greek Aluminium

The European Competition Watchdog has opened an investigation into the electricity tariff that the Greek state-owned Public Power Corporation is charging to the company Aluminium of Greece, owned by Mytilineos Holdings. The aim of the probe is to assess whether the utility is selling the electricity at prices below market levels, giving an unfair competitive advantage to the aluminium company over its competitors.

Dow Jones International News, 27/01/10; Reuters News 27/01/10

France

Regulator Issues Advice On Solar Feed-In Tariffs

The French regulator, the Commission de Régulation de l'Énergie (CRE), was asked in late 2009 by a number of ministers to issue an opinion on a proposed decree setting the feed-in tariffs for solar power plants. The CRE issued its opinion on 3 December 2009 and has now published it on its website. The CRE found that the proposed tariffs did not take into account the significant reductions in equipment costs over the last year. As a consequence the return on solar power and the cost to society of supporting solar power would be very high. Moreover, the CRE found that the indexation of feed-in tariffs was not adequate. On that basis the CRE issued a number of recommendations.

CRE website, 03/12/09

Regulator Approves New Payment Schedule For Connections To Distribution Network

The French regulator, the Commission de Régulation de l'Énergie (CRE), has approved a new payment schedule for connections to the distribution network of ERDF. The CRE said that the new payment schedule extended the use of simplified cost formulae. The change in the payment schedule does not require a change in tariffs.

Commission de Régulation de l'Énergie website, 07/01/10

Government Fixes New Feed-In Tariffs For Biomass, Solar Power, and Geothermal Power

The French government has set new feed-in tariffs for biomass, solar, and geothermal power. The government said that the financial support for electricity produced from renewable energy sources increased five-fold in 2009—to €500 million (US$700 million) as opposed to €100 million (US$130 million) in 2008. The new tariffs should further increase financial support for renewables by 2012.

Ministère de l'Écologie, de l'Energie, du Développement durable et de la Mer website, 13/01/10

Regulator Approves Open Season Procedure Of LNG Terminal

The French regulator, the Commission de Régulation de l'Énergie (CRE), has approved the open season procedure for the project to expand Fos Tonkin LNG terminal. The operator Elengy is offering capacity of up to 7bcm/year from October 2014 for a period of up to 20 years.

CRE website, 14/01/10

Government Launches Consultation On Electricity Market Law

The French government launched a consultation on the draft law reforming the electricity sector (called Nouvelle Organisation du marché de l'électricité, or Nome). According to press reports, the draft law would give alternative suppliers access to EDF's nuclear production. These reports suggest that EDF could be forced to sell 25% of its nuclear capacity to competitors at regulated prices.

L'Humanité, 22/01/10; La Tribune, 20/01/10; Agence France Presse, 19/01/10; Le Figaro, 18/01/10

Germany

Regulator Allows Exception For 50Hertz In Relation To EEG Sales

According to press reports, the German networks regulator, the Bundesnetzagentur (BNetzA), has allowed 50Hertz, one of the four German TSOs and a subsidiary of Vattenfall, to sell power from wind generation to Vattenfall Generation, rather than to the power exchange. Under the German Renewable Energy Law ("EEG"), TSOs have to sell all the wind generation they acquire to the power exchange. The BNetzA decision "BK6-08-226" of May 2009 allowed an exception in case of "proven restrictions of transmission capacities", i.e., to avoid the overloading of the network. 50Hertz explained that it was selling all of its wind generation on the spot market, but buying it back in the same auction. The European Federation of Energy Traders called on the BNetzA to provide an explanation for the exception.

Heren Daily Electricity Markets, 25/1/10, 22/1/10, 18/1/10, 13/1/10; Bundesnetzagentur website, 12/5/09

Regulator Approves Investment Budgets Of Around €4,300 Million

In 2009, the German networks regulator, the Bundesnetzagentur (BNetzA), approved investment budgets of around €4,300 million (US$6,000 million), comprising about €4,000 million for electricity transmission networks, about €80 million for gas pipelines, and about €230 million for electricity distribution grids. Under the Incentive Regulation Ordinance, transmission system operators can now apply for extra revenue above their revenue cap to cover the capital costs (depreciation, interest, and return on equity) of investment in major projects. In 2008 and 2009, the BNetzA said, networks submitted about 480 applications for investment budgets and around 200 applications had already been approved.

Bundesnetzagentur website, 06/01/10

Government Announces Reduction In Solar Feed-In Tariffs

The German government announced that it will reduce feed-in tariffs for solar power plants. The government said that the cost of solar power modules had recently fallen so that current feed-in tariffs led to overcompensation and wrong economic incentives. In a one-off cut, the government would therefore reduce feed-in tariffs for roof-mounted solar panels by 15% on 1 April 2010. Feed-in tariffs for solar panels on open-fields and arable land would be reduced by 15% and 25% respectively on 1 July 2010. These reductions are in addition to the steady rates of decline already foreseen in the Renewable Energy Law. In the future, feed-in tariffs will be reduced further or increased, depending on the actual rate of investment in solar power compared to the benchmark of 3,000 MW of new capacity per year.

Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit website, 20/01/10

Regulator Publishes Data On Interruptions

In 2008, interruptions to power supplies in Germany averaged 16.89 minutes per final consumer, down from 19.25 minutes in 2007. The BNetzA calculated supply quality in Germany using the internationally recognised SAIDI (System Average Interruption Duration Index), which gives the average interruption in minutes per final consumer connected. The BNetzA said that the figure of 16.89 minutes testified to the high degree of reliability in Germany compared with its European neighbours (e.g., Austria in 2008: 43.69 minutes).

Bundesnetzagentur website, 25/01/10

Italy

Aeeg Continues To Simplify Regulation

Aeeg, the Italian energy regulator, is continuing to simplify energy regulation. Since 2008, when the simplification project started, Aeeg has analysed over 1,600 decisions issued between 1996 and 2007 and identified over 800 decisions that had ceased to have effect. Such decisions will be removed in order to increase the transparency of the regulatory framework.

Aeeg website, 04/01/10

Aeeg Audits Over 500 Operators

Aeeg, the Italian energy regulator, carried out a first-level audit of over 500 energy operators (221 companies operating in the electricity and gas sectors and 282 companies operating in the oil sector) to ascertain whether they had fulfilled their obligation not to pass through the increase in company income tax onto final customer energy prices. The results of the audits prompted Aeeg to start second-level audits on 23 companies to investigate further their compliance with the obligation.

Aeeg website, 15/01/10

Netherlands

Sustainable Energy Production Subsidies From 1 March

The Dutch Minister of Economic Affairs, Maria van der Hoeven, has published details of a scheme to subsidise sustainable energy production projects from 1 March 2010. The new scheme is essentially a continuation of the existing scheme that provides subsidies for renewable energy projects and small CHP generators. The new scheme has been expanded to cover offshore wind projects and large-scale CHP generators. The scheme calculates subsidies on the basis of the average cost of various sustainable technologies. Operators of sustainable energy projects can submit their application for a subsidy to Agentschap NL, formerly SenterNovem, the agency charged with implementing the scheme.

Ministry of Economic Affairs website, 22/01/10

Portugal

Energy Regulator Cancels Annual Natural Gas Auction

Portuguese energy regulator ERSE has decided not to hold the natural gas release auction for the gas year 2010-11. ERSE calculated that the total volume of non-binding bids submitted by potentially interested agents was less than 25% of the volume of gas (300 million cubic meters) that dominant operator GALP was due to auction. The regulator said that, given the lack of demand, the administration costs of the auction would have been higher than the potential benefits to consumers.

ERSE website, 11/01/10

Romania

Transelectrica Increases Power Tariffs

Romanian energy regulator ANRE has allowed the transmission system operator Transelectrica to increase average tariffs by 5.4%, from 16.13 lei (€3.8) per MWh to 17 lei (€4.0) per MWh. The fee charged by the Romanian power exchange Opcom remains unchanged at 0.3 lei (€0.1) per MWh.

Mediafax News Brief Service, 04/01/10; Romanian News Agency website, 07/01/10

Russia

Generator Company Fined For Abusing Dominant Position

The Federal Antimonopoly Service of the Russian Federation fined generating company Biyskenergo for abusing a dominant position on the wholesale electricity market. The company was found to be making “economically and technologically unjustified” offers to the wholesale market in 2007 and 2008, causing considerable movement in prices. Biyskenergo was ordered to pay 117.9 million roubles (US$3.9 million) to the federal budget.

FAS website, 15/01/10; SKRIN, 20/01/10

Spain

The Government Expects Renewables To Account For 42% Of Electricity Generation By 2020

The Spanish government has sent a draft of the Renewable Energy Plan 2011-20 to the European Commission. The plan foresees that by 2020, 22.7% of Spanish gross energy consumption will come from renewables, exceeding the 20% target set by EU Directive 2009/28/EC on renewable energy. The surplus may be transferred to other European countries that fail to reach their own targets. The government believes that the generation of electricity will provide the largest contribution to the national target, with renewables accounting for 42.3% of total generation by 2020.

Ministry of Industry website, 07/01/10

Switzerland

Energy Offices Announces Tender For Energy Efficiency Measures

The Swiss Energy Office (BFE) said that the first tenders for energy efficiency measures would take place in March 2010. The Energy Law of 2007 foresees such “competitive tenders” to support programmes and projects that contribute to cost-effective savings in the consumption of electricity. The budget for 2010 is CHF9 million (US$8.5 million), financed through a charge on electricity transmission. The BFE said that projects or programmes with the best cost-benefit ratio would be selected.

Bundesamt für Energie website, 11/01/10

North American News

US

FERC Orders Separation Of Functions At ERCOT

The Federal Energy Regulatory Commission (FERC) has ordered the Texas Regional Entity to distance itself further from its parent company, the Electric Reliability Council of Texas (ERCOT). The Texas Regional Entity is charged with monitoring and enforcing ERCOT compliance with reliability standards for the North American Electric Reliability Corporation. The regional entity is governed by the same board of directors as the Independent System Operator division of ERCOT, causing conflicts of interest, according to FERC.

Inside F.E.R.C., 18/01/10; US Fed News, 10/01/10

California Expert Panel Clashes With CPUC Recommendations On CO_2 Emission Allowances

The California Economic and Allocation Advisory Committee, an expert panel appointed by the state environmental protection secretary, released a report stating that the state and consumers would benefit from regularly held auctions of emissions allowances under the greenhouse cap-and-trade program. Much of the revenue from the auctions would be returned to the consumer in the form of dividends. This suggestion goes against recommendations from the California Energy Commission and the California Public Utilities Commission, which favour allocating a substantial portion of allowances to local distribution companies to protect consumers from price increases.

Electric Utility Week, 18/01/10; Electric Power Daily, 13/01/10

First Smart Grid Roadmap Designed

The National Institute of Standards and Technology, an agency of the US Commerce Department, has released a “NIST Framework and Roadmap for Smart Grid Interoperability Standards”, the first proposal of standards for smart grid development. The publication lists 75 standards that might potentially be adopted by the Federal Energy Regulatory Commission as smart grid standards. It also includes a reference model for the design and architecture of the smart grid and a cyber security strategy.

US Fed News, 27/01/10; Penton Insight, 19/01/10

FERC Proposes Credit Reforms For Wholesale Electricity Markets

At a public meeting, the Federal Energy Regulatory Commission proposed tighter credit requirements for participants in regional wholesale power markets. The changes were proposed in light of the recent financial crisis and to reduce the possibility of a default, which would cause all market participants to bear the loss of the affected party. Changes would include limiting—and in some cases eliminating—unsecured credit, shortening settlement periods, and tougher minimum requirements for participants.

Dow Jones Energy Service, 21/01/10;
Federal Energy Regulatory Commission documents, 21/01/10

FERC Considers Amending Holding Company Thresholds

The Federal Energy Regulatory Commission (FERC) is considering amending its regulations to allow a holding company to purchase up to 20% of a utility without prompting any additional regulatory requirements or restrictions. Under the current regulations, if an entity owns more than 10% of the outstanding voting securities of a public utility, then it is considered to be affiliated with and a controlling entity of that utility. The amendment would require the buyer to certify that the purchase would not allow the entity to change or influence the control of the utility. Proponents of the change believe it will increase demand for stock in public utilities by passive investors, while critics worry about a lack of adequate oversight. Feedback is due 60 days after publication of the notice in the Federal Register.

FERC website, www.ferc.gov*, 21/01/10*

FERC Asks For Public Comments On Barriers For Renewable Energy Resource Integration

On 21 January, FERC issued a notice of inquiry soliciting feedback on whether variable energy resources (VERs), such as wind and solar generators, face barriers to their efficient integration into the power grid. With the recent, rapid development of VERs and the mandated renewable energy portfolio standards, FERC wants to ensure that the current market rules, regulations, tariffs, and industry practices are not hindering the integration of VERs. Comments are due 60 days after publication of the notice in the Federal Register.

FERC website, www.ferc.gov*, 21/01/10*

Tennessee Energy Regulator Denies Piedmont's Request For Rate Change Tied To Conservation

The Tennessee Regulatory Agency (TRA) rejected an application from Piedmont Natural Gas for a rate structure change that would have allowed the utility to raise additional revenues when residents consume less gas. Piedmont's "decoupling" plan would compensate the utility through rate increases as customers saved on gas usage through energy conservation. The TRA considered that Piedmont had not backed up its plans with sufficient financial evidence and had failed to provide adequate safeguards for its consumers for the request to be approved.

Associated Press Newswires, 26/01/ 10; TRA website, **http://www.state.tn.us/tra/**, *28/01/10*

Canada

Mackenzie Pipeline—Sensible Strings Attached

The Joint Review Panel reviewing the Mackenzie Gas Project has concluded in its report, "Foundations for a Sustainable Future", that the exploitation of natural gas in the Northwest Territories can be managed responsibly so as to produce economic growth and social benefit while protecting and conserving the environment. The panel made 176 detailed environmental recommendations which must be implemented to protect the local environment, aboriginal cultures, and animal species.

The Globe and Mail, 01/01/10; Toronto Star, 31/12/09

Asia Pacific News

Australia

Competition Tribunal Makes Determination In Regulator Case

The Economic Regulation Authority (ERA) issued a further final decision on Western Power's proposed amended access arrangement for the South West Interconnected Network (in Western Australia). Under the approved amended access arrangement, which will apply from 1 March 2010, the electricity supplier can change reference tariffs in accordance with a CPI plus or minus "x" formula. The "x" has a value of (plus) 13% and 18% for transmission and distribution, respectively. The approved price list for 2009/10 includes increases of 12.8% and 12.9% for transmission and 17.1% and 18.0% for distribution reference tariffs. The Western Australian government will determine whether these increases will be passed on to retail tariffs for residential and small business customers.

ERA News Release, 19/01/10

Regulator Approves Revised Access Arrangement

The Australian Competition Tribunal released its determination in the appeal by United Energy Distribution (UED) and Jemena Electricity Networks (JEN) against the Australian Energy Regulator's (AER) decision on smart metering budgets for 2009-2011 and metering charges for 2010 and 2011. The Tribunal decided to include the management fees paid by UED and JEN to a related service provider on the basis that the fees were not outside the scope of the smart meter roll-out under the Victorian government's regulatory requirements. This will result in UED's meter charges increasing by 3.8% for 2010 and 3.3% for 2011, with no change in JEN's fees, as it had chosen to under-recover in those years.

AER news release, 21/01/10

China

State Electricity Commission Calls For Coal And Gas Imports

The State Electricity Regulatory Commission (SERC) has called upon PetroChina and Sinopec to increase their output and imports of natural gas and for increased coal production to meet an unexpected spike in energy consumption. An unusually cold winter has left Eastern China short of coal and gas supplies, with load shedding of electricity in major urban centres including Shanghai. Bad weather has prevented coal deliveries and exacerbated the crisis.

Thai News Service, 08/01/10; Industry Updates, 15/01/10;
International Gas Report, 18/01/10

India

Energy Minister Plans Feed-In Tariff For Solar Energy

The Indian Energy Ministry has released plans for a new feed-in tariff to support solar generation. The new proposals will oblige the electricity trading arm of the main producer of electricity in the country (NTPC NVVN) to purchase quantities of solar energy through 25-year Power Purchase Agreements. The price paid to solar generators will be higher than prices paid to thermal generation and will accompany an obligation for state-wide distribution companies to purchase renewable energy. The government hopes to have 20 GW of solar generation installed by 2022.

Energy Economist, 01/01/10; Dow Jones International News, 11/01/10;
Wall Street Journal, 11/01/10

Tamil Nadu Electricity Board Bows to Inevitable Tariff Rise

It has been over seven years since the last increase in electricity tariffs to large users in the state of Tamil Nadu. Recent supply shortages have led to a fall in reliability in the state, with a marked increase in load shedding and a rising cost of power from outside the state. The Tamil Nadu Electricity Board has asked the Tamil Nadu Electricity Regulatory Commission to begin a consultation on raising tariffs to high-use customers. All industrial customers consuming more than 1,500 kWh and commercial and domestic customers consuming more than 2,400 kWh face rises under the plans.

The Hindu, 18/01/10; The Times of India, 21/01/10

Philippines

Meralco Rate Increase Suspended

The Manila Electric Company (Meralco) has suspended the 22% increase awarded to it in December by the Energy Regulatory Commission. The price hike was scheduled to take place this month, but a complaint from consumer groups has caused the regulator to reopen proceedings. The rise follows a 27% increase in 2009, causing Philippine electricity tariffs to be among the highest in Asia.

Manilla Bulletin, 18/01/10; Reuters, 27/01/10

Our Practice

NERA is at the forefront of the continuing transformation of energy industries worldwide. Our experts have developed approaches for introducing competition in segments such as power generation, where competition is workable, and for improving the regulation of sectors where it is not. We work with companies and governmental bodies worldwide to design competitive power markets and to develop tariffs and rules of access for regulated transmission and distribution systems for electricity and gas and transport of oil and oil products. With industry restructuring, we also help companies develop strategies for exploring new opportunities and minimising new risks, including issues related to climate change and other environmental initiatives.

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