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Global Energy Regulation

Contents

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Regional Editors

Amparo Nieto: North America

Oscar Arnedillo: Spain, Portugal, European Union and Latin America

Marco Schönborn: Italy

EUROPEAN NEWS

EC Approves Renewable Energy Support Schemes In Luxembourg And Malta

The European Commission (EC) has found Luxembourg's and Malta's plans to support electricity generation from renewable sources to be compatible with European Union state aid rules. The government of Luxembourg plans to introduce premium payments on top of market prices to support operators of wind, solar, biogas, hydropower, and biomass installations. A total of €150 million (US$168 million) will be allocated between 2016 and 2020. The government of Malta also plans to introduce premium payments, but only to operators of solar photovoltaic and onshore wind installations. In this case, the total budget for allocation between 2016 and 2020 is €140 million (US$157 million).

European Commission, 26/08/16

EC Approves Hydropower And Biogas Support Schemes In Czech Republic

The European Commission has declared two Czech schemes to support electricity and heat production from hydropower and biogas to be in line with EU state aid rules. Operators of hydropower installations with a capacity of up to 10 MW will be allocated around €8 million (US$9 million) in the form of a market premium paid on top of market prices, whereas biogas installations with a capacity of up to 0.5 MW will receive around €19 million (US$21.3 million) in the form of a fixed premium for the heat they produce.

European Commission, 23/08/16

EC Gives Green Light To French Plans To Support Combined Heat And Power Plants

The European Commission has found French plans to support combined heat and power (CHP) plants using natural gas to be in line with EU state aid rules. The scheme will provide support to high efficiency combined heat and power plants depending on their size: (1) installations up to 1 MW will receive support in the form of a premium on top of market prices while (2) plants up to 300 kW will receive support in the form of a feed-in tariff.

European Commission, 09/08/16

ACER Consults Stakeholders On The "Congestion Indicators" For Gas Interconnection Points

The European Agency for the Cooperation of Energy Regulators (ACER) launched a consultation on improving the "congestion indicators" currently used by the Agency when analysing congestion at gas interconnection points. According to the European Commission Guidelines on Congestion Management, National Regulatory Authorities (NRAs) shall require Transmission System Operators (TSOs) to apply the Firm Day-Ahead Use-It-Or-Lose-It mechanism at the interconnection points where ACER finds that gas capacity demand exceeded the offer. Nonetheless, some stakeholders had expressed doubts on the appropriateness of the congestion indicators that were used, which is why ACER is inviting stakeholders to formulate suggestions to improve these indicators. The consultation is open until 15 September 2016.

ACER, 09/08/16

Austria

EconGas And Verbund Agree On Price Adjustments

EconGas, an Austrian gas trader and subsidiary of OMV, and Verbund, operator of the gas-fired power plant Mellach, have agreed on price adjustments to a gas supply contract. After the agreement, Verbund increased its forecast earnings before interest, taxes, depreciation, and amortization (EBITDA) by €120 million to €960 million. In return, the company has withdrawn a pending lawsuit in the Austrian antitrust court.

Die Presse, 24/08/16; Der Standard, 24/08/16

France

Closure Of Nuclear Power Plant Costly For Taxpayers

The French energy company EDF and the French government reached an agreement on compensation due to EDF for the ahead-of-schedule closure of its nuclear power plant at Fessenheim, located near the Swiss and German border. Prior to his election, President François Hollande promised the closure of the power plant, even though EDF intended to operate it for another 20 years. The agreed upon compensation consists of an upfront payment of €100 million in 2019 and a second tranche amounting to €300 million in 2021. The closure of the 39-year-old power plant is scheduled for 2018.

Les Échos, 25/08/16; SWR 24/08/16

France Falls Short Of Renewables Expansion Targets

A study commissioned by the French Ministry of Environment shows that France is about to fall short of self-imposed targets for expanding renewables to up to 23% of final energy consumption in 2020. In 2015, the share of renewables was 14.9%, up 0.4 percentage points compared with 2014, but below the interim target of 17%. The shortfall was caused mainly by the minor role still played by geothermal energy, biomass, and biogas in heating.

Les Échos, 19/08/16; Ministry for Environment, Energy and Sea, 05/08/16

EDF Employee Representatives File Complaint In Commercial Court Over Hinkley Point

Five of the six employee representatives at EDF challenged the French energy company's final investment decision on the controversial power plant at Hinkley Point. They claim that EDF's CEO Jean-Bernard Lévy held back information about the discomfort felt by UK Prime Minister, Theresa May over China's involvement in the project, to avoid risking board approval in July 2016. The Commercial Court scheduled a hearing for 5 September 2016.

Le Monde, 31/08/16; The Guardian, 31/08/16; Die Welt, 06/08/16

Germany

Agreement Between German Government And European Commission Clears Competition Concerns

The German government reached an agreement with the European Commission concerning the privileges granted to energy-intensive industrial companies in the funding of the German energy transition. The agreement addresses the Commission's concerns about the effect that the industry's exemption from the Renewables Energy Sources Act levy for self-produced electricity would have on competition. This levy subsidises the supply of renewable energy into the German power grid. The Commission also approved Germany's proposal to exempt existing CHP systems from paying the levy and to charge new CHP systems only 40% of the levy starting in 2017. Commentators identified the proposed tendering of small CHP systems (1 to 50 MW) as the only drawback for industrial companies in the agreement. Starting in winter 2017, building permits for these systems will be awarded to the party requiring the lowest subsidy.
Die Welt, 30/08/16; Handelsblatt 30/08/16

Results Of Fifth Tender For Subsidies To PV Power Plants Published

On 5 August 2016, the German networks regulator, the Bundesnetzagentur (BNetzA), published the results of the fifth round of bidding for subsidies to freestanding photovoltaic (PV) power plants. Like the fourth round, the fifth round featured a pay-as-bid auction. The BNetzA received 62 bids with a total volume of 311 MW. This represents a reduction of 40% relative to the fourth bidding round, even though the 130 MW being offered in the fifth round exceeds the 125 MW of the fourth round. The weighted average subsidy for this round was 7.23 ct/kWh, which was 0.18 ct/KWh less than in the fourth round. The regulator interprets this as evidence of competition.
Bundesnetzagentur, 05/08/16

Netherlands

Factsheet On Quality Of Regional Networks In 2015

The Consumer and Market Authority (ACM), which is responsible for regulating Dutch energy networks, published 2015 data on the performance of regional networks. ACM monitors the quality of network provision, meaning reliability, security, product quality (e.g., power quality), and services. By publishing the data on network performance, ACM hopes to encourage network operators to keep the quality of their networks up to scratch. In 2015, gas interruptions lasted, on average, 5 hours 21 minutes. This average has risen in recent years due to a small number of lengthy outages. Electricity interruptions caused by faults within the regional network lasted, on average, 20 minutes. These figures include (but were not affected substantially by) corrections submitted by energy supplier Cogas since the original publication in July 2016.

ACM, 08/08/16

Spain

Spanish Energy Regulator Asks Energy Companies For Information On Customer Complaints

The Spanish energy regulator (CNMC) published an order mandating that retailers of electricity and natural gas, as well as distribution companies, submit information on customer complaints and complaint processing procedures every quarter. Companies that fail to submit such information will be subject to enforcement proceedings and potential fines.

El País, 29/08/16; SUR, 20/08/16

Switzerland

Swiss Regulator Introduces Sunshine Regulation

The Swiss regulator ElCom has decided to introduce the so-called sunshine regulation for electricity Distribution System Operators (DSOs) on the basis of successful trials. The main element of the new regulation is a comparison of more than 600 Swiss electricity DSOs. The regulation is aimed at increasing transparency and thereby incentivising efficiency gains, resulting in lower costs for final consumers. However, since customers do not usually have the opportunity to switch between electricity DSOs, the regulator announced that publication of the comparison will not begin before 2018, the year of a planned law reform. In the long run, the regulator expects efficiency gains triggered by public pressure on inefficient DSOs.

ElCom website, 25/08/16

UK

World’s Largest Offshore Wind Farm Given Green Light

The UK Department of Business, Energy & Industrial Strategy (BEIS) have given the go-ahead for the world’s largest offshore wind farm, Hornsea Project Two, to be built off the coast of Yorkshire. The project, which is to be developed by Danish energy company, DONG Energy, will comprise up to 30 wind turbines connected to the power grid at North Killingholme in North Lincolnshire. When complete, the wind farm is expected to deliver up to 1.8 gigawatts of low carbon power.

BEIS, 16/08/16; Financial Times, 16/08/16

National Grid To Recover £95 Million On Power Contract Costs

UK energy regulator Ofgem approved National Grid’s request to recoup £95 million of the cost of contracts with two energy companies, SSE (for the Fiddler’s Ferry power station) and Drax. These so-called black start contracts, which are worth £113 million in total, pay power companies to provide backup emergency power for the grid in the event of a national power outage. In arriving at the £95 million recoverable cost, Ofgem has allowed National Grid’s claim for the Fiddler’s Ferry contract in full but has decided against the claim for the Drax contract, as it did not meet the requirements.

Ofgem, 23/08/16; Reuters, 23/08/16

NORTH AMERICAN NEWS

Mexico

Publication Of Bidding Documents And Contract Model For The Second Call For Round Two

On 24 August 2016, the National Hydrocarbons Commission (CNH) announced the second international public tender for round two for exploration and production activities in Mexico. The CNH will award licence agreements for 12 blocks for onshore exploration and extraction of hydrocarbons: nine in the Burgos Basin and three in the Southeastern Basin, with prospective resources of approximately 643.2 million barrels of crude oil equivalent (MMBcoe). The 12 blocks cover 5,066 square km and will be offered under a licencing contract model. The duration of the contracts will be for 30 years, with two potential extensions of five additional years each. The winners of the auction will be announced on 7 April 2017.

SENER, 23/08/16; El Economista, 23/08/16

US

Court Rejects Electric Ratepayer Fee For Gas Pipeline Capacity

The Massachusetts Supreme Judicial Court struck down an order issued by the state's Department of Public Utilities (DPU) allowing electric distributors to enter into long-term contracts for pipeline capacity and to pass on the costs to ratepayers. The plan was proposed by Governor Charlie Baker, and the DPU issued its order in 2015. Engie LNG & Gas LLC and the Conservation Law Foundation each challenged the rule. The court concluded that such an allowance violated the state's electric restructuring law that deregulated the generation business and separated generation, transmission, and distribution. The court found that the restructuring act signalled the legislature's intent for generators, not ratepayers, to bear the risks of generation development.

Law360, 17/08/16; Boston Globe, 17/08/16

MISO And PJM Collaborate On Joint Operating Agreement For Targeted Market Efficiency Projects

PJM Interconnection and Midcontinent ISO (MISO) are looking for small, low-cost, and short-term Targeted Market Efficiency Projects (TMEPs) to address historical congestion at the seams of the markets. The two regional transmission organisations (RTOs) are currently evaluating 13 potential projects in Illinois, Indiana, Michigan, and Ohio. A new joint operating agreement (JOA) has to be developed to establish rules for the accelerated approval of TMEPs. The MISO-PJM Interregional Planning Stakeholder Advisory Committee (IPSAC) has held several meetings in July 2016 and August 2016 to discuss the proposed language of the JOA and stakeholders' comments. The current focus of the discussion is on finalising metrics for evaluating proposed TEMPs. Guiding principles for evaluation include TEMPs that are small-scale and low-cost, that have short lead times, that target at specific historical congestion issues, and that employ simple methods for benefit determination. MISO and PJM propose to replace the current 1:1 cost-benefit ratio with a requirement that TMEPs produce enough benefits to cover their costs within four years. The two RTOs are expecting to finalise and file TMEP language in a JOA with the Federal Energy Regulatory Commission (FERC) in September 2016 and to recommend projects with analysis for board approval as soon as FERC approves the language, which is expected to be the end of this year.
IPSAC, 26/08/16; Utility Dive, 03/08/16

Anti-Fracking Measures Fail To Gather Enough Support For Vote In Colorado

Two initiatives to limit hydraulic fracturing in Colorado both fell short of the number of valid signatures to get on the ballot in November. The office of Colorado Secretary of State Wayne Williams was unable to validate enough signatures to reach the minimum requirement to put either measure on the ballot. The first, Initiative 75, would have increased the authority of local governments to regulate, limit, or ban gas and oil development. The other measure, Initiative 78, would have mandated a 2,500-foot distance between new oil and gas operations and occupied structures.
SNL, 29/08/16; The Wall Street Journal, 29/08/16

US Gas Reaches China Through Expanded Panama Canal

The first shipment of liquefied natural gas (LNG) from the continental United States reached southern China this month. The shipment from the Sabine Pass export facility on the Gulf Coast is the first LNG shipment to traverse the newly expanded Panama Canal. The new locks, which previously could not accommodate the large ships required to transport the fuel, cut travel time between the US and Asia by a third. This cargo is the first from Sabine Pass to reach Asia—though the vessel was expected to deliver its cargo in Latin America before it changed course in late July 2016.

The Wall Street Journal, 24/08/16; Platts, 22/08/16

CENTRAL & SOUTH AMERICAN NEWS

Argentina

Supreme Court Revokes Natural Gas Tariff Increase For Residential Customers

The Supreme Court of Argentina has partially revoked the latest residential gas tariff increase that was approved by the government. The Supreme Court found that the tariff hike should have been subject to a public hearing before its approval. The suspension only affects residential customers, for whom a maximum 400% tariff increase had been approved, and does not affect tariffs for small- and medium-sized businesses. The court's decision implies that residential tariffs must be reset at their previously approved levels.

El Comercio, 19/085/2016; ABC, 19/08/16

Federal Court Revokes Electricity Tariff Increases

A federal court in Argentina suspended the increase in electricity tariffs that had been approved by the government. The government's decision increased tariffs by up to 600% relative to previous levels. In its decision, the court reasoned that the government did not comply with the requirement to hold a public hearing prior to the tariff increase. The court proceedings resulted from claims filed by two non-governmental organizations.

Europa Press, 04/08/16; El Comercio, 03/08/16

Brazil

New Guidelines Approved To Prevent Delays In New Electricity Investments

The Brazilian government approved a new set of guidelines to be applied in future auctions for renewable generation and reserve capacity investments in the Interconnected National System (Sistema Interligado Nacional, SIN). These new guidelines seek: (1) to coordinate the start of operations at new generation projects with their connection to the transmission network; (2) to increase transparency in future auction processes; (3) to identify responsible entities; and (4) to define precise deadlines at each stage of each auction process.
Ministry of Mines and Energy, 29/08/16

Government Eases Energy Purchase Rules For Electricity Distribution Companies

The Brazilian government approved a decree establishing new rules that aim to mitigate the risk of over-contracting borne by electricity distribution companies. These new rules provide distribution companies with more flexibility to manage excess energy, eliminating incentives to contract for more energy in scenarios of excess supply. The new decree also removes the existing minimum capacity requirement for consumers and eliminates the restriction to offer binomial tariffs for low voltage customers.
Ministry of Energy and Mines, 03/08/16

Chile

Energy Regulator Awards Electricity Supply Contracts In Major Tender

The Chilean energy regulator (CNE) held Chile’s largest electricity tender to date, in which 12,430 GWh/year were awarded at an average price of US$47.60/MWh. This contracted energy will be used to supply the needs of about one-third of regulated customers in the interconnected Sistema Interconectado Central (SIC) and Sistema Interconectado del Norte Grande (SING) systems for 20 years, starting in 2021. According to CNE, 84 companies participated in the auction, which marks a milestone in Chile’s energy policy, as it guarantees a stable price for residential customers for 20 years.
National Energy Commission, 17/08/16

ASIA PACIFIC NEWS

Australia

AER Approves New Distribution Tariff Structure Statements

The Australian Energy Regulator (AER) approved new cost-reflective tariff structure statements for distribution networks in Victoria. Victoria, aided by its high penetration of smart meters, has been the first Australian state in the National Electricity Market to implement cost reflectivity in network tariffs. The aim is to improve price signals around the consumption of electricity at peak times. These tariffs will provide residential and small business customers with the ability to opt in to using cost reflective network pricing and are structured to include a fixed charge (in A$/year), variable charge (in A$/kWh per month), and a demand charge (in A$/kW per month). The demand charge is based on the highest kW or kVA demand reached over a 30-minute interval within certain periods of a day (daily demand charge window). It will be higher in the summer than in the winter. These new demand-based tariffs will be available to small business and residential customers from 2017 onwards. There will be no change to large commercial and industrial customers that already have access to demand-based charging.

AER, 24/08/16

New Zealand

Energy Retail Contracts Reviewed By Commerce Commission For Unfair Terms

The New Zealand Commerce Commission released a report of its findings on the energy retail sector, derived from its continuing review of standard form consumer contracts. The majority of the nine main energy companies were found to be making efforts to comply with regulatory provisions, but 59 terms were identified as being potentially unfair. The terms in question were generally common across the contracts, particularly pertaining to limited liability, unilaterally varying the contract, or automatic renewal of contracts. Those companies that were not able to show that these provisions were necessary have amended or agreed to amend them. The review covered 90% of the energy retail market in New Zealand.

Commerce Commission, 30/08/16

MIDDLE EAST

Egypt

Large Egyptian Power Project To Come Online This Year

A large power project built in Egypt by the German company Siemens is set to go online in December this year, the Egyptian prime minister's office said on 7 August 2016. The deal, signed by the Egyptian government and Siemens in June 2015, is worth US$8,900 million and calls for the construction of three gas-fired combined cycle gas turbine (CCGT) plants with a capacity of 4,800 MW each, making 14,400 MW in total. In addition to the CCGT plants, Siemens agreed to build 12 wind farms in Egypt, with an overall capacity of 2,000 MW. In total, the project is set to boost Egypt's power generation capacity by 50%. In December 2016, 4,440 MW of capacity is set to come online, and the project is expected to reach its full capacity of 16,400 MW in March 2018.

ME Construction News, 08/08/16; Reuters News, 07/08/16

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/publications/newsletters-briefs.html**.

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