

A NERA Publication

Global Energy Regulation

Reporting on energy regulation around the world

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General and European Editor

~ Graham Shuttleworth

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~ Kristina Sepetys, **U.S.**

~ Greg Houston & Ann Whitfield, **Australia and New Zealand**

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EUROPEAN NEWS

Great Britain: Regulator Consults On Electricity Transmission Price Controls

Energy regulator Ofgem published a consultation paper on electricity transmission price controls to apply under British Electricity Trading and Transmission Arrangements (BETTA). Ofgem is consulting on proposals to extend the Scottish transmission price controls, which expire on 31/3/05, by two years, in order to align them with National Grid Company's transmission price control in England and Wales. Ofgem is also consulting on the value to include in the transmission licensees Regulatory Asset Values (RAV) for the England-Scotland interconnector and on the form of the revenue control applying to transmission licensees.

Ofgem press release, 30/7/04

Great Britain: Regulator Consults On Regulatory Regime For Independent Distribution Network Operators

Energy regulator Ofgem published a consultation paper on the regulatory regime to apply to new Independent Distribution Network Operators (IDNOs). The Utilities Act 2000 introduced distribution as a separate activity requiring authorisation and Ofgem is currently considering four applications for distribution licences. Ofgem is consulting on the long-term arrangements for regulating IDNOs. Ofgem is consider-



ing the following alternatives for regulating revenues of IDNOs: (1) rate of return regulation; (2) RPI-X regulation based on IDNO costs; (3) RPI-X regulation based on the incumbent DNO's charges; and (4) relative price control regulation. Ofgem is also consulting on financial ring-fencing conditions which will apply to all new distribution licensees.

Ofgem website, 29/7/04

Great Britain: Regulator Publishes Guidance On Impact Assessments

Energy regulator Ofgem published guidance on how it will conduct Impact Assessments (IAs). The Sustainable Energy Act 2003 requires Ofgem to conduct IAs of its "important" proposals in relation to certain of its functions. Ofgem published guidance on: (1) the procedures it will follow in conducting an IA; (2) when it will conduct an IA; (3) the scope of IAs; and (4) arrangements for IAs of code modifications.

Ofgem press release, 23/7/04

Great Britain: Ofgem Consults On Fuel Mix Disclosure

Energy regulator Ofgem published a consultation paper on fuel mix disclosure. The European Union Directive on the Internal Market in Electricity requires electricity suppliers to provide details to their customers of the mix of fuels used to generate the electricity they supply. Ofgem is seeking comments on proposed draft license conditions required to implement fuel mix disclosure.

Ofgem press release, 23/7/04

Great Britain: Energy Bill Receives Royal Assent

The Government's Energy Bill received Royal Assent to become the Energy Act 2004. The Act introduces some key changes for energy market regulation including: (1) the ability, under certain circumstances, to appeal Ofgem's decisions on code modifications to the Competition Commission; (2) the establishment of a special administration regime for energy network companies facing insolvency; (3) the implementation of British Electricity Trading and Transmission Arrangements (BETTA), ie a single wholesale electricity market and a single set of arrangements for use of the transmission system in Great Britain; and (4) the establishment of a new licence regime for gas and electricity interconnectors. In addition, the Act provides the framework for: (1) the establishment of the Nuclear Decommissioning Authority (NDA), to manage the decommissioning of the UK's nuclear legacy; and (2) the development of offshore wind and other marine renewable energy sources.

DTI press release, 22/7/04

Great Britain: Regulator Proposes Financial Penalty For Powergen

Energy regulator Ofgem proposed to fine Powergen £700,000 (US \$1.3 million). Following an investigation into Powergen's activities between October 2002 and July 2003, Ofgem concluded that Powergen had unfairly stopped 20,000 customers from switching energy supplier.

Ofgem press release, 20/7/04



Great Britain: Regulator Decides To Allow NGC An Income Adjusting Event

Energy regulator Ofgem decided to allow National Grid Company (NGC) an Income Adjusting Event (IAE) under NGC's System Operator (SO) incentive scheme. Ofgem is to allow £5.54 million (US \$10 million) as an IAE in respect of the incremental costs of tendering for reserve contracts for winter 2003/04. These costs were unforeseen when Ofgem set the target for NGC's balancing costs.

Ofgem website, 7/7/04

Great Britain: Competition Commission To Investigate Supply Of Domestic LPG

The Office of Fair Trading (OFT) referred the market for the supply of domestic bulk liquefied petroleum gas (LPG) to the Competition Commission. The OFT's decision follows its preliminary review of the market which found that there are features of the sector which appear to prevent, restrict or distort competition and which may lead to customers paying higher prices for their household LPG supply.

OFT press release, 5/7/04

Austria: EC Gives Green Light For M & A In Austria

European competition authorities approved the merger of the electricity trading business and the main customer business of Verbund and the associate companies of EnergieAllianz on 8 July. The approval came after the sale of the Austrian power major Verbund's supply subsidiary APC to the Slovenian corporation Istrabenz, a major prerequisite demanded by the competition authorities.

Platt EU Energy, 30/7/04

Belgium: Electricity Prices, Downward Trend

A study carried out by the Flemish regulator over the past year concluded that deregulation has had a "significant and indisputable downward effect on prices for residential and small power consumers".

Platts EU Energy, 30/7/04

France: EDF GDF Restructuring Text Adopted By French Assembly And Senate

The new legislation implementing the EU's Electricity and Gas Directives converts EDF and GDF into public companies and removes state guarantees on their finances. The legislation also allows the State to sell up to 30% of the incumbents' capital. RTE and GDF Transport must either remain subsidiaries of EDF and GDF respectively, or constitute other state-owned entities. The pension funds of EDF and GDF are transferred to the national pension system. Any shortfall between contributions and the final pension bill will come from a levy on transmission and distribution. Small consumers (less than 36 kVA) will be charged a uniform tariff for supply and distribution.

French Economy and Finance Ministry Website (Direction Générale de l'Energie et des Matières Premières, DGEMP), CRE website, 23/7/04



Germany: Increasing Share Of Renewables In The Energy Mix

The new German renewable energy law coming into effect 1 August 2004 will increase renewables' market share from 8% at present to 12.5% in 2012 and 20% in 2020. The new law obliges the network operators to buy renewable energy for pre-determined prices. The law is aiming to push the costs of renewables gradually towards competitive market prices. However, last year consumers paid about EUR 2,000 million of additional cost.

ddp.vwd Wirtschaftsdienst, 31/7/04

Germany: Industry and Consumer Associations Criticise New Energy Industry Law

According to the German Industrial Energy and Power Association the new planned Energy Industry Law will not foster competition in electricity and gas markets, keeping competitive market prices out of reach. The law's price and cost correction mechanism will not simulate an "as-if-competition" for the energy grid monopolists. According to the German consumers' association, grid fees have more than doubled since liberalisation, with monopoly abuse the reason for Germany having the highest retail prices in Europe. Indeed, customers in Germany pay roughly EUR 5,000 million per year too much for their power supply. Both associations called for a more powerful regulatory agency.

VWD-Vereinigte Wirtschaftsdienste GmbH, 30/7/04, Financial Times Deutschland, 29/7/04

Germany: Federal Cabinet Agree New Energy Industry Law

The German federal cabinet agreed a new energy industry law, setting up a regulatory agency for the electricity and gas market. The aim is to achieve fair and non-discriminatory competition in the energy market while maintaining high security of supply. The designated regulator will compare the charges of network operators, in an ex-post approval process. The German secretary of state for trade and industry, Mr. Clement, is optimistic that energy and gas prices will fall and that the law will strengthen customers' rights.

Ddp.vwd Wirtschaftsdienst, 28/7/04

Germany: Gas: Antitrust Division Bans Corporation

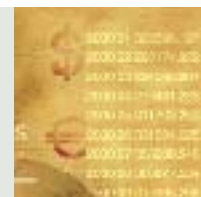
The German Antitrust Division rejected the proposal of Mainova, a Frankfurt based electricity supplier, to acquire a 17.5% interest in a subsidiary of a public utility company in neighbouring Aschaffenburg, arguing that the venture could lead to local monopoly abuse. The decision reflects the division's endeavour to keep markets open and to restrict any dominant position on the gas market.

Frankfurter Rundschau, 28/7/04

Germany: EU Demands Changes To National Allocation Plan

The European Commission demanded that Germany modify its national allocation plan (NAP) for emissions. Mr. Margot Wallström, the EU environment commissioner, explained on 7 July that Germany's original NAP allowed it to make ex-post adjustments to allocations during the 2005-2007 trading period. According to the EC, adjustments after the initial allocations will generate uncertainty for business and hold back trading. Germany has to change its national law to take out ex-post adjustments, a move that has been accepted by the German government.

Platts EU Energy 16/7/04



Germany: Regulation: Regulation Further Delayed

Introduction of a regulator for the energy market in Germany will be postponed. The discussion is hampered by lack of consensus between those favouring more incentive-based regulation and those who favour fixed rules. German gas prices are among the highest in Europe and are only surpassed by those in Sweden.

Platts International Gas Report, 16/7/04

Ireland: New Gas Business Rules

The CER published a document describing new business rules for the gas industry. These business rules will be reflected in the legal drafting of the Unified Code of Operations (“UCOP”), to be published later this year. The text of the legal draft will be published for consultation with industry members, although the underlying business rules will remain unchanged.

CER website, 23/7/04

Ireland: Review Of Gas Distribution And Supply Tariffs

The CER is currently review the structure of Bord Gáis Eireann’s distribution and supply tariffs. The CER has decided that the move to marginal cost-based tariffs should happen in two stages. Stage I, involves a review of current gas distribution and supply tariff levels, rather than structures, with the intention of rebalancing current tariffs to reflect Bord Gáis’ costs more accurately. In early August the CER will publish a paper setting out the CER’s proposed distribution and supply tariffs arising from Stage I of the Gas Tariff Review. Stage II involves a move to marginal cost-based tariffs. The CER will issue a consultation paper by the end of October 2004. The resulting tariffs will take effect from 1 October 2005.

CER website, 20/7/04

Ireland: Gas Supply Competition

The CER has conferred upon Flogas Natural Gas Limited the functions relating to the supply of gas to the franchise market in several areas in Ireland. Flogas Natural Gas Limited was selected as the franchisee on the basis of a competition held by the CER and based on service and price levels. Flogas Natural Gas Limited is expected to hold the franchise for two years. Flogas Natural Gas is also eligible to compete for commercial/industrial customers, who are presently entitled to choose any licensed natural gas supplier

CER website, 15/7/04

Italy: Approved The Law On The Reorganisation Of The Energy Market

After more than one year, the draft law on the reorganisation of the energy market has finally been approved. Key points of the law are: (i) all non-domestic customers on the electricity market are eligible from 1 July 2004 while all customers will be eligible from 1 July 2007; (ii) municipalities that allow construction of generating plants of at least 300 MW are entitled to receive compensation; (iii) members of the AEEG will increase from 3 to 5; (iv) simplification of the authorisation procedure (that must be completed within 180 days) for the building of new lines, pipelines and LNG terminals; (v) incentives for construction of new pipelines and LNG terminals; (vi) green certificates awarded to production of electricity from hydrogen; (vii) Government is delegated to issue decrees to implement the new law on the energy market within 2 years from its coming into force.

Il Sole 24 Ore 30/7/04



Italy: Information Obligation for GRTN and GME

The AEEG has recently issued a new decision that envisages information obligations for GRTN (the transmission system operator) and GME (the market operator) in order to ensure the sound functioning of the electricity market. AEEG stated that some “anomalies” in the operation of the market are due to a lack of information. The AEEG has decided to set deadlines by which information has to be provided. If GRTN and GME fail to provide the information required, they will be responsible, at various degrees, for the consequences in the market.

Staffetta Quotidiana 20/7/04

Italy: Black-Out: The Restarting Plan Failed

The Ministry of Productive Activities (MAP) has closed its enquiry into the September black-out. According to the report presented by MAP, GRTN's operations (GRTN is the Italian TSO) were carried out properly, as changes in imports were small with respect to import programmes and were thus managed as ordinary changes due to operations in foreign countries. Such changes do not require any emergency procedure. What went wrong was the restarting plan designed by the GRTN to restart plants that were disconnected from the grid. Among the causes of failure were the malfunctioning of the communication system between operators and the GRTN and the operators' lack of experience.

Staffetta Quotidiana 7/7/04

Italy: Opening Of The Electricity Market To All Business Customers On July 2004

Starting from 1 July 2004, all but domestic customers are eligible to choose their supplier. Suppliers must inform newly eligible customers of their opportunity to change supplier. AEEG, the Italian regulator, announced that during the next months it would monitor the further opening of the market and make all useful information available to newly eligible customers. On 1 July, about 7 million customers became eligible, in addition to about 150,000 existing eligible customers, mainly large, medium and small companies.

Staffetta Quotidiana 2/7/04

Portugal: The New Government To Reduce Its Participation In EDP

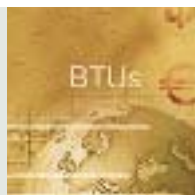
The Portuguese utility EDP will issue new shares in September in order to obtain capital to acquire the 52.6% of Hidro-cantábrico owned by EnBW. The Portuguese government has announced that it does not plan to acquire any of the newly issued shares, so its 26% stake in EDP will be diluted. This announcement is in line with the statement of the former government at the beginning of the year, when it stated that the government would reduce its holding in EDP down to 10%. The new government has not stated whether its target is still 10%.

www.negocios.pt, 29/7/04

Portugal: Parpública To Acquire Galp's Shares

Mr. Carlos Tavares, the Minister of Economy, has confirmed that Parpública is the consortium selected to acquire the 40.79% stake of Galp owned by Eni (33.34%) and EDP (7.45%) that was on sale. Parpública was one of the two consortia chosen to submit final bids. Parpública consists of Banco Português de Investimento, Violas and Arsopi. This sale is part of the restructuring process in the energy sector by which EDP and Eni will acquire Galp gas assets and divest their holding in the company. The losing consortium, led by the José de Mello Group, is considering the possibility of appealing against the decision.

Agencia Financiera, 22/7/04; Diario Economico, 6/7/04



Portugal: Brussels Close To Approving PPA Cancellation Plan

The Competition Policy Commissioner, Mr. Mario Monti, commented that he will issue a favourable opinion in respect of the Portuguese plan to cancel Power Purchase Agreements (PPAs). The plan has to be approved by the European Commission next September. If the Commission finally approves the plan, the generators will be entitled to compensation for cancellation of 34 electricity contracts signed with the market operator, amounting to EUR 2,000 million (US\$ 2,400 million).

Diario Economico, 16/7/04

Portugal: ERSE Reduces The Regulatory Period To One Year

The Portuguese energy regulator, ERSE, plans to reduce the duration of next regulatory period from three years down to one year, because of uncertainties surrounding the liberalisation process in the context of the creation of the Iberian electricity market.

Diario Economico, 13/7/04

Portugal: EDP Reports To EC On Acquisition Of Galp's Gas Assets

The Portuguese energy firm, EDP, has formally reported to the European Commission (EC) its acquisition of the natural gas assets that were primarily controlled by Galp Energia. This move is aimed at avoiding obstacles to the restructuring process now taking place in the Portuguese energy sector. The deal also involves the former Galp shareholder, Italian oil company Eni, and the Portuguese transmission operator, REN. It is expected that the EC will issue an answer by November this year, before the commissioner, Mr. Monti, leaves his job at the EC.

Diario Economico, 13/7/04

Portugal: Full Eligibility In Portugal For Electricity Customers

The Portuguese Council of Ministers approved full eligibility for domestic customers on 1 July, as planned. As a result, domestic customers can now freely choose their electricity supplier. With this measure, Portugal fulfils another one of the requirements set out in the internal electricity market directive, as well as a condition for the creation of the Iberian electricity market.

Agencia Financiera, 1/7/04

Russia: FTS Is Set To Eliminate Cross-Subsidies

The Russian Federal Tariff Service (FTS) discussed the 2005-2006 electricity tariffs with the Regional Energy Commissions on 26 July 2004. FTS expects that in 2005 average electricity tariffs will grow by up to 9.5% and average gas tariffs will rise by up to 20%. FTS plans to eliminate cross-subsidies in the electricity sector over the next 2-4 years. Industrial consumers in Russia currently pay higher electricity tariffs than households and the cross-subsidies amount to an estimated 60,000–65,000 million roubles (\$2,095-\$2,270 million).

Rossiiskaya Gazeta 29/7/04; Nezavisimaya Gazeta, 27/7/04;



Spain: Generators Denounce Electricity Pool Price Manipulation

Gas Natural threatened to complain formally to the Spanish energy regulator, CNE, about Endesa depressing electricity pool prices. Gas Natural believes that Endesa is depressing the pool price because it recovers more money when the pool price is low, owing to its large share of stranded costs payments (CTCs). Iberdrola agreed with Gas Natural that the CTCs scheme distorts the operation of the pool, observing that pool prices have fallen while both fuel prices and demand have increased. In response, Endesa blames the low electricity prices on new investments and the possibility that some CCGT plants may be being offered below cost, due to their gas take-or-pay obligations. Endesa has asked the CNE to investigate the operation of the pool and to express its opinion on the bids submitted by the different agents during the first half of 2004.

Expansión, 30/7/04; Cinco Días, 29/7/04; Cinco Días, 22/7/04

Spain: The Regulator Prepares Report On The Transposition Of The EU Directives

The Spanish Energy regulator, CNE, is drafting a report for the Government proposing ways to adopt the latest EU Energy Markets Directives (Directive 2003/54/EC and Directive 2003/55/EC). The CNE proposes several alternative ways to comply with the Directives, including the creation of a single gas and electricity TSO or the creation of independent retailers for full-service tariff gas and electricity customers. The most controversial point of the draft report relates to the requirement for independence of the electricity and gas system operators (functions currently carried out by REE and Enagás respectively). The regulator does not oppose the participation of the government in the TSOs or a possible exchange of shares between the two of them.

Cinco Días, 19/7/04

Spain: The Government Adopts The Emissions Trading Directive

The Spanish Government has drafted a Royal Decree to implement Directive 2003/87/EC, which establishes a scheme for greenhouse gas emission allowance trading within the European Community. The Royal Decree foresees fines up to EUR 2 million (US\$ 2.4 million) and the closure for up to two years of installations that fail to comply with the Royal Decree. These obligations include the holding an environmental permit, the provision of accurate information on emissions and the possession of emissions rights at the end of each year to cover actual emissions. The Directive should have been incorporated into Spanish legislation before the end of 2003.

Expansión, 14/7/04

Spain: The Competition Policy Authority Fines Generators

The Spanish Competition Policy Authority (TDC) has fined each of the three main utilities in the Spanish electricity market, Endesa, Iberdrola and Unión Fenosa, EUR 901,518.16 (US\$ 1,108,742) for abuse of dominant position. The TDC considers that on 19, 20 and 21 November 2001 the three companies abused their market power in the constraints management mechanism. The three utilities have stated that the prices observed during those days were a consequence of inadequate market rules, which oblige generators to offer their plant at the same price to the daily market and to the constraints management mechanism, forcing generators to estimate what their running regime will be. Iberdrola and Unión Fenosa have announced they will appeal against the decision of the TDC.

Expansión, 9/7/04



Spain: The Government Publishes Final National Allocation Plan

Some weeks after publishing general criteria for the allocation of CO₂ emission rights in Spain, the Spanish Ministry for the Environment has submitted the final draft of its National Allocation Plan to the European Commission. Industrial installations will receive a number of rights which will depend on their emissions during years 2000-2002. In the case of the electricity generation sector, the allocation considers 2000-2002 emissions but also geographical and technological criteria that will benefit “extra-peninsular” (island) and CCGT generation. However, the specific allocation for each of the (approximately 1,100) installations involved is still to be defined.

Cinco Días, 8/7/04

Spain: The CNE Investigates Gas Distribution Companies

Spanish Energy Regulator, CNE, has opened a file on gas distributors, in order to investigate the price policy of these companies in relation to services provided to gas retailers in the free market. Some services provided by the gas distributors, such as maintenance, incident response, periodic inspections, etc, are not included in access tariffs, and their prices have to be negotiated between the distributor and the retailer. The CNE will analyse whether the distributors are abusing their market power, charging excessive prices for these services, which reduces competition in the non-regulated gas market.

Cinco Días, 2/7/04

Turkey: Balkans Negotiate Open Market

The non-European Union energy markets of southeast Europe could be fully open by 2015 if a treaty now being negotiated with the European Commission is ratified. Officials met in mid-July to discuss the draft treaty, which would set the rules for a common energy market in the region. The draft treaty allows for later market opening than that detailed in the original directives. Non-EU countries including Turkey would have until 1 January 2008 to open their gas and power markets to all non-household customers, compared with 1 July 2004 for existing EU members. And they would have until 1 January 2015 to open them to all customers, compared with 1 July 2007 for EU members.

Platts EU Energy, 30/7/04

Turkey: King & Spalding LLP Advises Turkish Power Distribution Company In Successful Arbitration Against The Republic Of Turkey

SBD Sakarya Bolu Elektrik Dagitim AS, a special-purpose company created to manage power distribution in the Republic of Turkey's Sakarya Bolu region, won a US \$30 million arbitration award this spring against the Republic of Turkey. The award compensated SBD for lost profits due to the government's breach of the contract granting SBD a transfer of operating rights for electricity distribution in Sakaraya Boluin. The Turkish government broke the contract in favour of full privatisation of the networks in line with IMF recommendations. Two other companies have raised similar disputes; SBD was the only successful claimant. There are more than 40 other companies with similar potential claims against the government.

PR Newswire Europe, 20/7/04



NORTH AMERICAN NEWS

US: FERC: Cooperatives Not Entitled To SPP Revenue Allocations

The Federal Energy Regulatory Commission (FERC) issued an order stating that because certain Texas-based electric cooperatives are not integrated with the Southwest Power Pool (SPP), the cooperatives should not receive revenue allocations under the power pool's regional tariff. In a concurrence attached to the order, FERC Chairman Pat Wood urged the cooperatives to take a closer look at possibly joining SPP, which has been given conditional regional transmission organization status by FERC.

NGI's Power Market Today, 29/7/04

US: Southern Likely To Fail One FERC Market-Power Test

Southern Company, the Southeast's largest utility, is likely to fail one of the tests federal regulators recently established to determine if a company has too much sway over regional power markets according to Southern Chairman, President and Chief Executive David Ratcliffe. Failing the test could mean the company could lose its ability to sell power at market rates. Instead, it could have to sell at prices based on its costs, which can be much less lucrative. That could hurt Southern, where wholesale power sales have contributed significantly to earnings growth.

Dow Jones & Company, Inc., 28/7/04

US: FERC: Detroit Edison Can Buy Summer Power From Affiliates

DTE Energy unit Detroit Edison can buy limited electricity this summer from wholesale affiliates if needs to ensure reliable service, the Federal Energy Regulatory Commission said in a recent order. The utility expects to adhere to a 300-megawatt limit for purchases set by Michigan regulators in June, and to buy power from its affiliates only as a last resort. Such transactions have met resistance recently from merchant generators, who say there is a growing trend of utilities favoring unregulated affiliates when choosing among power contract offers.

Dow Jones & Company, Inc., 19/7/04

US: Mercury Rules Delayed Four Months

The U.S. Environmental Protection Agency (EPA) has announced it will push back the finalizing of rules to reduce mercury emissions from power plants until March 2005 to consider whether stricter rules are needed. The EPA faced a 15 December legal deadline to finalize the rules, which, as written, would require utilities to reduce mercury emissions by 70% by 2018. EPA Administrator Mike Leavitt said final rules will be delayed by four months because of the complexity of the issue and the desire to assure that a reduction is done in a proper and informed way. The EPA had proposed two possible ways to reduce emissions: cap-and-trade or requiring utilities to install maximum achievable control technology.

Power Engineering, 19/7/04



US: FERC Tosses Complaint Against NYISO Over Capacity Auctions

FERC rejected a complaint filed late last year by several power suppliers and groups representing energy buyers in New York State in which they argued that the New York Independent System Operator (NYISO) calculated capacity rebates using “revised and unauthorized” price caps and asked the Commission to order the NYISO to refund to them about US\$21 million. The December 2003 complaint was filed by Consolidated Edison Co., Consolidated Edison Solutions Inc., KeySpan Energy Services, Constellation New Energy, Strategic Energy, the New York Energy Buyers Forum and Consumer Power Advocates. According to the group, during spring 2003 they participated in three NYISO auctions for the purchase and sale of capacity from generating units located within New York City -- the summer 2003 capability period strip auction, the May monthly auction and the June monthly auction.

NGI's Power Market Today, 15/7/04

US: California PUC May Hasten Electric Utility Reserve Requirement

California's regulated electric utilities may have to meet requirements on excess power supplies by 2006 rather than 2008, according to an order at the California Public Utilities Commission (CPUC). Accelerating the requirement could help independent power producers in and around California, such as Calpine Corporation, Constellation Energy Group, Duke Energy Corporation, Dynegy Inc., NRG Energy, Reliant Energy and Williams. Combined with an order from CPUC commissioners Thursday that the state's utilities immediately start buying in-state power in advance from some of these same companies, the merchant generators prospects in the state are improving. The utilities have been told to meet their power needs with a combination of their own power plants and supplies purchased by independent generators. Administrative Law Judge Mark S. Wetzell officially opened the possibility of moving up the reserve requirement to 1 January 2006 from 1 January 2008 by asking for comments on such a change.

Dow Jones & Company, Inc. 9/7/04

US: Critics Call Texas Electricity Market Overhaul Plan Impractical, Costly, Risky

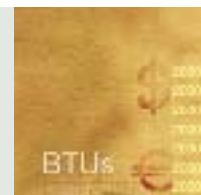
Opposition in Fort Worth and Dallas has rapidly coalesced around the Public Utility Commission's proposed overhaul of the state's wholesale electricity market. Opponents have raised multiple objections: in theory, companies would take advantage of high prices under the nodal system to build power plants or transmission lines in areas where power runs short. That new construction, in turn, would gradually lower prices and alleviate shortages. The problem, opponents say, is that companies cannot easily build new plants or transmission lines in the Metroplex. That's because federal environmental rules block new plant construction and right-of-way difficulties block new transmission lines.

Fort Worth Star-Telegram, 6/7/04

Canada: Ontario Renews Atomic Embrace

Ontario's energy minister, Dwight Duncan approved an Ontario Power Generation plan to breathe new life into atomic energy in the province by restarting the Pickering A nuclear plant, one of eight reactors on Lake Huron closed in the late 1990s for major refurbishment. The estimated C\$900 million project is slated to revive the 515-MW plant within the next 15 months, the shortest lead-time of any of the major sources of electricity available to the power-pressed province, which faces a critical supply shortage as early as 2007 due to the unprecedented decision of the McGuinty government to retire all coal-fired generation by that time.

Energy Prospects, 20/7/04



Mexico: Natural Gas Prices Reach Record High:

The price of natural gas reached US\$5.91 per MBtu, the maximum for the month according to the Energy Regulatory Commission (CRE)

Reforma 16/7/04

Mexico: Montemayor Jailed In Houston:

Rogelio Montemayor, former head of Mexico's state oil company, was jailed in Houston after a federal judge ruled that he will be extradited to Mexico to face charges of embezzlement and wrongful use of power. In 2002 Montemayor was charged with improperly negotiating a labor contract with the Pemex workers' union and crediting union bank accounts with large amounts of state money. The charges are connected to three transactions involving US\$209 million in Pemex funds.

Reforma 26/7/04; Associated Press 23/7/04,

Mexico: JBIC, 3 Banks To Give \$200 Million Dollar Loans To Power Supply Project In Mexico

Kyushu Electric Power Co. said Tuesday that its electricity supply project in Mexico, to be launched jointly with Mitsubishi Corp., will receive 200 million dollars in loans from the government-affiliated Japan Bank for International Cooperation and three commercial banks. A special purpose company, owned 70% by Mitsubishi Corp. and 30% by Kyushu Electric Power, will on Wednesday begin the construction of a 495 MW thermal power plant in Tuxpan, Veracruz, some 250 kilometers northeast of Mexico City.

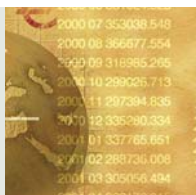
Jiji Press English News Service via Energy Central 20/7/04

CENTRAL AND SOUTH AMERICAN NEWS

Argentina: Argentina Imports More Gas and Diesel From Bolivia and Venezuela

Bolivian President Carlos Mesa reached agreement with his Argentine counterpart Nestor Kirchner to expand the volume of the present six-month gas export contract by 2.5 million cubic meters a day (mcm/d) to 6.5mcm/d, with immediate effect. In the longer term, Argentina is planning to import up to 30mcm/d from Bolivia through the proposed Gasoducto del Noreste Argentino (GNA) in northeastern Argentina. The GNA project would re-use an existing pipeline between the two countries used to export gas from Bolivia to Argentina until the 1980s. The pipeline could be extended to Paraguay and Brazil in the future. Meanwhile, the Argentinean government is considering whether to extend an agreement to import diesel fuel from Venezuela for one year, until October 2005. The fuel imports from Bolivia and Venezuela will help alleviate Argentina's on-going energy crisis.

Business News Americas, 23/7/04, 22/7/04



Argentina: The Government Creates A Fund To Finance Investments In The Electricity Sector

With resolution 712 published on Friday 16 July, the Argentinean government created FONINVEMEM, a 2,000 million peso (US\$680 million) fund to increase the power supply in the country's wholesale market (MEM). The new projects in the power sector financed by the fund will help to avoid power shortages through 2007. Without these new investments, power shortages are likely to occur in the future, given the high growth rates in electricity demand and low levels of investment in generation and transmission facilities in recent years. The fund will use public money, but private generators could be invited to contribute and become shareholders in new projects.

Business News Americas, 16/7/04

Argentina: Agreement Reached to Create a New Regional Energy Company

The Venezuelan President Hugo Chavez and his Argentine counterpart Nestor Kirchner signed a letter of intent to create a Latin American regional energy company, Petrosur. With this agreement, the energy ministries of both countries agreed to advance quickly towards the creation of Petrosur. Venezuela's state oil company PDVSA and Argentina's proposed state energy company Enarsa are expected to take up shares in the new regional company. In the longer term Petrosur would eventually include all the state oil companies in the region, including the Brazilian federal energy company Petrobras.

Business News Americas, 9/7/04

Bolivia: Results Of The Gas Referendum Give President Mesa A Strong Mandate

According to preliminary results released from the national electoral court (CNE), the Bolivian people have voted "Yes" to all five questions in the gas exports referendum held on Sunday 18 July. As a result, President Carlos Mesa has been given a clear mandate to implement reforms to the existing hydrocarbons law, though he is still likely to face some resistance in Congress, where he lacks political support. Mesa is planning to submit the new hydrocarbons bill, based on the results of the referendum, to Congress in mid-August and then to start negotiations with private oil companies operating in Bolivia under the terms of the new law. The question about whether to use gas as a strategic resource to gain sovereignty over an exit to the Pacific Ocean was the least supported out of the referendum's five proposals. The issue of the Bolivian access to the sea remains crucial, since most Bolivians reject the option of using a Chilean port to ship gas.

Business News Americas, 19/7/04

Brazil: Regulatory Decrees For The Electricity Industry Likely To Be Published Soon

Dilma Rousseff, the Brazilian mines and energy minister, has announced that the decrees regulating the new power sector model and setting trading rules will be published in early August. The first and most important will determine price-setting procedures and allow the government to auction 45 projects to expand the country's generation capacity by some 13,000 MW in 4-5 years. These new power plants should be operational between 2008 and 2009. Other three decrees will create a chamber of power trading (CCEE, which will replace the existing wholesale market MAE), a governmental energy research company (EPE, in charge of carrying out long-term planning for the Brazilian energy needs and policies), and a power supply monitoring committee (which will oversee power demand five years ahead). These decrees are necessary to make the new Brazilian power sector model agreed in the last months fully operational and should encourage long-term investments in the electricity industry.

Business News Americas, 27/7/04



ASIA-PACIFIC NEWS

Australia: Slack Power Companies Forced To Raise Standards

Two Queensland-based electricity distributors and retailers will be forced by the state government to adopt minimum service standards and invest regularly in upgrading their networks. The action responds to a leaked report, which found the government-owned power companies, Energex and Ergon Energy, had let the network deteriorate to a level where it cannot meet current demand. The Government commissioned the report earlier this year after summer storms caused wide-spread and prolonged blackouts.

The Courier-Mail, 26/7/04

Australia: Cross-Subsidies Removed From Gas Prices

Gas prices for South Australian households will rise by 7.3%—an average of A\$34 (US\$24) a year—from the end of July, the State Government has announced. Small businesses will see a 1% drop in gas prices which will save them about A\$150,000 (US\$105,000) on average per year. For larger business customers, prices will come down by about 5%. The price changes coincide with the start of full retail competition in the state's gas market, and results from the removal of cross-subsidies.

The Advertiser, 15/7/04

Australia: Tribunal Rules Against Regulator On Gas Price

The Australian Competition Tribunal has ruled against the Australian Consumer and Competition Commission (ACCC) over the tariff charged by Australian Pipeline Trust (APT) for the Moomba-Sydney Pipeline. The dispute revolves around an assessment of the depreciated optimised replacement cost of the pipeline, which the ACCC valued at around A\$535 million (US\$374 million), well below the APT's figure of A\$790 million (US\$552 million). The court said "It was a fundamental error in principle for the ACCC to put aside known valuation methodologies and devise a methodology of its own." APT charges A\$0.66 (US\$0.46) per gigajoule of gas transported, which the ACCC has been seeking to reduce to A\$0.51 (US\$0.36).

www.smh.com.au, 9/7/04

China: It's Going To Be A Long, Dark Summer

Chinese provinces Shanghai and Guangdong have reported worsening power shortages due to high temperatures and rapid economic development. Guangdong is expected to face its biggest power shortfall from July to September, though the gap may persist until the end of the year, the Southern Metropolis News said. Shanghai, has taken steps to stem electricity consumption such as turning off the lights of the historic Bund district. A local newspaper reported that the city was preparing to seed the clouds to induce rain and bring down temperatures. The mainland's commercial capital has just ordered a further 700 companies to halt production during the day and work at night, bringing the total number of restricted companies to 1,200.

South China Morning Post, 13/7/04



China: China's Electricity Regulator To Establish Six Regional Branches

China's State Electricity Regulatory Commission (SERC) stated that it plans to establish six regional branches around the country as part of efforts to reform the power sector. The branches in south, east, central and northern China will supervise local power production and marketing activities, ensure fair competition and perform relevant administrative duties. The branches in Guangzhou, Shanghai, Xi'an, Wuhan, Beijing and Shenyang will also be responsible for issuing licenses to local power projects, releasing statistics and information relating to the local power market and preventing companies from violating competition rules.

AFX – Asia, 5/7/04

Hong Kong: Power Firms In Talks On Capex Plans

CLP Holdings and Hongkong Electric Holdings have confirmed they are in talks with the government over their planned capital expenditure (capex) for electricity generation and distribution in Hong Kong over the next four years. They expect tougher-than-usual negotiations with the government, as capex plans have a direct impact on future tariffs, higher capex allowing the companies to charge higher tariffs. The scheme of control which is the mechanism for setting electricity prices in Hong Kong has been criticised for allowing power firms to earn a profit of up to 15 per cent on the average net value of fixed assets in use.

South China Morning Post, 7/8/04

India: Budget Offers Few Benefits

Commentators suggest that there are few benefits for the energy sector in the first budget of the United Progressive Alliance government. However the budget does include the introduction of a ten-year 100 per cent tax exemption on profits for new companies entering the generation, transmission or distribution business.

Platts Power in Asia, 22/7/04

India: Sail Begins Power Wheeling

The Steel Authority of India Ltd (Sail) has become the first Indian industrial enterprise to transmit surplus power from one of its captive generation plants to one of its other manufacturing facilities in a different state. Sail expects to wheel between 150GWh and 200GWh a year in the course of a full year, resulting in substantial annual cost savings and improvements in the reliability of power supply. The right to wheel power between facilities in different states was mandated under the open access provisions of the Electricity Act passed in June 2003.

Platts Power in Asia, 22/7/04

New Zealand: Low-Use Power Tariff To Be Compulsory

The Government has announced it will compel all electricity retailers to offer a special tariff for low-use customers, with a fixed charge that cannot exceed NZ\$0.30 (US\$0.19) a day (excluding tax). The regulation will apply from 1 October. A low-use customer consumes 8000 kWh of electricity a year or less. About 500,000 households qualify (a third of all households).

www.nzherald.co.nz, 9/7/04



New Zealand: Levy Announced For Power Regulation

The Government has announced that a new levy for regulation of the electricity industry will average NZ\$18.20 (US\$11.50) per household per year. The levy will fund, in part, the responsibilities of the new Electricity Commission, such as buying reserve generation. The Commission regulates the electricity market and ensures security of electricity supply in dry years. It has operated since March 2004. The fee is levied on wholesale purchases, but is likely to be passed through to consumers.

www.nzherald.co.nz, 9/7/04

New Zealand: Lines Companies Allowed To Own More Generation:

The new Electricity and Gas Industries Bill will enable electricity lines companies to own generation equivalent to the higher of 50MW or 20% of their network load. The bill also contains measures to promote security of supply, consumer protection, competition and sector governance.

www.odt.co.nz, 2/7/04

Philippines: Philippines To Sell 70-80 Pct Of Napocor Power Generating Assets By End-2005

The Power Sector Assets and Liabilities Management Corp (PSALM), the government agency tasked with privatising the National Power Corp, has said the government expects to sell 70-80 per cent of Napocor's power generating assets by end-2005. PSALM, is optimistic it will be able to sell at least 16 power plants by end-December next year, PSALM vice president Froilan Tampinco said. So far, PSALM has sold only three small power plants since March this year. Under the reform program for the power sector, the operation of the wholesale electricity spot market will start once 70% of Napocor's facilities have been sold.

AFX – Asia, 30/7/04

Philippines: ERC Examines Meralco, First Gas Deal

The Manila Electric Company (Meralco) is seeking regulatory approval for revisions to its power supply agreements with the First Gas Power Corporation, a sister company. The Energy Regulatory Commission (ERC) has started holding public hearings on Meralco's petition to amend the power purchase agreement with First Gas.

Platts Power in Asia, 22/7/04

Philippines: ERC Seeks Reversal Of Court Ruling

The Energy Regulatory Commission (ERC) has asked the Supreme Court to reverse its 15 June ruling that a rate increase granted to the Manila Electric Company (Meralco) was illegal. ERC argues that the ERC decision did not constitute a "grave abuse of discretion" in granting Meralco the provisional authority to raise tariffs by P0.12/kWh without publishing the rate increase application or holding public hearings. The court had said that ERC's expedited approval of the hike violated the requirements of the Electric Power Industry Reform Act.

Platts Power in Asia, 22/7/04



Singapore: Singapore To Reform Energy Industry After Blackout

Following a major power blackout in Singapore last month the government has announced reforms to its energy industry. The Minister of State for Trade and Industry Vivian Balakrishnan said the government is prepared to take “heavy-handed” measures against power suppliers to prevent a repeat of the power outage, which lasted for up to two hours on 29 June. Balakrishnan also unveiled plans to strengthen the power generation system and reduce heavy dependence on piped-in gas.

AFX – Asia, 7/9/04

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

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

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