

Reporting on energy regulation issues around the world

# Global Energy Regulation

February 2005  
Issue 69

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## European News

### Great Britain

#### Regulator Approves Electricity Transmission Network Charges

Energy regulator Ofgem approved, with conditions, NGC's proposed transmission use of system charging methodologies and charges, to take effect from the introduction of British Electricity Transmission and Trading Arrangements (BETTA), scheduled for 1/4/05. In November 2004, Ofgem rejected NGC's previous proposals. NGC's revised proposal contains three key differences to the Transmission Network Use of System (TNUoS) methodology: (1) NGC proposes to recover 27% of total costs from generators (compared to 10% under previous proposals); (2) NGC has revised the calculation method of certain unit costs to allow for regional differences; and (3) NGC proposes to cap demand charges at £0 per kilowatt. Under the conditions of Ofgem's approval, NGC is required to monitor and review aspects of the charging regime over its first two years of operation and propose refinements where necessary.

*Ofgem press release, 25/2/05; Ofgem website, 2/2/05*

#### Regulator Consults On Scotia Gas Network's Proposed Acquisition

Energy regulator Ofgem is consulting on the proposed acquisition of two of National Grid Transco's (NGT) gas distribution networks (DN) by a consortium known as Scotia Gas Networks plc. Scottish and Southern Energy (SSE), who are involved in a range of activities within the gas and electricity sectors, have a 50% interest in the Scotia Gas consortium. Following consultation responses, Ofgem will advise the Office of Fair Trading on whether the proposed acquisition gives rise to competition concerns. Ofgem also published a formal consultation on its proposal to grant NGT consent to transfer the Gas Transporter (GT) licences of the four DNs NGT proposes to sell to four wholly owned NGT subsidiary companies.

*Ofgem website, 18/2/05; 15/2/05*





### **Regulator Consults On Offshore Gas Production Information Disclosure**

Energy regulator Ofgem is consulting on whether changes to arrangements for the disclosure of offshore gas production information are required. Under an existing voluntary agreement, major offshore gas producers provide National Grid Transco (NGT) with information on available gas production. Following recent unprecedented price volatility in the wholesale gas market, energy consumer watchdog, Energywatch, has proposed modifications to the Network Code that, under NGT's existing licence conditions, would oblige NGT to publish more information. However, gas producers are concerned that this will result in commercially sensitive being revealed. Ofgem is consulting on three options. Option one retains existing arrangements, but with Ofgem providing guidance. Options two and three involve modifying NGT's licence conditions to indicate to producers what information NGT would not be required to disclose. Ofgem is intending to implement new arrangements in either May or July 2005, depending on the option chosen.

*Ofgem website, 1/2/05*

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## **Austria**

### **European Commission Closes Investigation Into OMV And Gazprom**

The EU closed its investigation into restrictions in gas supply contracts between the Austrian oil and gas company OMV and the Russian gas producer Gazprom after the companies agreed to drop the offending clauses. The companies cancelled restrictions on the sale of Russian gas by OMV to clients outside Austria as well as OMV's "right of first refusal" before Gazprom can market gas to other Austrian customers. OMV also agreed to increase capacity in the Trans Austria pipeline, used to transport gas from Russia through Austria to Italy, and to facilitate third-party access to the pipeline.

*Dow Jones Capital Markets Report, 17/2/05*

### **Bewag And Kelag Take E-Control To Court**

Austrian energy suppliers Bewag (Burgenland) and Kelag (Kärnten) decided appeal to the High Court against E-control's cut of their electricity distribution tariffs effective from February 1. The companies claimed that E-control's decision procedure lacked transparency and failed to take account of their position papers.

*Die Presse, 5/2/05*



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## Bulgaria

### **Cheaper Gas From March**

The Bulgarian State Energy Regulation Commission (SERC) has approved a new set of gas prices for Bulgargaz, the national gas transmission system operator. The price reductions reflect lower prices for transport and storage and new rules introduced last November on the treatment of Bulgargaz's working capital requirements.

*Platts Energy in East Europe, 18/2/05*

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## EU

### **European Commission To Look Into EU Energy Market Liberalisation**

The European Commission said it would open an investigation into European gas and electricity markets in response to concerns that liberalisation has stalled. It is not known yet when the investigation would start.

*Financial Times, 23/2/05*

### **Gas: European Commission Drops Investigation Of Supply Contracts Between OMV And Gazprom**

The investigation was dropped after improvements were made to some clauses that were considered incompatible with EC competition laws. Primarily, OMV will now be allowed to resell Gazprom gas outside Austria, and Gazprom will be free to sell to other clients in Austria without having to offer the gas to OMV first. Removing the restrictions in the OMV/Gazprom contracts is an important step to introduce competition into the gas sector because the vast majority of Austrian gas imports come from Russia and because Austria is a key transit route towards the German, French and Italian gas markets. The Commission has also been investigating territorial restrictions and similar clauses, in supply contracts between Russian company Gazprom and Algerian company Sonatrach and several of their respective European customers since 2001.

*European Commission press release, 17/2/05*

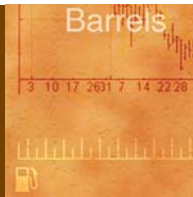
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## France

### **Partial Privatisation Of National Utilities Programmed For The Second Semester Of 2005**

According to the schedule revealed by the French government, Gaz de France's (GDF) partial privatization will occur during the summer 2005. Areva's floatation will take place in the autumn followed by Electricité de France's (EDF) before the end of the year. A few days after the official schedule was released GDF's CEO said that the group's partial privatisation was likely to involve much less than the agreed upper limit of 30%. He did not give the reasons for that decision.

*Les Echos, 24/2/05 and Le Monde, 10/2/05*



### **Electricity Price For Industrials Under Negotiations**

French finance and industry ministers plan to organise talks between electricity producers and large customers to reach an agreement on rising electricity prices. It has been suggested that, in return for providing finance for France's future EPR nuclear reactor, industrial customers would see their electricity tariffs set an agreed level on a long-term basis.

*Le Monde, 24/2/05*

### **Decree Opens The Process For Partial Privatisation Of GDF**

French Prime Minister Jean-Pierre Raffarin and Finance Minister Hervé Gaymard signed the legislative decree allowing GDF to open its capital to private investors.

*Le Figaro, 17/2/05*

### **Electricity: French Chemicals Companies Protest Against Increase In Electricity Prices**

French chemicals industry association UIC has protested against the rise in electricity prices, which have gone up over 50% since 1999. The UIC wants allow 5 or 10 year electricity supply contracts to replace the 12-18 month contracts in place today. Failing this, they would like to be allowed to acquire stakes in nuclear power stations.

*Les Echos, 2/2/05*

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## **Germany**

### **States Push For Greater Say In Energy Regulation**

The German state of Hesse has applied to the upper house of the German parliament for states to be given responsibility for determining grid charges. The federal energy regulator should set tariffs only for grids crossing state borders. Erwin Teufel, minister president of Baden-Wuerttemberg, who supported the proposal, said that state organisations possessed more market knowledge than a newly created federal energy watch dog. The matter will be discussed in Parliament at the earliest at the end of March.

*Platts, EU Energy, 25/2/05*

### **E.On Will Expose The Government's Share In Electricity Bill**

The German E.On AG announced it would from now on set out in electricity bills which part of the electricity price are received by the government or due to renewable energy. Chairman Wulf Bernotat said in an interview with Der Spiegel that this action would contribute to an "objectivisation" of the current debate on the potential link between high energy prices and anti-competitive behaviour. This debate has been stimulated by the ongoing investigation of the German Kartellamt into the issue.

*ddp Basisdienst, 4/2/05*



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## Ireland

### **Energy Minister Announces Review Of ESB**

The Minister for Communications, Marine and Natural Resources, Noel Dempsey, has announced a review of the Irish electricity sector and of the dominance, in generation in particular, of vertically integrated state utility ESB. The review will analyse existing institutional arrangements and market structures and will identify alternative structures for ESB and arrangements for the market as a whole. The review will be undertaken by consultants and will take 6-9 months.

*Department of Communications, Marine & Natural Resources press release, 21/2/05*

### **Irish Electricity Supply Market Opened**

The Irish power market opened to competition on February 19. New regulations were concurrently implemented, setting out rules for enhanced consumer protection, customer charters & more comprehensive electricity bills and dispute resolution mechanisms.

*Department of Communications, Marine & Natural Resources press release, 18/2/05*

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## Italy

### **Allocation Plan Still Under Discussion**

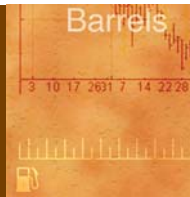
The Italian plan for allocating greenhouse-gas emissions foreseen by European emission-trading system has been submitted to the EU Commission on February 24. This plan identifies 1210 plants that have the permission to emit carbon dioxide for years 2005-2007. The total amount of emission permits allocated for the next three years is equal to 234 millions of tons of CO<sub>2</sub>, which is less than the half quantity of emissions permitted by the Kyoto protocol for Italy. The Commission still has to judge this Italian plan.

*Staffetta Quotidiana and Ministero dell'Ambiente della tutela e del Territorio's web site, 28/2/05*

### **Government Increases Excise Tax On Fuels**

The Council of Ministers approved a decree which establishes a 0.005 euro/liter increase on the excise tax on gasoline and an increase of 0.010 euro/liter on gasoil. A significant share of the proceeds, estimated to be around 350mn euros a year, would be used for replacement of public-transport vehicles for anti-pollution purposes.

*Staffetta Quotidiana's web site, 24/2/05*



### **Kyoto Protocol**

The Ministry of Economy estimated total costs for Italy will be 2.5-3 billions of euros during next eight years. Costs are limited, because Italy plans to invest mostly in foreign countries. The Osservatorio sulla politica energetica della Fondazione Einaudi (Opef) quantified the price of one ton of carbon dioxide in European markets will be around 5,5 euros in 2005, 6 in 2006, 7,5 in 2007. The OPEF also estimated that this may produce an increase in costs of energy production.

*Sole 24 Ore, 16/2/05*

### **Closing of Investigation On The Electricity Sector**

The Autorità Garante della Concorrenza e del Mercato (the Italian Antitrust Authority) and the Autorità per l'energia elettrica e il gas (AEEG) closed the joint investigation they began in 2003 to verify progress in liberalization of the electricity sector. A joint statement of the authorities provides a representation of total national electricity's supply and identifies four macro zones in the electricity sector: north, south, Sicily and Sardinia. The investigation affirms that ENEL is still dominant in all these zones, with the exception of Sardinia, where exists a duopoly between ENEL and ENDESA.

*AEEG's web site, 10/2/05*

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## **Netherlands**

### **Dutch Essent Considers Partial Distribution Networks Sale**

Dutch energy company Essent is considering the sale of part of its distribution networks, the company's supervisory board chairman H. Pennings said on 10 January 2005. Dutch Economy Minister Laurens-Jan Brinkhorst would have to abandon his intention to split the energy companies, Pennings added. Energy companies must split their network from their production and supply activities before 1 January 2007.

*De Financie Telegraaf, 11/1/05*

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## **Portugal**

### **Next Prime Minister Declares His Opposition To EDP-GdP Acquisition**

José Sócrates, recent winner of Portuguese national elections, is in favour of increasing competition between gas and electricity companies with a view to reducing current high energy prices in Portugal. He declared that the acquisition of GDP by EDP would reinforce the electricity firm's competitive position and would not be conducive to lower energy prices. His views are in line with those of the European Commission, which blocked the above-mentioned acquisition.

*Jornal de Negócios, 24/2/05*

### **Portuguese Antitrust Authority Will Not Open A File On Increase in EDP's Shareholding in Turbogás**

The Portuguese competition policy authority, Autoridade da Concorrência (AC), has decided not to investigate EDP's acquisition of an additional 20% stake in Turbogás. AC considers that this purchase does not represent an acquisition nor does it lead to a reinforcement of EDP's control in Turbogás, but that it is merely an increase in a financial shareholding.

*Jornal de Negócios, 23/2/05*

### **Licensed 2,868 MW Of CCGTs**

The Ministry of Economic Affairs has awarded licenses for new generating capacity in combined cycle power plants to Galp Power (396 MW), EDP (791 MW), Endesa (396 MW), Iberdrola (420 MW) and Tejo Energia (865 MW). The plants are expected to begin operation between 2007 and 2010, depending on the network reinforcement plans of the electricity transmission company, REN. Two projects presented by Gas Natural were the only two not awarded licences. The Ministry also advised EDP to sell its participation in Tejo Energia to avoid competition issues.

*Diario de Noticias, 22/2/05; Agencia Financiera, 22/2/05*

### **EDP Will Appeal EC Decision On GdP**

Energias de Portugal, EDP, will appeal before the European Court of Justice against the European Commission's refusal to allow EDP to take over a major stake in Portuguese gas company GDP. The EC believed that the operation would hinder competition and reinforce EDP's dominant position in the wholesale and retail electricity markets, as well as GDP's position in the gas market.

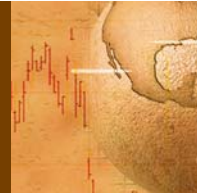
*Diario Digital, 15/2/05*

### **Gas Market Liberalization To Start In October**

According to the Natural Gas Bill, market liberalization will start this October with large electricity generators being granted the right to choose their supplier. Large industrial consumers are to be eligible in October 2006.

The liberalisation process is to be completed by 2008, three years earlier than originally envisaged. The Bill will also require the separation between regulated activities (i.e., transportation, storage and re-gasification activities) and non-regulated activities (i.e., import and retailing activities). The former activities will be in the hands of the energy network operator, REN, through Transgás, while the latter will be carried out by the gas incumbent, GDP.

<http://plus.publico.pt>, 6/2/05



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## Romania

### **Romania To Put Three More Power Distributors On The Block**

Romania is to sell three more state-owned regional power distributors later this year according to the Economy Minister. This is in addition to plans already announced to privatise Electrica Muntenia, by the end of this year. Romania split the state-owned power distributor Electrica into eight regional subsidiaries in 2003 to prepare for their privatisation.

*SeeNews, 22/2/05*

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## Russia

### **RAO UES Approves More TGKs**

The Board of RAO UES approved creation of the territorial generation companies TGK-2 (northwest Russia), TGK-4 (central Russia) and TGK-6 (Volga region). *Interfax Energy News Service, 25/2/05;*

### **Market Rules For Siberia**

RAO UES board approved some quotas for operation of the power market in Siberia. Hydroelectric generators will be allowed to sell up to 2% of their output on the free market, and thermal stations up to 5%. Buyers will be able to purchase no more than 15% of their consumption in the market.

*Dow Jones International News, 25/2/05*

### **St Petersburg Municipality To Sell Shares Of Northwest TETS**

The municipality of St Petersburg is set to sell its 7.55% share in one of Russia's most modern combined heat and power stations—Northwest TETS.

The auction will take place on 18 March with the starting price of 101 million Roubles (US\$3.3 million)

*Vremia Novostey, 18/2/05*

### **EU Commission Drops Investigation Into Gazprom**

The European Union Commission dropped its investigation into Russian OAO Gazprom and its Austrian counterpart OMV AV, after the companies agreed to amend the clauses in their contract deemed illegal by the EU. [See EU section above.]

*Dow Jones International News, 17/2/05*

### **FAS To Watch Unbundling Of Power Utilities**

The Federal Antimonopoly Service (FAS) is drafting a regulation on forced unbundling of power utilities, should they fail to reorganise by 1 April 2006. Out of 73 regional power utilities in Russia, only four have completely separated their generation, transmission and distribution units.

*Prime-TASS Energy Service, 15/2/05*



### **Cross Subsidies To Continue**

The interdepartmental committee on energy reforms discussed the problems of eliminating cross subsidies and decided that the process will take at least two more years complete.

*Kommersant, 14/5/05*

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## **Spain**

### **Government Approves Measures To Foster Productivity**

The Spanish Government approved measures (Plan de Dinamización de la Economía) to increase competition and productivity in the Spanish economy. In the energy sector, the main actions include reducing to 1% the maximum stake of energy market agents in the electricity system operator (REE), deferment until 2006 of the payment of stranded cost compensation, development of new measures to foster the creation of the Iberian Electricity Market (MIBEL), and facilitating customers' switching between energy suppliers. In addition, the Spanish Government might reform the remuneration of the distribution activity and stranded cost recovery, and introduce some form of central planning of investment in generation. However, these changes will not take place before the publication of the White Paper on the electricity market, expected by April 2005.

*Expansión, 26/2/05, 8/2/05*

### **Regulator Asks Enagás To Limit Gas Natural Voting Rights**

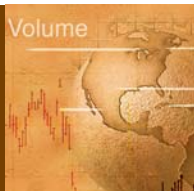
The Spanish Energy Regulator (CNE) has discovered a legal irregularity in the statutes of the gas transportation system operator, Enagás, which allows its main shareholder (Gas Natural, the gas market incumbent in Spain) to exercise 24.9% of the total voting rights. However, according to a Spanish regulation dating December 2003, gas market agents are not allowed to exercise voting rights for more than 5% of the shares of Enagás (and after January 2007, none of them may own more than 5% of the shares of the system operator). Enagás has stated its intention to amend its statutes in the general shareholders' meeting on 22 April 2005.

*Cinco Días, 18/2/05, 15/2/05*

### **Government To Incorporate Energy Directives Into National Law Before Summer**

The Spanish Industry Minister has announced the Government's intention to approve before the summer holidays regulations that will incorporate into national law EC Directives 2003/54/EC and 2003/55/EC, on the liberalization of the electricity and gas markets respectively. Last October, the European Commission admonished Spain over the delay in transposition of both Directives, which should have been done by July 2004.

*Cinco Días, 17/2/05*



### **Electricity Sector Regulation Among The Worst Of The EU**

The Spanish electricity sector regulation ranks among the worst of the European Union (EU). This is the main conclusion of a survey conducted by Eurelectric among investment banks, which state that the regulatory framework of the electricity activities in Spain is neither predictable nor transparent, and it offers low profitability rates both for utilities and stakeholders. The surveyed banks underline the negative impact of the continuous modifications to the regulatory framework of the electricity market carried out in Spain in the last years.

*Expansión, 12/2/05*

### **CNE Will Investigate Pool Prices**

Spanish utility Unión Fenosa has asked the Spanish Energy Regulator (CNE) to investigate electricity pool prices in Spain. Weighted average electricity wholesale prices in January 2005, at 44.2 EUR/MWh (57.4 US\$/MWh), are 78% above January 2004 prices of 24.8 EUR/MWh (32.3 US\$/MWh). Low water levels could be among the causes of this increase. The high prices also led the association of large electricity consumers in Spain, AEGE, to ask the Government to maintain the industrial full-service tariffs.

*La Razón, 9/2/05*

### **CNE Accuses Government Of Creating Regulatory Uncertainty**

The Spanish Energy Regulator (CNE) has criticised several aspects of the regulation approved by the Spanish Government in January 2005 regarding the 2005 remuneration of regulated activities in the gas sector. CNE considers that the regulation lacks information and analysis, does not encourage investments in quality of service and adopts an over-optimistic estimate of gas consumption by generation plants. In addition, CNE claims that the Government is using the tariff regulation published annually to introduce regulatory modifications in the gas market, and that this is creating regulatory uncertainty in the sector.

*ABC, 7/2/05*

### **Catalonian Government Opens An Investigation On Gas Natural**

The Government of the Spanish autonomous region of Catalonia has opened an investigation into Gas Natural Servicios (GNS), the free market retailer of the Gas Natural group. The investigation seeks to clarify whether the procedures used by GNS for attracting new electricity customers contravene any regulation.

*Expansión, 3/2/05*



### **CNE Supports Industrial Gas Tariffs Elimination**

The Spanish Energy Regulator (CNE) is studying a proposal to eliminate full-service tariffs for industrial gas consumers. The proposal will not affect domestic tariffs, and still needs to be approved by the Board of the CNE. The proposal is not binding on the Spanish Government, which has the power to regulate prices in Spanish energy sectors. CNE claims that 90% of industrial consumers have exercised their eligibility in the gas market.

*Expansión, 2/2/05*

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## **Switzerland**

### **Swiss Upper House Of Parliament In Favour Of One-Step Power Market Opening**

The Energy Commission of Switzerland's upper house of parliament, the National Council, voted for liberalization of the country's power market in one step for all customers. The lower house of parliament, the Federal Council, wanted to open the market initially only for industrial customers. It remains to be seen how the differences between the two houses of parliament will be sorted out.

*Basler Zeitung, 17/2/05*

### **Oil Pipeline Through Rhinetal To Become High-Pressure Gas Pipeline**

The Erdgas Ostschweiz AG is planning to use the former oil pipeline through the Rhinetal between St. Margrethen and Bad Ragaz as high pressure gas pipeline to improve supply security between the Rhinetal and Werdenberg. This requires some adjustments to the pipeline, particularly in the area between St. Margrethen and Widnau.

*St. Galler Tagblatt, 17/2/05,*

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## **Turkey**

### **Turkey Extends Bidding Deadline For Gas Contracts**

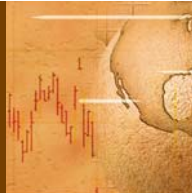
Botas, the state natural gas pipeline company in Turkey, has extended the bidding deadline for six gas purchase contracts for the second time. The IMF-backed natural gas law passed in 2001 says Botas should transfer 64% of natural gas consumption through the sale of its natural gas import and wholesale contracts.

*Reuters News, 21/2/05*

### **Turkey Power Privatization Back On Track**

The Turkish Government is preparing tenders for the sale of the electricity distribution sector, to be launched in March 2005. The Turkish privatisation agency, the OIB, also plans to privatize generation assets in 2006.

*Platts Energy in East Europe, 18/2/05*



## North American News

### US

#### **FERC Stands By Decision On Virginia Power Costs**

Federal energy regulators will not reconsider a decision to allow Virginia Power to defer its costs of joining the PJM Interconnection, a regional transmission system. The Virginia Attorney General's office, the State Corporation Commission, an organization of Virginia Power's largest customers and others had asked the Federal Energy Regulatory Commission (FERC) for a rehearing on the agency's October 2005 decision allowing Virginia's largest utility to defer its PJM costs beyond the end of rate caps in Virginia in 2011, when Virginia Power may seek to recover those costs through higher rates. Virginia Power has said it wants to collect an estimated US\$279.4 million in PJM costs plus "carrying charges" through surcharges on customers' bills.

*Richmond Times-Dispatch, 5/3/05*

#### **Progress Energy Florida To Return More Than US\$9 Million To Customers**

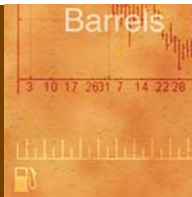
Progress Energy Florida will return more than US\$9 million to its customers as part of the revenue-sharing provision in the company's current rate agreement. Progress Energy's current rate agreement took effect May 1, 2002, and expires at year-end 2005. The agreement reduced the company's base rates to a level similar to those from 1983 through an annual US\$125 million reduction. In addition, the company agreed to refund two-thirds of its revenues when they exceed a pre-determined threshold each year. Customers will have saved US\$500 million over the life of the agreement.

*PRNewswire-FirstCall, 4/3/05*

#### **Massachusetts Electric Rates Change; Standard Offer Rate Eliminated**

The seven-year plan to bring competition to the electricity-supply industry in Massachusetts formally ended March 1 when the state eliminated the "standard offer" rate that most customers receive. Standard-offer customers were automatically moved to "basic service" unless they choose to buy electricity from another supplier. Massachusetts Electric, the sister company of Narragansett Electric in Rhode Island, said the change will be largely invisible to customers, and that they don't need to take any action. About 64 percent of its 1.1 million residential customers receive standard-offer service. However, rates will go up for most customers that receive standard-offer service. Mass Electric has also asked state regulators to raise rates at the same time by an additional US\$2.13 a month to reflect higher transmission and transition costs. If approved, rates for a typical residential customer would increase a total of US\$3.59 a month, or about 6 percent.

*Providence Journal, 17/2/05*



### **New Jersey Regulators OK Results For Wholesale Power Auction**

New Jersey utility regulators approved the results of two auctions through which four utilities in the state bought nearly 8,000 megawatts of wholesale electricity for their customers. One auction will cause a slight increase in fixed process for residential and small commercial customers. Seven companies won the right through that auction to serve a third of small customers' power needs from June 2005 through May 2008. Six companies won the right through the other auction to serve large commercial and industrial customers for a one-year period starting in June. The auctions, which started last Thursday and concluded Tuesday afternoon, were the fourth set held in New Jersey.

*Dow Jones & Company, Inc., 16/2/05*

### **Legal Battle Heats Up Over Siting and Regulation Of LNG Terminals**

When federal regulators rejected the right of California regulators to play a role in permitting liquefied natural gas import terminals in California, the state refused to back down and instead took the feds to court. Last summer, the California Public Utilities Commission filed a lawsuit against the Federal Energy Regulatory Commission at the United States Court of Appeals for the Ninth Circuit, arguing that it has the right to require the developer of a liquefied natural gas import terminal in Long Beach to apply for a state permit to build the facility. FERC had maintained that it had the exclusive authority to site and permit LNG facilities. The federal agency told Sound Energy Solutions, a Mitsubishi subsidiary that wants to build a \$400 million LNG terminal at Long Beach, that it did not need to apply for a permit from the CPUC, despite the CPUC's insistence that the developer do so. Since then, both sides have been recruiting allies as the court case plods forward.

*California Energy Markets, 15/2/05*

### **FERC: Energy Companies Must Comply With Power Grid Operating Rules**

Energy companies must comply with rules for operating the U.S. power grid or risk losing their ability to recover certain costs from customers, according to federal energy regulators. A day after the organization that oversees the North American transmission system clarified its operating standards, the Federal Energy Regulatory Commission revised a nearly year-old policy statement to affirm that power companies must follow these standards. The commission, which must ensure that customers are charged just and reasonable rates, said it could, for example, deny full cost recovery to a transmission provider that fails to follow the operating guidelines and provides shoddy service.

*Dow Jones & Company, Inc., 10/2/05*



### **FERC Rules On Access To Proposed Alaska Gas Pipeline**

Federal regulators issued rules on how exploration companies would tap into a gas pipeline from the North Slope. Federal Energy Regulatory Commission members say the rules will make sure the competition for capacity is fair when smaller companies try to access the proposed pipeline. The three major North Slope oil producers, BP, ConocoPhillips and Exxon Mobil, are negotiating to build the mammoth 3,500-mile pipeline through Canada to the Midwest. Smaller companies say they are concerned about fair access to a pipeline that is built, owned and operated by the same companies that will be using the line as shippers. The rules were outlined Wednesday at a FERC meeting in Washington, D.C., but companies who could be using the pipeline reserved comments until they have studied the documents.

*The Associated Press, 10/2/05*

### **Tucson, Arizona Utility Officials Plan To Ask For Rate Increase**

A month after its sale to a Wall Street investment group was rebuffed by state regulators, UniSource Energy Corp. will press ahead with plans to bolster Tucson Electric Power Co.'s finances, company officials said. The company also will continue to look to buy new power plants, wind down its unregulated subsidiaries and prepare to ask regulators for a rate increase in 2008 to offset higher costs. In December, the Arizona Corporation Commission rejected a US\$3 billion buyout of UniSource by a group of investors including Kohlberg, Kravis Roberts & Co., worth US\$25.25 per share. As part of a rate review late last year, UniSource filed documents showing it faced a US\$111 million shortfall in rates, citing rising costs.

*The Arizona Daily Star, 9/2/05*

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## **Canada**

### **Utilities Present Merger Concept, Hydro One Under 'Attack' Chief Says**

Ontario's six biggest local electricity utilities have asked Canada's Energy Minister Dwight Duncan to allow them to absorb 400,000 customers currently served by Hydro One, and then permit them to merge into even larger units across southern Ontario. Tom Parkinson, chief executive of Hydro One, has denounced the proposal as a "hostile attack" on his company. Hydro One is owned by the Ontario government.

*The Associated Press, 3/3/05*

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## Mexico

### **CFE Registered US\$900 Million Net Losses In 2004**

During 2004, Comisión Federal de Electricidad (CFE) registered net losses of about US\$900 million as a result of extraordinary payments of US\$1350 million charged by the Ministry of Finance.

*Reforma 24/2/05*

### **Mexican Official Sees Competition Ruling LNG Sites**

As natural gas companies compete to supply fuel to the Baja California and California markets, Mexico's top environmental official says his agency will not limit the number of receiving terminals that are built. "The market itself will regulate the situation," said Alberto Cardenas Jimenez, head of Mexico's Secretariat for the Environment and Natural Resources, or Semarnat.

*The San Diego Union Tribune 8/2/05*

### **Preferential Industrial Tariffs**

CFE could apply a 50% discount to excess consumption industrial tariffs during peak hours. The Ministry of Energy is evaluating the impacts as a function of the reserve margin and operational conditions in the different regions.

*Reforma 6/2/05*

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## Central and South American News

### Brazil

#### **President Lula Da Silva Seeks To Increase Cooperation With Venezuela**

During a state visit to Caracas, the Brazilian President Lula da Silva promoted the creation of a bi-national commission to increase cooperation in energy projects between Venezuela and Brazil. Petrobras—the Brazilian federal oil company—has already signed 15 memorandums of understanding with PDSVA—the Venezuelan state oil company—to undertake joint exploration and production projects. There are also plans for Edelca—the Venezuelan state-owned electricity company—to provide the Brazilian city of Manaus with electricity. Edelca already sells electricity to the Brazilian border town of Boa Vista. Further projects might involve the Brazilian and Venezuelan hydro generation systems.

*Business News America, 15/2/05*



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## Colombia

### **President Uribe Resumes Gas Pipeline Negotiations With Venezuela**

Alvaro Uribe and Hugo Chavez—the Colombian and Venezuelan Presidents, respectively—decided to resume negotiations about a gas pipeline linking the two countries. A diplomatic dispute had blocked conversations in January. The proposed pipeline is expected to be 177 km long and transport some 200 million cubic feet a day (mcf/d) of gas from La Guajira in Venezuela to Colombia's Pacific Ocean. Initially, Colombia is expected to export gas to Venezuela, but subsequently Venezuela will use the pipeline to export gas to Colombia and the Asian markets. Uribe and Chavez also talked about strengthening the interconnection of electricity networks in Venezuela and Colombia. *Business News America, 17/2/ 05*

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## Asia Pacific News

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## Australia

### **AGL Application For Review Rejected**

The South Australian regulator ESCOSA has rejected an application by electricity retailer Australian Gas Light (AGL) for a review of its December determination on electricity standing contract prices. If accepted, the application would have enabled AGL to increase average household bills by A\$30 (US\$24) a year. *Sunday Mail, 20/2/05*

### **New Electricity Law In South Australian Parliament**

An important step in the restructuring of the Australian electricity market occurred with the introduction of new legislation in the South Australian parliament. The National Electricity Bill, once passed into law and mirrored by other states and territories in the National Electricity Market, will pass responsibility for wholesale energy regulation in the Market to the Australian Energy Regulator (AER) and create the Australian Energy Market Commission (AEMC). The AEMC will have responsibility for considering rule changes and market development. The AER will be a separate part of the Australian Competition and Consumer Commission (ACCC), inheriting powers of enforcement, monitoring for compliance and regulation. It will also be responsible for granting exemptions from registration to transmission and distribution operators. *The Australian, 11/2/05; South Australia House of Assembly Hansard, 9/2/05*



### **Regulator Proposes New Licence Fee Structure**

The Tasmanian regulator has issued a paper proposing changes to the existing licence fee structure for electricity generators. The changes are motivated by Tasmania's impending entry into the National Electricity Market, and are planned to come into effect in July.

[www.energyregulator.tas.gov.au](http://www.energyregulator.tas.gov.au), 2/2/05

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## **China**

### **Gov't Increases Fuel Prices Despite The House's Rejection; Premium Fuel Increases To IDR2,400 Per Liter**

The Chinese President has issued a presidential regulation which states that fuel prices will increase by on average 29 percent. The impact of the fuel price increases will, according to the National Development Planning Board, have only a minimal effect on small households. According to the Ministry of Energy the price increase does not represent a full removal of subsidies, but does reflect a shift from a system of price subsidies to direct subsidies.

*Bisnis Indonesia*, 1/3/05

### **China Formally Grants SERC Regulatory Power—Official**

The State Electricity Regulatory Commission (SERC) has been granted formal regulatory power by the Chinese central government. SERC was established in March 2003, but did not have a legal framework of powers and responsibilities. SERC will now issue licenses for electricity businesses but the National Development and Reform Commission will continue to oversee and regulate changes in electricity prices.

*Dow Jones Energy Service*, 25/2/05

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## **India**

### **Private Firms Against Government Taking Gas Profit In Kind**

Potential investors oppose the Government of India's plan to take gas profit in kind in the New Exploration Licensing Policy Round. The Gas Industry Group (GIG) claimed that the proposal restricts the marketing rights of contractors and has asked the Government to take profits in cash.

*Indian Business Insight*, 24/2/05

### **Delhi Competition Moves Hit Hitch**

The New Delhi Municipal Council (NDMC) has gone to court to delay plans to allow Reliance Energy Ltd to supply electricity in the NDMC area. The electricity law of 2003 stipulates that competition is allowed in electricity supply and distribution throughout India. However, objectors argue that the NDMC area should not be open to private competitors due to concerns over security.

*Platts Power in Asia*, 17/2/05



### **India Outlines Power Policy Changes**

The Indian Government has set out its new electricity policy, aimed at securing private investment of US \$200 billion by 2012. Subsidisation will continue for families on the lowest incomes, but subsidies for all other categories of consumer will be phased out.

*Platts Power in Asia, 17/2/05*

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## **Pakistan**

### **PWC Flays Privatisation Of KESC**

Hundreds of workers protested against the sale of a controlling stake in the Karachi Electric Supply Corporation (Kesc). The Government has accepted a bid by Kanooz Al-Watan for a 73% stake in the company following an auction held on 4 February. The winning bid was approximately 60% higher than the only other competing bid.

*Pakistan Press international Information Services, 11/2/05; The Nation, 15/2/05*

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## **Philippines**

### **PSALM Reviews Privatization**

The Power Sector Assets and Liabilities Management Corporation (PSALM) is reviewing the rules on privatisation bidding as part of an attempt to safeguard government interests during the privatisation process. Possible changes to the rules include increasing the performance bond from US\$9 million to US\$20 million and requiring winning bidders of generating facilities to submit a technical plan regarding their operation. The changes are aimed at deterring bidders who may aim to sell on the asset rather than operating it.

*Manila Standard, 9/2/05*

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## **Thailand**

### **Power Bills To Be Capped Through May**

The Government will cap electricity bills until the end of May in order to restrict power generation costs. By doing so, the Government is rejecting a request by the Electricity Generating Authority of Thailand (Egat) to increase the generation tariff for the February-May period. The Government asked EGAT to manage costs more efficiently to reduce the financial burden on electricity users. Egat has so far reduced costs by shifting to cheaper fuel sources and purchasing electricity from privately run power plants under the small and independent power producer (SPP and IPP) programs.

*Bangkok Post, 16/2/05*

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## 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 minimising 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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## About NERA

NERA Economic Consulting is an international firm of economists who understand how markets work. Our more than 40 years of experience creating strategies, studies, reports, expert testimony and policy recommendations reflects our specialisation in industrial and financial economics. 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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