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:: ENERGY | PESIFICATION OF GENERATION "RATES" | THE VICISSITUDES OF A BIMONETARY ECONOMY::

On February 26 th 2020, the Official Gazzette issued the Secretariat of Energy Resolution 31/2020 (https://www.boletinoficial.gob.ar/detalleAviso/primera/225933/20200227), which sets forth both the amendment of the remuneration scheme for generation not contractually committed in the Wholesale Electric Market (WEM) and the payments for the energy power produced by the hydropower plants Yacyreta and Salto Grande.

The resolution pesifies the prices (actually they are not tariffs) of the power capacity and energy remunerations payable to those generators that make available to the WEM said power capacity and energy not already contractually committed. Additionally, the resolution pesifies the prices to be paid to the hydropower plants managed by binational entities.

The aim of said resolution is to reduce the distribution tariffs to be renegotiated in the immediate future and -eventually- decrease the subsidies to cover said tariffs full payments.

It seems to be a complicated matter, but it is not. Let´s see why. We shall consider the following:

a. One of the components of the distribution tariff is the acquisition cost of the generation to be distributed.
b. Said acquisition cost is fully transferred to the tariff in its exact incidence (pass through)
c. Consequently, the higher the generation acquisition cost, the higher the distribution tariff.
d. The distribution tariff is set forth in pesos.
e. Law 24065 section 37 orders that state-owned generation companies are entitled to recover only its operation and maintenance costs.
f. Law 27541 section 5 entitles the Executive Power to renegotiate the distribution tariffs.

On February 28, 2019, that is to say one year ago, the then Secretariat of Renewables Resources and Electric Market issued Resolution 1/2019. Through the same and with the goal of having available the most possible amount of domestic energy to face the demand, the generators were called to make available power capacity and energy not already contractually committed. To encourage and provide comfort to the generation companies, the remunerations to be paid were set in US dollars, that pursuant to section 8 of the resolution were going to be paid at the exchange rate applicable by Banco de la Nación Argentina. Prices to be paid to the above mentioned binational entities were also set in US dollars.

Now –and this is the key issue- the Government argues that there was an "sudden appreciation of the exchange rate". In other words, the dollar value in pesos increased much more that the inflation in pesos, so that, the generation costs transfer to the distribution tariff shall increase the latter much more than what said tariff would have increased had the increase in dollar value and the inflation in pesos been even.

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Therefore, the Government orders by Resolution 31/2020, both for the power capacity and generation made available and the remuneration of the binational entities (as above explained) to replace –and in pesos terms to cut- the prices set forth in Resolution 1/2019, and at the same time to set the new prices in pesos adjustable by the Consumer Price Index and the Wholesale Price Index, as published by the INDEC.

According to the press, at the distribution tariff renegotiation time, the “savings” via tariffs or subsidies would be of around US 300 , but the cutback of the affected generators´ EBITDA (the most expensive and inefficient) would reach around 30%.

Naturally, it is a guess whether or not the generators shall keep on making available power capacity and energy; what will happen with the generation costs quoted in dollars, and any other impact that the generators may have to face as a consequence of this Government measure.

Buenos Aires, 19 de marzo de 2020.