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Global Energy Regulation

Contents

EUROPE

UK

Npower To Pay £4.5 Million For Poor Service And Mis-Selling

Npower has agreed to pay £4.5 million to help vulnerable customers after Ofgem found it guilty of poor service and mis-selling. Ofgem explained that complaints about Npower's service had risen sharply over the course of the last year and that Npower got around five times as many complaints as the highest-performing major supplier. In addition to paying £1 million for poor service, Npower paid £3.5 million for mis-selling in breach of its licence conditions.

Ofgem Press Release, 03/12/13; Ofgem Press Release, 20/12/13

Energy Bill Receives Royal Assent After DECC Announces Strike Prices For Feed In Tariffs

The Department of Energy and Climate Change (DECC) announced the strike prices for the Contracts for Difference Feed in Tariffs (CFD FITs) for the first four years of the new scheme's operation starting in 2014/15. The strike prices range from £55/MWh for landfill gas to £305/MWh for wave technologies. The latest strike prices include DECC's latest assumptions on cost reduction for offshore wind and the cost of capital. DECC's strike prices in the Decision Paper fell by £5/MWh for solar power and onshore wind. The CFD FITs are part of DECC's wider package of reform, implemented through the Energy Bill which received Royal Assent on 18 December.

DECC Decision Paper, 04/12/13; DECC Press Release, 19/12/13

DECC Allocates UK Government Funding For CCS Study

The Department of Energy and Climate Change agreed to fund a detailed feasibility study for the White Rose Carbon Capture and Storage (CCS) project at the Drax coal-fired power station in Yorkshire. The multi-million-pound study will be the first allocation of the government's £1,000 million fund for developing CCS at a commercial scale. If built, the project would comprise a 426 MW coal-fired CCS power station with the carbon stored by National Grid at a site in the North Sea.

DECC Press Release, 09/12/13

Ofgem, OFT And CMA Release Framework For Annual Competition Assessment

Ofgem, the Office of Fair Trading (OFT) and the Competition and Markets Authority (CMA) published their proposed framework for their annual competition assessment. Following the Retail Market Review, the Energy and Climate Change Committee asked the energy and competition regulators to produce an annual assessment of the state of competition. The regulators' proposed framework covers five broad areas: unilateral effects, weak competition, barriers to entry and expansion, vertical integration and weak customer response. The retail market will be the focus of the assessment, but the regulators will also investigate the wholesale market to the extent that it affects retail outcomes.

Ofgem Information Paper, 19/12/2013

Ofgem Approves Two New Balancing Products For National Grid

Ofgem approved National Grid's application to create two new balancing products in the electricity wholesale market: Demand Side Balancing Reserve (DSBR) and Supplementary Balancing Reserve (SBR). DSBR offers a new opportunity for the demand side to participate in balancing services by shifting or shedding demand when instructed by NGET (National Grid Electricity Transmission) as the System Operator. SBR is a service primarily targeting generators that will be held outside the wholesale market and for use only as a last resort in winter periods of high demand. Following the decision to approve the new services, Ofgem launched a consultation to review the funding arrangements for the new services.

Ofgem Decision Letter, 19/12/13

DECC Announces Reduction Of Environmental Programmes

The Department of Energy and Climate Change (DECC) announced that it will reduce government levies to support energy insulation measures. The proposals include reducing the Carbon Emissions Reduction Obligation, the largest element of the Energy Company Obligation, by 33% and lengthening the amount of time available for delivering the target by two years until 2017. In addition, DECC introduced a £12 per year rebate on customer bills and electricity DNOs have deferred recovery of some of their revenues, reducing bills by a further £5 per year. DECC estimated that the combined impact of the measures would be to reduce bills by around £50 per year.

DECC Press Release, 19/12/13

Austria

Electricity Network Charges 2014: Tariff Reduction Saves Households Estimated €22.8 Million Per Year

The Austrian energy regulator, E-control, set the final electricity network charges for 2014. As of 1 January 2014, electricity network tariffs for households decrease by 2.5% on average across Austria. Many network operators were able to increase their efficiency and the resulting cost advantages will now be passed onto customers. E-control estimates that households can save up to €22.8 million in annual network charges as compared to last year. Electricity network charges make up around 30% of the final household electricity bill. Taking into account also industry and commercial customers, electricity network charges fall by 2.3% on average across all network levels and customer types, with total savings of around €37.4 million per year.
E-control website, 20/12/13

Gas Network Charges Higher In 2014: New Incentive Tariff For Increased Competitiveness Of Gas-Fired Power Plants

Gas network charges for 2014 will increase by 5.4% on average across all customer groups. The increase is mainly due to lower gas demand from large customers such as gas-fired power plants and the associated decline in gas sales, thus increasing the burden of network charges on other customer groups. Gas network charges make up around 25% of the final household customer bill. Many gas-fired power plants are not economical to operate in the current market environment. In order to counteract the adverse effect on network charges, Austria's regulator introduced a new daily capacity network tariff for power plants and other gas consumers with a capacity of more than 400,000 kW. As of 1 January 2014, the performance-related component of network usage charges for these consumers will be determined based on the daily maximum hourly capacity, as opposed to monthly maximum hourly output, which remains the general approach for smaller gas consumers. E-Control President Martin Graf hopes that the increased flexibility of the new tariff will provide incentives for a higher usage of gas-power plants. He points out that a major contribution of gas power plant operators on the network costs is important since in many cases the network infrastructure has been expanded because of these power plants.
E-control website, 22/12/13

Denmark

Danish TSO Sets Out Proposed Market Model For Planned Offshore Windfarm At Kriegers Flak

The Danish TSO, Energinet.dk, has proposed a market model for the offshore wind development at Kriegers Flak, between Germany and Denmark, which will be connected to both the German and Danish grids through a new interconnector. The model establishes the principles for spot and balancing arrangements and has been forwarded to the Danish Energy Regulatory Authority (DERA) for consent.
DERA, 06/12/13

Energy Regulator Lowers Revenue Cap For Electricity Network Companies

The Danish Energy Regulatory Authority (DERA) issued its annual decision on revenue caps for electricity companies. The decision sets a requirement for improving efficiency which implies that the overall revenue cap will fall by an amount corresponding to approximately 5% of the cost allowances for wages, administration and maintenance. A minor portion of the efficiency improvement requirement is temporary.
DERA, 18/12/13

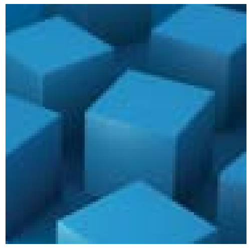
European Union

Commission Approves Bulgarian Plans To Allocate Free Allowances

The European Commission found Bulgaria's plan to allocate for free carbon emission trading allowances worth €945 million (US$1,284 million) to be in line with EU state aid rules. The Commission considers this aid to be compatible with EU rules because the funds will be used to modernise the electricity production infrastructure, diversify the energy mix or construct new installations. As a result, the allocation plan will contribute to opening up energy markets, reducing greenhouse gas emissions and increasing security of supply.
Europa.eu, 04/12/13

Commission Clears Acquisition Of German And Dutch Energy Companies By Gazprom

The European Commission gave Russia's Gazprom a green light to take joint control over two Dutch oil and gas exploration and production companies in the North Sea (WINZ and Wintershall Services), as well as green light to take sole control over two gas supply companies in Germany (Wingas and WIEH). After assessing the potential effects of these acquisitions on competition, the



Commission concluded that the proposed transactions would not raise any competition concerns. In particular, the Commission analysed the potential impacts of the transactions in the markets for gas storage in Germany and Austria, as well as in the markets for the sale of gas in Germany, Austria and the Czech Republic, where Gazprom sells gas to downstream wholesalers and retailers.
Europa.eu, 04/12/13

European Parliament And Council Adopt Decision To Delay Auction Of 900 Million Allowances

The European Parliament and the European Council have adopted a Decision clarifying provisions on the timing of auctions of greenhouse gas allowances. The Decision amends the EU Emission Trading Directive by allowing the Commission, for the third trading period (2014-2020), to delay the auction of up to 900 million allowances. The decision to back-load the auction is aimed at increasing the current price of EUAs.
Consilium, 16/12/13; Agence Europe, 17/12/13

European Commission Authorizes Greek Public Support For Electricity Infrastructure

The European Commission has given a green light to the €36 million (US$49 million) that the Greek state will contribute towards investments in the electricity sector totalling €112 million (US$152 million). This aid will help finance seven projects aimed at improving and expanding the Greek electricity network. According to the Commission, the aid is compatible with EU rules because, while it will introduce limited distortions to competition, it will help achieve major energy objectives and environmental policies, and will result in increased security and reliability of power supply for consumers.
Europa.eu, 17/12/13

EC Launches Investigation Into UK Support For Nuclear Energy

The European Commission (EC) has opened an in-depth investigation into whether the UK government’s plans to subsidise the construction and operation of a new nuclear power plant at Hinkley Point is in line with EU state aid rules. The government is planning to guarantee the nuclear plant operator a feed-in tariff–independent of the variations in the wholesale electricity price–for a period of 35 years. According to the EU Competition Commissioner, Joaquín Almunia, the notified mechanism is a complex measure of an unprecedented nature and scale so the EC needs to investigate it thoroughly, given the impact that it may have on the UK and EU internal energy markets.
Europa.eu, 18/12/13

EC Investigates Exemption From Renewable Energy Surcharge For Energy-Intensive Companies In Germany

The European Commission has opened an in-depth investigation into whether the reduction in the EEG-surcharge granted to energy-intensive companies gives the beneficiaries a selective advantage that is likely to distort competition. The EEG-surcharge is a levy on electricity price used to finance renewable energy sources in Germany. The Commission will also look into the reduction of the EEG-surcharge that is granted when a supplier sources 50% of its electricity portfolio from domestic renewable electricity (the “green electricity privilege”), as it could possibly result in discrimination against imported electricity.
Europa.eu, 18/12/13

EU Court Of Justice Rules That French Renewables Cost Allocation Mechanism Constitutes State Intervention

The European Court of Justice has ruled that a French ministerial order issued in 2008 constitutes State intervention through State resources. This order established a mechanism to offset the additional costs to electricity distribution companies that arise from the obligation to purchase wind-generated electricity at a price higher than the market price. The Court has considered that the offsetting mechanism constitutes State intervention because: (1) it is attributable to the French State; (2) it constitutes an advantage granted through State resources, and (3) the sums intended to offset the additional costs are channeled through a public body and are thus available to the French authorities. Given this ruling, the Conseil d’État–France’s highest administrative court–will now have to decide whether the measure constitutes “State aid”.
CURIA, 19/12/13

France

CRE Approves 10-Year Development Plans And 2014 Investment Programmes of GRTgaz And TIGF

In consultation with market participants, the “European Network of Transmission System Operators – Gas” (ENTSOG) is required to prepare a 10-year plan identifying projects to develop transmission networks, LNG terminals and storage in Europe. All Transmission System Operators (TSOs) in France must also submit a 10-year development plan to the French energy regulatory commission (the CRE), based on existing and forecast gas supply and demand and including investment projects already decided or planned. The CRE organised a public consultation on the consistency of the 10-year development

plans of GRTgaz and TIGF with the ENTSOG 10-year plan. At the end of this exercise, the CRE concluded that the 10-year plans of both GRTgaz and TIGF are largely consistent with the ENTSOG 10-year plan and approved the investment programmes for both companies for 2014.
Commission de Regulation de L'Energie website, 19/12/13

New Distribution Tariff

The French energy regulatory commission (the CRE) introduced a new distribution tariff. The tariff rose by an average of 3.6% on 1 January 2014 and thereafter will rise in line with inflation each 1 August from 2014 to 2017. Provision has been made to strengthen the existing framework of incentive regulation to ensure the quality of service provided to the users of the network.
Commission de Regulation de l'Energie press release, 20/12/13

Germany

Power-To-Gas Position Paper

The German networks regulator, the Bundesnetzagentur (BNetzA), published a position paper on power-to-gas. The paper outlines the principles for feeding hydrogen and synthetic methane generated from renewable energy into the natural gas grid ("power-to-gas"). Comments may be submitted until 31 January 2014. Power-to-gas is a new technology which converts power into hydrogen or synthetic methane. Those gases are storable and can be used like fossil natural gas. In addition to purely scientific facilities, some pilot projects already exist. Up to now, power-to-gas plants as well as the TSOs had to operate in a position of legal uncertainty. The president of the BNetzA said these uncertainties need to be removed to provide more investment certainty for this promising technology. Companies that have already been involved in developing the power-to-gas technology will be supported. In the future, an operator will get priority feed-in, if it is the first to connect its power-to-gas plant to the gas grid. Furthermore, the position paper outlines the gas quality standards for feed-in gas, to comply with quality requirements of existing natural gas stations and vehicles.
Bundesnetzagentur website, 10/12/13

Grid Expansion Projects – Limited Progress In 2013

The transmission system operators (TSOs) announced the completion of a small number of new extra high voltage lines in 2013. The so-called Power Grid Expansion Act (EnLAG) lays down a series of priority transmission line projects critical to meet energy supply requirements. Of the planned expansion projects of nearly 1,900 km, only around 270 km have actually been put into operation so far.

Bundesnetzagentur website, 11/12/13

Bundesnetzagentur Closes Procedure For Drawing Up National Gas Network Development Plan 2013

In concluding the Gas Network Development Plan 2013 (NEP Gas), the German networks regulator, the Bundesnetzagentur (BNetzA), sent a modification request to the Transmission System Operators (TSOs) to incorporate five projects from the previous year that were not included in the draft of this year's plan. The Gas Network Development Plan is created every year by the TSOs and submitted to the BNetzA for review. Overall, the Network Development Plan proposes the construction of 522 km of new lines and the construction or extension of 10 compressors with a capacity increase of 344 MW over the next 10 years for a total investment of €2,100 million. The measures set out in the plan support the transport of gas from North to South, and also remedy critical situations on distribution networks in Southern Germany. For the first time, the development plan also discusses decreasing L-gas volumes and names specific grid areas for conversion to H-gas.

Bundesnetzagentur website, 18/12/13

Monitoring Report 2013 Of The Bundesnetzagentur And The Bundeskartellamt

The Bundesnetzagentur (Federal Network Agency) and the Bundeskartellamt (Federal Cartel Office) presented their joint Monitoring Report 2013 on developments in the German electricity and gas markets. Andreas Mundt, President of the Bundeskartellamt, stated that conventional energy generation is being replaced by renewable energy sources which are protected by law and subsidies, so consumers are bearing the costs via the constantly increasing EEG surcharge. He suggests one possible solution: to exclude new renewable energy plants from the subsidy schemes and to introduce compulsory direct marketing of the energy they generate, to enhance competition. The monitoring report

finds positive developments with regard to competition in electricity wholesale and retail markets. Consumers have a wider choice between different suppliers. However, final customer prices have risen significantly at the same time, mainly due to the increase in the EEG surcharge. In fact, only a small part of the final price is formed under competitive conditions.
Bundesnetzagentur website, 19/12/13

Ireland

Shannon LNG Loses Challenge To Pipeline Levy

In a judicial review of a June 2012 decision by the Commission for Energy Regulation (CER) imposing network charges on all gas suppliers, to pay for interconnector pipelines between Ireland and Britain, the Irish High Court has ruled in favour of the CER. In his judgment, Mr Justice Cook rejected Shannon LNG's claims that the CER decision breached national or EU law, that the regulator had effectively granted unnotified state aid to Bord Gáis, or that it was being required to cross-subsidise BGE's operating costs. Shannon LNG, which wants to import liquefied natural gas (LNG) from the US to a long-planned €600 million LNG import terminal in Kerry, had argued that it will not need to use the interconnectors and therefore should not be expected to pay network fees, expected to be around US$75 million. CER argued that the charges should apply to all suppliers because they all use the gas transmission network owned by Bord Gáis. The judge ruled that the regulator was entitled to regard the interconnectors as an integral part of this transmission infrastructure and to charge a two-part tariff for access based on a Long Run Marginal Cost (LMRC) element and a "revenue shortfall" element, and not upon actual costs incurred by BGE.
The Irish Times, 12/12/13; Irish Independent, 12/12/13

Italy

Approval Of Tariff Regulation For Gas Distribution And Measuring Services For The Fourth Regulatory Period (2014-2019)

The Italian energy regulator – Autorità per l'Energia Elettrica e il Gas (Aeeg) – approved the second part of the integrated text on quality and tariff regulation for gas sector distribution and metering services (TUDG, "Testo Unico della regolazione della qualità e delle tariffe dei servizi di distribuzione e misura del gas" and RTDG, "Regolazione delle tariffe dei servizi di distribuzione e misura del gas") for the fourth regulatory period. The approved tariff regulation will apply from 1 January 2014 until 31 December 2019.

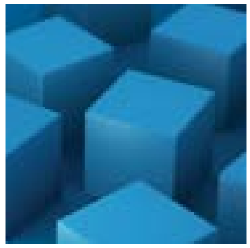
Tariff regulation for the fourth regulatory period brings in some changes with respect to the previous period, such as: (i) the extension of the regulatory period from four years to six years, (ii) the two-year review of the risk free rate for WACC calculation, in line with the provisions in the electricity sector and (iii) the revision of the treatment of public and private contributions. Furthermore, Aeeg anticipates adopting an output-based approach for new investments either through (i) the development of a reference price list or (ii) the extension of the price-cap regime to the capital costs of “local” assets.
Aeeg website, 12/12/13

Approval Of Quality Regulation For Gas Distribution And Metering Services For The Fourth Regulatory Period (2014-2019)

The Italian energy regulator – Autorità per l’Energia Elettrica e il Gas (Aeeg) – approved the first part of the integrated text on quality and tariff regulation for the distribution and metering services in the gas sector (or, TUDG, “Testo Unico della regolazione della qualità e delle tariffe dei servizi di distribuzione e misura del gas”) concerning the quality regulation of gas distribution and metering services (or RQDG, “Regolazione della Qualità dei servizi di distribuzione e misura del gas”) for the fourth regulatory period. The approved quality regulation will apply from 1 January 2014 until 31 December 2019. However, the RQDG 2009-2012 (approved in Aeeg Delibera ARG/GAS 120/08 and extended until 31 December 2013) will continue to apply until the Aeeg issues a formal decision to implement the RQDG 2014-2019.
Aeeg website, 12/12/13

Consultation On The Dispatching Rules In The Electricity Sector

The Italian energy regulator – Autorità per l’Energia Elettrica e il Gas (Aeeg) – launched a consultation setting out its final proposals for dispatch rules in the electricity sector with specific reference to the method of selecting and paying for flexibility services. The current consultation document follows a first consultation launched by the regulator in November 2012. In the latest document, the regulator outlines the changes to the ancillary services market (“MSD”) required to respond to the increased volume of non-dispatchable renewable energy sources and enhance the accuracy and transparency of price signals for flexibility services.
Aeeg website, 05/12/13



Netherlands

Rates For Regional Gas Network And Electricity Networks Fall In 2014

In 2014, the maximum tariffs of the regional networks fell by an average of 7% for electricity and by an average of 5% for gas, as defined by the tariff decisions for 2014 published today by the Consumer and Market Authority (ACM). These tariff decisions follow the method decisions for the period 2014-2016 issued last October.

ACM website, 03/12/13

Decision On 2014 Tariffs For TenneT

The Consumer & Market Authority (ACM) set the maximum tariffs that TenneT may charge for managing the national electricity network in 2014, for transportation and system services. When setting these tariffs, the ACM decided to take into account some of the revenue TenneT received from auctioning interconnection capacity. TenneT manages the national electricity network in the Netherlands and resolves congestion on it. For carrying out these and other statutory duties, TenneT may charge its costs to consumers and businesses.

ACM website, 05/12/13

Decision On The Reservation Of Exit Capacity

On 12 December 2013, ACM decided to amend the Gas Codes in accordance with a proposal from the joint networks. Gasunie Transport Services (GTS) will in future extend the reservation of capacity at the exit points of its customers until one month before their contract expires. This means that GTS's customers do not have to contract for more than one year ahead in order to be sure of capacity. GTS's customers are those with a direct connection to its gas transport network. This decision enters into force on the day following its publication in the Official Gazette. Those affected by it have six weeks from the date of publication to submit an appeal to the Appeal Board of Trade and Industry (CBb).

ACM website, 13/12/13

ACM Decision On GTS Tariffs For 2014

The Consumer & Market Authority (ACM) determined the tariffs that Gasunie Transport Services (GTS) may charge for performing its statutory duties in 2014. The decision covers rates for: transport; new connections; existing connections; balancing; and quality conversion. GTS manages the national network of gas pipelines in the Netherlands and resolves congestion. GTS may recover its costs of performing these and other statutory duties. The costs are ultimately passed on to consumers and businesses.

ACM website, 19/12/13

Decision On Unbundling For Gasunie Transport Services And TenneT TSO BV

Gasunie Transport Services and TenneT, operators of the national gas network and the national high voltage electricity network, respectively, have been certified by the Consumer & Market Authority (ACM) as unbundled. The network operators provided sufficient evidence that they perform their transportation duties independently of interests in the production, supply and trading of electricity and gas.
ACM website, 19/12/13

Decision On New Transport Service For Gas Storage

The Consumer & Market Authority (ACM) has decided to amend the Gas Tariff Code, specifically the section on Transportation of Gas by the National Network Operator and the Gas Glossary. Network users will henceforth receive a 25% discount on the network tariff they have to pay when they transport gas from the gas transmission network into a gas storage facility. This discount is laid down in the Code amendment “new transportation service for gas storage” adopted by the ACM on 12 December 2013. The 25% discount also applies to the rate charged to shippers when they feed gas from a gas storage facility back into the gas transport network. The Gas Tariff Code contains a list of all entry and exit points to which the discount applies. Stakeholders may appeal against the decision of the ACM within six weeks of the date of publication.
ACM website, 19/12/13

Decision On Maximum Tariff For Supplying Heat In 2014

The Consumer & Market Authority (ACM) set the tariff for supplying heat to apply from 1 January 2014, under the Heat Act. It is estimated that about 8% of all Dutch households are affected by this law because they receive heat through block or district heating. For 2014, ACM has set three rates: the maximum price for the provision of heat; the rate for metering heat; and the one-off connection fee for heat systems.
ACM website, 20/12/13

Norway

Norwegian Government Keeps Low Power Price To Municipalities Constant

The Norwegian government set the regulated power price for concessionary power, Konsesjonskraft, at 10.84 øre/kWh (US$17.6/MWh) for 2014, which was nearly unchanged from the price in 2013 (10.86 øre/kWh). A number of municipalities in Norway (kraftutbyggingskommunene and fylkeskommunene) benefit from the concessionary power arrangements, which allow them to purchase power significantly below the market price. The price is currently just over one-third of the corresponding spot market price of power on the Nasdaq OMX (Nordpool) spot market of around 28 øre/kWh. Total power consumption under these arrangements amounts to approximately 8.5 TWh per year.

Regjeringen.no, 19/12/13

Portugal

Regulators Ask REN To Review Its Gas Investment Plan For 2014-2023

Portugal's energy regulator, ERSE, along with the competition authority, AdC, called on gas system operator REN to review the natural gas investment plan it had submitted for the period 2014-2023. The plan foresees investments amounting to €524 million (US$713 million). According to ERSE and AdC, despite the importance of planned investments in infrastructures, these expenses would have an undesirable impact on consumers' bills.

Diário Económico, 11/12/13 and 16/12/13

OMIP Holds First Financial Transmission Rights Exchange Auction

OMIP, the Iberian power derivatives exchange, held the first auction of Financial Transmission Rights (FTR) for the Portugal-Spain electricity interconnection, based on a joint model defined by the Portuguese and Spanish energy regulators. For the first quarter of 2014, the auction sold 200 MW of FTR options in each direction of the cross-border capacity. A total of nine agents participated in the auction and the resulting prices were €0.26/MWh (US$0.36/MWh) for Spain-to-Portugal FTR contracts and €0.16/MWh (US$0.22/MWh) for Portugal-to-Spain FTR contracts.

OMIP, 19/12/13; ERSE, 19/12/13

Russia

Rosatom Gets Increased Subsidies In 2013

Russian nuclear giant Rosatom is to receive a subsidy of 86,100 million roubles (US$2,450 million) from the government. Some of this money will be spent on the project company created for construction of the Akkuyu nuclear plant in Turkey. The subsidy earmarked for this purpose is 22,400 million roubles (US$670,000). The planned subsidies for Rosatom in the 2013 budget were about 58,200 million roubles (US$1,750 million), so the latest decision amounts to an increase of about 48% in subsidies.

ITAR-TASS 17/12/13; Nuclear.Ru 18/12/13

Spain

Spanish Supreme Court Backs Financing Of Tariff Deficit By Electric Utilities

The Spanish Supreme Court (Tribunal Supremo) upheld a ruling issued by a lower court, which stated that the five large Spanish electric utilities must finance the electricity tariff deficit. This tariff deficit has arisen because revenues from tariffs have been insufficient to cover the regulated costs of the system. In its ruling, the Supreme Court stated that these utilities represent the vast majority in the Spanish electricity sector and, as such, it is not disproportionate for them to provide the funds to finance temporarily the tariff imbalances that will be paid by consumers over the next few years.

Expansion.com, 05/12/13; ABC, 14/12/13

Spanish Government Annuls Last-Resort Supply Auction And Sets A Regulated Price Of Electricity For Last-Resort Tariffs In 2014 Q1

The Spanish government declared that the result of the latest auction to supply energy to last-resort electricity customers is invalid. This auction was held on 19 December and its result was supposed to determine the energy charge in last-resort tariffs during the first quarter of 2014. The auction final price for the base load product, however, implied a 29.9% increase compared to the previous auction, which would have increased last-resort tariffs by 11% from their level in the fourth quarter of 2013. The Secretary of State for Energy ruled that the price resulting from the auction was not to be considered when setting tariffs, after the Spanish regulator, the National Commission for Competition and Markets (CNMC), alleged that unusual circumstances had affected the auction. The Spanish government has established a temporary mechanism, based on a proposal by the CNMC, to calculate electricity prices for the first quarter of 2014 that will result in a tariff increase of 2.3%.

Europa Press, 21/12/13; La Moncloa, 27/12/13

Spanish Government Publishes New Electricity Sector Law And Approves Two Royal Decrees On Electricity Transmission And Distribution

The Spanish government published Law 24/2013 on the Electricity Sector, replacing the previous law issued in 1997. The Law introduces several changes, including setting the remuneration of renewables as if they were a regulated activity, by controlling their rate of return. In addition, the government also issued two Royal Decrees that are specific to the activities of transmission and distribution of electricity that, among other changes, set a cap on the level of annual investment.

Europa Press, 27/12/13; La Moncloa, 27/12/13

Sweden

Swedish Administrative Court Overrules EI Decision On Revenue Caps For 87 Swedish Energy Companies 2012-2015

In a dispute between the Swedish energy regulator, Energimarknadsinspektionen, and 87 Swedish electricity network companies, the Administrative Court of Linköping overruled a decision on revenue caps made by the regulator in 2011 for the period 2012-2015. In its decision, the Administrative Court said the regulator's interpretation of the legislation relating to the so-called transition plan implies a bias toward protection of consumers and undercompensates network companies.

The decision also ruled that the real pre-tax WACC applied in the regulator's calculation for the period 2012-2015 should be 6.5%, not 5.2%, as initially set by the regulator. The decision implies that the revenue cap will increase in some parts of the country by 30-40%, compared with the regulator's original decision. In an open letter to the Swedish Ministry of Industry, the regulator defended its view and also recommended changes to legislation. The dispute began after nearly half of the 180 Swedish electricity network companies appealed against the regulator's revenue caps for the first regulatory period of the new ex-ante regulation of electricity network companies, adopted by the Swedish parliament (Riksdagen) in 2009. The ruling of the court can be appealed to the Administrative Court of Appeal (Kammarrätten) in Jönköping.

Ei.se, Administrative Court of Linköping, 18/12/13

Switzerland

Expansion Of Large Hydro And Construction Of New Facilites In The Context Of The Current Market

A recent study by the Swiss Federal Office of Energy (SFOE) has demonstrated that the current unfavourable market conditions, including the low price of energy and carbon, adversely affect the competitiveness of large hydro-electric schemes in Switzerland. The study confirms that the expected return of a hydro-electric plant throughout its lifetime amounts to 3% per annum, which is less than the local Weighted Average Cost of Capital of 4.63%. A total of 25 large hydro projects are at the planning stage, but all of these projects, with one exception, have a negative net present value. Production costs of new projects are currently 14.1 cents/kWh, higher than existing large hydro-electric plants (at 5.6 cents/kWh) and higher than the current wholesale market price.
In view of the problems surrounding investment in the hydro market, the study provides an analysis of incentives to encourage investment.

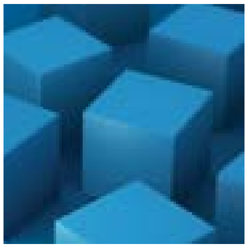
Office Federal de l'Energie press release, 12/12/13

Turkey

Energy Regulator Approves 93 Renewable Power Plants As Eligible For Feed-In-Tariffs

The Turkish Energy Market Regulatory Authority (EMRA) acknowledged that 93 renewable plants were eligible to receive subsidies in the form of Feed-In-Tariffs (FITs), under the country's Renewable Energy Systems Support Mechanism. This mechanism obliges power producers to apply to EMRA each year for permission to receive a FIT. The following plants will be able to apply for support for the next 10 years (associated FIT in brackets): 40 hydro-electric power plants (US$0.073/kWh); 21 wind farms (US$0.073/kWh), nine geothermal plants (US$0.105/kWh) and 23 biomass plants (US$0.133/ kWh).

SeeNews Renewables, 13/12/13



NORTH AMERICAN NEWS

US

PJM Requests Revisions To Its Capacity Market

On 29 November PJM, operator of the Pennsylvania-New Jersey-Maryland electricity market, submitted two filings to the Federal Energy Regulatory Commission (FERC) proposing to change the way demand response (DR) resources and imports can participate in the Reliability Pricing Model (RPM), PJM's three-year forward capacity auction. PJM currently has three demand response products: annual unlimited DR, summer-limited DR and extended-summer DR. The summer categories have lower costs, by definition, than annual capacity resources. Among the changes it is requesting, PJM has proposed setting a cap on the amount of limited DR resources that are allowed to clear in the auction, while letting the rest of the DR be from annual resources. Additionally, PJM filed new rules that will determine annual limits for capacity imports on a source-zone basis. PJM capacity imports, mostly from the Midwest ISO, have tripled since 2008, leading to worries by PJM that external resources may be clearing at MW levels above those that can be reliably transmitted into the region. Under PJM's proposal, capacity import limits will be calculated for every auction, taking into account the possibility of curtailments in transmission service into the PJM area by external grid operators. External resources that are reconfigured to be comparable with internal capacity will be exempt from these limits.

SNL Financial, 02/12/13; Restructuring Today, 02/12/13

Massachusetts Updates Power Plant Rules To Cut More CO2 Emissions

On 9 December, Massachusetts issued final amendments to regulations that limit the amount of carbon dioxide (CO2) emissions by power plants. This regulation is a part of the Regional Greenhouse Gas Initiative (RGGI), the country's first market-based approach to reducing carbon emissions that uses a cap-and-trade system of "allowances" to regulate CO2 emissions. The amendments are expected to cut 90 million tons of emissions by 2020 through a reduction in the existing emissions cap. Starting in January 2014, the cap will be reduced from 165 million tons a year to 91 million tons a year. The cap will be further reduced by 2.5% each subsequent year until, in 2020, CO2 emissions will be half of what they were in 2005. The lowered cap is expected to result in higher allowance prices, but the revisions to the

regulations include a "cost containment reserve" to stabilize prices during price shocks. This mechanism will supply additional emission allowances into the market if prices reach certain pre-set levels. The expected impact of the new caps on customer bills is less than a 1% increase and it is expected to raise US$350 million in additional revenue for Massachusetts.
Mass.gov, 09/12/13; Restructuring Today, 10/12/13

California PUC Issues Final Rule On Dividends From Carbon Cap-And-Trade

The California Public Utilities Commission (PUC) approved the method for allocating the revenues generated from the CO2 emission allowance auctions held under the state's carbon cap-and-trade system. Utilities will return these revenues to customers via a "climate dividend". The dividend will be credited to consumers' electricity bills in April and October of each year, outside of the months with higher consumption, to avoid creating an incentive to reduce conservation in peak demand months. In cases where the climate dividend exceeds the bill, the credit will be rolled over to subsequent months. The customer groups receiving dividends are residential ratepayers, industrial customers and small businesses.
Restructuring Today, 13/12/13; SNL Energy, 20/12/13

FERC Approves A Reduction Of Viking Gas Transportation Rates

The Federal Energy Regulatory Commission (FERC) approved a settlement involving the justness and reasonableness of rates charged by the Viking Gas Transmission Co. In the settlement, Viking, a subsidiary of ONEOK Partners LP, agrees to reduce all its base tariff rates by 2%, with effect from 1 January 2014. In an order approving the settlement, FERC commented that the settlement is fair and in the public interest and will provide ratepayers with "immediate economic relief". Viking is required to provide FERC with an updated cost and revenue study by the end of 2018.
www.ferc.gov accessed 19/12/13; www.snl.com accessed 27/12/13

Mexico

Mexican President Signs Energy Reform Into Law

Mexico's President, Enrique Peña Nieto, promulgated an energy sector reform that opens the Mexican energy market to competition and puts an end to the 75-year-old monopoly held by the state-owned oil company Pemex. In addition to allowing private companies to participate in the energy sector, the reform also: (1) creates four types of combinable contracts for hydrocarbons (services, profit sharing, production sharing, and licenses), (2) grants private persons the right to generate and to sell electricity, (3) creates the Mexican Petroleum Fund for Stabilization and Development, (4) strengthens the National Hydrocarbons Commission, the Regulatory Energy Commission and the Ministry of Energy, (5) promotes the use of renewable energy, (6) reinforces transparency and punishes corruption, and (7) creates a National Center for Natural Gas Control.

Sener; 20/12/13; Reuters 20/12/13

CENTRAL & SOUTH AMERICAN NEWS

Brazil

Brazilian Regulator Delays The Start-Up Of The Electricity Tariff Flag System

The Brazilian regulator has decided to postpone, from January 2014 to January 2015, the application of new commercial procedures for electricity tariffs known as the "tariff flag" system. This system increases consumer awareness of electricity generation costs by including green, yellow and red flags in electricity bills to indicate whether the cost that was incurred to generate electricity that month was low, medium or high. The decision was motivated by the need of the regulator to improve the rules that apply to the system.

Globo website, 17/12/13; ANEEL, 17/12/13

ASIA PACIFIC NEWS

Australia

Price Trends In Residential Electricity Prices

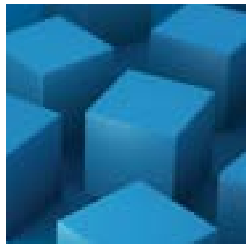
The AEMC published the final report on residential electricity price trends, which it prepared at the request of the Standing Council on Energy and Resources. Over the next three years, residential electricity price increases are expected to be moderate in most jurisdictions. Price movements are driven mainly by network costs, which are expected to stabilize, and government environmental policies such as the carbon price and solar feed-in tariff schemes, which are expected to have mixed effects on prices.
AEMC website, 13/12/13

State Of The Energy Market

The Australian Energy Regulator (AER) released its annual report on the state of the energy market for jurisdictions in which it has regulatory responsibilities. In the electricity sector, retail prices have been relatively stable over the past 12 to 18 months in most jurisdictions, following a period of significant price increases. A key driver of price stability was the reduction in electricity demand, which has caused a surplus in generation capacity and reduced the need for network expansion. Additionally, finance costs for energy businesses have been going down with instability easing in the global financial markets. In the gas sector, prices have increased more strongly when compared to electricity in 2013-14. Pressure on gas retail prices is expected to be strong in the near future, particularly with exports of liquefied natural gas (LNG) from Queensland scheduled to commence during 2014-15.
AER website, 20/12/13

Annual Market Performance Review Draft Report

The Australian Energy Market Commission (AEMC) has published its draft report on annual performance of the electricity market for 2012-13. The report examines how well the National Electricity Market (NEM) has performed against the reliability, security and safety standards set by relevant guidelines and rules. The draft findings show that the NEM continues to operate within the required reliability standards and there were no reported safety incidents during 2012-13. There were some security incidents where frequency was outside the required standards but these were managed without any significant impact on the market or market participants.
AEMC website, 20/12/13



China

Hong Kong Regulator Approves Power Companies' Five Year Plans

The Executive Council of the Hong Kong SAR Government approved the Development Plans of the two integrated power companies serving the region, Hongkong Electric Company (HEC) and CLP. HEC serves Hong Kong island, whilst CLP serves Kowloon and the New Territories. The Development Plans set out the companies' forecasts of capital and operating expenditures for the period 2014-18, as well as projected tariffs needed to recover these costs in line with Hong Kong's "Scheme of Control" regulatory regime. In total, the Executive Council approved US$4,400 million of capital expenditure for CLP (including a new gas-fired power plant), and US$1,700 million of capital expenditure for HEC. The approved plans predict annual tariff increases of 1% for HEC's customers, whilst CLP's customers will see annual tariff increases of between 4.1% and 11.8% over the whole period. There is considerable uncertainty surrounding the regulatory arrangements in Hong Kong after 2018, when the current Scheme of Control Agreements expire. The government has announced a consultation on the regulation of the two incumbents.

Hong Kong SAR Government website, 10/12/13

India

New Delhi Chief Minister Cuts Tariffs By 50%

The Delhi chief minister, Arvind Kejriwal, announced a 50% cut in electricity tariffs for households consuming up to 400 kWh of electricity per month, affecting approximately 2.8 million households. The cost of the tariff cut, estimated at Rs 61 crore (US$9.9 million) will be provided as a direct subsidy from the government to the distribution companies. The performance of the distribution companies will also be audited for the first time, following the decision.

Mint and the Wall Street Journal, 31/12/13; Hindustan Times, 31/12/13

Indonesia

State-Owned Gas Utility Opposes Third-Party Access To Gas Pipelines

Indonesia's downstream oil and gas regulator, BPH Migas, has seen its call for third-party access to the country's gas pipelines rejected by Perusahaan Gas Negra (PGN), the major state-owned incumbent. Laws enforcing the separation of gas transportation and trading, and providing for third-party access to the transport network, have nominally been in place since 2011. However, opposition from the utility (which owns a 5,900 km network) has so far led to the regulations remaining unenforced. Indonesia's pipeline networks are currently owned by two incumbent gas suppliers, with Pertagas owning a much smaller network than PGN. Despite abundant gas resources in the country, lack of connectivity has led to the construction of facilities to import expensive LNG to unconnected areas.

International Gas Report, 02/12/13; Jakarta Globe, 30/12/13

Japan

Regional Electricity Suppliers Begin To Enter New Markets As Deregulation Nears

Japan's regional utilities are preparing for a new era of competition following the passing of legislation that revises the structure of the electricity market. In Japan, major regional incumbents such as Tokyo Electric Power Co. (TEPCO) generate and sell power in a clearly defined local area. However, the utilities have announced plans to respond to the new legislation by entering the supply market of their competitors. Osaka Gas announced its intention to enter the Tokyo market currently dominated by TEPCO, selling electricity to large industrial customers. Deregulation of retail markets is expected to follow in 2016.

Mena Report, 04/12/13; Nikkei, 11/12/13

Philippines

Lack Of Gas-Fired Power Leads To Sudden Rate Hike For Customer And Doubling Of Power Prices

Manila Electric Co (Meralco), the major electricity distribution utility, announced that it would be hiking its power tariffs with immediate effect. A month-long shutdown at the Malampya natural gas field led Meralco to procure expensive power on the country's Wholesale Electricity Spot Market (WESM), raising the cost of generation to be recovered from consumers. The Energy Regulatory Commission (ERC) subsequently approved Meralco's request for a US$0.09/kWh increase in tariffs, staggered over three months, with tariffs for December set at US$0.17/kWh. The tariff increase is the largest in the Philippines' history, and some politicians claimed that customers in the Philippines faced the highest rates anywhere in the world.

Business World, 10/12/13; Manila Standard, 10/12/13

Government Probes Claims Of Collusion As Supreme Court Halts Meralco's Rate Hike

The Department for Energy and Department for Justice both began investigations into whether collusion among power producers had led to higher prices, leading Meralco to hike its tariff rate in December. The probe will examine whether power plants colluded to coordinate a shutdown, thus forcing Meralco to rely on power generated from expensive liquid fuels. Meanwhile, the Philippine Supreme Court issued a temporary restraining order forbidding Meralco from collecting its higher tariff rate from customers, awaiting the outcome of the investigation into whether the tariff increase was justified.

The Philippine Star, 16/12/13; Dow Jones Institutional News, 23/12/13

About 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.

NERA helps our clients to develop new regulatory strategies and, when needed, support our clients with analysis and testimony before regulatory commissions, antitrust and competition policy agencies, and domestic and international courts. Our economists help clients to decide which lines of business to pursue; to divest assets no longer consistent with their strategy; to identify and evaluate opportunities for mergers, acquisitions and investment; and to develop bidding, trading, contracting, and marketing strategies and organisations. Our work also includes designing and conducting energy auctions and providing strategy and valuation advice on mergers and acquisitions, the financing of energy companies, and the financial restructuring of distressed companies.

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NERA produces two newsletters that report and analyse energy matters around the world. *Energy Regulation Insights* summarise NERA's views on the economics behind topical developments in energy sector regulation. Previous issues have discussed regulators' use of "benchmarking", unbundling of networks, regulation of pipelines for CO_2 and other gases, and competition policy in electricity markets. The *Global Energy Regulation* Newsletter compiles brief summaries of news stories about energy regulation around the world. The coverage includes network regulation, industry restructuring, and the organisation of electricity and gas markets. The "GERN" allows energy sector professionals to easily keep in touch with looming problems, the latest developments in regulatory methods, and innovative solutions. To view the latest editions or to receive our newsletters each time they are published, click here: **www.nera.com/newsletters.asp**.

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