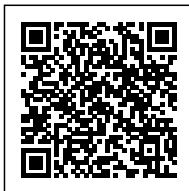


REMUNERATION REVIEW OF HYDROPOWER PLANT SITES - PBBR

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The Portuguese Government has deemed it necessary to implement a second package of cost-cutting in the electric system, aimed at cutting back the tariff deficit of the national electrical

system (SEN). This is linked to external factors such as the fall in energy consumption in Portugal and the CO2 licence price cut in Europe.

As a result of the vertical disintegration of Energias de Portugal – EDP, (which led to the creation of REN - Rede Eléctrica Nacional, concessionaire of the national electricity grid transportation - RNT), the hydroplant sites part of the public domain were awarded to REN. In the context of the termination of the Power Purchase Agreements (CAE), such sites remained in the possession of REN, which was entitled to an annual remuneration related with the respective assets' depreciation.

The established remuneration was highly volatile, having suffered constant fluctuations over the past eight years and reached inclusive to negative values (particularly in 2010) since it was indexed to the price index consumer, and the criteria had no connection with the asset's depreciation. Therefore, the Ministry of Environment, Regional Planning and Energy has approved, as part of the industry's cost-cutting measures, the Ministerial Order no. 301-A of October 14th, 2013, that reviews the remuneration of the hydropower plant sites allocated to REN, being the annual remuneration based on a fee associated with the rating assigned to the REN's performance.

The annual remuneration is now based on a rating, appointed by the audit committee on a scale of one to five points, according to the concessionaire's performance in reducing the overall costs of the SEN – with one being the rating granted if the concessionaire has a low performance and five the rating awarded if such performance is excellent, in this way having contributed significantly to the SEN's cost savings.

If the performance's rating is 'one', the remuneration will be based on a -1.5 percent rate, 'two' will be -0.75 percent, 'three' will be -0.1 percent, 'four' will be 0.75 percent rate and, finally, if the performance is rated as 'five', the remuneration will be calculated based on a 1.5 percent rate.

It is expected that this measure by itself involves a saving from €100-120m for the period between 2014 and 2025.

The change of the calculation formula for the remuneration to be received by REN regarding the hydroplant sites falls within the scope of the second package of measures proposed for the electricity sector by means of which the Portuguese Government aims to save €1.4bn until 2020. The referred cost-cutting second package includes actions such as the removal of the market distortion caused by Spain's new tax policy, (already carried out through Government Decree Law no. 74 of June 4th, 2013), the redress of the distortions of the market for system services, the contribution of the coal plants to the national electricity system and the opening of rewarding incentives to encourage cost efficiency on the harmonisation of the charges applicable to the autonomous regions of Madeira and the Azores.

The proposal for the 2014 State Budget, which has recently been collectively approved by the Portuguese Parliament, provides for the establishment of an extraordinary contribution on the economic operators in the energy sector at a 0.85 percent rate, with an impact on revenue estimated over €100m. Such contribution will focus on the coal-fired power stations, the hydroelectric power plants and cogeneration power stations, while exempting the renewable energy plants.

Carla Martins Branco is a Founding Partner of pbbr. She can be contacted at carla.branco@pbbr.pt