

Reporting on energy regulation issues around the world

September 2016

Global Energy Regulation



Contents

- 1 Europe
- 13 North America
- 16 Central & South America
- 17 Asia Pacific
- 19 Middle East

EUROPEAN NEWS

CEER Publishes Its Annual Report On The Quality Of Electricity And Gas Supply

The Council of European Energy Regulators (CEER) published its sixth “Benchmarking Report on the Quality of Electricity and Gas Supply”, which assesses network performance in the 28 European Union Member States, Norway, Switzerland, and seven countries on the Energy Community Regulatory Board. The report finds greater harmonisation in the commercial quality indicators being used across countries and states that the rollout of smart meters is helping to shape regulations on quality of service. CEER recommends that regulators put in place adequate incentive schemes to improve continuity of supply and the use of Guaranteed Indicators (standards for individual network users, instead of overall indicators of network performance) with automatic compensation payments for network users in cases of non-compliance. This is the first time that the report has monitored the quality of gas supply. In this regard, CEER has found that there is room for improvement on commercial quality in the gas market and has stressed the need for further monitoring of gas quality and safety indicators so that comparisons are possible across more countries in the future.

CEER, 29/09/16

General Editor

Tomas Haug

Regional Editors

Amparo Nieto: North America

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

Marco Schönborn: Italy



European Commission Urges Spain To Comply Fully With The Third Energy Package

The European Commission formally requested that Spain ensure the correct implementation and application of the Electricity and Gas Directives. According to the Commission, the current Spanish legislation prevents undertakings other than the national incumbent system operators for electricity and gas (REE and Enagas) from building and operating interconnectors to other Member States. The Commission found that Spain had incorrectly transposed several rules concerning the independence of the national regulatory authority as well. This reasoned opinion follows a formal notice that was sent to Spain in February 2015, and the government now has two months to inform the Commission of the measures it has taken to remedy the situation.

European Commission, 29/09/16

European Commission Asks Estonia And Poland For Full Transposition Of The EU Energy Efficiency Directive

The European Commission asked Estonia and Poland to ensure the full transposition of the Energy Efficiency Directive after identifying gaps in their national legislation. Estonia and Poland now have two months to comply with this request. In case of non-compliance, the Commission may decide to refer these Member States to the EU Court of Justice.

European Commission, 29/09/16

European Commission Approves Polish High-Efficiency Co-Generation Support Scheme

The European Commission stated that a Polish scheme supporting high-efficiency co-generators of heat and power (CHP) complies with EU state aid rules. Under the scheme, which was introduced in 2007, producers of heat and power in high-efficiency CHP plants are allocated colour-coded certificates (yellow, purple, or red) depending on the source of fuel and capacity of the CHP plant. Electricity suppliers and some other entities are required to buy a certain number of CHP certificates from these recipients, in proportion to the electricity they purchase or supply to end users. The scheme will run until 2018 with an annual budget of over PLN 1,000 million (US\$259 million).

European Commission, 29/09/16



ACER Presents An Updated Implementation Monitoring Report On Gas Congestion Management Procedures

The Agency for the Cooperation of the Energy Regulators (ACER) published an updated “Implementation Monitoring Report on Gas Congestion Management Procedures” (CMP). In this report, ACER identifies numerous shortcomings and delays in the implementation of those procedures. The report states that although improvements have been noticeable since 2014, full implementation has not been achieved in Bulgaria, Italy, Hungary, Portugal, Romania, and Spain. It urges the duly appointed Gas Transmission System Operators and National Regulatory Authorities to complete the implementation of congestion management measures in gas markets.

ACER, 21/09/16

ACER And CEER Publish Gas And Electricity Wholesale Market Volumes

ACER and CEER jointly published data on gas and electricity wholesale market volumes, which form part of their “Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets”. This report indicates that gas prices have fallen across Europe as a result of declining oil prices, greater availability of gas, and increased gas-to-gas competition. Regarding electricity, the report shows that average prices rose in a few countries in 2015, marking the first time this has occurred since 2008. Nonetheless, overall electricity prices remained far below 2008 levels, which can be explained in several countries by a high share of renewable energy and over-capacity in generation.

ACER, 19/09/16

European Parliament Adopts Resolution On New Energy Market Design

The European Parliament adopted a resolution on the issue, “Towards a New Energy Market Design”. According to this resolution, the energy market should enhance regional cooperation on all dimensions of energy supply and demand, and should focus on improved, more decentralised, and more flexible markets. The main objective is to ensure a well-regulated, market-based system that is capable of delivering on all of the EU’s established energy and climate goals for 2030. The need for a new energy market design is justified by: (1) the increased presence of renewables with market-driven remuneration, (2) stronger integration of national markets through the development of interconnections, and (3) the development of smart grids and new decentralised generation technologies.

European Parliament, 13/09/16



Court Of Justice Confirms That Regulated Gas Tariffs May Only Exist Under Limited Conditions

The Court of Justice of the European Union confirmed that the prohibition of regulated energy prices established in the Federutility case under the 2003 European Gas Liberalisation Directive also applies to the 2009 Directive (Directive 2009/73). The court also held that exceptions are permitted for reasons of security of supply and territorial cohesion. This judgement is linked to a dispute between the French National Association of Energy Retailers (ANODE) and the French government. French law requires gas companies to offer regulated prices for gas sales on the grounds of security of supply and territorial cohesion. ANODE challenged this tariff regulation on the grounds that it is an obstacle to achieving a liberalised market. The court held that exceptions from that prohibition on the grounds of security of supply and territorial cohesion are permissible, though it noted that they are subject to conditions. The court also expressed doubts as to whether the French measures satisfy those conditions.

Court of Justice of the European Union, 07/09/16; Bird & Bird, 29/09/16

Austria

Electricity Prices In Austria Likely To Increase Due To Market Decoupling

Electricity prices in Austria may increase by 15% to 30% in 2017 due to the potential decoupling of the German-Austrian price zone. German politicians and most European regulators favour the decoupling because the economic costs of electricity generation are not uniform in Germany and Austria. Wind farms in Northern Germany often lead to local oversupply whereas demand exceeds local production in Southern Germany and in Austria. This results in network congestion and high network balancing costs. The Austrian minister of economic affairs, Reinhold Mitterlehner, announced he would try to convince his German colleague to maintain the joint price zone in order to avoid an increase in electricity prices.

kurier.at, 28/09/16; ORF, 28/09/16



Belgium

Energy Minister Under Pressure For Undercharging Operators Of Tihange 1

The Belgian energy minister, Marie-Christine Marghem, faces criticism for having imposed unduly low charges on the operators of the Tihange 1 nuclear power plant, EDF and Electrabel. As compensation for the nuclear power plant's lifetime extension until 2025 (decided in 2012), the operators must transfer 70% of annual profits to the Belgian government. For operating the power plant in 2015, EDF and Electrabel transferred €7.2 million (US\$7.8 million) to the government. In a confidential report, the Belgian energy regulator, CREG, concluded that this figure understated the true liability by about €3 million (US\$3.4 million). As the regulator's estimate has become public, the minister is accused of favouring the operators and of giving up potential government revenues.

Lalibre.be, 26/09/16; Lesoir.be, 22/09/16

France

Changes To French Support Scheme For Wind Energy

A change to the French support scheme for wind energy will become effective sooner than expected. To comply with the European Commission's 2014 guidelines regulating support to renewable energy, the French government introduced tariffs based on Contracts for Differences (CfD) similar to the British model to support solar, geothermal, and biomass energy production. The new model took effect on 1 January 2016. Wind energy was exempt from this change in the law and is currently sold directly to EDF, the major French electricity producer, at a subsidised price fixed for a period of 15 years. Shortly before issuing the 2014 guidelines, the European Commission approved this particular support scheme for a fixed duration of 10 years. Due to a reform of the CSPE, a tax that French energy consumers pay on their electricity bills that is used to subsidise renewables, the European Commission believes that the exemption for the support of wind energy is no longer valid. The European Commission argues that reform of the CSPE has fundamentally changed the framework for support of renewables, making exemptions from the outdated framework redundant. While negotiations between the French administration and the European Commission continue, market participants expect support for wind energy will switch to feed-in tariffs in 2017.

Agence France-Presse, 27/09/16; lesechos.fr 26/09/16



Regulator Publishes Draft Of New Regulated Tariffs For LNG Terminals

On 14 September 2016, the French regulator for gas and electricity networks, the CRE, published a consultation document setting out provisional rates for liquefied natural gas (LNG) terminals (ATTM 5). The regulated ATTM tariffs, which will become effective on 1 April 2017, affect the French LNG terminals Montoir-de-Bretagne and Fos Tonkin (both operated by Elengy) and Fos Cavaou (operated by Fosmax LNG). The CRE proposes to set the real pre-tax weighted average cost of capital (WACC) between 4.75% and 5.50%, a narrower range than the 3.61% to 5.82% originally proposed by its consultant.

This WACC proposal is related to the WACC that the CRE recently proposed for gas transportation networks (ATRT6). Based on CRE's judgment that LNG terminals are exposed to additional specific risks compared to those involved in gas transmission, the French regulator intends to add a risk premium of between 1.0% and 2.4% to the WACC for LNG terminals. Currently, this risk premium is fixed at 2%, so the current proposal, if retained in the CRE's final decision, would reduce the WACC by least one percentage point compared to the previous (ATTM4) decision.

CRE, 14/09/16

Germany

TSOs TenneT And Transnet BW Publish Routes Of North-South Power Lines

Two German electricity transmission system operators (TSOs), TenneT and Transnet BW, have set out corridors for a major north-south interconnection in a submission to the German networks regulator, the BNetzA, which will now assess the proposals. At this stage, third parties are invited to participate in the network development process. The proposed "SüdLink" interconnection will allow electricity generated by wind farms in North Germany to be transmitted to the South, where consumption by energy-intensive companies creates excess demand.



Completion of the new connection will be delayed and will come at a higher price than initially expected. This cost increase is due to local residents and the Bavarian prime minister Horst Seehofer protesting against the construction of overhead cables in Bavaria. In autumn 2015, the German government reached a compromise agreement requiring underground cables in residential areas. Compared with overhead cables, this increases costs by €3,000 million to €8,000 million (US\$3,360 million to US\$8,950 million) and tariffs by up to €10 (US\$11) per year for a typical household. Completion of the project is expected in 2025.

FOCUS Online, 29/09/16; Spiegel Online 17/09/16

Ministry Publishes Strategic Paper For Successful Energy Transition

The German Federal Ministry for Economic Affairs and Energy has published a strategic paper on trends in the energy sector. The paper identifies 12 trends in energy production and consumption, each of which brings a separate challenge for the energy transition. The challenges are mostly related to the continuation of political reform processes and the creation of incentives for a shift towards relatively new technologies, such as energy from biomass and combined heat and power (CHP) systems. The strategic paper pursues three major objectives that the ministry deems fundamental to accomplishing the energy transition. These objectives are: (1) a permanent decrease in energy consumption in all sectors, (2) the direct use of renewables for heating and air conditioning, and (3) the use of electricity from renewables for heating, traffic, and industry.

Federal Ministry for Economic Affairs and Energy, 16/09/16



Italy

Reform Of The Regulated Retail Energy Market And Introduction Of The Tutela Simile Offer

The Italian energy regulator, the Autorità per l'Energia Elettrica il Gas e il Sistema Idrico, or Aeegsi, approved Decision 541/2016/R/eel, which contains final details of the reform of the standard offer market (Maggior Tutela) and plots a path towards full liberalisation of the retail energy market by July 2018. This deadline is in line with the timeframe set out in the current draft law on competition (Disegni di legge Concorrenza), which is due to be approved by the end of this year. In the decision, Aeegsi confirmed the introduction on 1 January 2017 of the new standard offer segment (the Tutela Simile, which means “similar protection”), and laid out the detailed schedule for its implementation. Under the Tutela Simile, energy will be supplied to domestic and non-domestic customers on a standardised contract by suppliers selected by the Single Buyer (Acquirente Unico).

Aeegsi, 30/09/16

The New Gas Balancing System To Go Live On 1 October 2016

On 19 September 2016, the Gestore dei Mercati Energetici (GME) published a new version of the technical rules relating to the operation of the natural gas balancing platform (PB-GAS) and the wholesale gas market (M-GAS), in light of the new balancing regime for natural gas being launched on 1 October 2016. The new balancing regime will be regulated under the provisions set out by the Aeegsi in June 2016 in Decision 312/2016, which transposed the European Network Code on Gas Balancing (EC Regulation 312/2014) into the Italian regulatory framework.

GME, 19/09/16



Netherlands

X-Factor Decisions On Regional Electricity and Gas Networks For 2017-21

The Consumer and Market Authority (ACM), the Dutch energy regulator, published X-factor decisions defining allowed revenues over the period 2017-21 for the regional electricity networks (Enduris, Enexis, Liander, RENDO, Stedin, and Westland) and for the regional gas networks (Cogas, Enduris, Enexis, Liander, RENDO, Stedin, Westland, and Zebra). The ACM also published special yardstick decisions for certain extra high pressure pipelines.

Alongside these revenue decisions, the ACM also published the calculations behind each X-factor, including each network's investments in the period 2013-15, total costs in the period 2012-15, new Q-factors (quality adjustments, for electricity networks only) and 2016 starting values for outputs and allowed revenues. The ACM also published its calculations of each network's regulatory asset base (RAB) for 2000-15 and forecasts of depreciation and asset values for assets existing at the end of 2015. The ACM's decision on the cost of capital was published alongside the associated method decision, on 2 September 2016.

ACM, 27/09/16

Decision On Dispute Between USG And TenneT Over Connection And Transmission Charges

Utility Support Group B.V. (USG) had asked ACM to determine whether TenneT TSO BV (TenneT) had the power under the Electricity Act (as it stood between 1 January 2008 and 1 January 2014) to charge USG for connection and transmission. USG argued that TenneT did not because legally, USG was not supplied over a connection and could not, therefore, be regarded as an offtaker liable for TenneT's charges. On 1 September 2016, however, ACM concluded that TenneT had the power to charge USG its tariffs for connection and transmission.

ACM, 19/09/16



Method Decision and WACC Calculation For TenneT's Offshore Network, 2017-21

The ACM published its decision on the method of setting allowed revenues for the offshore electricity network operated by TenneT. The decision covers the period 2017-21 and includes a decision on the cost of capital (WACC) to be included in allowed revenues. The ACM has decided that the annual pre-tax real WACC for existing assets is 4.3% in 2016 but will fall to 3.0% by 2021. For new investments, TenneT will earn a lower rate of 3.6% in 2016, also falling to 3.0% by 2021.

ACM, 16/09/16

Revised X-Factor Decisions For 2011-13 And 2014-16

Following a decision at the Tribunal for Business Appeals (College van Beroep voor het bedrijfsleven, CBB), the ACM issued revised X-factor decisions for all regional electricity and gas networks, for the regulatory periods 2011-13 and 2014-16. The CBB found that the ACM had based its original decisions on incomplete company data and ordered the ACM to revise its decisions accordingly. The revisions concern the X-factor; other items such as the Q-factor for quality adjustments, remain unchanged. The ACM also published the calculations behind each new X-factor.

ACM, 15/09/16

Method Decision For TenneT's Transport And System Services Businesses, 2017-21

The ACM published its decision on the method of setting allowed revenues for the transport and system services businesses of TenneT, operator of the Dutch electricity transmission network. The decision covers the period 2017-21 and includes values for the weighted average cost of capital (WACC) to be included in allowed revenues. The ACM has decided that the annual pre-tax real WACC for existing assets is 4.3% in 2016 but will fall to 3.0% by 2021. For new investments, TenneT will earn a lower rate of 3.6% in 2016, also falling to 3.0% by 2021.

ACM, 02/09/16



Method Decisions For Regional Gas And Electricity Networks 2017-21

The ACM published its decisions on the method of setting allowed revenues for the Dutch regional gas and electricity networks. The decisions cover the period 2017-21 and include values for the weighted average cost of capital (WACC) to be included in allowed revenues. The AMC has decided that the annual pre-tax real WACC for existing assets is 4.3% in 2016 but will fall to 3.0% by 2021. For new investments, regional gas and electricity networks will earn a lower rate of 3.6% in 2016, also falling to 3.0% by 2021.

ACM, 02/09/16

Portugal

ERSE Fines Galp For Incorrectly Applying Regulations On Social Tariffs

The Portuguese energy regulator, ERSE, fined Galp Power €500,000 (US\$562,000) for incorrectly applying the regulations on social tariffs and on extraordinary support for vulnerable energy consumers. The regulator's decision also obliges Galp Power to compensate affected consumers. According to ERSE, Galp Power systematically breached its obligations: (1) to provide consumers with information, in particular, about the existence of social tariffs for electricity, and (2) to apply those tariffs to vulnerable consumers. Affected consumers will retroactively receive the value of social tariff discounts that the firm failed to apply, plus a maximum individual compensation of €75 (US\$84).

Económico, 05/09/16; *Dinheiro Vivo*, 05/09/16

Spain

Regional Government Of Andalusia Fines Endesa For Abusive Clauses In Supply Contracts

The Andalusian government fined electricity distributor Endesa €400,000 (US\$449,000) for including abusive conditions in consumer contracts related to smart meter rentals, and for charging consumers for services that were not supplied. According to the Andalusian government, this conduct represents a very serious infringement of the consumer protection law and affected more than 350,000 consumers in the region of Andalusia. In addition to this fine, the Andalusian government has ordered the confiscation of revenues collected by the firm in 2014 for services it did not supply, estimated at €1.39 million (US\$1.56 million).

Regional Government of Andalusia, 13/09/16



Turkey

Russia Expects To Sign Intergovernmental Agreement On Turkish Stream In October

On 10 September 2016, Russian Energy Minister Alexander Novak announced his intention to sign an intergovernmental agreement with Turkey to implement the Turkish Stream gas export project. Talks between Turkey and Russia stalled in November 2015 after Turkey shot down a Russian fighter jet and Russia imposed retaliatory sanctions, but relations between the two countries have improved in recent months and negotiations on the construction of the pipeline have resumed. On 7 September 2016, Russian state-owned gas giant Gazprom, the project operator, announced that it had received initial regulatory approvals from Turkey, which will allow the project to move into the implementation phase.

Once completed, the Turkish Stream pipeline will transport gas from Russia to the European Union via the Black Sea and Turkey. The pipeline will have a capacity of 63 billion cubic metres (bcm) and will deliver Russian gas across Turkey and into the EU at the Turkey-Greece border, with some gas remaining in Turkey for domestic consumption.

Daily Sabah Energy, 14/09/16; Reuters, 10/09/16

UK

Contract Signed For Hinkley Point Nuclear Deal

Ministers from the UK, France, and China have finally signed a contract giving the green light for the Hinkley Point nuclear plant to be built in Somerset, in Southwest England. This follows the final approval of the project by the UK government earlier in September 2016, after its comprehensive review of the project amid concerns over Chinese involvement. The approval, however, is subject to a new agreement in principle with EDF, which would prevent the sale of EDF's controlling stakes without the consent of the UK government, both before and after completion of the project. The government has also imposed significant new safeguards on future foreign investment, which enables it to take a special share in all future nuclear projects.

Reuters, 29/09/16; BEIS, 15/09/16; Reuters, 15/09/16



Ofgem Approves 2GW UK-France Interconnector

The UK energy regulator, Ofgem, gave the go-ahead for a £1,100 million underground electricity cable to be built between Hampshire in the UK and Normandy in France. The interconnector, which is being developed by Aquind Limited, is expected to be completed by 2021 and will provide up to 2GW additional capacity to the UK electricity grid. The privately funded project is expected to create up to 500 jobs during the construction phase.

Reuters, 14/09/16; PR Newswire, 14/09/16

NORTH AMERICAN NEWS

US

California Passes Four New Laws To Promote Energy Storage And Distributed Generation

The State of California has a goal of achieving 50% of energy from renewable sources and a 40% reduction in greenhouse gas emissions by 2030 and recently passed four Assembly bills aiming to provide a predictable and secure environment for investment in energy storage. The four bills are AB 2868, AB 2861, AB 33, and AB 1637. AB 2868 directs the California Public Utilities Commission (CPUC) to require the state's three largest investor-owned utilities to file applications for programs and investments that facilitate energy storage. The bill sets a 500 MW limit on the total new storage capacity that the utilities can collectively acquire, to allow non-utility parties to enter the energy storage market. Of the total capacity approved by the CPUC, only 25% can be behind-the-meter storage systems. AB 2861 authorizes the CPUC to create an independent dispute resolution panel, staffed by electrical systems experts, to evaluate and resolve interconnection disputes within 60 days. AB 33 requires the CPUC to analyse the potential costs and benefits of all types of long duration bulk energy storage resources, as well as the impacts of storage on transmission and distribution systems. AB 1637 authorizes the CPUC to increase the overall budget to fund the state distributed energy resources program by 2019.

Greentech Media, 29/09/16; SNL, 02/09/16



FERC Approves Settlements Of Columbia Gulf And Tuscarora Rate Investigations

At its monthly meeting, the Federal Energy Regulatory Commission (FERC) approved an uncontested settlement for Columbia Gulf Transmission, LLC, ending its investigation into the company's natural gas transportation rates. The settlement establishes a lower daily firm transport rate as well as refunds. Similarly, FERC approved an uncontested settlement with Tuscarora Gas Transmission Co. that includes a gradual decline in rates. The Commission announced its investigations into the two companies in January 2016, along with similar investigations into Iroquois Gas Transmission System L.P. and National Fuel Gas Company's Empire Pipeline, Inc.

SNL, 22/09/16; FERC 22/09/16

California Law To Encourage Renewable Gas

California Governor Jerry Brown signed a bill into law this month that requires state regulators to recommend cost-effective strategies for the state to use more renewable gas. The law is intended to help the state to achieve its goal of reducing methane emissions to 40% below 1990 levels by 2030. Southern California Gas Company, the largest gas distributor in the United States, has been looking into ways to produce renewable gas from organic waste in landfills and dairy farms. The law also includes provisions to reduce hydrofluorocarbon gases and black carbon.

SNL, 20/09/16; SoCalGas, 19/09/16; California Legislature, 19/09/16

Nevada PUC Rules To Restore Retail Net Metering For Existing Solar Customers

On 16 September 2016, the Public Utility Commission of Nevada (PUCN) approved the settlement between NV Energy, SolarCity, and regulatory staff to grandfather the original net energy metering (NEM) arrangement for existing customers until 2036. This settlement only applies to NV Energy's customers who applied or installed a rooftop solar system before 31 December 2015. The measure was proposed in opposition to the Nevada Commission's December 2015 decision, which would have eliminated net metering for both existing and future solar customers. Existing customers with rooftop solar would have received instead export credits based on the utility's avoided cost estimates.

PUCN, 16/09/16; Utility Dive, 16/09/16



Mexico

Second Long-Term Electricity Auction Awarded To 23 Companies At Low Record Prices

The Mexican National Centre for Energy Control (CENACE) ran the second long-term electricity auction on 22 September 2016, awarding 15-year contracts for energy and capacity and 20-year contracts for clean energy certificates (CECs). On 28 September 2016, CENACE named the 23 winners, out of 57 eligible bidders. The winning offers have an average price of US\$33.47/MWh for clean energy (packages of energy and CECs), 30% less than in the first long-term energy auction. The new projects will add 2,871 MW of new clean energy capacity, to be in operation by 2019, for an estimated investment of US\$4,000 million. SENER, 28/09/16; CENACE, 28/09/16

SENER Issues Manuals For Allocating Legacy Financial Transmission Rights And For The Capacity Balancing Market

On 14 September 2016, the Mexican Energy Ministry (SENER) published the “Guidelines for the Allocation of Legacy Financial Transmission Rights” (FTRs). The Guidelines set out rules and procedures for allocating FTRs to load centres based on their historical usage.

On 22 September 2016, SENER also published the “Guidelines for the Capacity Balancing Market”, which set out the rules for operating and managing this market, where the participants will be able to buy and sell capacity. Mexico’s Federal Official Gazette (*dof.gob.mx*), 14/09/16, 22/09/16

Bidding And Contracting Terms For Deep-Water Oil And Gas Exploration And Production Auction Amended

SENER, the Mexican Secretariat of Finance and Public Credit (SHCP), and the National Hydrocarbons Commission (CNH) amended the bidding and contracting terms in the fourth auction of Round One for awarding deep-water oil and gas exploration and production contracts. The contract terms were amended to make them more attractive to potential bidders. The auction is scheduled to be held on 5 December 2016. SENER, 01/09/16



CENTRAL & SOUTH AMERICAN NEWS

Brazil

Regulator Holds Auction For Energy Reserve Contracts

The Brazilian energy regulator, ANEEL, held the first Auction of Energy Reserve (LER) of 2016, which resulted in the allocation of contracts to 30 hydro-generation projects amounting to 180.3 MW. This capacity was allocated to 19 medium-sized projects with capacity up to 30 MW (giving 164.4 MW in total) and to 11 small-sized projects with capacity up to 3 MW (giving a further 15.9 MW in total). This is the first reserve auction where small-sized hydro units were allowed to participate. The duration of the contracts is 30 years, and they run from 1 March 2020 onwards. The average energy price in the auction was R\$227.02/MWh (US\$70/MWh), implying an average discount of 8.46% relative to the auction reference price.

ANEEL, 23/09/16

Government Launches Plan To Foster Investments

The Brazilian government launched Projeto Crescer (or “Growth Project”), which aims at improving the current concession allocation methodology in order to increase competition between bidders and to improve the transparency of the contracts. This new plan, led by the Investment Partnership Program (PPI) office, grants concessions to 34 infrastructure projects in the areas of transport, energy, sewerage, and mining. According to the plan, each project must be at least 20% financed by equity, while the remaining requirement for resources may be financed by debt.

BrazilGovNews, 13/09/16

Hydrocarbons Agency Public Consultations On Underground Storage Activity And Transmission Prices For Natural Gas

The Agência Nacional do Petróleo, ANP, launched two public consultations on a number of proposals related to storing natural gas underground, and on the subsidies and methodology for calculating transport prices to be applied to natural gas supply contracts. The proposals, along with another initiative (Gás Para Crescer, or “Gas for Growth”) sponsored by the Ministry of Mines and Energy, aim to promote the development of the natural gas sector. The consultations will remain open for three months and 30 days, respectively.

Ministry of Mines and Energy, 12/09/16



ASIA PACIFIC NEWS

Australia

Draft Determination On Local Generation Network Credits, Demand Response Mechanism, And Ancillary Services Unbundling Rule Change Requests

The Australian Energy Market Commission (AEMC) released draft determinations for a number of rule change requests, including for (1) local generation network credits (LGNC), an incentive payment intended to capture the network and energy benefits of distributed generation, (2) a demand response mechanism (DRM), a proposal to establish a formal demand response participant role in the Australian National Electricity Market (NEM), and (3) the unbundling of ancillary services.

In the draft determinations for the LGNC and DRM rule change requests, the AEMC proposed that they not be adopted because sufficient incentives were already present in the market to encourage the development of both demand response and distributed generation resources.

In its draft determination on the unbundling of ancillary services, the AEMC proposed that the rule change request be implemented and that a new type of market participant be established—a market ancillary services provider. The market ancillary service provider would be able to offer customer's demand response or aggregations of customers' demand response into ancillary services markets for frequency control, even if the market ancillary service provider is not the retailer serving the customer(s) concerned.

These draft determinations are now subject to public consultation, and the AEMC will release final determinations in late November to early December 2016.

Renew Economy, 05/09/16, 23/09/16; Australian Energy Market Commission, 01/09/16, 22/09/16



China

Hong Kong Government Approves Construction Of New Gas-Fired Generating Unit

On 20 September 2016, the Hong Kong government announced its approval of the construction of a new gas-fired generating unit by the Hongkong Electric Company (HKE). The new gas unit will be a combined cycle gas turbine with an installed capacity of 380 MW. The total estimated capital expenditure of the new gas unit is around HK\$4,100 million (US\$530 million). The impact on the HKE's tariff is expected to be about 0.2% for 2017 and 0.3% for 2018. The objective of this construction is to help meet Hong Kong's 2020 Fuel Mix Target, which sets out that local electricity generation by natural gas should increase by 2020 to around 50% of the total fuel mix for electricity generation by all power companies.

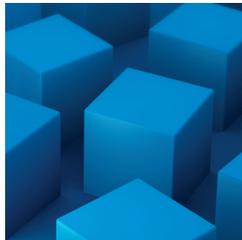
Hong Kong Government News, 20/09/16; Hkelectric.com, 19/09/16

New Zealand

Energy Retail Contracts Reviewed By Commission For Unfair Terms

The Commerce Commission issued a warning letter to Wellington Electricity Lines Limited (WELL) after it failed to comply with minimum standards for network reliability in 2013 and 2014. The quality standards set by the Commission limit the maximum number and length of power outages that the average consumer should experience in a year. WELL reported its non-compliance, as WELL is required to provide the Commission with a self-assessment against the quality standards following each annual assessment period. The Commission's investigation found that although WELL had breached its quality standard, there was no serious fault on its part, as weather played a significant part in its failure to meet the standards; however, an independent engineering report also identified some specific steps WELL could take to improve its reliability. WELL has cooperated and has already acted on a number of the report's recommendations.

Commerce Commission, 01/09/16



MIDDLE EASTERN NEWS

Egypt

Eni To Build Renewable Capacity In Egypt

Eni announced on 29 September 2016 that it had agreed on a common strategy with the Egyptian government to expand the country's renewable generation capacity. The first project will be a 50 MW solar photovoltaic power plant in Egypt's Sinai Peninsula. The plant, due to be completed in December 2017, will be constructed by Petrobel, an equal joint venture between Eni's local subsidiary (IEOC) and the state-owned Egyptian General Petroleum Corporation (EGPC). As part of Eni's push into renewable energy, the company plans to build 420 MW of renewable generation capacity in Egypt by 2022. Eni also signed an agreement earlier in September with Sonatrach, the state energy company of Algeria, for the construction of a 10 MW photovoltaic plant in that country.

Reuters, 29/09/16, 23/09/16; Gulf Oil and Gas, 29/09/16



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.

About NERA

NERA Economic Consulting (www.nera.com) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For over half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and corporations. With its main office in New York City, NERA serves clients from more than 25 offices across North America, Europe, and Asia Pacific.

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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 CO₂ 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.

Office Contacts

EUROPE

Berlin

NERA Economic Consulting
Unter den Linden 14
10117 Berlin
Germany
Tel: +49 30 700 1506 01
Fax: +49 30 700 1506 99
Contact: Tomas Haug

London

Marble Arch House
66 Seymour Street
London W1H 5BT, UK
Tel: +44 20 7659 8500
Fax: +44 20 7659 8501
Contact: Sean Gammons

Madrid

Goya 24, 6th Floor
28001 Madrid, Spain
Tel: +34 91 212 6400
Fax: +34 91 521 7876
Contact: Oscar Arnedillo

Paris

1 rue Euler
75008 Paris
France
Tel: +33 1 45 02 30 00
Fax: +33 1 45 02 30 01
Contact: Jeanne Lubek

Rome

Via Basento 37,
2nd Floor
00198 Rome, Italy
Tel: +39 06 488 8101
Fax: +39 06 485 838
Contact: Marco Schönborn

NORTH AMERICA

White Plains

360 Hamilton Avenue
10th Floor
White Plains, NY 10601
USA
Tel: +1 914 448 4000
Fax: +1 914 448 4040
Contact: Jeff Makhholm (Boston),
Chantale LaCasse (Washington DC)

ADDITIONAL NERA OFFICES

Austin, TX	+1 512 371 8995
Auckland, New Zealand	+64 9 373 7230
Beijing, China	+86 10 6533 4395
Boston, MA	+1 617 927 4500
Brussels, Belgium	+32 2 282 4340
Chicago, IL	+1 312 573 2800
Denver, CO	+1 303 465 6844
Frankfurt, Germany	+49 69 710 447 500
Geneva, Switzerland	+41 22 819 94 94
Los Angeles, CA	+1 213 346 3000
Melbourne, Australia	+61 3 9623 9800
México City, Mexico	+52 55 5999 3110
New York, NY	+1 212 345 3000
Philadelphia, PA	+1 215 864 3880
San Francisco, CA	+1 415 291 1000
Shanghai, China	+86 21 6335 3358
Sydney, Australia	+61 2 8864 6500
Tokyo, Japan	+81 3 3500 3290
Toronto, Canada	+1 416 783 3355
Washington, DC	+1 202 466 3510
Wellington, New Zealand	+64 4 474 1320

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