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About the Editors

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EUROPEAN NEWS

Great Britain: Regulator Proposes More Funding To Accommodate Renewable Generation

Energy regulator Ofgem published final proposals for incentive and funding arrangements for transmission investment to accommodate renewable generation. Ofgem intends the funding mechanism to strengthen electricity transmission networks, particularly in Scotland and the North of England. Ofgem said that £560 million (US\$1,055 million) is available to spend on transmission reinforcement.

Ofgem press release, 20/12/04



Great Britain: Regulator Publishes Transmission Price Controls

Energy regulator Ofgem published its final proposals and impact assessment for two year extensions to the transmission price controls for SP Transmission Ltd (SPT) and Scottish Hydro-Electric Transmission Ltd (SHETL), which are due to expire on 31 March 2005. Ofgem's proposed two-year roll-forward of SPT and SHETL's transmission price controls will align price control review dates for all electricity and gas transmission licensees. Ofgem also published final proposals for price controls to apply to SPT, SHETL and National Grid Company (NGC) after the introduction of the British Electricity Trading and Transmission Arrangements (BETTA), currently scheduled for 1 April 2005. Ofgem also published initial proposals for the System Operator Transmission Incentive Scheme to apply to NGC as operator of the GB-wide transmission system.

Ofgem press release, 17/12/04

Great Britain: Regulator Approves Exemption For Grain LNG Import Terminal

Energy regulator Ofgem approved the request by Grain LNG Ltd (GLNG) for an exemption from the requirement for regulated third party access at its proposed Isle of Grain LNG import facility. Ofgem believes that GLNG's request and proposed facility meet all the relevant exemption criteria and the Authority therefore decided to give GLNG an exemption in respect of the entire capacity of the proposed Isle of Grain import facility. The European Commission has two months to decide whether to veto the Authority's decision or to request the Authority to amend its decision.

Ofgem website, 6/12/04

Great Britain: Regulator Consults On Reform Of Gas Connection Regime

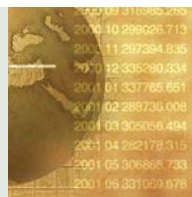
Energy regulator Ofgem published proposals for the reform of existing performance standards for the provision of gas connections by Transco and other gas transporters. Ofgem proposes to revoke the enforcement order imposed on Transco in February 1999 and introduce a new licence condition for all Transco's gas distribution networks, containing overall standards of performance for the provision of connection services. In addition, Ofgem is consulting on its proposals for guaranteed standards of performance applicable to all gas transporters, which will apply to all connection requests from end-customers.

Ofgem website, 1/12/04

Great Britain: Regulator Makes Final Proposals For Electricity Transmission Network Reliability Incentive Scheme

Energy regulator Ofgem published final proposals for new electricity transmission network reliability incentive arrangements for National Grid Company plc (NGC), to apply from 1 January 2005. Ofgem intends its proposals to incentivise NGC to reduce the amount of energy not supplied from the England & Wales transmission network. Ofgem has set a target level of "unsupplied energy" based on NGC's historic performance. NGC will receive up to 1 per cent or lose up to 1.5 per cent of its transmission revenue allowance, depending on the level of energy not supplied by the England & Wales network in any given year. Ofgem is considering whether to introduce similar incentive arrangements for Scottish transmission companies.

Ofgem website, 1/12/04



Austria: High Fuel Prices In 2004

Austrian fuel prices reached a “record-high” in 2004, according to the Austrian automobile club OeAMTC. The price of super petrol grew 8% year on year to EUR 0.931 (US\$1.27) per litre and diesel prices by 10% to EUR 0.802 (US\$1.091) per litre. Until the end of April 2004, an agreement between Austrian oil companies and the economy and labour minister Martin Bartenstein ensured that domestic net fuel prices would not exceed the EU average by more than EUR 0.029 (US\$0.039) per litre. Following the suspension of this regulation, this margin rose to 12 times the previous level.

APA-Economic News Service, 28/12/04; Austria Presse Agentur-OTS, 28/12/04

Austria: Austrian EAG, Linz AG Agree On Electricity Prices

Austrian utilities Energie AG Oberoesterreich (EAG) and Linz AG announced they have reached an agreement in their long-standing lawsuit. EAG, which supplied power to Linz AG, wanted to sell its electricity at the prices set out in the contracts from 1999. However, electricity market liberalisation in Austria in that year led to a fall of electricity prices. As a result, the contract price exceeded the market price, and Linz refused to pay in full. Under the terms of their agreement, Linz AG will now pay EAG around 68.6% of the contractual sum.

Austrian News Digest, 27/12/04

Austria: Selective Grid Cuts

E-control regulator Walter Boltz has reduced grid tariffs for Verbund’s Austrian Power Grid and the utilities serving the provinces of Burgenland, Salzburg, Carinthia and Klagenfurt municipality. Tariffs for the country’s other 130 distribution utilities will be reduced only some time next year. Boltz faces charges of bias for not cutting distribution rates at Stewea-Steg of Styria, which has the highest tariffs in the country for four of the seven grid level categories. Carinthia’s Kelag indeed threatened to take Boltz to court if E-control procedures are not made more transparent.

Platts, Power in Europe, 20/12/04

Austria: E-Control Publishes Market Report 2004

The second Market Report by E-Control provides an overview of developments in the electricity and gas markets during the last year. A key finding is that companies both in the gas and the electricity industries reacted to liberalisation through joint ventures and mergers. According to E-Control, this trend highlights the importance of measures to strengthen competition in these industries.

Austria Presse-Agentur-OTS, 15/12/04

Bulgaria: 14 Bidders Vie For Bulgaria Major Thermal Power Utilities

A total of 14 companies have bought documents to take part in the tender opened for the sale of Bulgaria’s three thermal power plants in Bobov Dol, Russe and Varna. There is no restriction on the number of plants each bidder can buy, both in terms of this tender and overall. However, potential bidders must have generated at least 2 billion kWh of electricity for each of the last three years. There are further restrictions on firms’ currency credit ratings and their minimal capital requirement.

Bulgarian News Digest, 17/12/04



Bulgaria: Top Court Rejects Power Transmission Fee

The Supreme Administrative Court (SAC) has ruled as illegal a transmission fee that privileged power consumers and power distributors are required to pay the National Electricity Transmission Company (NEC). Privileged power consumers are a category of consumers that are able to negotiate and sign deals directly with power producers paying a transmission fee to the NEC. Local steel maker Stomana Industry, the ferrous and non-ferrous metals chamber, lead and zinc smelter KTZM and copper smelter Elatsite-Med contested the fee in court.

Bulgarian News Digest, 16/12/04

EU: European Commission Takes Greece To The Court

The EC launched a court case against Greece for incorrect application of the Directive on common rules for the internal market in electricity. The Greek Public Power Cooperation (PPC) does not publish separate unbundled accounts for lignite mining and generation of electricity. The Commission notified the Greek Authorities in July 2004. However, PPC did not take any action to produce consolidated group accounts and balance sheets.

EU press release, 16/12/04

EU: Complaint Against State Aid To Nuclear Plant

The European Renewable Energies Federation (EREF) is to initiate an action before the European Commission on 14 December. The EREF claims that a planned project to construct a nuclear plant in Finland has been made possible only thanks to state aid in violation of EU competition and other rules and regulations.

EREF press release, 13/12/04

France: Conditions For Allocating France-Italy Interconnection Capacities

The French energy regulator CRE requested that the system operator RTE set up an auction-based allocation mechanism for physical transmission rights on the Franco-Italian interconnection by 1 January 2005. RTE and the Italian system operator carried out technical studies and evaluated the commercial capacities that could be guaranteed during 2005. Following these studies the CRE asked RTE to allocate 50% of the available commercial capacity, excluding historic contracts, and to keep the revenues from this allocation. Under these conditions, RTE had to attribute the following capacities to market players participating in the auctions: Winter Day (MW 597.5), Winter Night (MW 497.5), Summer Day (MW 472.5) and Summer Night (MW 397.5).

CRE press release, 28/12/04

Germany: Lower Saxony And Hesse Tough On Tariffs

The German states of Lower Saxony and Hesse did not grant the full price increases (as of 1 January) requested by companies. The Economics Ministry in Hesse said it required utilities to reduce their planned price increases by half. In Lower Saxony, the Environment Ministry approved a lower than requested rise in 47 out of 63 cases, while four utilities had to shelve their plans to increase prices altogether.

Dow Jones International News, 29/12/04



Germany: Low Tariffs For RWE In Northrhine-Westfalia

Energy Minister Axel Horstman approved tariff increases of only 6% as of 1 January for RWE subsidiaries Rhein-Ruhr and Westfalen-Weser-Ems instead of the requested 8%. RWE said it would not contest the Minister's decision. After the affairs surrounding alleged cheap electricity supply and payments to the CDU politicians Hermann-Josef Arentz and Laurenz Meyer, the company wants to avoid further negative headlines.

Berliner Zeitung, 29/12/04

Germany: Reduction In Energy Tax For Energy-intensive Sectors

The German government is likely to exempt around 300 German companies in energy-intensive sectors from the 2005 green power charge. The German environment ministry said this would increase equality between power consumers in the commercial sector.

Platts, 29/12/04; Dow Jones International News, 29/12/04

Ireland: Second North-South Interconnector

The Minister for Communications, Marine and Natural Resources Mr. Noel Dempsey and Northern Ireland's Minister for Enterprise, Trade and Investment, Mr Barry Gardiner have endorsed plans for a second North-South electricity interconnector based on the recommendation provided by the Commission for Energy Regulation (CER) and the Northern Ireland Authority for Energy Regulation (NIAER). A Joint Report was submitted to both departments on 12 October 2004 recommending the construction of a second interconnector. The Ministers encouraged the Regulators and TSOs to meet soon to consider operational arrangements for the project.

CER's Monthly Newsletter, 12/04

Italy: Limited Increase In Household Electricity Tariffs Due To Single Buyer's Purchasing Strategy.

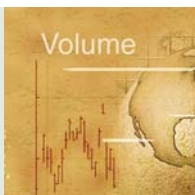
The Autorità per l'Energia Elettrica e il Gas (AEEG -the Italian regulator) has reviewed the electricity tariffs for the period 1 January – 31 March 2005 on the basis of trends in fuel prices and of the purchasing strategy of Acquirente Unico (AU – the Single Buyer) for supply to non-eligible customers. AEEG has explicitly recognized that, despite the sharp increase in fuel prices, AU's purchasing strategy helped in limiting the quarterly increase in household tariffs to 1.5%.

AEEG web site, 30/12/04

Italy: Dispatching Rules Changed To Allow Active Demand On Power Exchange.

AEEG has adjusted the dispatch rules to allow active demand on the power exchange. The AEEG decision would allow eligible customers and the AU to sell excess electricity bought through bilateral contracts on the power exchange. Active demand is expected to start trading on 1 January 2005 and a transitory period to grant a learning phase to new operators would be in place from 1 January to 31 March 2005. During this period, imbalance charges for eligible customers and the AU would be greatly reduced with respect to producers' charges.

AEEG web site, 29/12/04



Italy: Energy Saving Targets Set For Electricity And Gas Distributors for 2005.

AEEG set the energy saving targets for electricity and gas distributors for the next year. This would allow the opening of the “white certificates” market in January 2005. AEEG expects white certificates to lower the energy costs for customers. The value of the expected energy saving in the period 2005-2009 is estimated to be about 2% of total electricity and gas consumption and would be higher than the cost of incentives currently paid to distributors for investments to increase energy saving.

AEEG web site, 22/12/04

Italy: New Rules To Allocate Import Capacity In 2005.

To fulfill instructions from the Ministry of Productive Activities, the AEEG has issued terms and conditions for the allocation of import capacity in 2005. The pro-rata system in place in the past years has been changed to a new market mechanism. The new mechanism is expected to allow for electricity import at the lowest cost. AEEG has also provided for customers to hedge against volatility in congestion costs by allocating, free of charge, hedging instruments on the difference between the price of foreign electricity and the price of domestic electricity to those assigned capacity.

AEEG web site, 20/12/04

Netherlands: Decision On Use of Auction Proceeds for Construction Of Interconnector With Norway (the “NorNed-cable”)

DTe has conditionally approved the construction of a cable connection with Norway by TenneT, the operator of the national high voltage network. The financing will come from the so-called auction proceeds, under article 31, section 6 of the Elektriciteit Law 1998.

DTe website, 23/12/04

Netherlands: Determination of Electricity Connection And Transport Tariffs For 2005

The Electricity Law 1998 states that DTe shall determine the maximum transport, connection and system service tariffs for each electricity network in the Netherlands. Each year, network operators submit a proposal to DTe with the rates that they wish to charge next year. DTe reviews these proposed rates and has fixed the definitive rates for the year 2005 (see related decisions).

DTe website, 17/12/04

Netherlands: Decision On Use Of Auction Proceeds To Fund Investment In Reactive Power Compensation Equipment

DTE has determined that investments in reactive power compensation equipment by TenneT shall receive compensation from auction proceeds, i.e. (1) that the investment complies with the objectives laid down in article 31 section 6 of the Electricity Law 1998 and is therefore a suitable purpose for the auction proceeds; (2) what sum from the auction proceeds is assigned to TenneT for this purpose; and (3) on what conditions a sum from the auction proceeds is assigned to TenneT for this purpose.

DTE website 15/12/04



Portugal: New Restructuring Plan For Galp

After the European Commission decision on Galp's restructuring plan, the Portuguese government has proposed that ENI (the Italian oil group with the highest stake in Galp) should delay implementation of the agreement that would give ENI, in exchange for its shareholding in Galp, the right to acquire a 49% stake in the new gas company to be formed jointly with EDP. This agreement was due to come into effect on 31 December 2004. The new government proposal attempts to postpone by one year the period allowed to ENI for exercising its acquisition rights. However, the Italian company could be reluctant to accept a one-year delay and be willing, at most, to accept a delay until summer 2005.

www.negocios.pt, 29/12/04

Portugal: Mibel Creation Plans Go Ahead

Spanish electricity companies think Mibel is likely to be delayed because of three main reasons: the forthcoming elections in Portugal, the European Commission veto on EDP's gas business and the current electricity price differential between Spain and Portugal. However, the Portuguese Minister of Economic Activities, Mr. Alvaro Barreto, has stated that Mibel plans agreed with the Spanish government will not be delayed despite the transitory nature of the current Portuguese government. In addition, the government fully supports Portuguese industrial customers concerns in respect of the electricity price disadvantage compared to Spanish competitors. As a result, Mr. Barreto expects no delay in the creation of the Iberian electricity market.

Expansión, 22/12/04; Jornal Publico, 14/12/04

Portugal: EDP To Acquire Turbogás Stake

Energias de Portugal, EDP, is going to exercise its call option on the 20% of Turbogás' shares which are currently owned by International Power. The deal has a value of EUR 55.6 million (US\$ 75 million). This acquisition is the result of the agreement signed last October between the two companies. After the acquisition, EDP's shareholding in the firm will rise to 40%.

Jornal de Negocios, 13/12/04

Portugal: Electricity Prices Increase For 2005

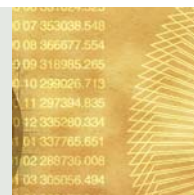
The Portuguese energy regulator, ERSE, has set electricity tariffs for 2005. Tariffs will increase 2.4% for industrial customers and 2.3% for domestic customers. In the Açores region the increase is 2.4% and in the Maderia region, 0.5%. ERSE commented that this increase differs from the initial data published last October due to inflation updates.

Diario Economico, 6/12/04

Romania: Romania's Energy Complexes To Turn Private In 2005

The Ministry of Economy and Trade (MEC) is expecting draft privatisation agreements on three energy complexes to be worked out by the end of next year. Eleven Romanian and foreign companies voiced interest early this year in taking over the energy complexes. Among them are Enel of Italy, AES of the US, Bechtel Power of the US and Public Power Corporation of Greece. They will enter public-private partnerships with Romanian public authorities, under which the authorities will provide the assets and the companies will provide the funds for investment projects. Both parties will jointly operate the complexes.

Rompres, 16/12/04



Russia: Government Approves Equal Access Rules In The Power Market

The ruling signed by Russian Prime Minister Mikhail Fradkov stipulates equal access to electricity transmission and dispatch services, and the services provided by the administrator of the wholesale electric power market. The document lists specific cases when electric power providers have the right not to sign an agreement with a user. It also defines technical procedures for connecting electric power suppliers and users.

Interfax, 28/12/04;

Russia: Regulator Sets New Retail Utility Tariffs For 2005

On 24 December, the Regional Energy Commission issued a ruling setting the 2005 tariffs for electricity, gas, heating and hot water for consumers. According to the ruling, from 1 January 2005, electricity tariffs will increase by 25%, from 0.85 Roubles/kWh (3.06 cents/kWh) to 1.06 Roubles/kWh (3.81 UScents/kWh) for customers in urban areas and from 0.6 Roubles/kWh (2.16 UScents/kWh) to 0.75 Roubles/kWh (2.71 UScents/kWh) for rural areas; heating costs will increase by 19% and gas tariffs will increase by 31.2%.

Region-Inform, 28/12/04

Spain: Government Approves Electricity Tariff For 2005

An average increase of 1.71% in electricity full-service and access tariffs has been approved by the Spanish Government despite electricity companies requesting a 6% increase. The increase will be 1.74% for domestic customers and 1.61% for industrial customers. Electricity companies requested higher prices based on the fact that the current methodology does not take some costs into account. However, according to the Ministry of Industry, the new tariff decree has taken into account additional cost drivers such as the increase in the special regime production, the effect of the National Allocation Plan (NAP) on prices, quality of service standards, demand side management and the new regulatory framework for generation outside mainland Spain.

Cinco Días, 31/12/04

Spain: European Commission Approves Spanish NAP

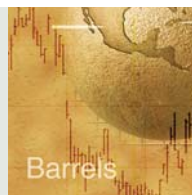
The European Commission approval of the National Allocation Plan (NAP) for CO2 emission rights issued by the Spanish Government enables Spanish companies to participate in the European CO2 emissions market, to take effect on 1 January 2005. The EC required the Government to widen the list of companies affected, since the Spanish NAP did not initially include those with self-generation capacity. The Council of Ministers will approve the final CO2 allocations on 14 January 2005.

Cinco Días, 28/12/05; Expansión, 28/12/05

Spain: Government To Increase Funds For Electricity Distribution Quality Of Service

The new tariffs set in Royal Decree 2392/2004 increase funds devoted to electricity distribution quality of service improvements to EUR 80 million (US\$ 108 million). This amount is in addition to the 2004 amount of EUR 50 million (US\$ 67 million) that was not used by the autonomous regions. These funds will be used to co-finance investments in quality of service in those areas with low quality of service levels.

Cinco Días, 16/12/04; 10/12/04



Spain: Government To Accelerate Gas System Operation Rules

In a meeting with energy companies, the Ministry of Industry announced its intention to enact the new rules clarifying gas system operation in case of emergency. New gas traders have criticized Enagás, the gas system operator, for its management of the recent supply disruptions.

La Gaceta, 15/12/04

Spain: CNE Opens Proceedings For Gas Supply Deficiencies

Following a failure in a compressor station in the Algeria gas pipeline and an unexpected increase in demand, the gas transportation company, Enagás, interrupted gas supply to seven CCGTs. The Spanish Energy Regulator, CNE, has opened an investigation to analyse the reasons behind this disruption. Companies affected by the interruptions blame Enagás for lack of investment and lack of backup supply procedures for this type of disruption.

La Gaceta, 14/12/04; El País, 12/12/04

Switzerland: Weko Investigates Swissgrid

The Swiss Competition Commission (Weko) will investigate a joint venture by Switzerland's largest electricity grid operators (Atel, BKW, EOS, EGL, EWZ and NOK) to set up a nation-wide power grid (Swissgrid) as of 2005. Preliminary enquiries gave cause for concern that the joint venture could reduce competition in some regions.

Basler Zeitung, 24/12/04

Switzerland: Revised Electricity Laws Submitted To Parliament

The Swiss government has submitted to parliament an amended electricity supply law (Strom VG) that extends third party access to all industrial and commercial users from 2007, rather than only to consumers of more than 100,000 kWh per annum. Households will have to wait until 2012 for liberalisation. It also submitted a revised version of the electricity law (Eleg), which provides for creation of an independent transmission system operator, an Electricity Commission to act as regulator and third party access to the transmission grid.

Platts, Power in Europe, 20/12/04

Turkey: Tatneft Receives A Second Chance To Buy Turkish Tupras

The Turkish oil refining company, Tupras, has been offered for sale for a second time. Tupras was originally sold to Tatneft in cooperation with the Turkish holding company Zorlu holdings in spring 2004. However, the sale was invalidated by the Turkish court following a lawsuit brought by labor unions. It is not clear whether or not Tatneft will take part in the auction process, although Tatneft President Mintimer Shaimiyev has said that Tatneft may participate in a further tender if conditions are favourable. The main obstacle to the first attempt at privatization was the price offered by Tatneft.

Interfax Energy News Service, 21/12/04, WPS: Russian Oil & Gas Report, 3/12/04



Turkey: Botas Invites Bids For Gas Supply Contracts

Botas, the Turkish state-owned pipeline company, is taking the first step towards meeting the requirement under the 2001 gas law, to reduce its share of Turkey's gas imports to 20% by 2009. Botas has invited bids by 20 January for six supply contracts involving a total of 16,000 million cubic metres per year. Some suppliers have indicated that they would prefer to keep their existing deals with Botas, which are covered by Treasury guarantees, as there is no provision for transferring these guarantees to private firms.

Economist Intelligence Unit - Country Monitor, 15/12/04; 6/12/04

Turkey: Gazprom To Consider Selling Gas To Final Consumers In Turkey

Russian natural gas monopoly Gazprom is considering whether to start selling natural gas to final consumers in Turkey, either directly or through its subsidiaries. This development follows the signing of a memorandum of cooperation between Gazprom and Turkey's state-owned pipeline operator Botas. The two companies also plan to build joint natural gas storage facilities in Turkey and to sign an agreement on gas transit via Turkey.

Prime-TASS Energy Service (Russia), 6/12/04

NORTH AMERICAN NEWS

US: Dominion Unit Looks To Boost Supplier Flexibility In Competitive Bid Pilot Program

Virginia Electric & Power Company (VEPCO) is asking the Virginia State Commission to allow the power company to revise several sections of a competitive bid supply service (CBS) pilot program that will alter the bidding process in an effort to give competitive service providers (CSPs) better flexibility to respond to market conditions. Specifically, the company proposes that the bidding process be revised to allow CSPs to submit bids on any business day. The current system in VEPCO issues a rebid each month for any geographic area sub-block(s) that remain unawarded. VEPCO said that this limits CSPs' ability to move quickly when market conditions are favorable.

NGI's Power Market Today, 29/12/04

US: Utilities Sue Montana Over Riverbed Compensation Issues

Three utilities that own hydroelectric dams in Montana (PPL Montana, Avista Corporation and PacifiCorp) have sued the state, urging a Helena district judge to declare that Montana has no legal basis to be compensated for their use of state lands on state-owned riverbeds. They argue that the Federal Power Act preempts the state's 1931 hydroelectric resources law. What's more, the utilities have asked the judge to rule that the federal government's navigational easement precludes the state from seeking compensation for their use of streambeds for federally licensed hydroelectric projects.

The Billings Gazette, 27/12/04



US: Progress Energy Says It Still Lacks Market Power In Southern’s Control Area

Progress Energy Florida is asking FERC to continue to recognize that a market power study filed by the utility in October 2003 [ER97-2846-003, ER01-1347-001] is still valid and shows that Progress Energy Florida does not possess market power in the Southern Company control area. In its 27 December filing, the utility notes that it lacks authority to make market-based rate sales within peninsular Florida and that the only control area outside of peninsular Florida to which Progress Energy Florida is interconnected is Southern’s control area. Progress Energy Florida therefore asked FERC to accept the October 2003 study as “adequate evidence” to show that it does not possess market power in the Southern control area and that the utility should be allowed to retain its market-based rate authority in that control area.

NGI’s Power Market Today, 27/12/04

US: Arizona Utility Board Votes Down Proposed Buyout Of Tucson Utility’s Parent

State utility regulators rejected a US\$3,000 million leveraged buyout of Tucson Electric Power Company’s parent company saying hundreds of millions of dollars in new debt posed too great a risk to ratepayers. By a 3-2 voice vote, the Arizona Corporation Commission rejected an amendment to the proposed buyout of UniSource Energy Corporation that would have kept the deal alive. Commissioners Kris Mayes and Bill Mundell, already opponents of the deal, were joined by Commissioner Jeff Hatch-Miller in voting against the amendment, which sealed the deal’s fate.

The Arizona Daily Star, 22/12/04

US: Feds May Question US\$12 Billion Exelon Deal

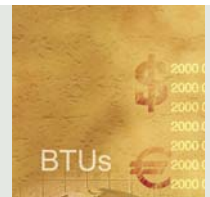
Exelon Corporation’s plan to acquire Public Service Enterprise Group Inc. for US\$12,000 million in stock -- forming the country’s biggest utility -- could face deep scrutiny from regulators concerned about such a behemoth. The combined company, Exelon Electric & Gas, would have 18 million customers in three large states: Illinois, New Jersey and Pennsylvania. Exelon and PSEG said they expected the deal to create immediate cost savings, and provide improved service because of efficiencies with generation, transmission, distribution and power marketing. They also claimed there will be greater earnings predictability. David M. Schanzer, a utility analyst at Janney Montgomery Scott, foresaw no problem with regulators in Illinois and Pennsylvania, where Exelon has customers, but said New Jersey typically was skeptical of out-of-state companies controlling a utility that serves its residents.

Cincinnati Post, 22/12/04

US: Virginia SCC Releases Power “Price to Compare” For No Apparent Reason

The Virginia State Corporation Commission (SCC) released its average “price to compare” calculations as a power “shopping tool” to aid residential, commercial and industrial customers in selecting alternative power suppliers in the territories of Dominion Virginia Power, Appalachian Power, Allegheny Power and Conectiv. The problem is there aren’t any alternative power suppliers in the state offering prices at or below the regulated price of generation and transmission. Three million electric customers in Virginia have the opportunity to choose their power supplier, and 11 competitive service providers are licensed by the SCC. However, only one supplier currently is active and only about 1,778 customers have switched. They are paying a premium for an environmentally friendly source of electricity from Pepco Energy Services.

NGI’s Power Market Today, 21/12/04



US: Utilities Board Concludes Sempra Energy Didn't Rig Prices

Sempra Energy won a major victory when the California Public Utilities Commission rejected a finding that one of the company's utilities had rigged natural gas prices during the state's power crisis. In a 3-2 vote, the California Public Utilities Commission rejected an administrative law judge's decision that Sempra's Southern California Gas Company be fined about US\$29 million and that evidence gathered in a two-year probe be forwarded to law enforcement authorities. The decision was applauded by the utility, which attacked the draft decision as biased when it was issued last month and predicted it would not be upheld by the full commission.

The San Diego Union-Tribune, 17/12/04

US: Pennsylvania Regulators Propose Power Procurement Plan For Energy Costs

Electricity distribution companies in Pennsylvania serving customers who don't switch to an alternative supplier would be required to offer fixed rates for at least a year and obtain their power through competitive bids, according to regulations proposed by state utility regulators. The state's electricity restructuring law requires the Pennsylvania Public Utility Commission to define how the distribution companies will continue to serve customers who remain with them once rate caps expire and companies purchase power at prevailing market prices. The commission has recommended that companies offer residential and small business customers fixed rates for at least a year. Large commercial and industrial customers that don't select another supplier would pay hourly market rates, unless the commission otherwise approves a fixed rate.

Dow Jones & Company, Inc., 16/12/04

US: SCAQMD Considers Letting New Plants Sell Emission Credits In 2005

The South Coast Air Quality Management District has amended a proposed rule that would add power plants back into the Regional Clean Air Incentives Market (RECLAIM) program. The latest version of the rule would let new power plants start trading nitrogen oxide credits immediately, while existing power plants would have to wait until 2007 to sell credits. Also, any plant could begin purchasing credits in 2005 as soon as the rule is approved.

California Energy Markets, 16/12/04

US: FERC Orders Two Arizona Utilities To Issue Refunds

The Federal Energy Regulatory Commission found two utilities in Arizona in violation of the agency's open access transmission rules meant to prevent market abuse. The commission directed Arizona Public Service to refund US\$4 million, which FERC determined will go to low-income energy assistance programs in the state and to upgrade the utility's transmission system to serve its customers better. Also, FERC directed Tucson Electric Power Company to refund about US\$25,000 for violating the agency's transmission rules by not adequately posting the availability of certain transmission services.

Dow Jones & Company, Inc., 15/12/04



US: Auction Fizzles; Toledo, Ohio, Edison Rates Prevail

No customer savings on electricity were generated out of a power auction this week, so customers of Toledo Edison will pay their current rates through 2008, state regulators decided. The Public Utilities Commission of Ohio had ordered the auction by FirstEnergy Corporation, parent of Toledo Edison, to determine whether lower rates could be found. But the bidding produced a price of 5.45 cents per kilowatt, well below FirstEnergy's pre-bid price of 4.6 cents. As a result, the commission rejected the bids and agreed to let FirstEnergy implement its rate plan for 2006 through 2008.

The Blade, Toledo, 10/12/04

US: Western Electricity Providers Take Step Toward Transmission Group

The Bonneville Power Administration and several utilities have taken their first official step toward revamping the Western electricity transmission system, proposing an organization called Grid West. The proposal, after nearly a decade of discussion, sets the stage for new ways of distributing electricity throughout six Western states and British Columbia as early as 2007. Opponents, such as public utilities, say the massive restructuring planned by Grid West is unnecessary and that the proposed organization, if it is created, could result in higher electricity rates for consumers.

The Associated Press, 10/12/04

US: TXU Corporation's Higher Bids On Wholesale Electricity Attract Texas PUC Scrutiny

The Texas Public Utility Commission launched a formal investigation into price surges in the state's wholesale electricity market, focusing on bids from TXU Corporation that have been 10 times more than normal levels. In recent weeks, prices in the spot market have regularly shot up during nonpeak periods to more than US\$400 per megawatt hour, the highest consistent levels in several years. Wholesale prices generally average US\$40 to US\$50 per megawatt hour. The price surges came despite relatively normal weather and electricity demand, leading state officials to question whether companies have been withholding supplies or improperly influencing the market.

The Dallas Morning News, 9/12/04

Mexico: CFE Goes For a Re-Conquest

Alfredo Elías Ayub, general director of CFE, announced that the company has lost 54 percent of its high consumption users since 2002. These users decided to self-generate during peak hours given CFE's high prices. To get lost users back, CFE will give a 50% discount on surplus power (taking 2004 peak consumption as the baseline).

Reforma, 22/12/04



CENTRAL AND SOUTH AMERICAN NEWS

Argentina: Government Will Continue To Negotiate Gas Imports From Bolivia In 2005

Bolivia and Argentina have decided to resume negotiations over the price of Bolivian gas exports in January, after they failed to reach an agreement before Christmas. Bolivia is currently exporting 4 million cubic meters a day (mcm/d) of gas to Argentina through the Tarija-Salta pipeline and will increase supplies to 6.5 mcm/d by mid-2005. Argentina is paying a price of US\$ 1.60/mBTU, but Bolivia claims that such price was a “solidarity” price offered during Argentina’s gas crisis occurred in 2004 and is not affordable now. The Bolivian government says Argentina should pay US\$ 2.00/mBTU for its additional gas imports, the same price that Brazil currently pays for Bolivian gas. The Argentinean government says that the new price is excessive and would be difficult for Argentinean companies to absorb.

Business News America, 23/12/04

Brazil: Mixed Reactions To The Results Of The New Power Auctions

The Brazilian mines and energy ministry, Dilma Rousseff, declared the first electricity auction under the new rules represented a success, since final prices fell below the average price for current contracts and generators managed to renew portfolios and cut excess generation capacity. On the other hand, market analysts and electricity generators pointed out that electricity prices resulting from the auctions are lower than expected and will not allow adequate remuneration for new investments in electricity generation. As a result, government and federal companies will have a greater role in ensuring enough generation capacity is built. According to a report by Standard and Poor’s, the power auctions took place without any operating incident, in a transparent process, and with a reasonable level of information to the market. The government is now preparing a second auction of existing power, which is scheduled for end-March 2005.

AE Brazil, 14/12/04; Business News Americas, 8/12/04

Brazil: Government Appoints New President Of ANEEL

The Brazilian mines and energy ministry has appointed Jerson Kelman as president of ANEEL, the regulatory agency for the electricity sector. Jerson Kelman is a civil engineer and replaces Mario Abdo, whose term ended on 1 December 2004. The Brazilian Senate is expected to ratify Kelman’s appointment in early 2005; in the meantime, Eduardo Ellery – member of the ANEEL’s board – will be interim president. Kelman is currently the president of the national water agency and responsible for managing the country’s water resources. As a specialist in hydrology, Kelman wrote a report on the causes of the Brazilian electricity crisis during 2001 and 2002.

Business News Americas, 3/12/04



ASIA PACIFIC NEWS

Australia: Small Power Price Rise Confirmed For South Australia

Retail electricity prices in South Australia will rise by 1.2% on 1 January 2005. The price rise was announced by the state regulator, the Essential Services Commission of South Australia. The regulator has decided not to vary the draft price determination it announced on 30 November. Power prices have been approved for the next three years to take effect each July at a rate 1.05% below the Consumer Price Index.

The Advertiser, 23/12/04

Australia: Small Power Price Rise Announced For Tasmania

Retail electricity prices in Tasmania will rise by 1.1% in 2005, a rate 1.4% below the Consumer Price Index. The price rise was announced by the Tasmanian Energy Regulator.

Hobart Mercury, 22/12/04

Australia: Regulator Issues Transmission Principles

The Australian Competition and Consumer Commission (ACCC) has issued its Statement of Principles for the Regulation of Electricity Transmission Revenues (SRP). The ACCC is responsible for regulating electricity transmission business revenues in the National Electricity Market. The SRP outlines the principles the ACCC will adopt in undertaking this role. New principles announced in the SRP include a move from ex-post assessment of new investment to an ex-ante approach, and a shift to a greater reliance on incentives to drive transmission investment behaviour, rather than detailed scrutiny of individual projects.

M2 Presswire, 15/12/04

Bangladesh: Dhaka Prepares Draft Gas Act For Private Participation

The state-owned Bangladesh Oil, Gas, and Mineral Corporation has formulated a draft gas act. The draft act focuses on encouraging private participation in transmission, marketing and distribution of natural resources. The draft includes provisions on gas transmission, distribution, marketing, supply, storage and collection of revenue for all produced natural gas and associated liquid hydrocarbons. It also includes legal measures to minimise gas theft and to ensure accountability and transparency of the sector.

Xinhua News Agency, 19/12/04

China: China's Legislature Deliberates Law To Ease Energy Strain – Report

A draft law on the development of renewable energy was submitted to the standing committee of the National People's Congress. The law is intended to combat chronic power shortages and pollution as well as addressing dependence on energy imports. One way the government plans to increase renewable energy consumption is to mandate all state grids to purchase renewable energy.

AFX Asia, 26/12/04



China: Beijing Warns Of Excess Capacity

Following the power shortages that affected much of China during the past year government officials expect the next threat will be overcapacity. Officials have said that excess capacity could occur by 2006, the problem is attributed to excessive investment in unauthorized power plants. This sentiment is echoed by the commercial sector. ABN-Amro has downgraded its rating for China's power sector from "neutral" to "underweight", attributing this move to looming overcapacity and higher coal costs.

Reuters News, 15/12/04; Platts Power in Asia, 9/12/04

China: China Unveils Regulation On Refined Oil Dealings

The Chinese Ministry of Commerce (MOC) has issued a provisional regulation dealing with the sale and licensing of refined oil. The regulation includes licensing of refined oil activities as well as market supervision, market administration, and legal obligations. Under the regulation the MOC will supervise the national refined oil market, setting terms for the wholesale, storage and retail of finished oil. The regulation is part of China's commitment, made whilst bidding for entry to the World Trade Organisation, to make the sale of refined oil accessible to other countries.

Business Daily Update, 9/12/04

China: Coal Mining Industry Shake-Up Unveiled

China's National Development and Reform Commission (NDRC) has drawn up a general plan on the construction of 13 bases for large-scale coal production, according to an NRDC press release. The bases will house large coal enterprise groups with the goal of tapping potential coal reserves and relieving potential energy shortages. The new bases will also, through consolidation of production, address concerns over safety in China's 24,000 existing small coal mines.

China Daily, 3/12/04

Hong Kong: HEC Raises Tariffs

The Hongkong Electric Company (HEC) will increase tariffs by 6.5% in 2005, due to high fuel prices and increasing operating costs. Under the Scheme of Control, the regulatory regime for HEC, tariff could have risen by up to 13.5%.

Platts Power in Asia, 7/1/04

India: Rajasthan Regulator Targets Losses

The Rajasthan electricity regulator has applied financial penalties on three power distribution companies for failure to reduce transmission and distribution (T&D) losses. The penalty amounts to a fall in each company's revenue requirement of approximately US\$1 million. Since unbundling of the distribution companies, T&D losses have increased and the Electricity Regulatory Commission has said that discos have not seriously implemented action plans to reduce losses.

Platts Power in Asia, 7/1/04



India: GAIL To Push For Gas Transmission Monopoly

GAIL India Ltd, the Indian state run transmission company, said on Friday it hoped to persuade the government to allow it to retain its gas transmission monopoly, as the oil ministry plans to allow private firms into the sector. GAIL's chairman said "I am optimistic. There are many advantages of having only one entity managing gas transmission across the country." The oil ministry, after consulting domestic and foreign energy firms, is thought to want to encourage competition in the sector.

Reuters News, 17/12/04

India: Petroleum Regulatory Bill May Be Delayed

The petroleum regulatory bill is expected to encounter problems following its referral to a group of Ministers, making it unlikely that it will make it to the winter session of the Parliament. Once approved by Parliament, the Bill will set up an independent regulator for the oil sector. The Bill has been criticized particularly by the Ministry of Chemicals and Fertilizers over the powers it creates to fix and regulate prices and its capabilities in fostering competition.

The Economic Times, 4/12/04

Indonesia: New "Investment-Friendly" Electricity Law

Jakarta's constitutional court has struck down the existing electricity law on the grounds that it violates constitutional rules. The law, drafted to pave the way for private investment and competition in the power industry, violates the constitution by requiring the sector to remain under the control of the state-owned electricity firm PT Perusahaan Listrik Negara. Meanwhile, Indonesia's Constitutional Court rejected a petition to annul the 2001 oil and gas law, but agreed to revise three articles relating to privatization.

AFX Asia, 21/12/04; Bisnis Indonesia, 17/12/04; Dow Jones International News, 17/12/04

New Zealand: Government Approves New Gas Regulator

The government has approved the formation of a co-regulatory body for the gas industry, called the Gas Industry Company. The new body will make recommendations to the energy minister on the setting of rules and regulations for gas wholesaling, processing, transmission, distribution and retailing.

Platts Commodity News, 22/12/04

Philippines: Firm Defends Ability To Pay \$562 For Masinloc

The company that won the bid for the 600-megawatt (MW) Masinloc coal-fired power plant defended its capacity to pay \$561.7 million for the power plant. The YNN Pacific Consortium Inc.'s bid was around twice the amount of the second-placed offer and well above the government's expectations. The Department of Energy supported the Power Sector Assets and Liabilities Management Corp (PSALM) in its decision to declare that the YNN Pacific Consortium won the bid. Masinloc is the sixth Napocor power generation plant to have been successfully privatised and the first sale to involve an overseas investor.

BusinessWorld, 15/12/04



Singapore; New Deal Gives Power To Big Electricity Users

Interruptible load has been introduced onto the Singapore electricity market allowing heavy users to profit from juggling their electricity use. According to the Energy Market Company (EMC), one major consumer has been offering some 7 MW of interruptible load, into the reserve pool of the electricity market since July 2004 and additional participants are expected. Interruptible load is the power supply that a consumer offers to make available to the reserve market should it be required.

Business Times Singapore, 27/12/04

Our Practice

NERA is at the forefront of the continuing transformation of the energy industries worldwide. We have pioneered in developing approaches for introducing competition in segments such as power generation (where competition is workable) and for improving the regulation of sectors (where it is not). We work with companies and governmental bodies worldwide to design competitive power markets and to develop tariffs and rules of access for regulated transmission and distribution systems for electricity and gas and transport of oil and oil products. With industry restructuring, we also help companies develop strategies for exploring new opportunities and minimizing new risks, including issues related to climate change and other environmental initiatives.

We help our clients to develop new regulatory strategies and, when needed, support our clients with analysis and testimony before regulatory commissions, antitrust and competition policy agencies, and domestic and international courts. Our economists help clients to decide which lines of business to pursue; to divest assets no longer consistent with their strategy; to identify and evaluate opportunities for mergers, acquisitions and investment; and to develop bidding, trading, contracting, and marketing strategies and organizations. Our work also includes designing and conducting energy auctions, providing strategy and valuation, advice on mergers and acquisitions, the financing of energy companies, and the financial restructuring of distressed companies.

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NERA produces two newsletters that report and analyze energy matters around the world. *Energy Regulation Briefs* summarize NERA's views on the economics behind topical developments in energy sector regulation. Previous issues have discussed regulators' use of "benchmarking," FERC's Order 2000, problems in the California electricity sector, and competition policy in the UK electricity market. The *Global Energy Regulation Newsletter* compiles brief summaries of news stories about energy regulation around the world. The coverage includes network regulation, industry restructuring, and the organization of electricity and gas markets. The "GERN" allows energy sector professionals to easily keep in touch with looming problems, the latest developments in regulatory methods, and innovative solutions.



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NERA Economic Consulting is an international firm of economists who understand how markets work. We provide economic analysis and advice to corporations, governments, law firms, regulatory agencies, trade associations and international agencies. Our global team of more than 500 professionals operates in 18 offices across North and South America, Europe, Asia and Australia.

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