Issue 209

NERA
ECONOMIC CONSULTING

Reporting on energy regulation issues around the world

October 2016

Global Energy Regulation

Contents

EUROPEAN NEWS

European Union

European Commission Adopts Stricter Exemption Conditions For OPAL Gas Pipeline Operation

The European Commission published a decision updating the exemption rules applicable to the OPAL gas pipeline, which connects Germany and the Czech Republic. When it was launched in 2011, the OPAL gas pipeline was exempted from European Union-wide third-party access and tariff regulations. Under the new decision, only 50% of the capacity of the pipeline will be exempt from these regulations, while the remaining 50% will be subject to third-party access (TPA) rules. In addition, companies with a dominant position in the Czech market will not be allowed to outbid other users for using this TPA capacity, and additional monitoring obligations will be imposed on the pipeline operator. The Commission argues that—given the observed market changes since 2009—these changes are required to ensure transparent and non-discriminatory access to the pipeline capacity. The new access regime will be in effect until 2033.

European Commission, 28/10/16

ACER Publishes Its Implementation Monitoring Report On The Capacity Allocation Mechanisms Network Code

The Agency for the Cooperation of Energy Regulators, ACER, published an Implementation Monitoring Report on the Network Code on Capacity Allocation Mechanisms (NC CAM). In this report, ACER concluded that although implementation of its core requirements is on track, NC CAM has not yet been fully implemented. ACER urges Transmission System Operators (TSOs) and National Regulatory Authorities to implement promptly all of the remaining provisions of this EU legislation, giving priority to capacity bundling, virtual interconnection points, and capacity maximisation.

ACER, 27/10/16

EC Approves German Support To High-Efficiency Cogeneration But Investigates Levy Reductions To Finance It

The European Commission declared that Germany's planned regime to support high-efficiency cogeneration is in line with EU state aid rules. Nonetheless, the Commission started an in-depth investigation into reductions that certain large electricity consumers would receive on a levy on electricity bills (EEG Umlage) required to finance the support regime. The support regime would run auctions to provide high-efficiency cogeneration with a fixed premium, on top of the market price, for a limited number of operating hours. According to the Commission, the scheme will contribute to energy efficiency, lower CO_2 emissions, and lead to better integration of cogenerated power into the electricity market. Regarding its investigation into the financing scheme, the Commission will assess the proportionality of reductions in the levy and their necessity for making the financing of the scheme sustainable.

European Commission, 26/10/16

EC Approves German Electricity Demand Response Scheme

The European Commission declared that the electricity demand response scheme proposed by Germany is in line with EU state aid rules. Under this scheme, German network operators can organise weekly auctions to enter into contracts with customers for a total of 1,500 MW of flexible capacity. These contracts allow network operators to reduce the consumption of these customers, remotely and at short notice, in exchange for a payment to be determined in weekly competitive auctions. This measure will help network operators stabilise consumption and generation by reducing demand when necessary. The Commission concluded that the proposed measure improves the security of electricity supply whilst maintaining competition in the Single Market.

European Commission, 24/10/16

Commission Approves Amended Slovenian Support Scheme For Renewable Energy And High-Efficiency Cogeneration

The European Commission approved proposed changes to the Slovenian support scheme for renewable energy and high-efficiency cogeneration under EU state aid rules. The main change relates to the introduction of a two-round tender process to select the beneficiaries who will receive aid and to determine the appropriate level of aid. The scheme also introduces a market premium for operators with installed capacity above 500 kW, while operators with less than 500 kW can continue to receive a feed-in tariff. The scheme will be financed by a levy on electricity consumers (with a reduction for large consumers, approved by the Commission).

European Commission, 10/10/16

29th Meeting Of The European Gas Regulatory Forum

The 29th meeting of the European Gas Regulatory Forum was held in Madrid on 5-6 October 2016. The meeting gathered national regulatory authorities, EU national governments, the European Commission, TSOs, gas suppliers and traders, consumers, network users, and gas exchanges to discuss issues regarding the creation of the internal gas market. The main conclusions of the meeting focused on the need to: (1) evaluate developments in the fundamentals of natural gas supply and demand, pre- and post-2030 (including developments in decarbonisation policies, the electricity sector, energy efficiency, new gas-to-power technologies, the “green gas market”, and the state of gas markets); (2) analyse possible changes to existing gas market rules in light of reforms to electricity markets within the Commission’s Energy Market Design initiative; (3) finalise the implementation process of network codes and develop smart monitoring and reporting tools to evaluate their performance; and (4) carry on the work to establish gas quality standards.

European Commission, 07/10/16; CNMC, 11/10/16

European Parliament Ratifies Paris Agreement

The European Parliament approved the European Union’s ratification of the Paris Agreement on climate action. Prior to this decision, 62 parties, accounting for almost 52% of global emissions, had ratified the Paris Agreement, falling short of the 55% needed to bring it into force. The European Parliament’s decision took the Agreement across the minimum threshold, allowing it to enter into force. The European Council can now formally adopt the decision, and the EU Member States will ratify the Agreement individually, in accordance with their national parliamentary processes.

European Commission, 05/10/16

Austria

European Court Rules That ACER Recommendation To Split Austro-German Market Zone Is Non-Binding

The European General Court (EGC) rejected an appeal by Austrian energy regulator E-Control regarding ACER's recommendation that the Austro-German market zone for electricity should be split. In September 2015, ACER recommended that the market zone be split due to adverse effects on network flows in neighbouring countries. In its statement of reason, the EGC pointed out that ACER's recommendation was non-binding and hence did not qualify for appeal before the EGC. ACER's own Board of Appeal had provided a similar opinion late last year in response to E-Control's appeal to that board. E-Control nevertheless declared the EGC ruling a success, as it further emphasised the non-binding character of ACER's recommendation. The Austrian regulator has repeatedly committed itself to preserving the Austro-German market zone for electricity, which has been in place since 2001.

E-Control, 24/10/16

Belgium

China's State Grid Fails To Acquire Share In Flemish Distribution Networks

The planned acquisition of equity in the Flemish electricity and gas distribution network Eandis by State Grid proved unsuccessful. State Grid, a Chinese state-owned infrastructure investment fund, bid approximately US$900 million (€830 million) to acquire a 14% share of the network owned by Belgian municipalities. The city of Antwerp was the main party to express concern over the possible takeover of the distribution networks by the Chinese investor—concerns that were echoed by other municipalities. In addition, the Belgian State Security Service raised geostrategic concerns. As a consequence, the city of Antwerp withdrew from a merger of seven supra-municipal organisations making up the distribution network, a pre-condition of the Chinese investment.

Given that State Grid would have obtained only three out of 40 seats in the board of directors, advocates of Chinese involvement in the restructured corporation, Eandis Assets, argue that concerns over the Chinese involvement are exaggerated. Proponents of the deal note that the failed merger of the supra-municipal organisation is a missed opportunity to harmonise network charges, which currently differ substantially across Flemish municipalities.

Lalibre.be, 26/10/16; Belga.be, 24/10/16

France

French Regulator Publishes New Electricity Network Tariffs

The French energy regulator, CRE, published its decision on two new electricity network tariffs, TURPE 5 HTB and TURPE 5 HTA-BT. The new tariffs will both apply from 1 August 2017 for a period of about four years.

The TURPE 5 HTB tariff, for the transmission network operated by RTE, will increase by 6.76% on 1 August 2017 and will generally increase with inflation in the following years of the regulatory period. The new tariff reflects new requirements arising from the French energy transition; the CRE accepted all of the new network investments proposed by RTE and recognised increasing operating expenses associated with the energy transition. These cost drivers are mostly offset by lower returns on capital (a nominal pre-tax WACC of 6.125%), as a consequence of the continuing low-yield environment. As a result, total allowed capital costs remain essentially unchanged in absolute terms, relative to the previous regulatory period (TURPE 4).

The TURPE 5 HTA-BT tariffs for the distribution network will increase, on average, by 2.71% on 1 August 2017, followed by annual increases in line with general inflation. The CRE decided to maintain the capital cost model of TURPE 4 consisting of a return that Enedis earns on all assets (2.6% nominal pre-tax) and an additional return (4.1% nominal pre-tax) paid only on assets that Enedis financed with equity capital. The allowed return on capital has fallen in line with the general trend on capital markets over recent years.

CRE, 19/10/16

French Government Forbids Suspension Of Fixed Price For Nuclear Energy To EDF

EDF, the French electricity company, asked the French government to suspend the Regulated Access to Incumbent Nuclear Electricity (ARENH) mechanism, which currently obliges EDF to sell, upon request, an annual volume of 100 TWh of electricity generated in nuclear power plants to its competitors at a fixed price of US$46/MWh. The mechanism is intended to curtail EDF's dominant market position in the production of nuclear energy.

In its request for suspension of the ARENH mechanism, EDF refers to "speculative risks" due to a temporary shutdown of five nuclear power plants suspected of emitting excessive carbon dioxide. These speculative risks arise from the year-ahead price surpassing the threshold of US$46/MWh. EDF fears competitors will take advantage of the ARENH mechanism by purchasing electricity at this fixed price and selling it at higher prices if electricity prices continue to rise, but withdrawing from the mechanism if electricity prices start falling.

The French government declared it will not suspend the ARENH mechanism under current market conditions, as this might cause difficulties for those of EDF's competitors who were counting on the ARENH mechanism to ensure security of supply. To prevent speculative behaviour, the CRE will review the ARENH regulations prior to the next subscription round on 16 November 2016.

Reuters, 25/10/16; Lesechos.fr, 22/10/16

Microgrids Pose Challenges To Electricity Network Operators

A decree by the French government opened public debate on the expansion and the development of so-called microgrids. In the past, self-supply was used only by remote villages or military bases, but now technologies such as photovoltaic power plants and advances in electricity storage make self-supply using distribution networks at a small-scale level interesting for non-remote sites as well. Proponents of microgrids point out that these networks could increase security of supply in case of natural disasters, guaranteeing power supply from a nearby generation facility when the connection to the main distribution network is interrupted. While microgrids constitute a promising business for technology companies, French network operators RTE and Enedis are concerned that the expansion of microgrids could reduce volumes in their networks. For that reason, the network operators pledge to replace volume-based tariffs with capacity-based network charges, arguing that revenue shortfalls from low network utilisation would threaten long-term network maintenance.

Lesechos.fr, 13/10/16; LesEchos.fr 12/10/16

Germany

TSOs To Implement Congestion Management At Austro-German Border By Mid-2018

On 28 October 2016, the German energy regulator Bundesnetzagentur (BNetzA) asked the four electricity transmission system operators in Germany to design and implement congestion management procedures at the Austro-German border by July 2018. The BNetzA stated that an increase in physical cross-border flows makes it necessary to split the common market zone in order to maintain network stability in Germany and neighbouring countries.

Since 2001, Germany and Austria have allowed unrestricted exchange of electricity across their border through a common market zone for electricity. In recent years, however, neighbouring countries have complained that the Austro-German market zone has adverse effects on their network stability. This compelled ACER to recommend splitting the market zone in September 2015. The Austrian energy regulator E-Control has since fought this recommendation (See Austria story above). E-Control also expressed its deep-seated concern about the BNetzA's unilateral decision to split the market zone and announced it would take all available steps to prevent the split from happening.

BNetzA, 28/10/16; E-Control, 28/10/16

European Commission Approves German CHP Law And Demand-Side Ordinance

On 24 October 2016, the European Commission approved an amendment to the German combined heat and power (CHP) law dating from December 2015, as well as an August 2016 ordinance governing the procurement of interruptible load. The Commission's approval concludes months of negotiations by the German Ministry for Economic Affairs and Energy (BMWi) after the Commission cast doubt on whether both of these regulatory changes conformed to EU state aid law.

For the CHP law, the BMWi accepted the Commission's request to amend the law and to implement an auction-based allocation mechanism for the subsidies. Subsidies for all plants between 1 and 50 MW will now be auctioned off from winter 2017/18 onwards. The approved form of the amendment establishes general principles regarding the auction mechanism and sets the tendered capacity at 100 MW in 2017 and at 200 MW for the following years. The BMWi also plans to adopt in 2017 an ordinance setting out the design of the auction procedure in more detail.

BMWi, 24/10/16

Cabinet Publishes Draft Laws On CHP Subsidies And Nuclear Waste Disposal

The German cabinet published two draft laws on 19 October 2016. The first law changes the allocation of subsidies for new CHP plants and adjusts "own-use" exemptions from the renewable energy levy (EEG Umlage). The second law governs the distribution of responsibilities for financing and executing the disposal of nuclear waste.

These changes in support for CHP plants were required to comply with EU state aid rules (See previous story). For own-use exemptions from the EEG Umlage, the position remains that plants already in operation or under construction, and used exclusively to cover the operator's own demand for electricity, continue to be exempt from the EEG Umlage. Only after a substantial upgrade would such plants be subject to 20% of the levy. For new plants, the EEG Umlage applies in full, except for own-use of output from renewable energy or CHP plants, which is charged 40% of the levy.

In the second law, the cabinet adopted proposals from a special commission tasked with finding a solution to the problem of financing and executing the disposal of nuclear waste. This commission published its final report in August 2016. According to the draft law, the German state will take responsibility for temporary storage and final disposal of nuclear waste. In exchange, the four German nuclear power plant operators—E.ON, RWE, EnBW, and Vattenfall—will pay the German government a total of €23,560 million. The government will deposit these payments in a dedicated fund to cover the cost of storing and disposing of nuclear waste.

BMWi, 19/10/16

Renewable Energy Levy Will Increase By Eight Percent In 2017

The BNetzA revealed on 14 October 2016 that the renewable energy levy used to finance the subsidies for renewable energy sources in Germany will increase from 6.354 cents/kWh to 6.88 cents/kWh in 2017. This represents an increase of 8.3%,the steepest since 2014. The BNetzA attributed the increase to continued expansion of subsidised capacity in Germany as well as declining wholesale power prices. If power prices fall, subsidies per kWh rise, as generators using renewable energy sources are guaranteed a fixed feed-in tariff.

BNetzA, 14/10/16

Energy Regulator Publishes Allowed Return On Equity For Next Regulatory Period

On 5 October 2016, the BNetzA published the allowed cost of equity for regulated gas and electricity networks during the third regulatory period. The allowed cost of equity on new assets will fall from 9.05% to 6.91% pre-tax. The new rates will apply from 2018 to 2022 for gas distribution and transmission networks, and from 2019 to 2023 for electricity distribution and transmission networks. As in the first regulatory period, the BNetzA used the Capital Asset Pricing Model (CAPM) to determine the cost of equity.

The regulator used a risk-free rate of 2.49%, a reduction of 1.31 percentage points compared with the second regulatory period, based on a 10-year average of German debt yields. The equity risk premium falls by 0.75 percentage points, compared to the second regulatory period, and now amounts to 3.8%. The simultaneous reduction in the risk-free rate and the market risk premium is unprecedented in the recent decisions of other European regulators setting the cost of equity. The asset beta—measuring the degree to which network operators are exposed to non-diversifiable market risk—rises slightly, to 0.4025. This corresponds to an equity beta of 0.83 under the German regulatory regime. As a consequence, the post-tax cost of equity falls from 7.39% to 5.64%, translating into a pre-tax value of 6.91% for new assets during the third regulatory period. For old assets, the cost of equity allowance is set in real terms at 5.12%.

BNetzA, 5/10/16

Greece

Greece Seeks Extension For Sale Of Gas Network

On 31 October 2016, the Hellenic Republic Asset Development Fund (HRADF) applied for an extension of its letter of guarantee from Azerbaijan's state-owned energy giant SOCAR with respect to the sale of the Greek gas network, DESFA. The privatisation of DESFA is a condition of the three international bailouts that Greece has received since 2010. In 2013, SOCAR won a bid to purchase a 66% stake in DESFA but has agreed to sell 20% to a third party and to retain no more than 49% ownership to mollify the European Commission's competition concerns.

SOCAR and HRDAF have not agreed on a price for the 66% share yet. SOCAR originally proposed a price of €400 million (US$446 million), but the formal purchase agreement was held up by a Greek law capping gas tariffs, thereby decreasing the value of DESFA.

Azernews, 31/10/16; Trend News Agency, 31/10/16

Greek Power Utility Sells Stake In Electricity Grid

On 31 October 2016, Greece's electricity utility company, PPC, decided to sell a 24% stake in the electricity grid operator, ADMIE, to China's State Grid for €320 million (US$355 million). PPC is required to sell its 100% stake in ADMIE by 2017 as a condition of Greece's 2015 bailout from the International Monetary Fund. PPC shareholders will meet on 24 November 2016 to vote on the deal.

The Wall Street Journal, 31/10/16; China Daily, 26/10/16.

Italy

Terna Publishes Consultation On The Detailed Mechanisms Of The Capacity Market

On 28 October 2016, Terna, the Italian electricity transmission system operator, published a consultation document on the detailed mechanisms governing the new capacity market, due to be launched at the beginning of 2017. Terna's proposals reflect the rules set out by the Italian energy regulator and approved by the Ministry of Economic Development (MiSE) in the Decree of 30 June 2014, as well as the most recent guidance given by MiSE to Terna in October this year. Terna's proposals cover all aspects of the new capacity market for the first implementation phase, including the methodology for setting the strike price and guarantees. Interested parties may submit comments until 18 November 2016.

Staffetta Quotidiana, 31/10/16; Terna, 28/10/16

Aeegsi To Review LNG Tariff Decision Following Sentence On The OLT LNG Terminal Case

Under Decision 607/2016/R/gas, the Italian energy regulator (Autorità per l'Energia Elettrica il Gas e il Sistema Idrico, or Aeegsi) began to review the validity of the waiver of exemption from third-party access to FSRU Toscana, the floating storage and regasification unit owned by OLT Offshore LNG Toscana SpA. The decision follows a judgement by the Council of State, which accepted all the arguments made by OLT and which overruled earlier judgements against OLT by the Regional Administrative Tribunal of Lombardy. The litigation between Aeegsi and OLT covered the (more punitive) revenue guarantee factor applied to OLT in light of its waived exemption status, the 2014-2017 regasification tariffs, and the duration and terms of the transport contract with Snam. Aeegsi's decision once again opens up debate on these topics and creates uncertainty over whether OLT's waiver of the exemption will still hold, with potential consequences for the profitability of the terminal.

Aeegsi, 27/10/16

Italgas Presentation To The Financial Community Ahead Of Public Listing In November

On 24 October 2016, executives of Italgas made a presentation to financial analysts in London, in advance of the expected listing of the company on 7 November 2016. Italgas was partially demerged from its parent company, Snam, which will continue to focus on its core gas transport and storage activities. Currently, the Italian gas distribution sector is undergoing major changes with

upcoming tenders for new and larger "ATEM" (concession) areas and a review of the regulatory regime for setting capital expenditure allowances. According to Italgas, the company will invest about €1,300 million in the new tenders, with the objective of increasing its market share in the Italian gas distribution market from 33.9% to 40% after 2020, thereby serving about 8 million customers.

Italgas, 24/10/16

Netherlands

X-Factor Decision And Calculations For TenneT, As Operator Of The Offshore Electricity Network, For 2017-2021

The Dutch Consumers and Markets Authority (ACM) published its decision on the X-factor that will apply to TenneT's operation of the offshore electricity network over the period 2017-2021. ACM also published the calculations behind the X-factor, which determine TenneT's initial revenue, final revenue, and X-factor for this period.

ACM, 13/10/16

Code Decision On Netherlands Balancing Zone

ACM published its decision on a proposal by Netbeheer Netherlands (the association of Dutch energy network operators) to change the energy codes. The proposal was intended to let Gasunie Transport Services (GTS) proceed with the planned demerger of its national gas transport network without harming the interests of network users. At present, GTS is the designated operator of the national gas transport network. This network consists of the main gas transmission network (HTL) and the regional gas transport network (RTL). GTS will remain the operator of the HTL network but wants a new network operator, Gasunie Grid Services (GGS), to be designated as the operator of the RTL network.

Netbeheer Netherlands proposed that GTS and GGS combine their balancing roles within a single balancing zone. The two operators would then preserve the rates and conditions of the current national network. ACM confirmed its draft decision holding that this proposal is contrary to the Gas Act, which requires a greater degree of separation to rule out discrimination and to prevent the statutory tasks assigned to the national (HTL) network operator from being performed by the new regional (RTL) network operator. ACM, therefore, will not adopt most of the proposed changes, but it will adopt some non-substantive amendments that Netbeheer Netherlands included in its proposed code.

ACM, 12/10/16

ACM Lays Down Rules For Pricing Electricity And Drinking Water In The Caribbean Netherlands

ACM published the rules by which it will determine the income of electricity and water companies in the Caribbean Netherlands (Bonaire, St. Eustatius, and Saba, or BES). On 1 July 2016, ACM acquired a number of new regulatory tasks under the BES Electricity and Drinking Water Act. The regulator published a draft method decision for consultation on 5 July 2016 and has now issued the final method decision. This method defines how ACM will determine electricity and drinking water tariffs for businesses and residential customers by the end of 2016.

ACM, 03/10/16

Portugal

Government Approves Measures Package To Lower Electricity Bills

The Portuguese government approved a legislative measures package that aims to reduce electricity bills starting January 2017. These new regulations will also reduce the electricity tariff deficit by €321 million (US$357 million). The main measures in this package are: (1) an obligation on special regime generators to pay the system around €140 million (US$156 million) for subsidies received in the past; (2) corrections to interest payments on system debt of about €20 million (US$ 22 million); (3) an updated interruptibility scheme for large consumers; and (4) a review of the capacity payment scheme for generators. According to the government, these measures will help keep the increase in low-voltage residential tariffs down to 1.2% in 2017, which is below expected inflation.

Government of Portugal, 14/10/16

Spain

Supreme Court Revokes Financing Scheme Of The “Social Bonus”

The Spanish Supreme Court declared that the financing scheme for discounts on electricity bills that the government has provided to vulnerable customers since 2013 is incompatible with the European Directive on the internal electricity market. According to the court, the cost of these discounts has been borne by electricity companies in a discriminatory manner, while the criteria for allocating this cost among the companies have not been justified. The ruling recognises the right of affected electricity companies to recover the cost of the discounts applied in 2014 and 2015, which amount to €500 million (US$556 million). This is the second time that the Supreme Court has annulled a scheme approved by the government to finance social tariffs.

El Mundo, 26/10/16; El País, 26/10/16

Energy Regulator Fines Two Electricity Retailers For Breaches Of Electricity Sector Law

The Spanish energy regulator, CNMC, fined two small electricity retail companies €550,000 (US$612,000) for the failure to comply with certain requirements of the Electricity Sector Law. One of these companies failed to post the financial warranties required by the System Operator, while the other allegedly did not submit electricity purchase offers in the spot market that were in line with its requirements. According to the regulator, the latter conduct constitutes a severe breach of the Electricity Sector Law.

CNMC, 03/10/16

Supreme Court Partially Annuls An Order On Electricity Network Access Charges For Not Including Regional Taxes

The Spanish Supreme Court partially revoked a 2013 ministerial order on electricity network access charges. This order also set the feed-in tariffs and premiums payable to renewable generators during the third quarter of that year. According to the court's decision, the Spanish Ministry of Industry, Energy, and Tourism did not include regional electricity taxes in its estimates of system costs. These surcharges, which amount to some €200 million (US$222 million) per year, are applied by some regional governments in Spain.

Europa Press, 03/10/16; El Periódico de la Energía, 03/10/16

Switzerland

New Valuation Method For Swissgrid Assets Beneficial For Original Owners

Negotiations between former owners of the Swiss electricity transmission networks and Swissgrid have resulted in an agreement under which the former owners of the network will obtain additional revenues of US$400 million. In 2013, the Swiss electricity transmission network was transferred from energy producers to Swissgrid in order to unbundle generation and transmission. In return, the original owners received compensation corresponding to the historic value of the assets. Some of the original owners took legal action against this valuation method and succeeded before the Swiss federal administrative court. In subsequent negotiations, the parties agreed to value the network at a weighted average of historic costs and replacement costs. The adjusted value of US$3,000 million exceeds the historic cost by US$400 million. The agreement was approved by the Swiss regulator ElCom. Among those profiting from the agreement are original owners Axpo (US$160 million), Alpiq (US$100 million), and BKW (US$38 million). Swissgrid will pass through costs via network tariffs.

ElCom, 25/10/16; finanzen.ch, 25/10/16

Turkey

Turkey And Russia Sign Intergovernmental Agreement On Turkish Stream Pipeline

On 10 October 2016, Russian and Turkish presidents Vladimir Putin and Recep Tayyip Erdogan met in Istanbul and reached a formal intergovernmental agreement on the construction of the Turkish Stream pipeline.

The agreement stipulates terms for constructing two pipeline branches: the first will supply Russian gas to Turkey whilst the second will deliver gas across Turkey and into the European Union at the border with Greece. Each will have a capacity of 15.75 billion cubic metres (bcm). The maritime section of each (under the Black Sea) will be built and owned by Russia; the land section of the branch supplying Turkey will be owned by a Turkish company; and the land section of the branch supplying the EU will be owned by a joint venture. The maritime sections will be built by December 2019, according to the agreement. Russia also agreed to provide Turkey with a discount on gas, though Russian and Turkish energy giants Gazprom and Botas, respectively, have yet to work out the amount of the discount.

The project was announced in December 2014 after Russia cancelled the South Stream pipeline project through Bulgaria. Negotiations were suspended, however, after the Turkish Air Force shot down a Russian fighter jet near Turkey's border with Syria, freezing relations between Turkey and Russia for months until Turkey publicly apologised for the incident. The estimated total cost of the project is €11,400 million (US$12,700 million).

RT, 10/10/16; Bloomberg, 10/10/31

Akkuyu Nuclear Power Plant To Add Turkish Partners

On 10 October 2016, Russia and Turkey signed an international agreement, which, amongst other things, addressed ownership and investment in the Akkuyu nuclear power plant project in Turkey. Akkuyu is currently being built on a Build, Own, Operate (BOO) basis by Russia's Rosatom. Russian companies under the control of Rosatom currently have a 100% stake in the project, but under the newly signed agreement, investors from Turkey and other countries may hold a combined stake of up to 49%. Turkish company Cengiz Holding is currently in talks with Rosatom but is seeking additional Turkish partners for the project. The final Turkish investors are expected to be added by early 2017.

The agreement to build Akkuyu was signed by Turkey and Russia in 2010. The project is expected to cost US$20,000 million, with its full capacity of 4,800 megawatts expected to become operational by 2023.

Daily Sabah, 22/10/16; Counter Currents, 11/10/16

UK

UK Government Overturns Lancashire Council Fracking Rejection

In a landmark ruling for the UK shale gas industry, the UK government gave the go-ahead to fracking at the Preston New Road site in Lancashire in Northwest England. The decision means that shale company Cuadrilla will be the first to frack horizontally in the UK, a process that is expected to yield more gas. The government's latest decision overturns Lancashire County Council's rejection of fracking at the site last year on grounds of noise and traffic impact.

Financial Times, 06/10/16; Energy Live News, 06/10/16

UK Government Introduces "Central Heating For Cities" Fund

UK's Department for Business, Energy and Industrial Strategy (BEIS) launched a £320 million fund to boost the development of self-sustaining heat networks throughout the UK. Known as "central heating for cities", heat networks have the potential to reduce heat costs by more than 30%. The £320 million scheme will run over the next five years. The first £39 million of the £320 million fund is now open to local authority and public sector bidders and will upgrade heating in towns and cities to supply low carbon and recycled heat.

BEIS, 17/10/16; Energy Live News, 17/10/16

NORTH AMERICAN NEWS

US

New York Regulators Recommend Improvements To DER Valuation Methodology

The New York State Department of Public Service proposed the first phase of a two-phase methodology to improve valuation of the state's Distributed Energy Resources (DER). Currently, DER customers are compensated through net energy metering contracts, which, state regulators say, overgeneralize and misrepresent utilities' avoided costs from DER generation. More accurate valuation is intended to promote DER investment and to help New York meet renewable energy targets.

The proposed method assigns every kilowatt-hour of generation a day-ahead marginal price based on when and where the energy is produced. Eligible projects will be limited to 2 MW, with an additional size constraint for combined heat and power projects of 10 kW or smaller. All projects must represent a distributed generation resource, which excludes demand response and energy efficiency, and must also rely on a renewable fuel source, which excludes natural gas and diesel. Under the proposal, customers with existing net metering contracts will be given the option of continuing to receive payment under that contract for 20 years or to switch to the new compensation plans. The proposal also recommends the provision of a transition credit for projects whose expected compensation will be lower under the new method, such as solar community distributed generation.

Initial comments on this first phase of the methodology are due 5 December 2016; both phases of the methodology are projected to be adopted by the end of 2018.

NYPSC, 27/10/16; Utility Dive, 28/10/16; SNL, 28/10/16

FERC Approves Settlements For Iroquois Gas And Empire Pipeline Rate Investigations

At its 20 October 2016 meeting, the Federal Energy Regulatory Commission (FERC) approved an uncontested settlement with Iroquois Gas Transmission System LP, ending an investigation into the company's natural gas transportation rates and resolving all issues. Similarly, FERC conditionally approved an uncontested settlement with Empire Pipeline Inc, provided that the company files a revised settlement with modifications to the standard-of-review provision. Iroquois Gas is owned by TransCanada Pipelines Ltd, Dominion Midstream Partners LP, and Dominion Resources, Inc. Empire Pipeline is owned by National Fuel Gas Co. FERC announced its investigations into the two companies in January 2016, along with similar investigations into the rates set by Tuscarora Gas Transmission Co and Columbia Gulf Transmission LLC.

SNL, 21/10/16; FERC 20/10/16

FERC Authorizes Sabine Pass Train 2 Service

FERC authorized the liquefaction and export of liquefied natural gas (LNG) from Train 2 at Cheniere's Sabine Pass LNG on the Gulf Coast this month. It found the export facility's second train to be in compliance with April 2016 and August 2016 orders from FERC regarding Environmental Condition 10. Furthermore, after conducting inspections of the facility, FERC determined that the terminal can be expected to operate safely as designed. Some of Train 2's LNG is under contract with Spain's Gas Natural Fenosa, which has a 20-year contract for up to 3.5 million tonnes per year beginning in September 2017.

Argus Media, 12/10/16; FERC, 12/10/16

Arizona Recommends An Avoided Cost Approach For Value Of Distributed Generation

On 7 October 2016, the Arizona Corporation Commission's Hearing Division filed a Recommended Opinion and Order (ROO) in the state's Investigation of the Value and Cost of Distributed Generation (Docket No. E-00000J-14-0023). The ROO proposes to grandfather the current net metering arrangements for existing solar distributed generation (DG) customers, while eliminating retail net metering and decreasing the compensation for energy exported for new customers. It adopts the methodologies proposed by commission staff for determining the DG export value, which includes a "Resource Comparison

Proxy" approach based on a five-year rolling weighted average of a utility's solar power purchase agreements (PPAs) and utility-owned solar generating resources. The avoided cost study will limit the forecast to a five-year window instead of 20-30 years to determine the value of DG, which is considered to be consistent with utilities' rate case intervals. The methodology will consider environmental benefits and other avoided costs of DG in the forecast. Interested parties have until 15 November 2016 to file exceptions to the ROO.

ACC, 07/10/16; Utility Dive, 11/10/16

New Hampshire Utilities Commission Dismisses Petition By Electric Distributor For Gas Pipeline Contract

Following the lead of neighbouring state Massachusetts, New Hampshire's Public Utility Commission (NH PUC) rejected Eversource's proposal to recover gas pipeline capacity cost through ratepayers. Citing the state's electricity restructuring law as the basis for its ruling, NH PUC will not allow the electricity distributor to sign a 20-year contract with Spectra for the Access Northeast pipeline to bring natural gas to New England. The commission found the proposal inconsistent with the purpose of restructuring that separates generation, transmission, and distribution services.

SNL, 07/10/16; NH PUC, 06/10/16

Mexico

National Natural Gas Pipeline System First Open Season

On 26 October 2016, the National Centre for Gas Control (CENAGAS), the independent system operator of country's natural gas pipeline network, launched the first open season for natural gas transportation and storage in the national integrated system (in Spanish, "Sistrangas"). The available capacity of Sistrangas will be assigned by the principles of open access and no undue discrimination. Capacity will be allocated on a firm basis for one year, from 1 March 2017 to 28 February 2018. Sistrangas includes the National Gas Pipeline System, and the Tamaulipas, Zacatecas, Bajío, Ramones I, Ramones II, and Ramones Sur pipelines.

CENAGAS, 26/10/16

CENTRAL & SOUTH AMERICAN NEWS

Argentina

Government Holds First Renewable Energy Tender Under RenovAr Program

The Argentinean Ministry of Energy and Mines held Round 1 of the recently approved renewable energy development scheme, the RenovAr Program, which attracted 123 proposals. In this tender, contracts for 1,142 MW of biogas, biomass, wind, solar photovoltaic, and mini-hydro were awarded to 29 projects at an average price of US$59.6/MWh. Once in operation, this new renewable generation capacity will be able to supply around 2.8% of domestic electricity demand. The ministry also published the request for proposals for Round 1.5, which will be held on 25 November 2016 and target projects submitted in Round 1 that were not awarded contracts.

Ministry of Energy and Mines, 31/10/16, 20/10/16, 30/09/16

Government Approves Natural Gas Tariff Hikes

Argentina's Minister of Energy and Mining approved a new set of natural gas tariffs. These new tariffs imply maximum increases between 300% and 400% for residential consumers, depending on the type of consumer, and of 500% for industrial and commercial users. Residential tariffs will be updated twice a year, in April and October, and subsidies will be gradually decreased until they are phased out between 2019 and 2022, depending on the region. The government announced new gas tariffs in August 2016, but the Supreme Court partially revoked them, as the government had not held public hearings.

La Nación, 07/10/16; Europa Press, 07/10/16

ASIA PACIFIC NEWS

Australia

Energy Security An Emerging Issue For Australian Markets

A number of events in the South Australian segment of the Australian National Energy Market (NEM) have led to sustained wholesale price hikes over the past six months and an extended period of statewide power outage. The result is increased political focus on how intermittent renewable energy generation affects system security in South Australia and the wider NEM. The Commonwealth government and State governments, therefore, have initiated an independent review into energy security in Australia to be headed by Dr Alan Finkel, Australia's Chief Scientist. The findings and recommendations of this review may have far-reaching impacts for the future design and operation of Australia's electricity grid.

Uniquely for Australia, the government of South Australia has aggressively pursued renewable energy generation, which currently sits at approximately 40% of total generation. Most of its renewable energy comes from wind power, and South Australia lacks any base-load generation. Consumers in South Australia, therefore, rely heavily on the interconnection with neighbouring Victoria in times of low wind or high demand.

July 2016 saw a combination of unseasonably low wind, winter heating peaks, high wholesale gas prices, and a maintenance outage on the network interconnector with Victoria. As a result, wholesale prices rose—the average wholesale price during the first two weeks of July 2016 was approximately four times the monthly average in July 2015. In addition, a storm in September 2016 inflicted catastrophic damage on South Australia's network, and a statewide blackout lasted for more than a week in some locations. Despite widespread agreement that the loss of 22 transmission towers in the storm caused a large drop in voltage and triggered the blackout, the role of wind generation is also receiving more scrutiny in the media.

The Conversation, 25/06/2016; Australian Energy Market Operator, Electricity Statement of Opportunities, 21/09/2016; RenewEconomy, 07/10/2016

New Zealand

Solid Energy Mines Sold To Three Parties

Three coal mines of the failed state-owned operation, Solid Energy New Zealand, were sold to a joint venture between Bathurst Resources and the Talleys Group, a major food producer. The joint venture, Phoenix Coal, purchased a mine in Stockton on the West Coast and two Waikato mines. Solid Energy's other mines were sold to Palmer MH Group's Greenbriar and Birchfield Coal Mines. The expected return to creditors from the asset sales is expected to be between 45 and 55 cents to the dollar, higher than estimated. The three deals are signed and expected to settle in early 2017. Talleys, with a 35% stake in the joint-venture deal, is expected to act primarily as an investor, while Bathurst Resources will operate the mines.

Nzherald.co.nz, 31/10/16; stuff.co.nz, 31/10/16

Singapore

Singapore, Sharjah (UAE) To Collaborate On Energy Sector Developments

The Energy Market Authority (EMA) of Singapore and the Sharjah Electricity and Water Authority (SEWA) of the United Arab Emirates signed a Memorandum of Understanding (MOU) to bolster future cooperation in the development of energy and water sectors, and also on the Internet of Things. In particular, this agreement will establish a platform for cooperation and the exchange of information for both public and private sectors, including the promotion of an efficient energy market, the development of electricity and gas industries, and best practices in manpower development. The regulators commented that this MOU is a milestone for the energy sector collaboration in both countries.

Singapore Government News, 27/10/16; EMA, 27/10/16

MIDDLE EASTERN NEWS

Jordan

Jordan To Increase Wind And Solar Capacity

On 22 October 2016, Jordan's National Electric Power Company (NEPCO) and Abu Dhabi renewables company Masdar signed a Power Purchase Agreement (PPA) for the 200 MW solar photovoltaic (PV) plant to be built by Masdar near Amman, the capital of Jordan. The original deal for the development, construction, operation, and maintenance of the 200 MW solar plant, the largest in Jordan, was signed in January 2016 by Masdar and Jordan's energy ministry. The PPA marks a major step in the completion of the project. Jordan also launched the Middle East's largest operational solar PV plant on 10 October 2016. The 52.5 MW plant in Southern Jordan was constructed by a consortium led by Nebras Power, a subsidiary of the Qatar Water and Electricity Company (QEWC). Jordan aims to reduce its carbon emissions and to produce 10% of its energy from renewables by 2020.

MarketLine, 31/10/16; Investing.com, 24/10/16, 12/10/16

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
ECONOMIC CONSULTING

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 Makholm (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, Swtizerland	+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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