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Reporting on energy regulation issues around the world

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Global Energy Regulation

Contents

EUROPE

UK

UK Government Approves World's Largest Offshore Wind Farm

The Department of Energy and Climate Change (DECC) gave consent for the development of the world's largest offshore wind farm at Dogger Bank Creyke Beck, 130km off the coast of Yorkshire. The wind farm will consist of up to 400 turbines with a capacity of 2,400MW.

DECC website, 17/02/15

CMA Publishes Updated Issues Statement With Focus On Retail Market

The Competition and Markets Authority (CMA) published an updated "issues statement", outlining the evidence it has collected and initial conclusions it has drawn during its current investigation into the British energy market. The CMA had initially considered four "theories of harm" (i.e. hypotheses about how a lack of competition in wholesale or retail markets may be damaging the interests of consumers). Of these, the CMA has chosen to focus on its theory that energy suppliers face weak incentives to compete due to inactive customers, supplier behaviour, and/or specific regulatory interventions. It found initial evidence consistent with suppliers having unilateral market power over customers on standard tariffs. However, the CMA will not publish its final conclusions and recommendations until December 2015.

CMA website, 18/02/15

First Auction Held For Feed-In-Tariffs With Contracts For Difference (CfD FiTs)

The Department of Energy and Climate Change (DECC) held the first auction for CfD FiTs, contracts entitling low carbon generators to a guaranteed "strike price" in any hour in which they generate electricity. Bidders competed by announcing the lowest "strike price" at which they were willing to enter contracts. Of the 2,138MW of new capacity awarded contracts, 1,162MW were offshore wind projects (at an indicative "strike price" of £114 per MWh) while 749MW were awarded to onshore wind projects (at an indicative price of £79 per MWh).

DECC website, 26/02/15

Belgium

Belgian Regulator Consults On Creation Of Capacity Reserve

Following the Belgian government's agreement of October 2014, which stipulates that investment and maintenance measures be taken to ensure that conventional generation capacity remains available, the federal energy regulator, CREG, launched a consultation on potential solutions. Among the possible options are: (1) improving the operation of the energy-only market; (2) ensuring the international competitiveness of domestic production capacity; and (3) the possible implementation of a new capacity mechanism. The government called on the regulator to recommend policies intended to prevent the withdrawal of conventional generation from the Belgian energy market (in particular gas-fired power plants and cogeneration) whilst emphasising the need for cost efficiency. From responses to the consultation, which was open until 6 March 2015, the CREG seeks to identify concrete measures that correspond to the specific characteristics of the Belgian energy market.

CREG website, 10/02/15

European Union

ACER Launches Public Consultation On Its Changes To ENTSOG's Incremental Capacity Proposal

The Agency for the Cooperation of Energy Regulators (ACER) launched a public consultation on the revised proposal by the European Network of Transmission System Operators for Gas (ENTSOG) for Incremental Capacity. The purpose of this proposal is to amend the current Network Code on Capacity Allocation Mechanisms. ACER invited all interested stakeholders to submit their support or reasoned opposition to the proposal by 4 March 2015.

ACER, 04/02/15

High-Voltage Electricity Interconnection Expansion Between France And Spain Is Completed

On 20 February, Spanish, French, and European Union officials inaugurated the Santa Llogaia – Baixàs electricity interconnection. This is a 64.5 km high-voltage power line that doubles the electricity interconnection capacity between France and Spain from its current 1,400 MW, and that enhances the integration of the Iberian and European electricity markets. This project, which was deemed to be of common European interest, had a total cost of €700 million (US$780 million), of which €255 million (US$284 million) was covered by the EU under the European Energy Programme for Recovery.

Europa.eu, 20/02/15

EC Launches Its Energy Union Plan

The European Commission launched its Energy Union Package, a set of three Communications which set out its strategy for ensuring secure, sustainable, competitive and affordable energy for European citizens and businesses.
The first of these three Communications, “A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy”, sets out the goals of an energy union, as well as the detailed steps for achieving it. The second Communication, “Achieving the 10% electricity interconnection target”, defines measures needed to achieve the target of 10% electricity interconnection by 2020. The third, “The Paris Protocol – A blueprint for tackling global climate change beyond 2020”, sets out a vision for a global transparent, dynamic, and legally binding agreement on climate change.
Europa.eu, 25/02/15

European Commission Urges Greece, Portugal And Slovenia To Comply With EU Rules On Energy Efficiency Directive

The European Commission has sent a reasoned opinion to the governments of Greece and Portugal requesting them to notify the measures they have taken to transpose the 2012 Directive on Energy Efficiency. The deadline for transposing this Directive into national law was 5 June 2014. In addition, the Commission has asked Slovenia to submit a National Energy Efficiency Action Plan and a long-term strategy for mobilising investment in renovating the national stock of residential and commercial buildings, which should have been submitted by 30 April 2014.
Europa.eu, 27/02/15

European Court of Justice Opposes Czech Tax On Free-Of-Charge Emission Allowances

The European Court of Justice (ECJ) ruled that Czech legislation imposing a 32% tax during 2011 and 2012 on free-of-charge carbon emission trading allowances to electricity producers is incompatible with the Emissions Trading Directive. According to this Directive, Member States were to allocate at least 90% of emission allowances free-of-charge between 2008 and 2012. In its decision, the ECJ argued that the tax is incompatible with the Directive, as it applied a charge to more than 10% of Czech allowances.
ECJ, 27/02/15

France

French Energy Regulator Consults On DSO Tariffs For Ancillary Services

The energy regulator, CRE, is due to complete by mid-2015 a review of the regulation of ancillary services provided by French gas and electricity distribution system operators (DSOs), in particular ERDF and GRDF. In preparation for this review, and in advance of a decision due in April 2015, the CRE is consulting with market participants on necessary modifications and adjustments to the tariffs for auxiliary services provided exclusively by DSOs. The CRE wants to take account of specific requests by distribution system operators and to update tariffs using relevant indexation formulae. The costs of ancillary services are covered either indirectly through distribution tariffs or directly through fees for specific services. The closing date of the consultation is 13 March.

CRE website, 19/02/15

Germany

Regulator Initiates First Round of Auctions for Renewable Energy Subsidies

The German networks regulator, the Bundesnetzagentur, has launched its first auction for determining subsidies to free-standing photovoltaic (PV) plants. The auction is part of a pilot project aimed at evaluating market-based mechanisms for allocating subsidies to renewable energy sources (RESs). The decision to move to a system of market-based subsidies was part of the new Renewable Energy Law (EEG) which came into force in August 2014. In the current round of auctions, subsidies will be allocated to 150 MW of PV generation capacity. The initial price is at €112.90 per MWh of energy produced. If the pilot project is successful, all German RES subsidies will be allocated through auctions by 2017.

BNetzA website, 27/02/15

Greece

Government Terminates Privatization Of PPC, Power Transmission Operator

The Greek minister of productive reconstruction, environment and energy announced an end to the privatization of Public Power Corporation (PPC). He stated that, with the government's support, the PPC Group would undertake a planned reconstruction and would cut its electricity production cost by 20-40%, so as to offer a significant reduction in prices to households and small- and medium-sized enterprises. The minister also announced a government initiative to revise the regulatory framework in the electricity sector, by taking a greater role in drafting energy policy. He said the government was committed to offering 300,000 households up to 300kWh per month of free electricity.

Athens News Agency, 10/02/15; energypress.eu, 10/02/15; BBC News website, 24/02/15

Italy

Early Implementation Of The Network Code On Capacity Allocation Mechanisms: Auction Mechanisms Extended To Long-Term Capacity Products

The Italian energy regulator, Autorità per l'Energia Elettrica e il Gas e il Settore Idrico (Aeegsi), has decided to extend the auction mechanisms envisaged by the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM Network Code) to long-term capacity products offered by Snam Rete Gas on cross-border interconnection points. As noted by Aeegsi, this extension completes the implementation of the CAM Network Code in Italy, which will only become legally binding on all EU Member States from 1 November 2015. Aeegsi approved the auction mechanism for long-term products, but did not approve Snam's proposal to socialize costs incurred by the transmission system operator and not recovered because of early termination of transport contracts. However, payments incurred by shippers for the early termination of a transport contract will only be included in actual revenues, for the purpose of calculating the revenue adjustment factor, if Snam has actually collected them.

Aeegsi website, 06/02/15

Retail Energy Markets In Italy: Competition Struggles To Take Off

Lack of effective competition and limited consumer engagement into the energy market mean the Italian gas and electricity retail sectors are not ready for full liberalisation but require instead a smooth and well planned transition over the coming years. This is the key message in the 2012/13 Monitoring Report on gas and electricity retail markets released by the Italian energy regulator, Autorità per l'Energia Elettrica e il Gas e il Settore Idrico (Aeegsi) in mid-February. Switching rates are in line with those of other EU Member States, but competition in retail energy markets remains low, especially in the domestic segment where customers in the free market pay prices 15-20% higher than regulated prices (the "standard offer" regime). Moreover, according to the Monitoring Report, households seldom engage in the energy market and suffer from a lack of awareness about the operation of the market and the offers available. Aeegsi therefore called for an appropriate transition towards a fully liberalized market, with measures aimed at increasing customers' engagement. The final goal is to prevent sudden removal of the standard offer regime, since doing so would give retailers the opportunity to charge higher prices by exploiting market power due to high concentration on the supply side of the market, when customers may be unable to react promptly.

Aeegsi website, 12/02/15

Netherlands

Consultation: May Network Companies Do More Than Transport Energy?

The Competition and Markets Authority (ACM) publicized a consultation on the activities that network companies should and should not undertake, and how they relate to the core activity of network companies, namely transportation of energy. The ACM – together with other European regulators – asked businesses and consumers to contribute to this discussion to support European policy on encouraging an efficient energy market. In the interests of fair competition, said the ACM, network companies should not abuse their monopoly over the network. However, ACM wants to know if they might play an important role in providing new services and products, and hence where to draw the line. Contributions to the consultation of the European regulators group, CEER, were due by 27 February 2015.

ACM website, 17/02/15

Spain

Spanish Supreme Court Accepts Several Appeals Against The Government Order On Network Access Charges

The Spanish Supreme Court has accepted requests to review the claims submitted by several electric utility companies against a government order issued in December 2014, freezing regulated access charges. These charges are included in consumers' electricity bills and are meant to cover the system's regulated costs, such as the remuneration of distribution and transmission networks, support for renewable generation, and others.

La Opinión A Coruña, 12/02/15; El Economista, 17/02/15; Europa Press, 23/02/15

Spanish Regulator Launches Consultation On The Rules Governing Gas Balancing On The Transmission Network

The Spanish energy regulator (CNMC) launched a public consultation on the draft regulation that establishes gas balancing rules for the gas transmission network. The objective of this regulation is to implement EU Regulation 312/2014 in the Spanish gas system. This EU Regulation requires the adoption of harmonized EU-wide rules for: computing imbalances in ("entry-exit") market areas of EU Member States' gas systems; defining information exchange procedures; setting imbalance charges; and managing the operating balance of the transmission networks. The consultation runs until 23 March 2015.

CNMC, 24/02/15

Switzerland

Swiss Energy Sector Calls For European Approach To Electricity Market Design

The Swiss Federal Office of Energy, the energy regulator ElCom, the TSO Swissgrid, and the sector associations Swisselectric and VSE submitted a joint response to Germany's "Green Book 2014", which sets out its strategy for electricity market reform. In their response, they claimed that cross-border cooperation would be needed to deal successfully with the challenges brought about by the increasing share of intermittent generation from renewable energy sources. The Swiss energy sector representatives prefer an optimised energy-only market (EOM 2.0) over the introduction of a capacity mechanism and argue in favour of adopting a strategic reserve, to which Swiss pumped-storage plants could make a significant contribution. Further efficiency gains could be expected from coupling the Swiss and German markets, according to the Swiss response.

nzz.de, 04/03/15; finanzen.ch, 04/03/15

Turkey

EBRD supports Turkey's shift to renewable energy

With the support of the European Bank for Reconstruction and Development (EBRD) the Turkish Ministry of Energy and Natural Resources has developed Turkey's first National Renewable Energy Action Plan in line with the EU's Renewable Energy Directive. Turkey pledged to develop 30% of its total installed capacity from renewable sources by 2023. The country also aims to have 10% of its transport sector needs met by renewable energy. The involvement of the EBRD builds on a Sustainable Energy Action Plan that it signed with the Turkish Treasury in 2011. Under the plan, the EBRD works with the government, provides donor-funded technical advice, and invests in renewable energy projects.

ENP Newswire, 17/02/15

NORTH AMERICAN NEWS

US

New Incentive Fund Proposed For States That Exceed Carbon Emissions Goals

In his budget proposal of 2 February 2015, President Obama allotted US$4,000 million to a Clean Power State Incentive Fund which will provide funding to any state that plans to exceed its goal for reducing carbon emissions as set out in the Clean Power Plan. The Clean Power Plan, which will be finalized this summer, will set target emissions reductions for each state using 2012 as a baseline. Many states have expressed concern over these targets, claiming that the 2012 baseline will be too stringent for states that have already invested heavily in reducing carbon emissions. They have already requested some sort of credit to or reduction in their requirements. This fund, which the Environmental Protection Agency ("EPA") will administer, will reward states for early action in reducing emissions.

Bloomberg BNA, 06/02/15; SNL Financial, 17/02/15

Virginia Passes Deregulation Bill

The Governor of Virginia approved S.B. 1349 on 24 February 2015, freezing electric base rates for Dominion Virginia Power for the next five years, and for American Electric Power's subsidiary, Appalachian Power, for the next four years. Electric base rates represent about 60% of residential customers' bills from the two utilities. The Bill, which will take effect on 1 July 2015, was passed after Dominion Virginia stated that the likely closure of coal plants to meet new federal carbon emission regulations would increase costs for consumers. The state courts are expected to make several rulings on new emission regulations intended to comply with the Clean Power Plan of the Environmental Protection Agency (EPA). Opponents of the Bill argue that the utilities could end up keeping above-normal profits that should have been returned to consumers.
The Virginian-Pilot, 13/02/15; SNL Energy, 24/02/15

FERC Issues NOPR Regarding Frequency Response Service

On 19 February, the Federal Energy Regulatory Commission (FERC) issued a Notice of Proposed Rulemaking (NOPR) to permit public utilities to sell primary frequency response service at market-based rates if they already have authority to sell energy and capacity at market-based rates. The FERC approved a new reliability standard in January 2014 that required balancing authorities to maintain a minimum amount of frequency response capability. At the same time it allowed the balancing authorities to use a third party to provide the frequency response as long as it is more economical than using their own resources. The FERC stated that the purpose of the NOPR is to increase competition for this service and is an extension of Order No. 784 which eased restrictions on the sale at market-based rates of ancillary services other than regulation or frequency response.
FERC Website, 19/02/15; SNL Energy, 20/02/15

NWPP Rejects Proposals To Operate 5-Minute Energy Market

The Northwest Power Pool ("NWPP") rejected proposals from both the California ISO and the Southwest Power Pool Inc. (SPP) to put in place their proposed five-minute Energy Imbalance Market. The NWPP still plans to provide greater visibility of the system by 2017 by designing a sub-hourly, security-constrained economic dispatch to deal with the increased amount of intermittent wind generation and with the region's reliance on hydropower resources.
NWPP Website, 20/02/15; SNL Energy, 23/02/15

Mexico

Energy Regulatory Commission Grants First Licence To Import Electricity

The Mexican energy regulator (CRE) granted permission to the owners of a combined cycle power plant located in Texas to import up to 540MW into Mexico. This is the first licence ever granted for the import of electricity by a foreign generator which is exclusively connected to the Mexican electricity system. According to the regulator, the imported electricity will satisfy the demands of companies operating in the fields of mining, automobile, cement, steel, and paper manufacturing.

CRE, 12/02/15

Government Launches Public Consultation On The Principles Of The Electricity Market

The Mexican Ministry of Energy (SENER) has published a draft document describing the principles of design and operation of the national electricity market. This document is open for public consultation and its final version is expected to enter into force on 1 January 2016. The most important aspect of this document is that Mexico's state-owned electricity company, Comisión Federal de Electricidad, will cease to be a monopoly. Generators, retailers, and qualified end users will be able to participate in the markets for energy, capacity, green certificates, and related products. The document sets out clear rules to increase transparency in the market and contemplates the creation of a monitoring unit to prevent market abuse. The consultation will be open for at least 30 days.

CNNExpansión, 24/02/15; NotiredMexico, 24/02/15

CENTRAL & SOUTH AMERICAN NEWS

Brazil

Regulator Authorizes Weekly Energy Import And Export Contracts

The Brazilian energy regulator (ANEEL) has authorized the National Power System Operator (ONS) to sign short-term energy contracts (with a duration ranging from one day to one week) for the import and export of electricity with Argentina and Uruguay. Until now, ONS was only allowed to sign monthly contracts. This temporary measure is expected to improve electricity exchanges until the definitive new regulation becomes effective in June 2015.

O Globo, 24/02/15; Exame, 24/02/15

Peru

Government Approves New Terms For Gas Distribution Tender

The Peruvian Ministry of Energy and Mines has published new terms for the tender for the operation of the gas distribution network in the region of Piura. Earlier in the month, the energy vice-minister annulled a previous tender process held in November 2014, after receiving a formal complaint from one of the bidders. The new tender is expected to be held by the end of March 2015.

Ministry of Energy and Mines, 3/03/15

ASIA PACIFIC NEWS

Australia

Public Forum And Consultation On East Coast Wholesale Gas Market And Transmission Pipeline Frameworks Review

The Australian Energy Market Commission (AEMC) released a discussion paper and on 25 February held a public forum on the East Coast Wholesale Gas Market and Pipeline Frameworks Review. The review considers the role and objectives of the gas markets currently in operation and sets out a road map for their continued development. The deadline for submissions to the consultation is 26 March 2015.

AEMC media releases, 04/02/15, 20/02/15

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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