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EUROPEAN NEWS

Great Britain: Regulator Consults On Introduction Of British Electricity Trading And Transmission Arrangements

Energy regulator Ofgem and the Department of Trade and Industry (DTI) are consulting on the processes for appointment of members to the Grid Code, Connection and Use of System Code (CUSC) and Balancing and Settlement Code (BSC) panels under British Electricity Trading and Transmission Arrangements (BETTA). Ofgem and DTI have published three other joint consultation documents on various codes and procedures relating to outage planning, operations and balancing, planning and data registration.

Ofgem website, 27/2/04

Great Britain: NGC Requests Derogations From Its Grid Code

Energy regulator Ofgem is consulting on whether to grant a request from National Grid Company (NGC) for derogations from certain parts of its Grid Code in relation to three wind farms connected to distribution networks. Ofgem's initial assessment has not identified any reasons for not granting NGC's requested derogation and is considering granting a time-limited derogation (rather than for the life of the plant, as requested). Ofgem is requesting views from interested parties as part of a more detailed investigation.

Ofgem website, 27/2/04



Great Britain: Regulator Publishes NGC System Operator Incentive Scheme

Energy regulator Ofgem has published proposals for National Grid Company's (NGC) System Operator (SO) incentives to apply from 1/4/04, when NGC's existing SO incentive scheme ends. Ofgem proposes retaining a "shallow" SO incentive scheme, based on the existing one-year incentive scheme, consisting of a target level of costs, sharing factors for any variations, a cap and floor. However, Ofgem states that it is appropriate to develop incentives with a longer duration, and will consult further on proposals to "deepen" NGC's SO incentives.

Ofgem press release, 25/2/04

Great Britain: Regulator Fines Npower And Scottish Power

Energy regulator Ofgem imposed financial penalties of £200,000 (US \$371,160) on both npower and Scottish Power. Ofgem imposed the penalties after it judged some 9,000 direct debit customers were unfairly stopped from switching to a new gas or electricity supplier.

Ofgem press release, 20/2/04

Great Britain: Government Considers Amending Energy Bill To Support Renewables

In the House of Lords, Lord Davies of Oldham, Government Deputy Chief Whip, announced that the Government had agreed to consider giving renewable energy sources, in specified areas, some dispensation to protect them from high transmission charges, which requires an amendment to the Energy Bill. In response, Chairman of energy regulator Ofgem, Sir John Mogg, expressed his regret over the Government agreeing to consider such a change and described the proposal to amend the Energy Bill "unnecessary and misguided".

Ofgem press release, 13/2/04

Great Britain: Regulator Proposes Extension Of Scottish Administered Pricing Arrangements

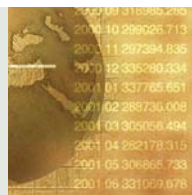
Energy regulator Ofgem proposed that the existing Scottish administered pricing arrangements, in which a price cap is set by reference to prices in England & Wales, be extended until either 31 March 2005, or the implementation of British Electricity Trading and Transmission Arrangements (BETTA), whichever is earlier. Existing arrangements are due to expire on 31 March 2004, when Ofgem had anticipated that BETTA would be implemented. Ofgem also decided that the existing access arrangements to the Scotland-England electricity interconnector, which are due to expire on 31 March 2004, should be extended until the implementation of BETTA.

Ofgem website, 6/2/04

Great Britain: Ofgem Vetoes Transco Proposal

Energy regulator Ofgem vetoed a proposal by Transco to change the way in which under- or over-recovery of Transco's National Transmission System (NTS) Transmission Owner (TO) revenues are treated. Under existing arrangements, Transco rebates excess revenues to shippers by offsetting their exposures to the costs of buying back capacity, while in the event of an under-recovery, Transco increases the general level of transportation charges. Transco had proposed introducing a TO commodity charges to re-distribute revenues. Ofgem has requested further consultation on the mechanism for redistributing under- or over-recovery of TO revenues.

Ofgem website, 6/2/04



Great Britain: Regulator Consults On Transco's System Operator Incentives

Energy regulator Ofgem is consulting on changes to Transco's National Transmission System Operator (SO) incentive schemes to apply from April 2004 until March 2006. Transco has been subject to SO incentive schemes since April 2002. When setting the incentives schemes to apply from April 2002, Ofgem was uncertain over some of the costs subject to the schemes and so set a number of the parameters (eg target costs, caps and collars) for two years only. Ofgem is: (1) reviewing Transco's performance under each of its SO incentive schemes; and (2) proposing new incentive parameters to apply for two years from 1/4/04.

Ofgem website, 5/2/04

Belgium: Electrabel Puts An End To Tractebel Buyout Projects

Electrabel has dropped its plan to acquire Suez-Tractebel's European energy assets. In a joint press release, Electrabel and Suez-Tractebel announced that: "persistent uncertainties about the legislative (new directives being transposed into national legislations) and regulatory environment of gas activities at both Belgian and European level, along with the rapid changes on international gas markets where Suez entities have acquired significant positions, suggest that it is advisable to postpone any structural reform in this area."

Electrabel press release, 27/2/04

Bulgaria: Privatisation of Distribution Companies

Bulgaria's Privatisation Agency announced that five European energy utilities submitted bids for privatisation of 67% stakes in the country's eight distribution companies. The bidders are E. ON Energie (Germany), Enel (Italy), PPC (Greece), EVN (Austria) and CEZ (Czech Republic).

www.priv.government.bg, 16/2/04

France: Regulator Decides Allocation Of EdF Debt Burden

The French energy regulator CRE established how EdF was to allocate between various entities its reimbursement to the French State of a EUR 1,200 million tax exemption, ordered by the EC on 16 December 2003. Initially, EdF had proposed to divide the debt between transport (RTE) and distribution activities since the tax exemptions served to develop the network. RTE complained to CRE and argued that the debt should be allocated proportionally to the equity of each activity. The CRE decided to adopt RTE's methodology, as the separation of liabilities among EdF's entities had been done in such a way to balance equity and liabilities of each entity. The CRE saw no reason not to apply this principle for the reimbursement. Furthermore, the CRE emphasised that the EC decision was aimed at penalizing illegal reinforcement of EdF's competitive position and that, with EdF's proposed debt allocation, generation incurred no costs despite the fact that it is the only activity open to competition. As a consequence RTE was allocated 27.12% of total debt (EUR 330.09 million), distribution 13.53% (EUR 201.19 million) and generation 56.35% (EUR 685.85 million).

CRE website, 26/2/04



France: Public Service Obligations Increase Hits EdF

The French government imposed retroactive electricity tariff cuts on EdF going back to 1 January 2004 for householders and small to medium enterprises. The cuts, however, will not lower end-user bills as EdF is having to absorb the losses (between EUR 300 million and EUR 420 million according to French press), resulting from this year's EUR1.20/MWh increase in public service obligations. EdF cannot pass these costs through since the government wishes to protect captive customers from price increases.

Power in Europe, 16/2/04

Germany: Updated Version Of The Energy Law

The Federal German Ministry of Economics and Labour (BMWA) has presented a revised draft energy law (EnWG) that lays the foundations for implementing EU directives 2003/54 and 2003/55. In particular, the draft makes provision for unbundling energy undertakings, both in the electricity and gas sector. It has led to wide criticism from associations and consumer councils. The German Consumer Council said that the law did not adequately take into account consumer protection, energy saving and independence of the regulatory authority. The German association VIK claims that the law makes no provision for reducing network tariffs or for creating an incentive to invest in much needed infrastructure. The German Electricity Association VDEW criticised the proposed update for not being sufficiently specific in many areas, saying it would fail to create the right incentives to invest in infrastructure.

BMWA, Bund der Energieverbraucher, Verband der Industriellen Energie- und Kraftwirtschaft (VIK), German Electricity Association (VDEW), 26-27/2/04

Germany: Who Regulates The Regulator?

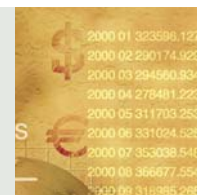
Following the proposal to establish a regulatory authority for gas and electricity set out in the recent draft energy law (EnGW), questions have arisen on how the regulator should be financed and whether the law creates an incentive for a lean and efficient authority. Whereas industry representatives claim that consumers were to bear the cost of the authority, consumer councils argue that this would lead to disincentives for the authority to economise its activities. The German Green Party has criticised the lack of provisions in the law on authority duty to report its activities and decisions. The Greens therefore are therefore urging amendments so that reporting and the protection of consumer rights will adequately be reflected in the law.

Frankfurter Allgemeine Zeitung, 26/2/04

Germany: Increases In Electricity Consumption And Energy Efficiency In 2003

According to recent figures published by the German Electricity Association (VDEW) electricity consumption in Germany rose by 1.5% in 2003. The VDEW assumes that this slight increase was mainly due to low temperatures (and hence increased heating) during the first quarter of 2003 and due to increased cooling during the hot summer of 2003. The VDEW also states that overall low growth rates of electricity consumption are due to increases in energy efficiency and rising consumer awareness regarding their own use of energy.

German Electricity Association (VDEW), 16/2/04



Ireland: Regulator Publishes Draft Decision on Demand Side Participation

The Commission for Energy Regulation (CER) published a draft decision paper on demand side participation in the new Market Arrangements for Electricity (MAE). CER's draft decision covers: (1) how demand side bidding will be permitted; (2) pricing and settlement rules applying to demand side bidding; and (3) involvement of demand in the ancillary services market. In a separate paper, CER proposed that the existing incentive mechanism for losses be replaced with a new mechanism in which the Distribution System Operator purchases losses through the market. CER is also proposing the adoption of global aggregation in the market settlement process in time for the start of the MAE in 2006.

CER website, 27/2/04, 13/2/04

Ireland: Regulator Publishes Entry/Exit Business Rules

The Commission for Energy Regulation (CER) has published the business rules for a new entry-exit gas regime. CER has published five papers containing the business rules for the new regime, covering: (1) capacity; (2) allocations; (3) nominations; (4) balancing; and (5) shrinkage.

CER website, 27/2/04, 6/2/04

Ireland: Regulator Approves Business Rules for Market Opening

The Commission for Energy Regulation (CER) has approved the various business processes developed by the electricity retail market implementation group that will apply on full retail market opening in February 2005.

CER website, 18/2/04

Ireland: Ireland To Wales Electricity Interconnector Planned

The Minister for Communications, Marine and Natural Resources announced his approval for the development of two 500MW electricity interconnectors between Ireland and Wales. The Minister is to ask the Commission for Energy Regulation (CER) to promote the development of these interconnectors as private sector investments. In the event that there is no response from the private sector, the Minister will ask CER to hold a tender competition for the construction and operation of the proposed interconnectors.

Department of Communications, Marine and Natural Resources press release, 11/2/04

Ireland: Government Proposes New Structure For Regulator

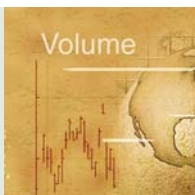
The Minister for Communications, Marine and Natural Resources announced his intention to expand the membership Commission for Energy Regulation from the existing one person Commission to a three person Commission. The Electricity Regulation Act 1999 provides for such a change.

Department of Communications, Marine and Natural Resources press release, 11/2/04

Ireland: Regulator Consults on Tackling ESB's Dominance

The Commission for Energy Regulation (CER) published a paper examining the dominance of ESB in the proposed new Market Arrangements for Electricity (MAE) and the measures it can take to mitigate ESB's dominance. CER is considering a regulatory approach, but does not rule out the prospect of future change in the structure of ESB. CER says it has discussed and will continue to discuss its regulatory approach with ESB.

CER website, 4/2/04



Italy: The Italian Regulator Introduced A Bid Cap In The Iplex

The Italian Regulator, AEEG, has issued a new decision setting up a system of monitoring the operation of the new electricity market (Iplex) and rules for intervention when the market does not reach an equilibrium price or the price is “anomalous”. The provisions include the use of market indices to provide information on average market prices, market concentration, market share of each operator, the number of hours during which the producer sets the price and differences in prices offered by each market participant. Moreover, the AEEG has imposed a bid cap of EUR500/MWh for the 2004.

Staffetta Quotidiana, 28/2/04

Italy: AEEG Imposes Use Of CfDs On The Single Buyer

The AEEG has required the Single Buyer to use yearly CfDs to hedge against the risk of high prices and against price volatility. The Single Buyer will buy electricity through a descending price auction. The starting price would be the wholesale price set by the AEEG for 2004. If the market price is higher than the price resulting from the auction, the supplier would pay the Single Buyer the difference; on the other hand, if the market price is lower than the auction price, the Single Buyer would pay the difference to the supplier. CfDs must be signed by 31 March 2004 and would be in place until 31 December 2004.

AEEG web site, www.autorita.energia.it, 25/2/04

Italy: The Italian Energy Market Is Testing The Market Exchanges Before Opening.

The Italian power exchange (Iplex, www.ipex.it) is now in its final trial phase before opening, which is expected to take place in April 2004. According to results obtained in the trial sessions in latest weeks, prices in the day-ahead market, the adjustment market and the market for ancillary services were considered to be realistic and market mechanisms working properly.

Il Sole 24 Ore, 10/2/04 and 5/2/04

Netherlands: Nuon Arranging VPP Auction

Nuon has started to prepare for the auction of 900 MW, despite lodging an appeal against NMa’s decision that forms the basis of the auction. Competition authority NMa imposed the condition of the auction for 900MW of capacity. The auction of the virtual power plant should start in July. It could take a court six to twelve months to take a decision.

Platts Power in Europe, 1/3/04

Netherlands: DTe Sets LUP To Zero

Dutch energy regulator DTe has decided to set the LUP, the Uniform National Producer Tariff, to zero in order to make power transmission tariffs more competitive. One of the cited reasons is that, as neighbouring countries do not have a comparable tariff Dutch, producers face a competitive disadvantage. The LUP will not be abolished, but rather set to zero. In future, when need be, the tariff can be increased again.

DTe, Decision 101685-9, www.dte.nl, 3/2/04



Netherlands: New plans for NorNed link

New plans for a 600MW interconnector between Norway and the Netherlands have come to light. The termination of an earlier contract between Dutch generating board SEP and Statkraft has opened the way to the new plans. SEP no longer exists, so the current contract partners would be TenneT and Statnett.

Platts Power in Europe, 2/2/04

Netherlands: MPs Ask For Price Caps

A majority of Dutch MPs has asked economic affairs minister Brinkhorst to introduce price caps for gas and electricity. The MPs fear that, after liberalisation of the gas and electricity market on 1 July, prices might rise rapidly without a ceiling. The minister is heavily opposed to maximum prices, fearing they would put off private investments and endanger security of supply in the long run.

Het Financieele Dagblad, 29/1/04

Netherlands: Plans To Nationalise HV Network

A majority of the Dutch parliament has expressed the desire to nationalise the high voltage electricity network. Some 60% of the national grid is owned by Essent, Nuon, Eneco and Delta, which are in turn owned by municipalities and provinces. The minister of economic affairs is a proponent of privatisation of the sector. The question is still open as to whether the distribution companies are allowed to sell their networks, including the high voltage part, to private parties. The minister is to reveal his plans in March.

Ministry of Economic Affairs press release, 22/1/04

Portugal: New Privatisations In Portugal

The Portuguese Government has announced its decision to reduce its stake in Electricidade de Portugal, EDP, from the current 30% to 10%. This should be accomplished by selling stakes held indirectly through the Caixa Geral de Depósitos bank, by the first quarter of 2005. The decision forms part of a package of measures that should see, by the same date, the flotation of stock in the electricity transmission company (REN), as well as further privatisation of oil company Galp.

www.negocios.pt, 27/2/04

Portugal: The Antitrust Authorities To Investigate EDP

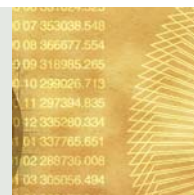
The Portuguese antitrust authorities intend to open a file on Electricidade de Portugal's acquisitions of gas distribution companies. EDP had agreed to buy 12.9% in Portgas and 10.1% in Setgas, two gas distributors operating in Porto and Setúbal respectively. However, the authorities believe that the operation may impair competition in the gas sector since EDP will also acquire Gas de Portugal, the dominant distributor in the gas market.

Expansión, 24/2/04

Portugal: REN's Land for Power Plants Transferred To DGE

The ownership of land where electricity power plants are located has been transferred from the Portuguese transmission operator, REN, to the Directorate General for Energy, DGE. This operation is linked to the ending of Power Purchase Agreements (PPAs). It is seen as a necessary step to estimate the PPAs' value in the transition from a regulated market to a liberalised one. An initial estimate of the value of the land places it at around EUR 500 million (US\$ 645 million).

Agencia Financiera, 23/2/04



Portugal: Agreement Between Iberdrola And The Portuguese Government On Gas Assets

Iberdrola and the Portuguese government have reached agreement on divestment of the Spanish utility's interests in the Portuguese company Galp Energia. Under this agreement, Iberdrola will give up its 4% of Galp in exchange for a stake in two gas distributors operating in two Portuguese municipalities. Iberdrola will receive 54.8% of Beiragas and 40.9% of Tagugas plus an additional amount of money that places a total value on Iberdrola's stake in GALP at EUR 128 million (US\$ 165 million).

Cinco Días, 14/2/04

Portugal/Spain: The Spanish And Portuguese Regulators Concerned About Market Concentration In Electricity

The Spanish and the Portuguese energy regulators, CNE and ERSE respectively, have published a report in which they lay out their concern that excessive market concentration in the future Iberian Electricity Market might hamper competition. The solutions the two regulators have proposed to increase competition in the Iberian electricity market include virtual power plants auctions by Endesa, Iberdrola and EDP, similar to those implemented by EDF in France. In order to increase transparency in the market, the regulators propose limits in the duration of contracts between generators and clients, and to publish the prices associated with them. They also suggest that this should be accompanied by a much more active role by the regulators and the competition policy authorities.

Expansión, 10/2/04

Portugal: Final Agreement On The Galp Divestment

A final agreement has been reached between the Portuguese government and the Italian oil company ENI by which the Italian company will divest its holding in Galp Energia. This is part of the restructuring process that is taking place in Portugal in the energy sector. Under this agreement, the Italian utility will cede its stake in Galp Energia, which represents 33.34% of total shares, in exchange for 49% of the new Gas de Portugal, the company that will be formed out of Galp's gas assets. In addition, ENI will obtain an additional amount that puts the estimated value of the operation at EUR 3,200 million (US\$ 4,128 million).

Diário Económico, 9/2/04, 8/2/04

Portugal: PPAs' Extra Costs To Tariffs

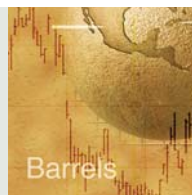
The Minister of Economy, Mr. Tavares, declared that the costs associated with ending PPAs signed between power producers and the electricity system operator, REN, will be passed through to tariffs. The impact will be distributed over a long time period in order to avoid distortions in tariffs. This implies that the expected electricity price decrease derived from liberalisation of the electricity market will be offset by these extra costs.

Diário Económico, 4/2/04

Russia: Chubais Closes FOREM For Industrials

RAO EES Russia is sending a proposal to the Government to prevent companies that have access to the competitive electricity market from accessing the regulated Federal Wholesale Electricity and Capacity Market (FOREM).

Gazeta, 26/2/04



Russia: Fec News

Chairman of the Federal Energy Commission of Russia announced that there are no plans to change the tariffs of natural monopolies this year. From the next year FEC plans to set 3-year tariffs for regulated companies and to remove the investment component, so that “private investors, rather than customers pay for the investments”.

Commerzant, 19/2/04

Russia: Access To Gasprom Pipelines

Ministry of Energy is working on draft procedures for access to the Gasprom pipeline network by independent producers. One of the issues considered is the role of independent producers in making decisions on the new investment and participation of independent producers in the new investments.

Vremia Novostei, 19/2/04

Russia: First 100 Days Of Competitive Electricity Market

The Chairman of the board of the Administrator of Trading System (ATS), Mr Dmitrii Ponomaryev, summarised the results of the first 100 days of trading in the competitive electricity market. Average prices for the period were 20% lower than on the regulated Federal Wholesale Electricity and Capacity Market. ATS plans, with the help of RAO EES Russia, to expand the coverage of the competitive market by including the Siberian energy zone and retail traders.

Commerzant, 11/2/04

Spain: HV Full-Service Tariffs To Last Until 2010

The Secretary of Energy, Mr. José Folgado, declared that full-service tariffs for high-voltage clients will continue to be applicable until 2010. This means that these tariffs will remain for three more years than previously anticipated. The measure attempts to provide predictability to industrial investment decisions during the introduction of the new emissions trading system.

El País, 24/2/04

Spain: CNE Concerned About Combined Gas And Electricity Offers

The Spanish National Energy Commission, CNE, is concerned about irregularities in the marketing of combined gas and electricity offers by utilities. CNE considers that distribution companies should not include reference to such offers by their retail affiliates in their communications with their customers because of the distribution companies' dominant position.

Cinco Días, 20/2/04

Spain: The Government To Sell 18.5% Of REE

The Spanish government foresees selling 18.5% of the Spanish transmission network operator, REE, in the second half of the year. At present, the Spanish government holds a 28.5% stake. Up to last year, it was forced by law to maintain a minimum stake of 25%, but as of 1 January 2004 this minimum participation requirement has been reduced to 10%.

Expansión, 19/2/04



Spain: New Regulatory Framework For The Special Regime

The Spanish Economy Ministry has submitted to the Council of Ministers the Royal Decree setting out the new regulatory framework for Special Regime generators. After the incorporation of additional suggestions made by the regulatory body, CNE (see previous issue of GERN), the new methodology has now to be approved by the Government. The objective of this methodology is to provide stability in the financing of renewables' projects in order to reach a 30% share of total electricity production in 2010.

Cinco Días, 18/2/04

Spain: CNE States That Green Contracts Have No Legal Basis

The Spanish Energy Commission, CNE, recently opened a file on Endesa and Iberdrola regarding their green energy offers based on private certificates that guarantee the renewable origin of the electricity consumed. CNE argues that these certificates are not legally supported and merely represent private contracts between agents. The European Directives oblige Member States to establish a system that certifies, by means of transparent and non-discriminatory criteria, the origin of the electricity consumption. Thus, CNE has reminded the Administration of the need to create an independent body that supervises the proper functioning of these contracts and has offered to take on this task.

La Gaceta, 17/2/04

Spain: OMEL Authorised To Participate In OMIP

The Spanish Energy Commission, CNE, has authorised the Spanish Electricity Market Operator, OMEL, to acquire 10% of the capital of the Portuguese Electricity Market Operator, OMIP. The participation in OMIP by OMEL is one additional step towards the creation of the Iberian Electricity Market. The CNE considers that OMEL has sufficient financial capacity to take on this investment.

Expansión, 2/2/04

Turkey: EMRA Continues Gas Distribution Programme

EMRA has started to prepare for issuing bids for the distribution of gas in the important city of Izmir as well as in Manisa, Erzincan and Nigde. However, it has decided to delay bids in other large cities until the transmission infrastructure is in place. The delays affect Denizli, Afyon and Aydin in the west, Antalya in the south, and Gaziantep, Kahramanmaras and Malatya in the south-east.

IBS Energy Line, 18/2/04



NORTH AMERICAN NEWS

US: FERC Revives Cal-ISO Governance Dispute In Market-Monitoring Order

The long-chilly relationship between the Federal Energy Regulatory Commission and the state of California experienced another frost recently, as the federal agency interjected its dissatisfaction with the composition of the California Independent System Operator's board into its ruling on the grid operator's proposed oversight and investigations program. Though FERC accepted many elements of what will become Amendment 55 to Cal-ISO's tariff, it made much of the order contingent upon the ISO establishing a new board of governors [ER03-1102]. The composition of the Cal-ISO board has been a matter of dispute between the state and FERC for some time. The conflict escalated in July 2002, when the commission issued an order directing Cal-ISO to revamp its five-member board through a detailed selection process.

California Energy Markets, 1/3/04

US: Municipal Utilities Shun IPPs In Favor Of Vertical Integration

Despite a glut of capacity weighing down much of the US wholesale generation market, a host of municipal utilities are shunning the advances of IPPs eager to negotiate long-term offtake contracts and opting instead to build their own power plants. At least 16 US municipalities are in the throes of developing or constructing more than 3.5 GW of capacity. With deregulation stalled in most state legislatures, munis feel a reduced threat from retail competition and want to protect themselves against a surge in wholesale prices and clogged transmission lines by owning generation within their service territories. Most are building gas-fired peaking plants, which can be thrown up in 18 months and financed with cheap AAA-rated, tax-free bonds.

Power Finance & Risk, 1/3/04

US: New England To File New ICAP Power Plan With FERC

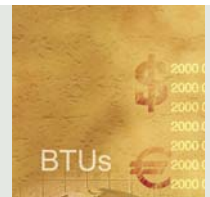
New England's grid operator said it has devised a plan to reward generators for building new power plants in areas experiencing transmission constraints. ISO New England said it would file plans to launch what it calls a locational installed capacity (ICAP) market with the US Federal Energy Regulatory Commission. A locational ICAP market, already in place in neighboring New York, pays generators in heavily constrained areas more money for their power plants than those with plants in areas without transmission bottlenecks. Unlike the energy market, which pays generators for the electricity they produce, the ICAP market compensates generators for keeping their plants available for service even when they do not operate.

Reuters, 27/2/04

US: Another Blackout Looms For Summer; Power Line Agency Expecting Problem With 'Congestion'

Since no new electric transmission capacity has been added this year, the conditions that led to the power blackout throughout the Northeast on 14 August 2003 will likely recur, according to the non-profit North-American Electric Reliability Council. In November, a joint United States-Canadian task force issued a report that attributed the August blackout to several factors including operator errors, equipment failures and several line failures caused by power lines coming into contact with nearby trees.

Charleston Daily Mail, 20/2/04



US: FERC Commissioner Urges Closer Look At Standardizing Power Creditworthiness Procedures

Now is the time for FERC to ask stakeholders whether it is appropriate to standardize creditworthiness procedures in the electric industry, Commissioner Nora Brownell said in a concurrence attached to an order issued by FERC. In that decision, the agency rejected a request for rehearing filed by AES Odyssey last summer. Specifically, AES Odyssey sought rehearing and clarification of a Commission order in which it accepted Carolina Power & Light Co.'s (CP&L) and Florida Power Corp.'s revisions to the credit review and creditworthiness sections of their open access transmission tariffs, as modified.

In its rehearing request, AES Odyssey asked the Commission to institute a generic rulemaking to consider measures that more accurately reflect a competitive generation company's creditworthiness and balance the need to protect customers without thwarting competition.

Power Market Today, 19/2/04

US: Midwest ISO To Launch New Power Market In December

The Midwest Independent System Operator plans to launch a new power market in December. The Midwest ISO, which operates the electric grid in all or parts of 15 states and one Canadian province, said it would start testing the new Midwest energy market on about 8 March. The new market, slated to go live on 1 December, will include both day-ahead and real-time electricity prices traded much the same way as in the PJM (the former Pennsylvania-New Jersey-Maryland), New York and New England markets. In those markets, generators offer to sell energy from each of their power plants at a given price. The grid operator then selects which plants it will buy power from, starting with the lowest bid, until they have bought enough to meet the region's estimated energy needs.

Reuters, 18/2/04

US: FERC Approves Southwest Electricity Market

The US Federal Energy Regulatory Commission approved the first phase of a plan for a power market in eight Southwest states, the third regional group established to open energy sales to competition and ensure grid reliability. The Southwest Power Pool stretches from Louisiana to Missouri, and includes Oklahoma. Its 50 members include American Electric Power Co., parent of Public Service Company of Oklahoma. The decision marks the first step in a process to give the group the authority to manage grid upgrades and run a real-time power market, an SPP official said.

Tulsa World, 14/2/04

US: San Francisco Eyes Electricity Purchase Plan

A San Francisco supervisor introduced an ordinance that would let the city pick new electricity suppliers and sharply increase its use of renewable energy like solar and windpower. The measure, introduced by Supervisor Tom Ammiano, would allow San Francisco to set up a community power buyers' program to combine the electricity loads of its 780,000 residents and businesses. The goal is to give the city more "energy independence" and stable power prices, and to expand the supply of cleaner, renewable energy through new solar plants, fuel cells, wind turbines and energy efficiency steps. California, Massachusetts, Ohio, New York and Rhode Island have passed laws to let cities establish bulk purchasing, known as community aggregation. Ohio has a program spread through eight counties with 500,000 electricity customers.

Reuters, 17/2/04



US: North Dakota, EPA a Reach Clean Air Settlement

North Dakota has some of the cleanest air in the country and now the federal Environmental Protection Agency agrees that air quality in its most pristine areas is not more polluted with sulfur dioxide than rules allow. On its face a simple concession, the announcement that the state and EPA have reached settlement on alleged violations of North Dakota's Class I air areas ends a five-year multi-agency argument. Even though the Health Department initially disclosed the violations in an application to the EPA, the state took the official position that when measured using actual air samples, as opposed to computer modeling, the air quality standard was never violated. The agreement will not force power plant operators or any other sources to reduce their sulfur dioxide emissions.

The Bismarck, N.D., Tribune, 14/2/04

US: FCC Plans Rules For Major Internet Changes

US regulators are preparing new rules that could revolutionize the architecture of the Internet and the service it provides. Proposed changes by the Federal Communications Commission could allow homes to connect to the Internet through electrical outlets and possibly give businesses the ability to make cheaper telephone calls online, the New York Times reported Friday. The new rules are expected to be completed in a few months. Once the rules allowing delivery of the Internet through power lines are completed, consumers would be able to plug their modems directly into wall sockets, just as they do with a toaster, desk lamp or refrigerator, and be connected to the Internet.

United Press International, 13/2/04

US: California Could See Power Shortfall

California could face new electricity shortages because confusion over the state's energy policies has kept energy companies from investing in desperately needed new power plants, the head of energy group Edison International said. Utilities are reluctant to sign long-term contracts for power supplies since they are not sure about how changes in the rules would alter the size of their customer base and whether commercial and industrial customers will be allowed to switch suppliers. That limits investment in new power plants, since generators are reluctant to expand production without guaranteed contracts with power buyers in place.

Reuters, 12/2/04

US: FERC May Back Off Reliability Audits Plan

The Federal Energy Regulatory Commission indicated that it was satisfied that new utility self-policing efforts can detect the lapses that caused last August's massive power blackout, and backed away from imposing its own auditing rules. FERC and some lawmakers have pressed for stricter reliability standards meant to prevent a repeat of the August 2003 blackout that left 50 million people in the United States and Canada without electricity. In a statement, FERC said it will "continue to explore its existing authority to oversee power grid reliability, while evaluating NERC's stepped-up reliability efforts." NERC, the North-American Electric Reliability Council, said that its inspectors will perform audits of 20 of the biggest grid zones by the end of June, and will be accompanied by FERC staffers.

Reuters, 11/2/04



US: FERC Judge Rules Entergy Must Shift Costs Among States

A Federal Energy Regulatory Commission (FERC) judge ruled that utility major Entergy Corporation should reallocate electricity costs among its five subsidiaries in a move that could shift millions of dollars from ratepayers in Louisiana to Arkansas customers. The judge's decision, which must be approved by the full commission before it is finalized, means that some costs will be shifted from high-cost states like Louisiana to low-cost ones like Arkansas. The cost stakes are substantial - witnesses for the Louisiana Public Service Commission testified that a 5 percent deviation from the system average amounts to about US\$77 million. Arkansas utility regulators have warned that its 650,000 customers could pay up to US\$400 million extra if costs were fully equalized among Entergy's units.

Reuters, 6/2/04

US: Electricity Bills To Be Shocking In Michigan

Homeowners could see their electricity rates jump by 30 percent by 2006 if steps aren't taken to change how utilities compete for customers in Michigan. Anthony Earley Jr., DTE Energy Co.'s chairman and chief executive officer, warned that Michigan's largest utility is taking a significant financial hit as more business and some residential customers switch to other electricity providers under the state's Electric Choice program. Earley said DTE wants either to revert back to a regulated industry or to compete totally on price by removing state-imposed pricing caps. He said he would also consider a combination of the two scenarios.

Detroit Free Press, 4/2/04

US: Court Finds ACC Restructuring Rules Unconstitutional

The Arizona Court of Appeals has ruled that the state's electric energy restructuring rules are unconstitutional, upholding a lower-court decision. The Arizona Corporation Commission started restructuring the electric-power industry with a series of decisions dating back to 1994, and key orders were issued before some current commissioners were elected. But commission spokesperson Heather Murphy said commissioners "will regard this as a disappointment." The ACC began restructuring the power industry in 1994 "by shifting from a system of regulated monopolies to a competitive market for the provision of electric generation and other services," according to the ruling. Murphy said the commission has not discussed the decision and whether to seek review by the Arizona Supreme Court. Jack Davis, chief executive officer of Pinnacle West, told analysts Thursday that he does not expect the decision to affect Arizona Public Service's pending rate case.

California Energy Markets, 2/2/04

Canada: Ontario Energy Board Lays Out Rules For Utilities To Charge Security Deposits

The Ontario Energy Board has laid out new rules under which electric utilities in the province can require customers to pay a security deposit. Until now, there have not been any consistent rules across the province about security deposits and those policies were left up to Ontario's individual electric utilities. There's no requirement for electricity distribution companies to demand security deposits from some customers, but the new rules spell out when a utility can ask for a security deposit, how much can be charged, when it must be paid back, and the interest the customer must receive. The new rules cover residential, commercial and industrial customers. Under the regulations, an electricity distributor can require a security deposit if a customer has received more than one disconnection notice, if a cheque or pre-authorized payment has bounced or if the hydro has been disconnected because of overdue bills.

Canadian Press, 3/2/04



Mexico: Electricity Projects Frozen

Nearly 30 cogeneration and self-supply projects have been suspended because of the high gas prices and legal uncertainties. Total Systems Energy suspended nine generation projects worth over US\$300 million in investment.

Reforma, 20/2/04

CENTRAL AND SOUTH AMERICAN NEWS

Argentina: Increases In Gas And Electricity Rates For Large Customers Announced

Argentina's government has announced plans to increase gas and electricity rates for medium and large-scale customers. Electricity rates are expected to increase by 15-18% for medium-scale industrial customers with connection capacity above 10 kV and by 30-32% for large customers with connection capacity above 300 kV. Gas tariffs are likely to go up by 19-26% for power generators and by 14-25% for other industrial customers. The government highlighted the "progressive character" of the rate hike, as it does not affect small businesses and residential customers. The rate hike is the first one since Argentina's currency was devalued in early 2002 and public utility rates were frozen.

Business News Americas, 15/2/04

Bolivia: The Government Launches An Information Campaign On The Gas Export Project

Bolivia's government has launched a campaign to provide more information on its controversial gas export project. A referendum on the issue is scheduled for the end of April. The campaign will provide three different types of information: technical information, information about the government's energy sector policy on hydrocarbon regulations, and information about opportunities for development of Bolivian gas reserves.

Business News Americas, 12/2/04

Bolivia: New Hydrocarbons Tax Designed To Be Progressive

The Bolivian energy minister Alvaro Rios said that the new tax on oil and gas production would be progressive and linked to the quantity of hydrocarbons produced on any given field. The tax, known as Impuesto Complementario a los Hidrocarburos (ICH), whose amount has not been decided yet, is designed to increase government revenues without scaring off private investors. Negotiations on the tax are holding up the new hydrocarbons law, initially to be submitted to the Congress at the end of January.

Business News Americas, 29/1/04



Brazil: Approval Of The New Electricity Model Delayed

Brazil's Senate is making several amendments to decrees MP 144 and 145 that contain the rules for the Brazilian new electricity model. Voting on the decrees (initially scheduled for mid-February) has been postponed and full approval will be further delayed because the Lower House has to ratify the changes. As a result, the new electricity model will not be approved until at least next month. Decree MP 144 creates new trading arrangements and increases governmental influence over planning and granting concession licences. Among other things, the changes proposed by the Senate will allow 1) distributors to pass on unforeseen costs to final customers and 2) owners of generation projects under construction to participate in new electricity auctions. No significant changes are expected in the Senate to the second decree, MP 145 (which creates the new government energy research company EPE).

Business News Americas, 13/2/04

Colombia: Privatisation Of ECOGAS Expected In July-August 2004

The Colombian government is likely to sign an agreement with the Spanish bank Santander Central Hispano (SCH) and its Colombian unit, Santander Investment, to manage the privatisation of natural gas transport company Ecogas. SCH was awarded the contract in January and is currently negotiating the terms of the contract with the national planning department (DNP). The bank is expected to launch an international tender in July-August, once the energy and mines ministry approves the structure of the sale. With the sale of Ecogas the Colombian government will completely exit from the natural gas business in the country, since the upstream and downstream areas of the gas business and the other major gas transporter Promigas (which serves the Atlantic coast) are already in private hands.

Business News Americas, 11/2/04

ASIA-PACIFIC NEWS

Australia: Regulator Proposes Demand Management Incentives

The New South Wales utilities regulator, the Independent Pricing and Regulatory Tribunal (IPART), has proposed new incentives for electricity distributors to carry out demand management (DM) strategies. IPART's draft decision would allow the state's four distributors to recover revenue foregone as a result of undertaking DM strategies during the 2004-09 regulatory period, and pass through to customers the costs incurred, up to a maximum value of the network cost savings. These costs and foregone revenue would be considered explicitly under the new weighted average price cap formula, which will apply from 2004. Cost projections would be specified on a pre-DM basis. IPART considers that these measures, while generous, are appropriate at this time given that the market for demand management is emerging.

www.ipart.nsw.gov.au, 19/2/04



Australia: Queensland Regulator Revises Approach To Service Incentives

The Queensland Competition Authority has proposed a regulatory contract approach to service quality incentives for electricity distributors. Under the new proposal, specific target service quality levels would be agreed in the process of establishing capex and opex building blocks, and would become part of the company's contract with the Authority. This replaces the Authority's previous proposal, whereby service performance would be compensated using a CPI-X+S revenue-cap formula. The Authority will consider feedback on its draft decision, and anticipates releasing a final decision in April 2004. The revised approach is to apply from July 2005.

www.qca.org.au, 6/2/04

Bangladesh : ADB Sets Funding Conditions

The Asian Development Bank (ADB) will impose additional preconditions, including deregulation of the transmission and distribution sector, before extending new funding for the Bangladeshi power sector. The ADB was set to arrange funding of US\$1,200 million for the country's power sector, to support unbundling. The ADB said that, in the first instance, deregulation of transmission and distribution could involve private participation via a build-operate-transfer (BOT) model rather than full private ownership.

Platts Power in Asia, 5/2/04

India: Retail Choice Begins In Kerala

The power regulator in the Southern Indian state of Kerala has allowed a bulk consumer to seek electricity supplies from an alternative supplier to the incumbent monopolist. The decision is the first application of the 2003 Electricity Act, which made it compulsory for monopoly utilities to open transmission networks to third party access. Full implementation of the Act is due to take place within the year. The Kerala decision was the result of a petition from the Indian Aluminium Company (Indal), a major electricity consumer. Indal faced financial collapse following a hike in electricity prices.

Platts Power in Asia, 19/2/04

Malaysia: TNB Continues NUR Discussions

The majority state-owned electricity utility Tenaga Nasional Bhd (TNB) remains in discussions to acquire full ownership of Northern Utility Resources Bhd (NUR). TNB's offer has not yet been accepted as it is below the minimum price specified by NUR's main shareholder. NUR was awarded a 30-year concession to generate, distribute and supply power in the Kulim High-Technology Industrial Park in Kedah state in January 1997. However, NUR has suffered from low demand following the Asian financial crisis with much of the proposed generation capacity never commissioned.

Platts Power in Asia, 5/2/04

New Zealand: Regulator Calls For Submissions On Lines Company Thresholds

The New Zealand Commerce Commission has called for submissions on issues associated with the announced price path and quality thresholds for lines companies, for the new regulatory period beginning in 2004. If the thresholds are breached, direct price regulation may be triggered. The new thresholds will apply to distribution businesses from April and to national transmission company Transpower from July. The Commission announced its final decisions on the thresholds in December 2003. The Commission has also asked one business, Hastings-based distributor Unison, to justify its breach of the previous price threshold. The Commission took responsibility for price regulation of lines businesses in 2000.

www.comcom.govt.nz, 16/2/04



Philippines: ERC Drafts Code Of Rights

The Energy Regulatory Commission (ERC) has drafted a code of rights and obligations for electricity consumers. Under the proposed code, electricity consumers would have the legal right to be connected to the electric power service of a distributor. This means other distributors could encroach on a franchise, should the provider fail to connect consumers. The code also outlines other obligations and rights for distributors. The code is part of an attempt by the ERC to improve the operations of distributors. The ERC has also launched a good governance programme for private distributors and electric cooperatives in coordination with the Institute of Corporate Directors.

Platts Power in Asia, 5/2/04

Philippines: Meralco Cuts Power Rates

Whilst the Supreme Court is considering Meralco's case for the reinstatement of a rate increase, Meralco has received regulatory approval to cut its tariffs to reflect the lower cost of purchasing electricity from its independent power producers resulting from the government-mandated unbundling of tariffs. The rate decrease reflects the fall in the cost of generation. In contrast, Meralco's petition for a rate hike concerns other charges for distribution, metering and supply. Meralco is still looking for a long-term solution to servicing its maturing debts and generating adequate operating capital in the face of a worsening financial situation. Its latest plan to issue US\$300 million in secure debt has been opposed by a consumer lobby group.

Dow Jones International News, 18/2/04; Power in Asia, 5/2/04;

Singapore: EMA Says Slide Shows Market Is More Efficient Now

Since the introduction of vesting contracts to control the Singaporean market for electricity, wholesale power prices having weakened by 10 per cent. Industry has commented that vesting contracts are 'inconsistent with market liberalisation', and can contrive a pool price collapse and lead to major distortion. The low margins resulting from the pool price collapse could make it difficult for market participants to replace capital stocks. Vesting contracts bind power generators to sell 65 per cent of their output at a given price. The vested amount will be gradually reduced as regulator Energy Market Authority (EMA) sees market power in the sector decreasing.

Business Times Singapore, 18/2/04

Thailand: Thai Power Tariffs Rise

The average power tariff for the February-May period will rise by 4.8% to US\$67.4/MWh, the highest adjustment in four years. The hike, decided by a government panel, results from an increase in the variable cost factor, known as Ft, which includes fuel costs, exchange rates and other factors. The increase is partly intended to improve the financial profile of the Electricity Generating Authority of Thailand (Egat) ahead of its initial public offering in May. The government held down fuel costs over the last year to avoid an adverse impact on the economic recovery. Since then, Egat has had to absorb US\$122 million in costs caused by higher fuel costs.

Power in Asia, 19/2/04



Thailand: Share Swap Fiasco, EGAT Float Could Be Set Back

The share swap deal between the Electricity Generating Authority of Thailand (Egat) and Banpu has been opposed by Prime Minister Thaksin Shinawatra. The swap would make Egat the dominant shareholder in Ratchaburi Holding Plc (Ratch). Thaksin is reported as having concerns that Egat is attempting to buy out a competitor and that their conduct is not transparent. There are further concerns that this opposition may delay Egat's privatisation as Egat could be required to launch a tender offer for Ratch. The privatisation is scheduled for the first quarter of this year.

The Nation, 19/2/04; Power in Asia, 5/2/04

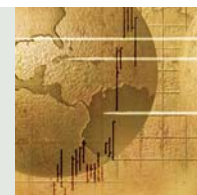
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