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NET BILLING LAW

On March 22, 2012, Law No. 20.571 was published in the Official Gazette. The law (known as the "Net Billing Law") regulates the payment of electricity tariffs for residential generators, allowing residential electric clients to generate energy for their own use, inject their energy produced but not used into the electric system, and receive payments for that injection.

In accordance with the Net Billing Law, articles 149 bis, ter, quáter, and quinquies were incorporated into the General Electricity Services Law ("LGSE").

According to the transitory article of this law, the date it enters into force is contingent on the publication of its relevant regulation (Decree No. 71/2014, of the Ministry of Energy, the "Regulation"). Such regulation was published on September 6, 2014 and, in accordance with the transitory Article, its entrance into force begins after 30 working days from its publication. Therefore, the Regulation entered into force on October 21, 2014. With the entry into force of these two regulations, the mechanism of distributed power generation, known internationally as Net Billing, also takes effect in Chile.

1 Concept

Net Billing is a system of residential generation that allows residential electric clients to generate energy for their own consumption (implying an energy savings) and, also, to inject to the electric system (specifically, to the distribution net) the energy surpluses (energy produced but not used by that same residential client) and receive payments for the injection of that energy.

The client can sell the energy that he produces directly or agree to its commercialization with a distributor company or a third party.

2 Requirements for Net Billing

Final users subject to price regulation (residential clients) that have, for their own consumption, electricity generating facilities based on

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sources of nonconventional renewable energy ("NCRE") or efficient cogeneration facilities, can be subjected to this system of residential generation. In both cases, such facilities must have a maximum capacity of 100 KW, which, in any event, must comply with the demands and requirements of the Regulation and the applicable technical regulations.

In this regard, it should be noted that users subject to price regulation, are those final users whose connected power is equal to or less than 2,000 kilowatts. Additionally, in this regard, the generation means NCRE correspond to those whose primary energy source is biomass, hydro up to 20 MW, geothermal, wind, solar, tidal, and others which are reasonably identified by the National Energy Commission (Comisión Nacional de Energía). Efficient cogeneration facilities correspond to those generated in a single process both heat and electricity, whose maximum power supplied to the electric system is 20 MW.

The Regulation establishes the requirements, technical specifications and safety requirements to be met by means of generation connected to the distribution network and injecting them with energy surpluses; measures to be taken to protect the safety of people and property, and the security and continuity of the supply; etc.

3 Valuation of the energy surplus injected to the electrical system

Injections of energy surpluses will be valued at the same price that the respective distribution company buys the energy from the generator company, which will include the lower electrical losses of the distribution concessionaire associated with the injections of indicated energy.

The remuneration for the respective energy injections will be deducted from the billing of the relevant month and, in the event of a surplus in favor of the user, the user shall be charged and deducted from subsequent bills, adjusted to the IPC (Índice de Precios al Consumidor de Chile). If discounting the entire accumulated surplus in the subsequent billings is not possible (according to the deadline set forth in the contract signed by the residential client and the distributor company) then the balance must be paid to the residential customer by the distributor company.

4 Connection process.

a. Connection Request: the client submits a request for connection to the respective distribution company, which must contain information and customer data, equipment and power generation to be used, the building in which they will be located and the maximum power that will try to connect.The distribution company must answer the connection request within 20 working days. In response, the distributor company must identify the point of interconnection to the transmission network, deadlines, the allowed installed capacity and the characteristics and connection costs.

The residential client must be notified of the response and must respond as to whether any conditions and eventual additional works or adaptations identified by the distribution company were agreed to. If the residential client agrees with the terms notified by the distribution company, the declaration shall have a validity of 6 months within which the customer must make the appropriate Notification of Connection, as described in point d) below.

Any additional work or modifications that may be necessary to allow connections and injecting the energy surplus shall be borne by each owner (generating equipment) and may not generate additional costs to other customers.

b. Construction of the Generation Facilities: the installation of the equipment of generation must be peformed by duly authorized installers.
c. Declaration of commissioning: once the construction of the generating equipment ends, residential client, through duly authorized installers, must notify the Superintendency of Electricity and Fuels (Superintendencia de Electricidad y Combustibles, "SEC") with a statement of commissioning. This statement is meant to ensure both the residential client and the distribution company that the generating facilities comply with current regulations, standards of quality and safety and is not a hazard to people or property.
d. Notification of Connection: The residential client must submit a notification of connection to the distribution company, which shall identify the applicant, the installed capacity of generating units and their characteristics, certificates of generating installations, electrical installer duly authorized and a copy of the declaration of commissioning filed to the SEC.
e. Contract and interconnection of generation facilities: the distribution company and the residential client subscribe to the

relevant contract. In this regard, the Regulation provides the minimum articles to be contained in this contract, some of which are: tariff option, installed capacity, essential technical characteristics of the equipment generating from the final user, date of interconnection, currency and early termination of the contract, etc. Subsequently, the parties proceed to the commissioning of the generating equipment, according to the date specified in the relevant contract.

It is established as the general penalty, if the customer does not comply with the deadlines specified in the Regulation, he shall submit a new connection request.

5 Attributes NCRE (Law No. 20.257/2008).

Under the provisions of the Net Billing Law, injections of residential generators by means of NCRE may be recognized for the purpose of proving the obligation of injection electricity by NCRE, set by Article 150 bis of the LGSE, for which the residential client may sell those NCRE Attributes directly, through the distribution company or other third party.

For this purpose, the respective distribution company must issue a certificate attesting to injections by NCRE of the residential client whenever the client requests and at least issue an annual certificate.

6 Tax Exemption.

Payments, compensation or income received by residential clients under the injection of their surplus energy to the electric system do not constitute income, and the relevant operations are not subject to Value Added Tax (Impuesto al Valor Agregado).

The above mentioned is not applied to taxpayers of First Category Tax (corporate tax) that must declare their effective incomes based on complete accounting, with the exceptions indicated in the Net Billing Law.

7 Settlement of disputes.

Claims and disputes arising as a result of the application of Net Billing between the respective distribution company and the residential client shall be submitted and adjudicated by the SEC.

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