3.1 Regulatory Environment

European Union

• The process of negotiating the *Clean Energy for All Europeans* package ended in December 2018. It includes goals to be reached by 2030, both for renewable energy (at least 32% of final EU gross consumption of energy) and energy efficiency improvements (32.5% for the entire Union). There was also a revision to the Regulation and Directive on the Internal Market in Electricity to improve the operation thereof, set the foundations for the transition towards a cleaner energy model, and give consumers a more active role.

• The *Clean Mobility Package*, which develops measures to reduce emissions from the transport sector during the 2021-2030 period, is currently in the pipeline. The goals for acquisition, leasing and hiring of clean vehicles by the government as set out in the Directive have been approved, and the goal of a 37.5% reduction in emissions for new cars by 2030 compared to 2021 emissions has been approved. Only an agreement on reducing emissions for heavy vehicles is still pending.

• In November 2018 the European Commission presented its Proposal for a *Long-term Emission Reduction Strategy*, which analyses eight different scenarios for reducing greenhouse gas emissions by 2050 compared to 1990. The first six ones are based on various measures regarding the energy and industrial sectors, to reach between 80% and 90% reductions in these emissions. There are also two scenarios to reach 100% reduction, which would require actions in other sectors (agriculture, forestry, etc.).

• The Directive governing trading in CO_2 emission rights through 2030 was published in 2018. The main new developments are:

- Increase in annual reduction in the number of emission rights to be auctioned each year.
- Creation of a mechanism to withdraw excess rights in circulation to stabilise prices.

Spain

• The government has prepared a draft *Climate Change and Energy Transition Act*, to ensure the achievement of the Spanish energy and climate commitments set out within the framework of the Paris Agreement. This document defends a medium- and long-term framework to ensure an orderly transition towards a low-carbon economy.

• Before the end of 2019, Spain must submit to the European Commission its *Integrated National Energy and Climate Plan* (NECP) for the 2021-2030 period. It will include national goals for 2030 and the path to decarbonisation by 2050, as well as a description of the policies and measures focused on reducing emissions and increasing renewables and efficiency in accordance with EU-approved objectives.

• The power to establish the methodology and the parameters of remuneration, tolls and conditions for accessing the electricity and gas networks that will apply as from the next regulatory period (2020-2025) has been transferred to the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (CNMC).

United Kingdom

• On 26 November 2018 the government and the regulator *Ofgem* announced an upcoming review of the regulatory framework and of the rules governing the energy sector, in order to simplify it and adapt it to the energy transition. The review affects all rules on which the gas and electricity networks and the wholesale and retail markets are based. *Ofgem* and the government will publish a consultation in the summer of 2019.

• On 25 November 2018 an agreement was reached for the United Kingdom to leave the EU. The British government has put contingency plans into place to avoid short-term impacts on the regulatory energy environment arising from this situation.

United States and Canada

• In 21 August 2018 the Environmental Protection Agency (EPA) proposed the Affordable Clean Energy (ACE) Rule, a rule providing certain guidelines for allowing the states to develop plans to reduce GHG emissions for existing coal plants based on efficiency improvements at the plants and the application of new technologies. This rule will replace the 2015 Clean Power Plan (CPP).

Mexico

• The new government took power on 1 December 2018. Its energy priorities are to revise the current reform, strengthen the CFE, modernise the hydroelectric plants and be self-sufficient in fuel, boosting the extraction of natural gas.

• In January 2019 the new government cancelled the fourth auction of long-term energy, clean energy certificates and capacity. The two auctions of transmission lines (connection of Baja California to the national system and connection of the Isthmus of Tehuantepec to the central zone of the country) have also been cancelled.

• The *Energy Transition Act* promotes the participation of clean energy to reach 35% by 2024 through the CEL system, as follows: 5% by 2018, 5.8% by 2019, 7.4% by 2020; 10.9% by 2021 and 13.9% by 2022.

• The new calculation methodology for the regulated tariff, which applies as an addition to the basic supply and recognises the costs of each activity of the electric system, began to be applied during 2018. The domestic consumption tariff will remain with the old methodology indefinitely.

Brazil

• The Ministry of Mines and Energy has approved the Decennial Energy Expansion Plan, which provides for the installation of a total of 54.6 GW between this year and 2027, of which 32.3 GW will be renewable. Breakdown by technology: 13 GW will be wind, 6.9 GW solar and 6.8 GW hydroelectric, with the remaining 5.6 GW being biomass and mini-hydro. It is also expected that 108,000 million reais will be allocated to the transmission business.

• 6 distribution subsidiaries belonging to the state-owned company Electrobras were privatized during 2018. Along the same lines, the new government has stated its intention to continue with the process of privatizing state-owned companies.

• The *Light for All* programme has been extended to December 2022 in order to support the electrification of rural and economically disadvantaged areas.

• The regulator has proposed a 1.1% increase in the Energy Development Account (CDE) to R$20,270 million for 2019. This account is used to finance, among other things, programmes like the *Light for All Programme* to aid vulnerable groups or support for buying fossil fuels by the generators in isolated regions.

• There were various legislative initiatives in 2018 intended to reduce the litigation in the Brazilian electric sector due to disputes relating to hydrological risk (GSF) between the generators and the government. Given that certain generators continue to be supported under court measures exempting them from payment for the costs of hydrological risk between July 2015 and February 2018, short-term market settlements continue to generate a deficit that decreases the income of the distributors. Neoenergia has a net creditor position.