



On the road to recovery and beyond!

**Insights about the
European power &
utilities industry**

KPMG Global Energy Institute

Q4 2020



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1 Executive summary

In 3Q20, most companies in KPMG P&U 20 experienced an improvement in revenue and EBITDA values, driven by the improving energy market environment. An uptick in Capex was also recorded across most utilities in 3Q20 vs. 2Q20 — implying recovery in the sector and renewed focus on capital investments to drive business.

The above financial performance of key P&U companies was a leading indicator of what was to come in 4Q20. No wonder electricity prices and input prices (including oil and coal) witnessed a rise on both q-o-q and y-o-y basis in 4Q20. Furthermore, the EUROSTOXX index witnessed a steady rise in 4Q20, propelled by successful clinical trial outcomes for COVID-19 vaccines and the prospect of a return to normalcy.

Some part of this recovery is supported by the regulatory developments within the European P&U sector that continued to focus primarily towards Green transition. For example, in December 2020, 22 EU member states signed a memorandum of understanding in which they expressed their willingness to support the development of a European value chain for green hydrogen and vowed to invest in the new key technology.

While it may be too early to exactly surmise how the 4Q20 performance of these companies might be* — early indications and forecasts from analyst reports paint a positive growth story. The M&A activity has steadily increased in 2020 – from a 1Q historical low to a +60% growth (q-o-q) in number of deals and +267% growth (q-o-q) in total M&A deal value (mostly explained by the Veolia-Suez deal) to EUR 39.9 billion in 4Q20. For European P&U players, US remains a preferred region for making new acquisitions and has become especially attractive post the US elections.

It is expected that the year 2021 will be a witness to good growth rates for most P&U players in Europe as the European Union continues to focus on reduction in carbon emissions and achievement of net-zero targets. This will gear these companies to expand on their renewables portfolio further and it is likely that 2021 will witness a record-breaking feat for renewables auctions. Finally, European clean spark spreads remain above dark ones since 1Q19 (in France, Germany and the UK) – indicating a clear market premium to cleaner power plants.

*By the time this report is getting published, 4Q20 results of all European P&U companies are not out and an update will be issued with 4Q20 data for these P&U companies.

2 Prices & margins: On the path to recovery

Electricity price evolution: The return of power demand

Base load electricity prices in Spain and France averaged around EUR44.1/MWH and EUR45.2/MWH in 4Q20, reflecting 7.5 percent and 4.5 percent rise compared to 3Q20, respectively. Base load electricity prices in Germany and the UK averaged around EUR 40.9/MWH and EUR 50.7/MWH during 4Q20 reflecting 7.1 percent and 30.7 percent increase compared to 3Q20 respectively.

On an annual basis, in 4Q20, base load electricity prices in Spain, France and the UK grew 2.1 percent, 1.7 percent and 24.8 percent y-o-y respectively, vs. 4Q19, while Germany reported a decline of 4.3 percent y-o-y.

In October 2020, electricity demand steadily recovered in European countries reaching up to 2019 levels (above EUR40/MWH across major markets). However, a rise in government restrictions to counter the resurgence of coronavirus, negatively impacted electricity demand across European countries resulting in a slight decline in prices in early November 2020. This fall in prices was similar to that witnessed in June 2020. By December 2020, a recovery in electricity demand was reported, which is now above 2019 levels after weather adjustment.ⁱ

Spain's wind output in October 2020 surged 51 percent y-o-y. Also, Spanish hydroelectric availability stood at 45.4 percent in October 2020 (compared with 32.8 percent in October 2019). France's nuclear output in October 2020 reached 28.1TWh (highest since April 2020) as EDF restarted several reactors after maintenance activityⁱⁱ.

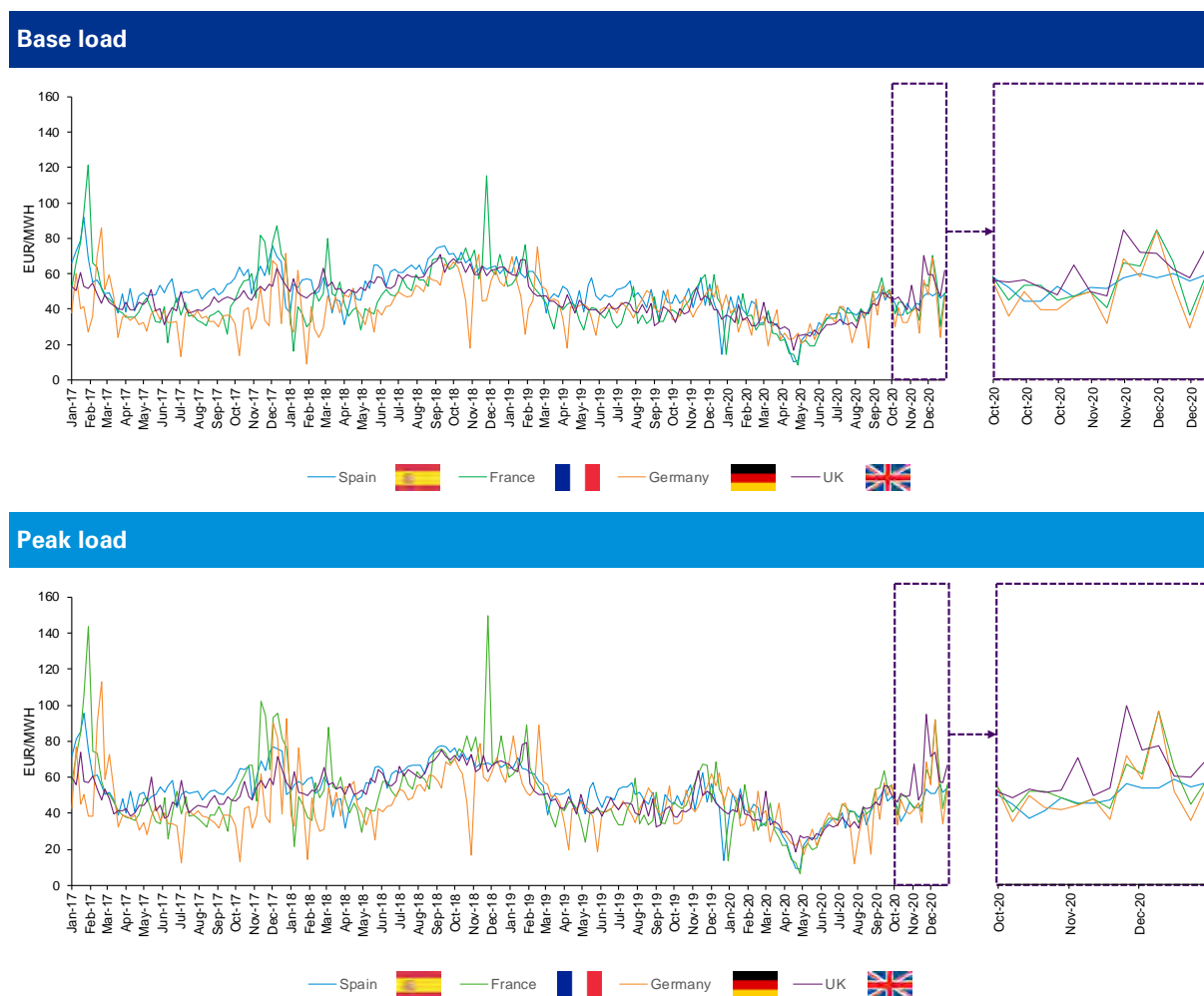
Prices increased in major European markets towards the end of November 2020, supported by strong demand amid forecast of cooler weather in the region and lower wind generation. In the first week of December 2020, several European markets reached highest daily (or hourly) prices in 2020, resulting from increase in electricity demand and rise in carbon prices.ⁱⁱⁱ

Base load electricity prices in Spain remained stable during December 2020, revolving around EUR 48.3/MWH, supported by strong renewable generation and favourable demand. Electricity prices in France and Germany witnessed downward revision after initial rise in first week of December 2020, averaging nearly EUR 51.5/MWH and EUR 34.0/MWH during the month respectively.^{iv}

Peak load electricity prices in Spain and France averaged around EUR 47.2/MWH and EUR 53.1/MWH in 4Q20, reflecting 11.2 percent and 12.7 percent rise compared to 3Q20, respectively. Peak load prices in Germany and the UK averaged around EUR 49.1/MWH and EUR 60.3/MWH during 4Q20, reflecting 24.0 percent and 41.6 percent increase compared to 3Q20, respectively.

In 4Q20, due to the mild winter followed by national lockdowns there was a huge strain on energy demand in Europe. Restricted activity and subsequent economic recession led to reductions in national power demand between 10–20 percent across the region's major markets.^v

Figure 1: Electricity prices (Base load and peak load), EUR/MWh, January 2017 to December 2020



Note: For individual country-level data/graph, please refer to the APPENDIX. Source(s): Reuters, 2021.

Fuel price evolution: Viability of multiple COVID-19 vaccines driving rapid recovery

Brent and WTI crude oil prices continued to recover throughout 4Q20 reaching US\$55.4 per barrel and US\$52.78 per barrel^{vi} respectively in the last week of December 2020. Brent and WTI prices averaged around US\$44.5 per barrel and US\$42.6 per barrel in 4Q20.

In the beginning of October 2020, prices declined due to rise in Libyan oil production. In the second and third week, prices increased due to the impact of supply disruptions from Hurricane Delta and oil workers' strike in Norway. Oil prices were driven by improved demand in China and India, OPEC+ countries intention to further reduce production and drop in US crude inventories. The price rise was negatively impacted by the rise in coronavirus cases in the US and Europe.

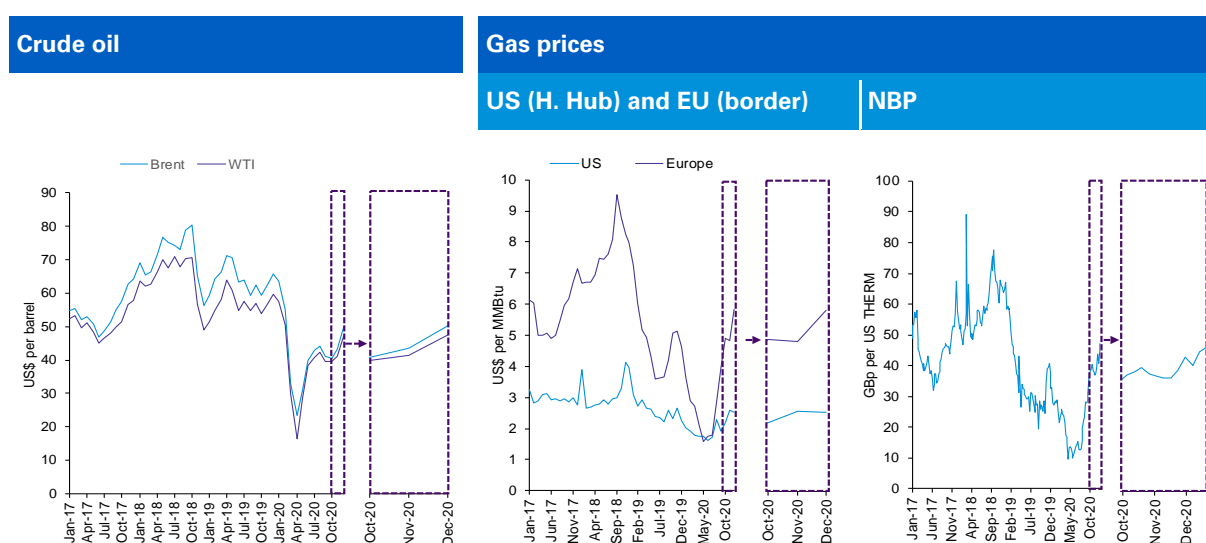
In the beginning of November 2020, oil prices dropped to their lowest since April 2020 (Brent US\$36.3 per barrel and WTI US\$35.6 per barrel), due to rise in Libyan crude output and demand worries due to renewed COVID-19 lockdown restrictions in western Europe. The prices recovered quickly on news that Pfizer has developed 90 percent effective COVID-19 vaccine, supported with drop in US crude inventories. Oil prices continued to rise through the month due to optimism following the development of a potential highly effective vaccine for COVID-19.

In December 2020, oil prices reached highest level since the beginning of March 2020, driven by optimism that demand will pick up quickly following the release of COVID-19 vaccines, however, it was limited by increasing crude oil supplies in Libya, a significant rise in US crude reserves, and a surge in COVID-19 cases globally.

Brent prices rose to a monthly average of US\$50 per barrel in December 2020 in part because of expectations of future economic recovery based on continued news about the viability of multiple COVID-19 vaccines.^{vii}

EIA expects Brent crude oil prices to average US\$53/b in 2021 and 2022. Saudi Arabia’s unilateral cut will likely lead to a tighter global oil market in early 2021. EIA expects global oil inventories to fall by 2.3 million b/d in the first quarter of 2021, which will contribute to Brent prices averaging US\$56 per barrel.

Figure 2: Crude oil and natural gas prices, January 2017 to December 2020



Notes: Gas prices in the UK are commonly referenced to the UK National Balancing Point (NBP) price. Source(s): World Bank commodities price data (The Pink Sheet), January 2021; Reuters, January 2021.

EU, Henry Hub and NBP natural gas prices continued to increase during 4Q20 averaging at US\$5.2/MMBTU, US\$2.4/MMBTU and GBP41.1/Therm respectively, primarily supported by increased demand, particularly in Asian markets, offset by warmer (than expected) weather.

In 4Q20, EU border and NBP prices increased by 81.0 percent and 89.1 percent respectively, compared with 3Q20, while US Henry Hub prices increased by 22.8 percent compared to 3Q20.

In October 2020, the price continued its rise to new highs (US Henry Hub reached US\$3.14/MMBTU on 26 October 2020), driven by increased demand from Japan, Pakistan, India, China and South Korea, amid a shortage of Norwegian supplies due to an ongoing strike, and a cooler weather, which also supported gas fired power generation.

US Henry hub gas prices declined in third week of November 2020 due to higher storage levels and milder weather. While EU (border) gas prices remained stable in November 2020 averaging around US\$4.8/MMBTU, they continued to rise in December 2020 reaching US\$5.9/MMBTU.

UK NBP gas prices continued to rise throughout the quarter reaching GBP56.4 per US Therm in the last week of December 2020 (highest since January 2019), due to increased focus on gas production, continued cold weather driving higher offtake from UK inventories and high demand from Asian region.^{viii}

Henry Hub spot prices averaged US\$2.03/MMBtu in 2020. Natural gas prices fell through much of 2020 because of sharp declines in LNG exports and industrial-sector natural gas consumption outpaced declines in production and contributed to inventories building at a faster rate. Although Henry Hub spot prices rose late in 2020 to average US\$2.59/MMBtu in December 2020, a warm early winter moderated price increase. EIA expects the average spot price of natural gas to increase to US\$3.01/MMBtu in 1Q21.^{ix}

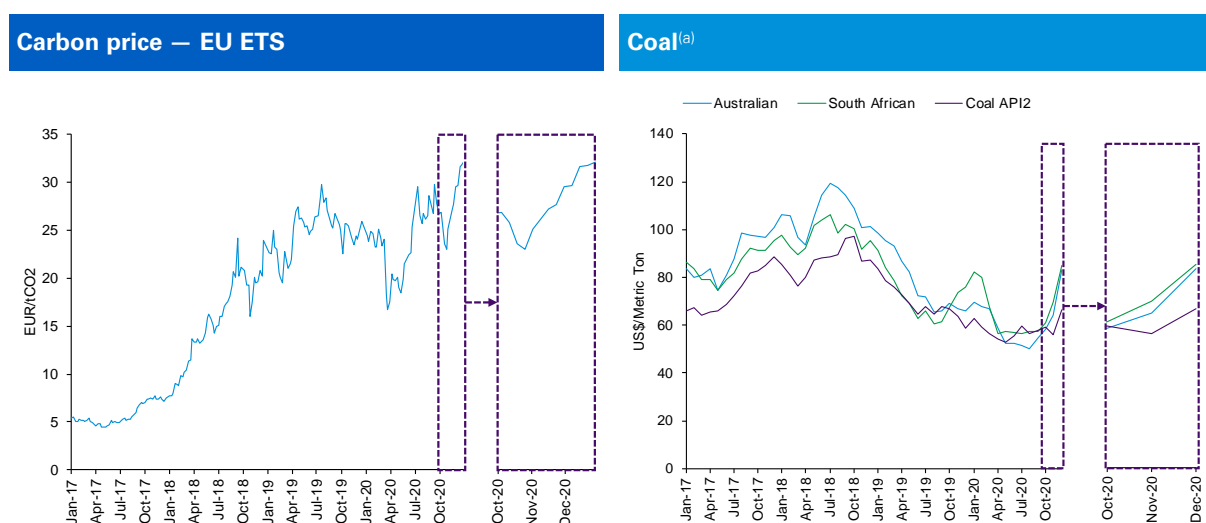
Carbon and coal price evolution: Better recovery in carbon and coal prices

Carbon prices averaged at EUR 27.7/tonne during 4Q20, nearly 0.7 percent above 3Q20. In October 2020, carbon prices witnessed a gradual decline hitting an 8-week low by October-end due to growing concerns over EU economic output, as COVID-19 restrictions tightened across Europe and concerns regarding ongoing Brexit negotiations continued.

After a 4-month low, carbon price started to rise again in November 2020 stimulated by optimism around COVID-19 vaccines, which boosted market sentiments. By mid-December 2020, carbon price crossed EUR30/tonne, jumping to a historic high, supported by strong German power generation, continued colder weather (which boosted thermal energy production), and by EU’s announcement to strengthen its emission targets.^x

Prices were also further strengthened after the UK and EU reached an agreement on the Brexit deal on 24 December 2020.^{xi}

Figure 3: Carbon and coal prices, January 2017 to December 2020



Note: (a) The World Bank has not published the Colombian coal prices since Q3 2018, — therefore the Colombian coal prices are not included in the report. Coal API 2 price assessment is the benchmark price reference for coal imported to northwest Europe (Rotterdam pricing).
Source: World Bank commodities price data (The Pink Sheet), January 2021; Reuters, 2021.

The Australian and South African coal prices continued to rise throughout the quarter, averaging around US\$68.6/mt and US\$71.9/mt during 4Q20, representing nearly 31.7 percent and 25.8 percent rise compared to 3Q20, respectively. The prices were supported by improving demand from Asian markets.^{xii}

Coal API2 prices averaged at US\$61.3/mt in 4Q20, nearly 5.5 percent above 3Q20. In October 2020, Coal API2 prices declined due to sluggish physical demand, although supply concerns limited losses. Prices were also influenced by coronavirus-related threats to regional demand, relatively mild weather forecast, bearish signals from China and ongoing strike at the Cerrijon mining complex in Columbia.

In November 2020, coal prices in major European markets climbed on a weekly basis, amid supply concerns following strikes in Colombia and South Africa. La Nina weather impact on supply also supported price growth. Coal inventories at four key northwest European dry bulk terminals declined to their lowest levels in more than two years as inland generation demand outstripped delivered volumes, amid good supply from Russia (due to reopening of key rail route to the Russian coal export hub of Murmansk).

In December 2020, concerns about supply and growing seasonal demand led to a sharp rise in coal prices. Strong competition from Chinese buyers looking for an alternative to Australian coal due to ongoing trade war between China and Australia also supported prices. Coal price continued upward trend through rest of quarter reaching highest level since mid-January 2020, driven by strong demand from India and China.

According to the World Bank, Australian coal prices fell by 24 percent in August 2020, compared with the same period of 2019, reaching a four-year low of US\$50.14 per tonne. In September 2020 and October 2020, the prices began to climb, improving by 9 and 7 percent month-on-month, respectively. In November and December 2020, prices increased by 10 and 29 percent month-on-month respectively.

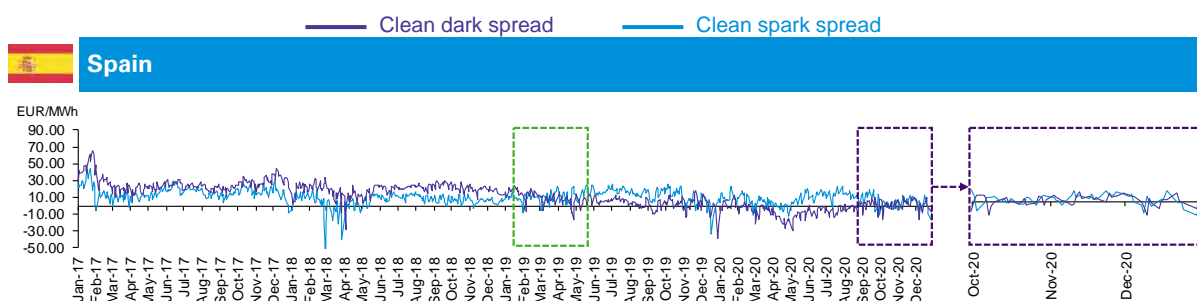
In 2020, coal prices across major markets dropped to the lowest level since 2016 as coronavirus lockdowns undermined demand, but the EIA, IMF, and World Bank all expect a rebound in 2021. The IEA reported that the 2020 drop in global coal demand was the largest since World War II, driven by reduced demand in almost every sector of every region in the world.

Clean dark and clean spark spreads: Gas-fired plants remain more profitable than coal-fired units

Clean spark spreads – measuring the profitability of gas-fired generation by considering variable costs – remained above clean dark spreads for the entire 4Q20 in Germany, France and the UK, implying that gas-fired generation was more profitable than coal fired power generation in the biggest markets of continental Europe.

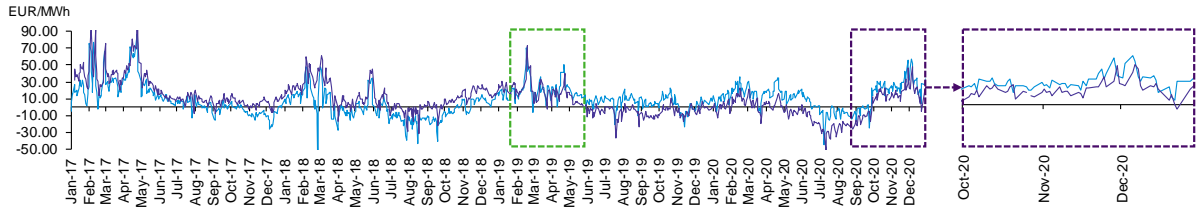
In Spain, however, during most of 4Q20, clean dark spread was either consistent or above clean spark spread, contrary to the ongoing trend since April 2019 when clean spark spread overtook clean dark spread. This implies that coal fired power plants were more profitable than Gas fired power plants during 4Q20 in the country, thus limiting coal to gas switching during the period.

Figure 4: Clean spark and clean dark spreads, January 2017 to December 2020

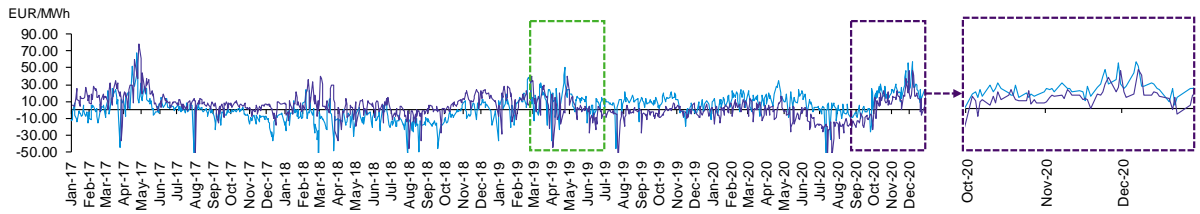




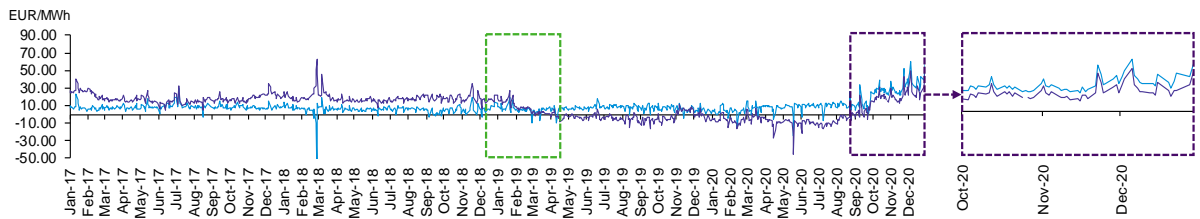
France



Germany



UK



Notes: (a) The spread is used for estimating the profitability of a power plant. It is the difference between the input fuel costs and the market price of electricity. For electric power generation using natural gas as fuel, this difference is called the spark spread, while for coal-based power plant, the difference is called the dark spread; (b) The spark spread is calculated using daily spot prices of natural gas and electricity at various trading points. Clean spark and Clean dark spreads are calculated by subtracting the carbon price per ton (accounting for emissions intensity factor) from spark and dark spread.

Source(s): Reuters, 2021.

Regulatory developments in 4Q20:

Key takeaways

Following a similar trend like the previous quarters, in 4Q20, regulatory developments within the European P&U sector continued to focus primarily towards Green transition. For example, in December 2020, 22 EU member states signed a memorandum of understanding in which they expressed their willingness to support the development of a European value chain for green hydrogen and vowed to invest in the new key technology.

- **France** has allocated EUR30 billion, from the EUR100 billion recovery plan, for its green transition plan. The allocated capital will be directed towards thermal retrofitting of public and private buildings, finance investments and operating expenditures dedicated to industry decarbonization, development of everyday green mobility, support and development of railway transportation, including freight, and development of green hydrogen.
- **Germany** too passed an amendment to the Renewable Energy Sources Act, to redefine the framework conditions for the expansion of renewable energies and achieve 65 percent Renewable share by 2030.
- **Netherlands** has allocated EUR438 million to support energy transition and job creation. It has also taken initiatives to ensure continuity of nuclear power usage and plans to become Northwest Europe's hydrogen hub, by creating a commodity exchange for hydrogen by 2026.
- **Russia** has also extended its 'Green' energy support until 2035 and has allocated funds for Green transformation. Additionally, initiatives have been taken to setup a 'Technological Hydrogen Valley' in the country and focus on R&D activities within the value chain. Other countries such as **Kazakhstan** and **Azerbaijan** have also taken steps to adopt renewable energy.

For more details, please refer to the APPENDIX section titled: Regulatory developments in the European P&U sector, 4Q20

3 Financial performance: How have European P&U companies performed?

EUROSTOXX index and share prices: Growth in EUROSTOXX index and share prices in 4Q20

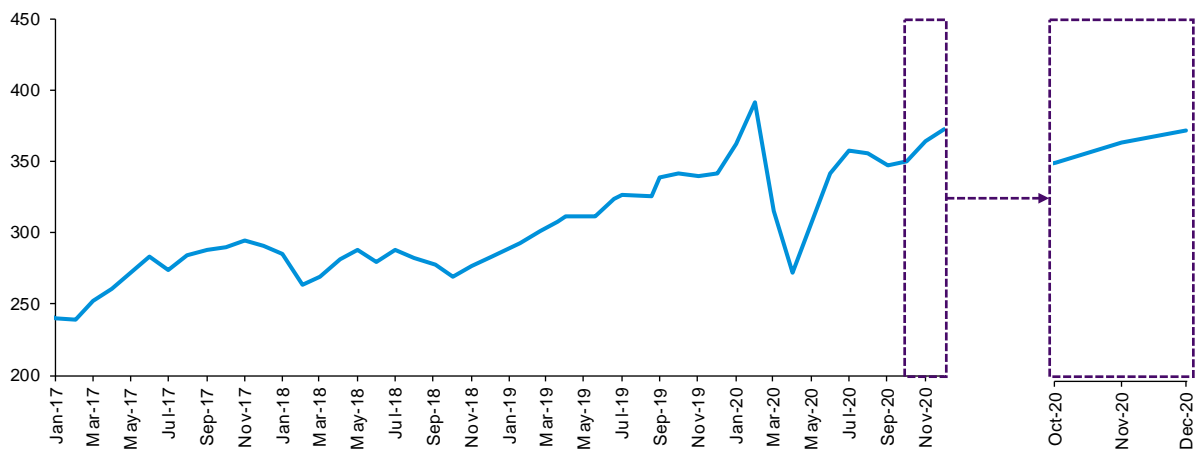
The EUROSTOXX index witnessed a steady rise in 4Q20, propelled by successful clinical trial outcomes for coronavirus vaccines and the prospect of a return to normalcy.

In 4Q20, the index touched a high of 383.6 on 28 December 2020 and a low of 328.2 on 29 October 2020. The index averaged 362.7 in 4Q20, witnessing a rise of 2.6 percent Q-o-Q and 6.4% Y-o-Y.

Quarterly average share price of most KPMG P&U 20 companies witnessed a q-o-q increase in 4Q20. Uniper, E.ON, Veolia Environment and Inter RAO witnessed a quarterly decline in share price in 4Q20, while Naturgy, Engie, Fortum, CEZ, Veolia Environment and Inter RAO reported a y-o-y decline in average share price in 4Q20. (see Share price evolution: Overview (4Q20) in APPENDIX).

Moody’s upgraded credit rating for both Endesa and Enel to Baa1 and downgraded Fortum to Baa1 in February 2021. Fitch upgraded EDP to BBB+. Credit ratings of other companies have remained unchanged. (see Credit ratings: Overview (as of February 2021) in APPENDIX).

Figure 5: EUROSTOXX utilities index, January 2017 to December 2020



Note(s): The EUROSTOXX Sector indices use the market standard [ICB Industry Classification Benchmark](#). Companies are categorized according to their primary source of revenue. This categorization is then used for accurate classification of companies in their respective business environments. The Euro STOXX utilities index comprises the following 20 P&U companies: IBERDROLA, ENEL, E.ON, ENGIE, RWEE, EDP ENERGIAS DE PORTUGAL, VEOLIA ENVIRONNEMENT, TERNA, FORTUM, AND ENDESA, RED ELECTRICA CORPORATION, Naturgy Energy Group, EDF, SUEZ ENVIRONNEMENT, UNIPER, ELIA GROUP, VERBUND, HERA, ITALGAS, A2A.

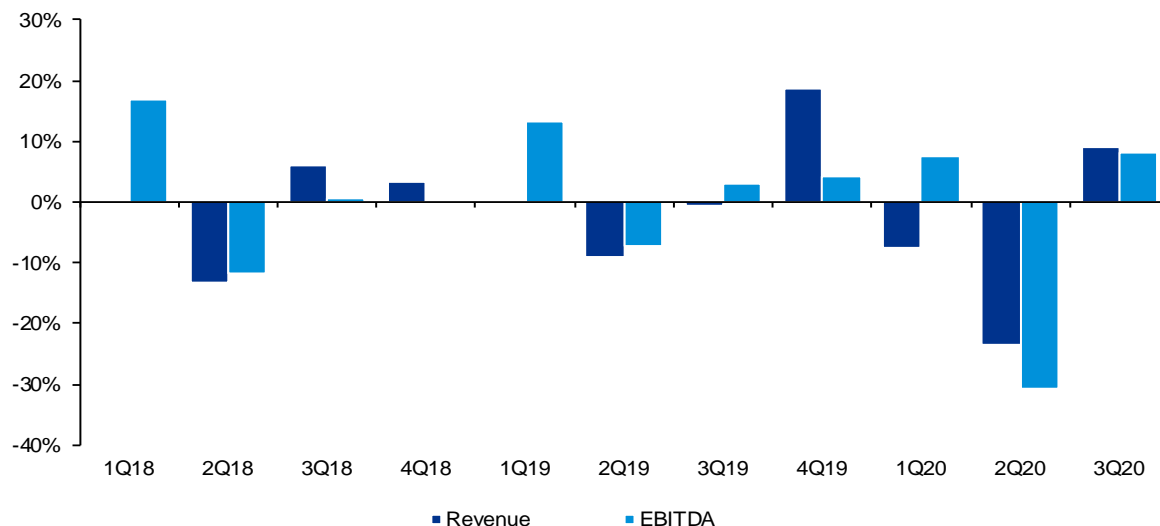
Source(s): Capital IQ, 2021

Revenue and EBITDA: Improvement in 3Q20

For a detailed financial performance study of the European P&U industry, KPMG has shortlisted 20 P&U companies based on revenue and market capitalization — collectively known as KPMG P&U 20. Financial performance of these companies depicts a cyclical pattern with revenue and EBITDA falling in the second quarter of every year and then moving back on track to improved performance in the fourth quarter.

The industry financials follow the changes in prices of electricity, coal and other fuels driven by demand, production changes and weather conditions. In 3Q20, these prices showed signs of recovery especially towards the second half of the quarter.

Figure 6: Industry revenue and EBITDA quarterly growth (based on median values) of KPMG P&U 20



Note(s): KPMG P&U 20 includes 20 European P&U companies: CEZ, E.ON SE, Energias de Portugal (EDP), Electricité de France (EDF), EnBW Energie Baden-Württemberg, Endesa, Enel, Engie, Fortum Oyj, Iberdrola, National Grid, Naturgy Energy Group, Ørsted A/S, Public Joint Stock Company Inter RAO UES (Inter RAO), RWE Aktiengesellschaft, SSE, Suez SA, Uniper, Veolia Environment and Verbund AG. In June 2020, Innogy was incorporated into E.ON Group and hence is no more a part of KPMG P&U 20. Effective 3Q20, Verbund AG replaced Innogy in KPMG P&U 20 list.
Source(s): Capital IQ, 2021.

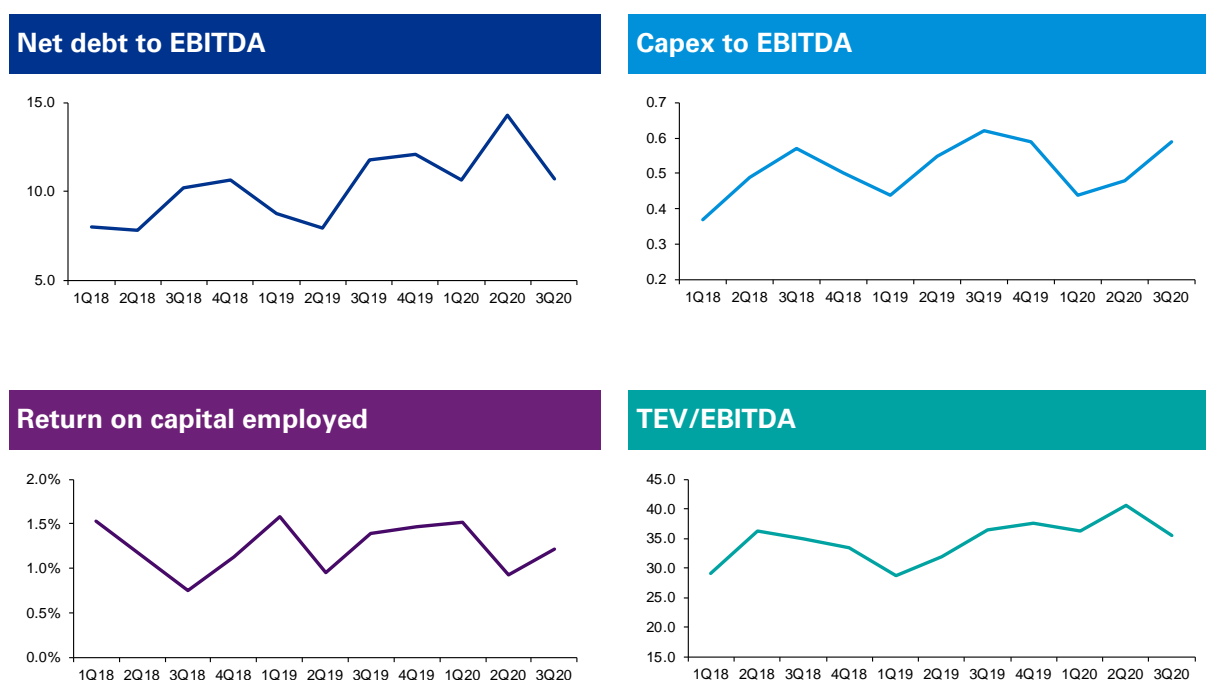
Enel, EDF, Fortum, Enel and E.ON are the leading entities, in terms of revenue, in the European P&U market. **In 3Q20, most companies in KPMG P&U 20 experienced an improvement in revenue and EBITDA values**, driven by improvement in the energy market environment. **Verbund AG and Uniper SE reported the highest revenue growth among KPMG P&U 20**, recording 77.1 percent and 53.1 percent Q-o-Q revenue growth respectively. Both companies had reported significant drops in revenue in 2Q20 due to COVID-19 implications.

Other key financial metrics: P&U players reported improved performance

In 3Q20, the **median Net Debt to EBITDA for KPMG P&U 20 companies stood at 10.7** down from 14.3 in 2Q20. EDP, Fortum and SSE reported highest Net Debt to EBITDA ratios among the KPMG P&U 20 companies during the quarter.

In 3Q20, an uptick in Capex was recorded across most utilities vs. 2Q20 — implying recovery in the sector and renewed focus on capital investments to drive business growth. In the 9 months ending September 2020, ENEL’s capital expenditure amounted to EUR 6,563 million, substantially in line with the same period of 2019. This was due to an increase in investments by Enel Green Power, primarily in Chile, the US, South Africa, Brazil and Russia; and an increase in investments in Infrastructure and Networks in Italy and Spain^{xiii}

Figure 7: KPMG P&U 20: Key financial metrics – Industry median



Note(s): Net debt = Total debt – Total cash and short-term investments; Return on capital employed = EBIT/(Total assets – Current liabilities); TEV = Market capitalization + Book value of total debt + Book value of preferred stock + Book value of minority interest – Cash & short term investments. Effective Q3 2020, industry median has been considered for the above key financial metrics, due to wide variations in financial data of KPMG P&U 20 companies.
 Source(s): Capital IQ, 2021

The median ROCE (Return on Capital Employed) of KPMG P&U 20 companies rose to 1.2% in 3Q20, up from 0.9% in 2Q20. Enel, Verbund, Endesa, SSE and Inter RAO maintained high ROCE (above 2%) during the quarter.

In 3Q20, Fortum and Ørsted were the leading companies in the market in terms of their valuation (TEV/EBITDA). Among the KPMG P&U 2020, EnBW and Orsted have seen a substantial growth in both Total Enterprise Value and EBITDA during 3Q19–3Q20, as these firms have been increasing focus on their renewables portfolio and on reducing their carbon emissions.

EnBW is resolutely expanding its solar energy and onshore wind energy portfolio. It has already discontinued 40 percent of its carbon-intensive power generation and plans to withdraw a further 2,500 megawatts by 2030 and completely phase out coal-fired generation by 2035.^{xiv}

In 3Q20, Ørsted completed its portfolio transformation into a global renewable energy company with the divestment of its Danish power distribution (Radius), residential customer, and city light businesses to the Danish energy company SEAS-NVE.

Other European power utilities also continue to make investments in renewable energy and digital transformation. ENEL is aiming for 80 percent reduction in emissions by 2030 compared with 2017, driven by growth in renewables and the closure of coal-fired plants. The Group has earmarked EUR 190 billion for investments related to renewable energy, digital technology and creating value for customers, environment and shareholders.^{xv} In December 2020, EDF International Networks and Capgemini signed a global agreement to offer services around smart meters and smart grids around the world.^{xvi}

4 Mergers & acquisitions: Massive rise in activity

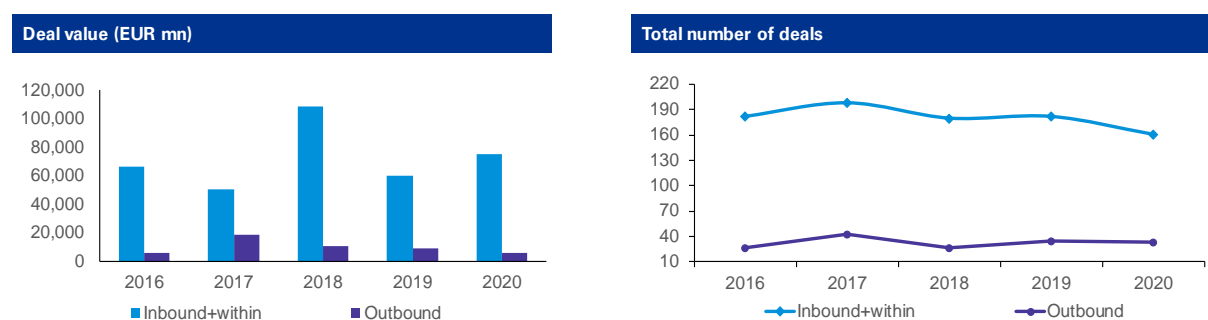
2020 M&A performance: A lookback*

In 2020, total M&A deal value for European P&U utilities increased 18 percent y-o-y to EUR81.3 billion, while the deal count dropped 11 percent y-o-y to 194 deals. **The big deals by value included the Veolia Environment and Suez deal for EUR22.3 billion, announced in October 2020 and Siemens Energy Spin-off for EUR8.8 billion, announced in May 2020.**

COVID-19's impact on deal activity was primarily seen in 2Q20, when the total number of deals fell 38 percent y-o-y to 34 deals and the total deal value fell 32 percent y-o-y to EUR14.4 billion. In 2Q20, the spin-off of Siemens Energy accounted for 61 percent of total deal value for the quarter.

During 2H20, a gradual uptick in deal activity was witnessed as leading utilities leveraged M&A to expand their renewable portfolio and gain access to new technologies such as electric vehicle charging and hydrogen. Key deal activities among the top European utilities included EDP - Energias de Portugal SA's acquisition of Spanish utility Viesgo Infraestructuras Energeticas SL for EUR2.7 billion and RWE AG's acquisition of 2.7 GW onshore wind and solar development program from Nordex for EUR 0.4 billion^{xvii}. Iberdrola SA also acquired a string of independent wind and solar developers, as well as several early-stage project portfolios in 2020. ^{xviii}

Figure 8: M&A deals' value and number of deals, 2016–2020



Note(s): M&A deals include Domestic, Inbound and Outbound deals. Domestic M&A deals are those for which both target and buyer companies are within Europe; Inbound M&A deals are those for which target company is in Europe but the buyer company is outside Europe; Outbound M&A deals are those for which target company is outside Europe and buyer company is in Europe.

Source(s): MergerMarket, 2021

*Please note that the total number of deals and deal value may be different from that in previous P&U reports due to late disclosures and deal lapses. For example, the Siemens spin-off transaction in 2Q20 was not reported at the time of publishing the previous report.

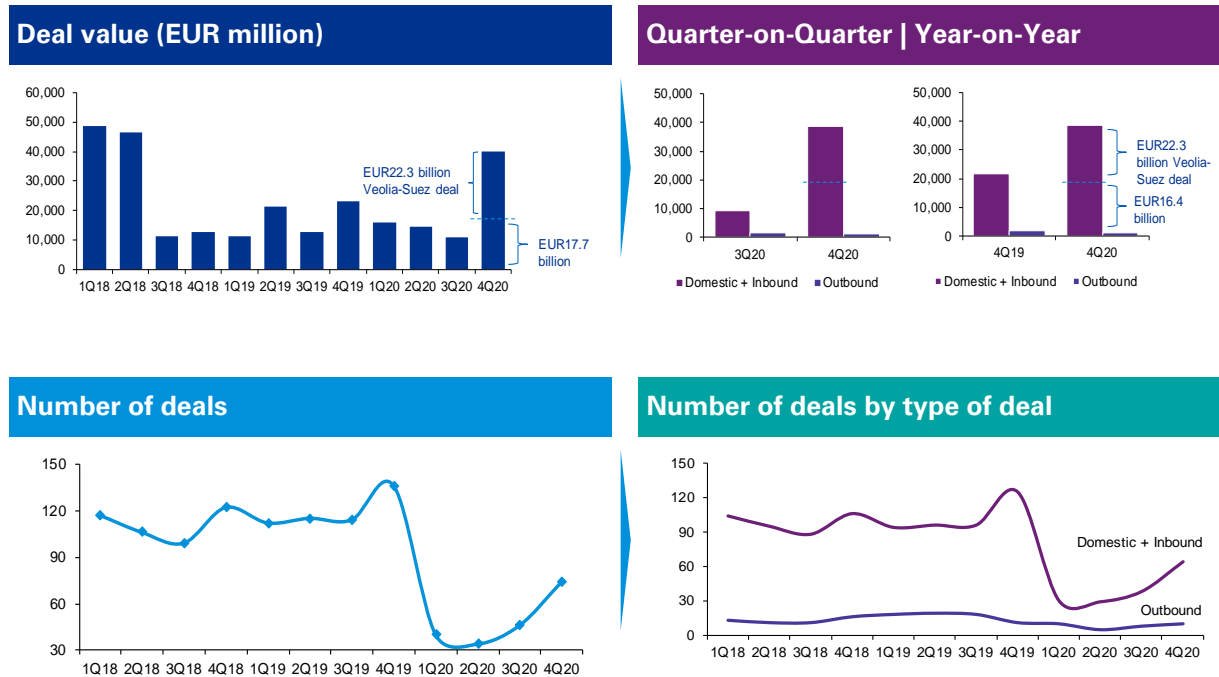
4Q20 M&A performance: Increase in deal activity

The European P&U industry showed signs of recovery from the COVID-19 pandemic in 4Q20, with many deals being executed. The quarter **witnessed a massive 267 percent q-o-q increase in the total deal value to EUR39.9 billion, from EUR10.9 billion in 2Q20**. The deal value in the quarter was also higher by 71 percent on a y-o-y basis. The primary reason for significant rise in deal value was the EUR22.3 billion transaction between Veolia and ENGIE, where the former acquired 29.9 percent stake in Suez and confirmed its intention to acquire control.^{xix}

The total number of deals in the quarter increased about 60.9 percent q-o-q to 74 in 4Q20, led by an increase in the number of domestic and inbound deals from 38 in 3Q20 to 64 in 4Q20.

The top 15 deals, valued at EUR34.7 billion and accounting for 87 percent of the total deal value, focused on boosting international profile, streamlining core operations and entering the waste-to-energy and sustainable space. The players also planned to increase renewable energy capacity, commit to decarbonization plans, expand geographic footprint, improve cash flow and gain access to lucrative markets and resources.

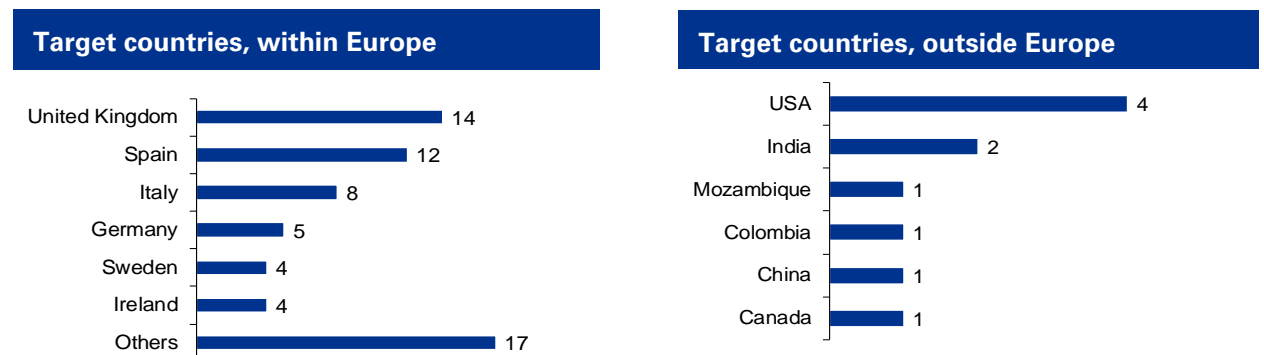
Figure 9: Number and value of M&A deals in the European P&U sector, 1Q18 to 4Q20



Note(s): M&A deals include Domestic, Inbound and Outbound deals. Domestic M&A deals are those for which both target and buyer companies are within Europe; Inbound M&A deals are those for which target company is in Europe but the buyer company is outside Europe; Outbound M&A deals are those for which target company is outside Europe and buyer company is in Europe.
Source(s): MergerMarket, 2021.

Within Europe, the targets were primarily based in the UK, followed by Spain, Italy and Germany. Outside of the region, the primary target country for the European P&U companies was the US. The US has become an attractive region to make new acquisitions especially after the US elections. This is evidenced by Iberdrola’s acquisition of PNM Resources (a utility provider based out of New Mexico and Texas), and EDPR’s acquisition of C2 Omega (Distributed solar platform business) in January 2021.^{xx}

Figure 10: Target countries, by total number of deals, 4Q20



Source(s): MergerMarket, 2021.

The way forward

With the European Union focusing on reduction in carbon emissions and net-zero targets, it is expected that 2021 will witness a record-breaking year for renewables auctions (estimated to be about 45GW of auctions)^{xxi}. This would lead to increased domestic and inbound deals in the Renewable space. Also, with the return of power demand in the region, and subsequent increase of cash flow for power suppliers, the deal activities might resume and could pave way for larger deals.

Appendix

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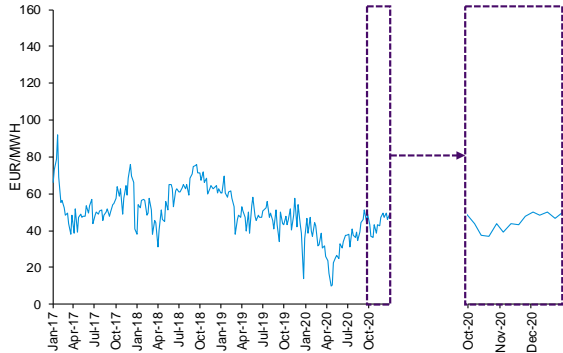
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Electricity prices (Base load and Peak Load)

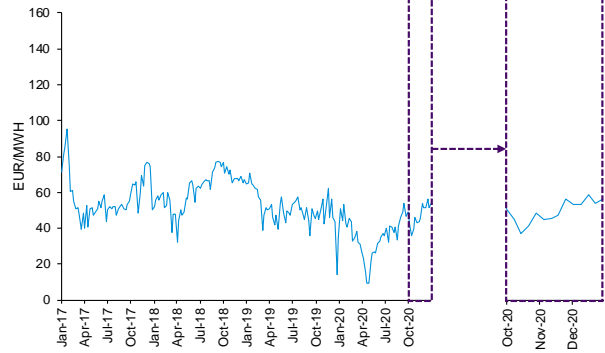


Spain

Base load

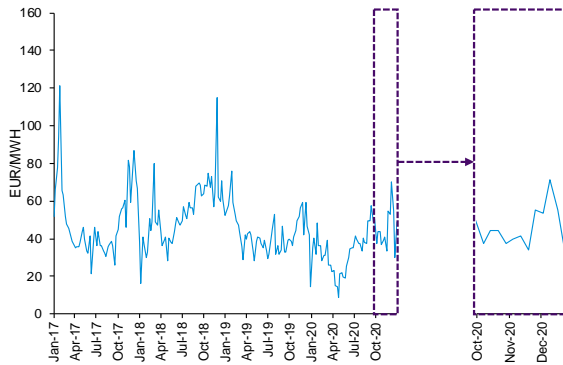


Peak load

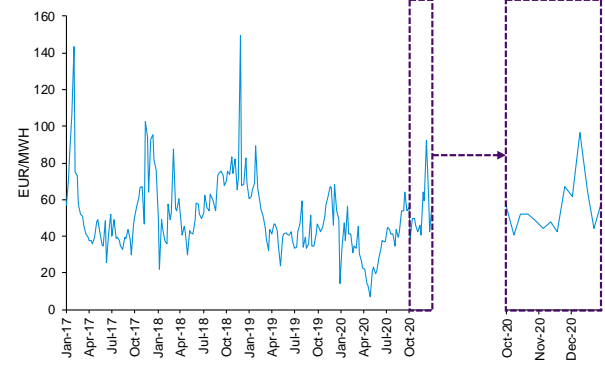


France

Base load

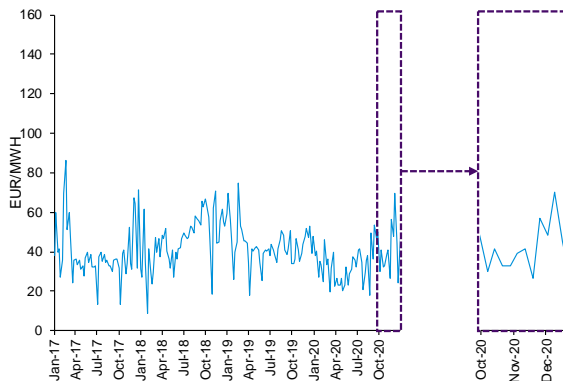


Peak load

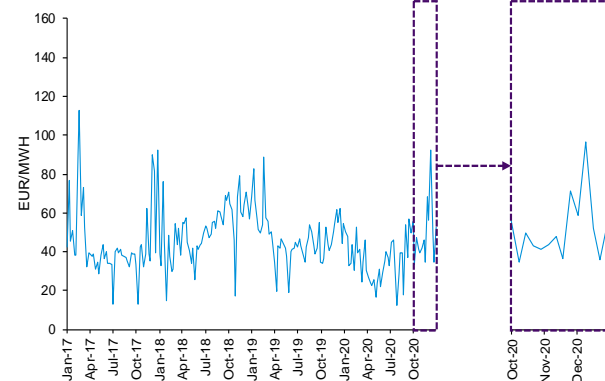


Germany

Base load



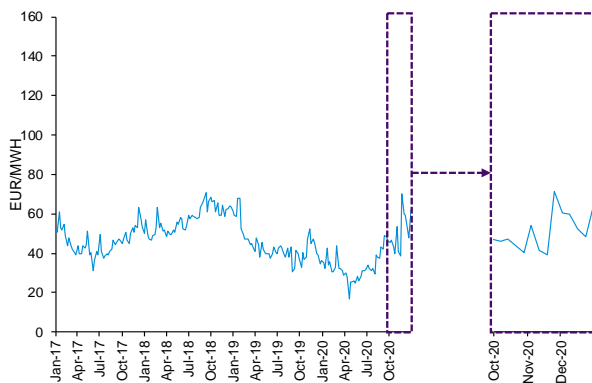
Peak load



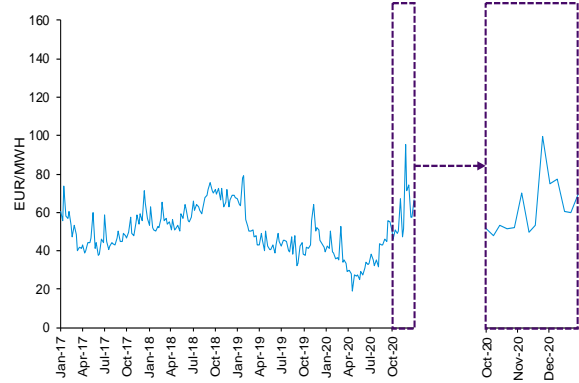


United Kingdom

Base load



Peak load



Source(s): Reuters, 2021.

Top 15 M&A deals in European P&U sector, 4Q20

Date	Target company	Target description	Target country	Bidder company	Bidder country	Seller company	Deal value EUR (million)	Deal type
5 October 2020	Suez	A France-based and listed provider of environmental management services	France	Veolia Environment	France	ENGIE SA	22,306	Domestic
17 December 2020	Wti/Efw Holdings	Pure-play waste-to-energy business that develops, owns and operates waste-to-energy facilities	UK	First Sentier Investors	Australia	Wheelabrator Technologies Inc.	1,885	Inbound
15 December 2020	T-Solar Global	Solar power generation platform with assets across Spain and Italy	Spain	Cubico Sustainable Investments	UK	I Squared Capital	1,500	Domestic
13 October 2020	Multifuel Energy Limited (MEL 1) (50 percent stake); Multifuel Energy Limited (MEL 2) (50 percent stake)	MEL1 and MEL2 are 50-50 joint ventures between SSE and Wheelabrator Technologies, consisting of the operational Ferrybridge Multifuel 1 and Ferrybridge Multifuel 2 facilities (MEL1), as well as the Skelton Grange Multifuel development project (MEL2), in West Yorkshire	UK	First Sentier Investors	Australia	SSE Plc	1,099	Inbound
26 October 2020	Galp Gas Natural Distribuicao, S.A. (75.01 percent stake)	Portugal-based company engaged in distribution of natural gas	Portugal	Allianz Capital Partners GmbH	Germany	Galp Energia, SGPS, S.A.	1,077	Domestic
15 October 2020	SN Power AS	Norway-based hydropower company and a commercial investor, developer and operator of hydropower projects	Norway	Scatec Solar ASA	Norway	Norfund AS	1,041	Domestic
27 December 2020	Elawan Energy, (80 percent stake)	Spain-based operator of wind farms	Spain	ORIX Corporation	Japan	Gestamp Energías Renovables SL; Clear Wind Eolica	792	Inbound
24 November 2020	Prodiel S.L. (1,098MW solar projects)	Spain-based 1,098MW of solar photovoltaic (PV) projects	Spain	Everwood Capital SGEIC, S.A.	Spain	Prodiel S.L.	750	Domestic
23 November 2020	Humber Gateway offshore transmission project (49 percent stake)	UK-based wind farm	UK	Greencoat UK WindUK		RWE AG	728	Domestic
29 October 2020	MHI Vestas Offshore Wind A/S (50 percent stake)	Denmark-based offshore wind turbines business	Denmark	Vestas Wind Systems A/S	Denmark	Mitsubishi Heavy Industries, Ltd.	709	Domestic
7 December 2020	Western Generation Partners	Natural gas-fired and Combined Heat and Power assets of 1,502MW located in US and Trinidad and Tobago	US	ContourGlobal Plc	UK	Harbert Management Corporation	691	Outbound
2 November 2020	Nevel Oy	Finnish district heating and industrial energy solutions company	Finland	Ardian	France	Vapo Oy	656	Domestic
2 November 2020	Evida Holding A/S	Denmark-based company engaged in operating gas distribution networks	Denmark	Danish Ministry of Finance	Denmark	Energinet	564	Domestic
9 December 2020	BayWa r.e. renewable energy GmbH (49 percent stake)	Germany-based company engaged in renewable energy solution	Germany	Energy Infrastructure Partners AG	Switzerland	BayWa AG	530	Domestic
11 October 2020	Bjornberget Vindkraft AB	Sweden-based wind farm project	Sweden	Enlight Renewable Energy Ltd; Prime Capital AG	Germany	Renewable Energy Systems Ltd.	435	Domestic

Source(s): MergerMarket, 2021



Top 15 M&A deals in European P&U sector, Full Year 2020

Date	Target company	Target description	Target country	Bidder company	Bidder country	Seller company	Deal value EUR (million)	Deal type
5 October 2020	Suez SA	A France-based and listed provider of environmental management services	France	Veolia Environment	France	ENGIE SA	22,306	Domestic
26 May 2020	Siemens Energy AG (55 per cent stake)	Fossil-fuel and renewable energy and electricity division of Siemens AG	Germany	Siemens AG (Shareholders)	Germany	Siemens AG	8,796	Domestic
18 March 2020	Viridor Waste Management	UK-based recycling, renewable energy and waste management company	UK	Kohlberg Kravis Roberts & Co. L.P.; Hermes Infrastructure	US	Pennon Group Plc	4,555	Inbound
15 July 2020	Viesgo Espana, SL	Spain-based company engaged in generation and distribution of electricity	Spain	Energias de Portugal S.A.	Portugal	Macquarie Group	2,700	Domestic
16 January 2020	innogy SE (10 percent stake)	Germany-based energy company	Germany	E.ON SE	Germany		2,379	Domestic
17 December 2020	Wti/Efw Holdings	UK-based waste-to-energy business of Wheelabrator Technologies Inc.	UK	First Sentier Investors	Australia	Wheelabrator Technologies	1,885	Inbound
15 December 2020	T-Solar Global	Spain-based operator of photovoltaic plants	Spain	Cubico Sustainable Investments	UK	I Squared Capital	1,500	Domestic
6 February 2020	En+ Group plc (21.37 percent stake)	Russia-based vertically integrated aluminium and hydro power producer	Russia	En+ Group plc	Russia	VTB Bank OAO	1,437	Domestic
4 February 2020	Siemens Gamesa Renewable Energy, (8.07 percent stake)	Spain-based company which designs, builds and operates renewable energy power plants	Spain	Siemens AG	Germany	Iberdrola SA	1,100	Domestic
13 October 2020	Multifuel Energy 2 Limited (50 percent stake); Multifuel Energy Limited (50 percent stake)	MEL1 and MEL2 are 50-50 joint ventures between SSE and Wheelabrator Technologies, consisting of the operational Ferrybridge Multifuel 1 and Ferrybridge Multifuel 2 facilities (MEL1), as well as the Skelton Grange Multifuel development project (MEL2), in West Yorkshire	UK	First Sentier Investors	Australia	SSE Plc	1,099	Inbound
26 October 2020	Galp Gas Natural Distribuicao (75.01 percent stake)	Portugal-based company engaged in distribution of natural gas	Portugal	Allianz Capital Partners GmbH	Germany	Galp Energia, SGPS	1,077	Domestic
26 February 2020	China Energy Group Dongtai Offshore Wind Power (37.5 percent stake)	China-based electricity company	China	Electricite de France	France	Not Available	1,045	Outbound
15 October 2020	SN Power AS	Norway-based hydropower company and a commercial investor, developer and operator of hydropower projects	Norway	Scatec ASA	Norway	Norfund AS	1,041	Domestic
17 August 2020	Grupo Iberwind	Portugal-based company principally engaged in the Wind power production	Portugal	Ventient Energy	UK	CK Infrastructure Holdings Limited; Power Assets Holdings Limited	987	Domestic
10 September 2020	Equinor (Empire Wind Assets) (50 percent stake); Equinor (Beacon Wind assets) (50 percent stake)	US-based wind energy projects of Equinor	US	BP Plc	UK	Equinor ASA	929	Outbound

Source: MergerMarket 2021

Share price evolution: Overview (4Q20)

Company	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Last quarter Q3 2020/ Q4 2020	Last year Q4 2019/ Q4 2020
Suez SA	13.0	13.8	15.0	14.9	14.9	11.1	14.5	19.1	31.1%	28.2%
Electricité de France S.A.	15.3	13.7	12.0	10.5	11.8	8.4	10.4	13.6	30.8%	30.1%
VERBUND AG	48.3	50.8	57.0	51.9	47.3	43.5	52.2	66.9	28.1%	28.9%
Ørsted A/S	72.5	79.9	94.8	92.4	102.2	106.8	137.3	170.1	23.9%	84.1%
Naturgy Energy Group, S.A.	27.1	28.8	26.1	26.1	23.4	17.9	19.5	21.9	12.7%	-15.9%
EnBW Energie Baden-Württemberg AG	35.6	36.6	37.6	49.7	50.5	54.0	58.0	64.2	10.6%	29.1%
SSE plc	15.3	14.3	14.1	17.0	18.9	15.6	16.6	18.1	8.8%	6.5%
EDP - Energias de Portugal, S.A.	3.6	3.8	3.8	4.1	4.6	4.4	5.1	5.5	7.5%	33.9%
ENGIE SA	15.4	14.8	15.4	16.2	15.7	11.2	13.4	14.3	6.9%	-11.4%
RWE Aktiengesellschaft	24.5	25.7	28.1	29.7	32.3	30.8	38.0	40.2	5.9%	35.2%
National Grid plc	10.9	10.6	10.5	11.6	12.5	11.5	11.4	12.0	5.6%	3.4%
Fortum Oyj	22.2	21.3	22.9	23.8	21.5	17.6	20.4	21.5	5.6%	-9.5%
Iberdrola, S.A.	8.3	9.3	10.0	10.0	10.8	10.3	12.6	13.3	5.2%	32.1%
Enel SpA	6.0	6.5	7.1	7.6	8.1	7.4	9.1	9.4	3.1%	23.6%
CEZ, a. s.	24.2	23.5	22.5	22.2	20.4	19.2	20.4	20.7	1.5%	-6.9%
Endesa, S.A.	24.7	25.6	25.8	26.7	25.1	22.9	27.6	28.0	1.3%	5.1%
Uniper SE	28.9	29.6	31.3	31.9	30.4	28.4	33.3	32.9	-1.1%	3.3%
Veolia Environnement S.A.	21.5	23.4	24.7	25.6	27.1	21.5	22.7	22.3	-1.8%	-12.9%
E.ON SE	10.8	10.9	9.9	10.1	11.1	10.4	11.7	11.0	-5.5%	9.4%
Public Joint Stock Company Inter RAO UES	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-6.8%	-2.8%
EURO STOXX Utilities	300.9	315.9	330.2	340.9	356.3	306.7	353.7	362.7	2.6%	6.4%

Note: Includes KPMG P&U 20 companies. Currency is in EUR.
Source: S&P Capital IQ, 2021.

Credit ratings: Overview (as of February 2021)

Company	S&P Rating	Date ¹	Moody's Rating	Date ¹	Fitch Rating	Date ¹
CEZ, a. s. (SEP:CEZ)	A-	18-Feb-21	Baa1	22-Feb-21	A-	22-Feb-21
E.ON SE (XTRA:EOAN)	BBB	18-Feb-21	Baa2	22-Feb-21	BBB+	22-Feb-21
EDP - Energias de Portugal, S.A. (ENXTLS:EDP)	BBB-	18-Feb-21	Baa3	22-Feb-21	BBB+	22-Feb-21
Electricité de France S.A. (ENXTPA:EDF)	BBB+	18-Feb-21	A3	22-Feb-21	A-	22-Feb-21
EnBW Energie Baden-Württemberg AG (XTRA:EBK)	A-	18-Feb-21	A3	22-Feb-21	BBB+	22-Feb-21
Endesa, S.A. (BME:ELE)	BBB+	18-Feb-21	Baa1	22-Feb-21	A-	22-Feb-21
Enel SpA (BIT:ENEL)	BBB+	18-Feb-21	Baa1	22-Feb-21	A-	22-Feb-21
ENGIE SA (ENXTPA:ENGI)	BBB+	18-Feb-21	Baa1	22-Feb-21	A	22-Feb-21
Fortum Oyj (HLSE:FORTUM)	BBB	18-Feb-21	Baa2	22-Feb-21	BBB	22-Feb-21
Iberdrola, S.A. (BME:IBE)	BBB+	18-Feb-21	Baa1	22-Feb-21	BBB+	22-Feb-21
National Grid plc (LSE:NG.)	A-	18-Feb-21	Baa1	22-Feb-21	BBB	22-Feb-21
Naturgy Energy Group, S.A. (BME:NTGY)	BBB	18-Feb-21	Baa2	22-Feb-21	BBB	22-Feb-21
Ørsted A/S (CPSE:ORSTED)	BBB+	18-Feb-21	Baa1	22-Feb-21	BBB+	22-Feb-21
Public Joint Stock Company Inter RAO UES (MISX:IRAO)	-	-	Baa3	22-Feb-21	-	22-Feb-21
RWE Aktiengesellschaft (XTRA:RWE)	NR	-	Baa3	22-Feb-21	BBB	22-Feb-21
SSE plc (LSE:SSE)	BBB+	18-Feb-21	Baa1	22-Feb-21	BBB	22-Feb-21
Suez SA (ENXTPA:SEV)	-	-	Baa1	22-Feb-21	-	22-Feb-21
Uniper SE (XTRA:UN01)	BBB	18-Feb-21	-	-	-	22-Feb-21
Veolia Environnement S.A. (ENXTPA:VIE)	BBB	18-Feb-21	Baa1	22-Feb-21	BBB	22-Feb-21
VERBUND AG (WBAG:VER)	A	18-Feb-21	A3	22-Feb-21	BBB-	22-Feb-21
Mode	BBB+		Baa1		BBB	

Quarterly rating variation: Upgrade Unchanged Downgrade

Note(s): (a) The date of publication of latest report (company release, market/industry/peer report) or latest update on S&P Capital IQ/Moody's/Fitch website, from which the rating has been sourced.
Source: S&P Capital IQ/Moody's/Fitch, 2021.

Regulatory developments in the European P&U sector, 4Q20

Portugal

Compensation on the scope of the competitive equilibrium regime

ERSE has defined the definitive compensation for 2019 as well as the preliminary compensation to be charged for 2020, following the change to the competitive equilibrium regime for the wholesale electric energy market in the 2H19 (regulation aiming to achieve market equilibrium between the Iberian market agents).

[Link I](#) | [Link II](#)

National Plan for Energy and Climate 2030 and National Hydrogen Plan

The Portuguese Government approved the National Plan for Energy and Climate 2030, which establishes the guidelines and targets regarding greenhouse emissions, including targets for renewable energy supply and energy savings. This plan derives from EU regulation and aims at ensuring the carbon neutrality in 2050.

Within the scope of this carbon neutrality goal, a National Hydrogen Plan was also approved, establishing targets for the utilization of green hydrogen as a substitute of conventional energy sources.

[Link III](#) | [Link IV](#)

VAT reduction for electricity consumption

Following the measure defined by the 2020 State Budget, the Portuguese Government approved the reduction of the VAT applied to electricity consumption for consumers, with a maximum subscribed capacity of 6.9kVA and for monthly consumption up to 100kWh or 150kWh, for large families.

[Link V](#) | [Link VI](#)

Straightening mechanism for the repercussion of extra costs with special regime production

Based on an economic and social sustainability of the energy tariff, the Portuguese government established a mechanism for five-year repercussion of extra costs with production under the special regime, which is supported by the regulated companies and recovered in a five-year straightening mechanism. In October 2020, following the current pressure on tariffs, the Portuguese Government approved the extension of this mechanism until 2025.

Additionally, in December 2020, the government established the values of the parameters, for the effects of the remuneration rate of the five-year straightening mechanism of the allowed revenues, for the year 2021.

[Link VII](#) | [Link VIII](#)

Energy production capacity payments

In 2012, the Portuguese Government approved two incentive mechanisms for electricity producers, in order to ensure the necessary energy supply — an availability mechanism and a capacity-based investment incentive mechanism (capacity payments) to be applied to new plants.

These mechanisms have been under review, following recommendations from the EU. The availability mechanism was replaced in 2017 for an availability auction mechanism. In October 2020, the Portuguese Government determined the extinction of the investment incentive mechanism.

[Link IX](#)

Social electricity tariffs

The social electricity tariff is an instrument of social justice and policy created in 2010 and aimed at protecting economically vulnerable households by granting them access to these essential services. The Secretary of State for Energy has determined a discount of 33.8 percent in electricity tariffs for 2021, to be applied to economically vulnerable households.

Additionally, in October 2020, following the guidelines determined by the 2020 State Budget, the scope of application of this social benefit was expanded for both electricity and natural gas tariffs, to include additional consumers considered as vulnerable.

[Link X](#) | [Link XI](#)

Electricity tariffs and regulated prices for 2021

The Regulatory Entity for Energy Services has established and approved the values of electricity tariffs and regulated prices applicable in mainland Portugal and in the Autonomous Regions of the Azores and Madeira, for 2021.

[Link XII](#)

Low voltage electricity distribution concessions auctions

Considering the end of the municipal concessions for low voltage electricity distribution in Portugal, the State Secretary of Energy approved the creation of a work group to determine the templates for the public tenders to be held for these concessions.

[Link XIII](#)

Germany

Bundestag passes EEG Amendment

On 17 December 2020, the Bundestag passed the amendment to the Renewable Energy Sources Act. The new EEG has come into force on 1 January 2021 and will redefine the framework conditions for the expansion of renewable energies. It defines the speed at which individual technologies such as wind and photovoltaics will be expanded over the next few years so that the 65 percent target can be achieved by 2030. At the same time, the funding conditions for the individual energies are being reorganized.

[Link I](#)

Controllable Consumption Facilities Act

The Federal Ministry for Economic Affairs and Energy published the draft of the Controllable Consumption Devices Act on 22 December 2020. The law is intended to speed up the integration of controllable consumption devices into the distribution networks. Electricity consumers will be relieved by this law, as it will generate significant savings through more efficient grid expansion. Overall, this will result in improved framework conditions for the ramp-up of electromobility, the development of charging infrastructure and sector coupling.

[Link II](#)

European Hydrogen Project

On 17 December 2020, 22 EU member states signed a memorandum of understanding in which they expressed their willingness to support the development of a European value chain for green hydrogen and vowed to invest in the new key technology. The development of clean hydrogen technologies and the necessary infrastructure is part of the strategy to reach the 2050 goal for Europe to become the first climate neutral continent.

[Link III](#)

Publication of incentives for Renewable Energy Communities

Following the publication of the Delibera 318/2020/R/eel — regarding the regulation of renewable energy communities — in August 2020, by ARERA, the Ministry of Economic Development defined the incentive tariff for the remuneration of renewable energy plants, within collective self-consumption and renewable energy communities.

The incentive, published in the 'Gazzetta Ufficiale' on 16 November 2020 and awarded in form of a premium tariff for a duration of 20 years, is set at:

- 100 EUR per Mega Watt Hour (MWh) if the production plant is part of a collective self-consumption configuration, or
- 110 EUR per MWh if the plant is part of a renewable energy community.

[Link I](#)

New Electricity Market Zones

In December 2020, Terna, the Italian TSO, published an update regarding the restructuring of the Italian Electricity Market Zones, announced by the Italian Authority (Arera) in March 2020, through the Deliberazione 103/2019/R/eel. The new Market structure, active from 1 January 2021, primarily foresees the introduction of the new Calabria Zone (CALA) and of the virtual 'XGRE' Zone, related to the planned introduction of the market coupling mechanism on the border between Italy and Greece, apart from other minor modifications.

The new update defines the grid transmission limits between the new Market Areas.

[Link II](#)

Netherlands

Northern provinces get EUR438 million from EU for energy transition, job creation

Netherlands Junior Economic Affairs minister, Mona Keijzer, has told provincial officials that the three northern provinces of Groningen, Friesland and Drenthe will get a total of EUR438 million from the European funds. The energy transition is having a major impact on the North as the natural gas fields under Groningen are being closed, costing a lot of jobs and hitting support industries hard. Rene Paas, the King's commissioner in Groningen, said that the funding from Brussels gives the North a great opportunity to become the 'green electricity plug' for entire Netherlands.

[Link I](#)

Solar parks in Netherlands to be connected at 70 percent of their peak capacity

The Netherlands' Renewable energy sector has reached an agreement with the country's grid operators and power providers for a faster grid connection of solar parks. PV plant operators will be able to connect their projects at 70 percent of their capacity and, in turn, they will be allowed to connect them without having to wait for more grid availability.

[Link II](#)

Dutch eye nuclear revival to reach climate goals

The Dutch government has demonstrated affinity toward nuclear energy again, after it undertook several initiatives in recent weeks to ensure atomic power can remain one of its low-carbon energy sources. The country's only nuclear power plant, at Borssele in the southwestern Netherlands, is set to shut down in 2033. The government has now started to assess the legal framework for extending the plant's lifetime by another 10–20 years, the first step towards keeping it open for longer duration.

[Link III](#)

Netherlands mulls launch of world's first hydrogen bourse

As per an exploratory government-commissioned study revealed at the start of October 2020, the Netherlands is considering the creation of a commodity exchange for hydrogen, that could be launched by 2026. The country has plans to become northwest Europe's hydrogen hub, as its influence as a natural gas powerhouse is decreasing, with the gradual shutdown of the continent's largest onshore gas field at Groningen.

[Link IV](#)

Dutch to phase out subsidies for wood-fired power stations

The government is planning to phase out the use of subsidies for power stations, which are powered by biomass, or which generate heat for city heating schemes. The decision to phase out the use of subsidies was taken at the cabinet meeting and the ministers agree that there are enough greener alternatives for generating both electricity and heat. However, the Economic Affairs minister, Eric Wiebes has told the MPs in a briefing that the alternatives would need to be both achievable and affordable.

[Link V](#)

US and the Netherlands to collaborate on hydrogen production and infrastructure

The US Department of Energy's (DOE's) Office of Energy Efficiency and Renewable Energy (EERE) and the Dutch Ministry of Economic Affairs and Climate Policy's Directorate General for Climate and Energy issued a statement of intent (SOI) to collaborate on collecting, analyzing and sharing information on hydrogen production and infrastructure technologies. Through this effort, real-world data from hydrogen applications will be gathered to guide both organizations' future hydrogen research and development (R&D) and demonstration activities.

[Link VI](#)

EUR30 billion allocated for green transition

On 3 September 2020, the French Minister for the Economy, Finance and the Recovery, presented a EUR100 billion recovery plan to support the economic activity and job creation. The recovery plan, among others, paves the way for the French economy of 2030, which will be greener, given the urgency to speed up the ecological transition. The recovery plan in France dedicates EUR30 billion to green transition among which:

- EUR6.7 billion for the thermal retrofitting of public (EUR4 billion for schools and administrative buildings, EUR500 million for social housing) and private (EUR2 billion for housing, EUR200 million for SMEs/VSEs) buildings;
Progress as at end of 2020 is:
 - For private houses, renovations reached EUR1.5 billion (141,000 houses)
 - For state public buildings, renovations reached EUR2.7 billion (4,000 projects)
 - For schools and regional buildings: will be initiated in 2021
- EUR1.2 billion to finance investments and operating expenditures dedicated to the industry decarbonation during the 2020–22 period.
Progress at end 2020: 16 energy efficiency large projects received (EUR0.3 billion).
- EUR1.2 billion to develop everyday green mobility (cycling and public transportation)
Progress at end of 2020 for clean vehicles: 167,000 conversion premiums (for scrapping old thermic vehicles) and 103,000 ecological bonuses (subsidy to purchase clean vehicles such as EV, HV, H²V)
- EUR4.7 billion to support and develop railway transportation, including freight.
- EUR7 billion over 10 years (2021–30) to develop green hydrogen.

[Link I](#) | [Link II](#) | [Link III](#)

Regulated electricity tariffs increased in February 2021

Regulated electricity sales tariffs, in France, were increased by 1.6 percent from 1 February 2021 — the government confirmed the CRE (Energy Regulatory Commission) 's proposal. This represents EUR15 per year on average.

Last regulated price change was in August 2019.

The CRE explained in mid-January 2021, that the increase is justified, owing to the consequences of the Covid-19 health crisis on the French electricity system.

[Link IV](#)

CRE approves nearly EUR900 million of investments by transmission system operators and natural gas storage operators for the year 2021

CRE approves the investment programs of gas transmission system operators for the year 2021, for an amount of EUR506.8 million for GRTgaz and EUR102.8 million for Terega Transport. On this occasion, CRE approves a program to reduce methane emissions from GRTgaz compressor stations.

[Link V](#)

Monthly evolution of the regulated tariffs for the sale of Engie gas on 1 February 2021

On 1 February 2021, ENGIE's regulated prices, excluding tax, increased by 3.5 percent. This increase is 0.9 percent for customers who use gas for cooking, 2.1 percent for those who have dual use — cooking and hot water — and 3.7 percent for homes that heat with gas.

Last regulated price change was in December 2019 (+0.6 percent)

[Link VI](#)

Russia: 'Green' energy support measures extended to 2035

The Russian government has extended its 'green' energy support program till 2035. In 2014, a 10-year 'green' energy support program was launched in Russia and included inter alia power plant construction projects selected through competitive selection. Investments had a payback period of 15 years and a basic rate of return of 12 percent per annum adjusted for federal bonds return. A decision was made to extend the RES support program, with proper adjustments, to 2035.

[Link I](#)

Russia: RES generation tariffs change

On 1 December 2020, amended competitive selection rules and tariffs for RES-based power generation facilities came into effect. Currently, since the RES facilities compete, it is not the generation technology that will be the determining factor for selection but the minimum energy price. Competitive selection procedures for RES facilities to get involved in government support will become far more efficient and appealing to investors. Besides, previously set limitations applicable in the interim period (till 2024) for providing supporting measures to small RES facilities (up to 25MW) have been lifted thus making this mechanism a regular one. Instead of using regulated tariffs, the price of RES-generated energy will be set based on the price in the investor's tender application and will not exceed the approved ceiling value. Through this, the energy price for the investor will be guaranteed for a 15-year period (the payback period). Also, uniform rules of holding competitive selection of RES generation construction projects for all regions have been established.

[Link II](#)

Russia: Digital project to establish industrial microgrids starts

The Russian Government adopted Resolution No. 320 'On Amending Certain Acts of the Government of the Russian Federation on the Operation of Active Power Complexes'. This document laid a legal basis to officially launch a pilot project on the establishment of active power complexes (APC). An APC (or a microgrid, as is commonly known globally) unites a retail generation source and industrial consumers directly to a single consumer complex, managed using state-of-the-art technical solutions and software means. The above resolution covers the period until 2030 and allows to polish, in a pilot mode, the terms of APC involvement in the electrical power turnover at the retail electricity market.

[Link III](#)

Russia: A first Hydrogen Valley

Tomsk Polytechnic University made a submission to set up a Technological Hydrogen Valley. It will be involved in R&D activity throughout the value creation chain. The key R&D areas will depend on industrial partners, and many of them have already agreed to participate in the project. The initiative was endorsed by the administration of the Tomsk region and included in the regional development strategy.

[Link IV](#)

Kazakhstan: Stimulation of flexible generating capacities construction and RES development

On 7 December 2020, the President of the Republic of Kazakhstan, signed the law 'On Introducing Amendments and Addenda to certain Legislative Acts of the Republic of Kazakhstan on supporting the use of Renewable Energy Sources and Power Generating Industry'. The key developments include:

- Stimulation of the construction of flexible generating capacities: Currently, the surplus of electric power goes hand in hand with a shortage of flexible capacities. Electricity consumption during the day is uneven and requires operational variable functioning of power plants. The current load-frequency control capabilities of the existing power plants are insufficient, and therefore the system operator is forced to use the load-frequency control from the Russian energy system.

The development of flexible capacities to regulate production-consumption imbalances will make it possible to redirect the purchase of some services for compensating deviations at power plants in Kazakhstan, instead of using Russian load-frequency control.

- Establishing an end-to-end tariff for the support of RES: With the commissioning of new renewable energy facilities, tariffs and shares of electricity purchases from the Settlement and Finance Centre (SFC), for supporting renewable energy, by operational energy-producing organizations are increasing, while traditional energy producers incur uncovered losses, until the corresponding adjustment is made to the ceiling tariffs. There is a need to separate the costs of purchasing electricity from the SFC for the support of renewable energy sources from the ceiling tariff and consider the costs of renewable energy sources as a surcharge over the ceiling tariff.
- Creation of a favourable environment for the development of renewable energy: Targets to increase the share of renewable energy sources in total electricity production: 3 percent by 2020, 6 percent by 2025, and 10 percent by 2030. By 2050, renewable and alternative energy sources should account for at least 50 percent of total energy consumption. It is proposed that the following measures are implemented to achieve the above indicators: financial aid from the Government to the SFC, if it fails to discharge its payment obligations to RES projects (to improve the centre's creditworthiness); extension of the energy purchase contract term from the current 15 years to 20 years, introduction of a centralized sale and purchase of flood electrical energy via the SFC.

[Link V](#)

Ukraine: Cooperation in smart grids development

The Ministry of Energy of Ukraine and KT Corporation signed a memorandum of understanding regarding the introduction of Smart Grid technologies in Ukraine. When implemented, the concept will make it possible to reduce electric power losses on the grids, tune up the online electric power quality monitoring, and analyze electric energy balances in various grid hubs.

[Link VI](#)

Ukraine: Ukraine and France to start energy storage construction

Ukraine and France intend to proceed to the implementation of a joint project on the construction of energy-storage facilities of Ukrenergo NEC (with the required investments of about EUR20 million). According to the publication on the official website of the Ministry of Internal Affairs, energy storage construction arrangements were included in the final declaration of the Mixed Ukrainian-French Intergovernmental Commission on Economic Cooperation's session.

[Link VII](#)

Uzbekistan: Task to elaborate stages and rules of shifting to a competitive electric power market

The President of the Republic of Uzbekistan held a meeting on the top-priority tasks relating to the transformation of electric power companies. Emphasis was on the need to proceed with the modernization. However, this would not be through government-guaranteed fund raising as before, but through private investment. It was indicated that JSC National Electric Networks of Uzbekistan's Regional Electric Networks, Thermal Power Stations and Uzbekhidroenergo JSCs should switch to the financial statement preparation framework in accordance with the international standards. This will become an important factor in obtaining an international credit rating and issuing Eurobonds in the future. Instructions were given to attract foreign specialists to the boards and supervisory boards of enterprises to facilitate the transformation process. The need to develop a document, defining stages and rules of switching to a competitive electricity market was also pointed out. Instructions were given to provide a broad introduction of advanced technologies in the industry and implement digital transformation.

[Link VIII](#)

Uzbekistan: Competitive bidding rules approved

In Uzbekistan, competitive bidding rules were approved as part of implementing PPP investment projects in RES-based electric power generation. This mechanism of competitive selection is aimed to digitalize the selection process and minimize the human factor in making the final decision, which will ultimately result in the lowest possible renewable energy tariffs.

[Link IX](#)

Azerbaijan: Establishment of the State Agency on Renewable Energy Sources

The President of the Republic of Azerbaijan signed the decree on setting up the State Agency on Renewable Energy Sources, under the Ministry of Energy. The new agency will also comprise Azalternativenerji. The agency will implement the state policy in the area of renewable energy sources, including preparation of respective projections, capital raising for the sector and taking other measures to develop the sector.

[Link X](#)

Georgia: Testing of the Power Exchange

As reported by GNERC Chairman, the Georgian Power Exchange's plan to create a competitive electric power market was put to work in a testing mode. Currently, over 100 electric power suppliers are active market players, and in future their numbers will increase, as new Hydro Power Projects are under construction, new traders are expected to emerge, and competition is estimated to increase. The Georgian Power Exchange was established in December 2019, on pari passu basis, by the JSC Georgian State Electrosystem (GSE). JSC Electricity System Commercial Operator (ESCO) was mandated to act as the regulated electric power market operator. The exchange whose main activity will be the conclusion of bilateral agreements with market players shall commence its official operations in July 2021.

[Link XI](#)

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Endnotes

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