

A NERA Publication

# Global Energy Regulation

Reporting on energy regulation around the world

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## EUROPEAN NEWS

### **Great Britain: Regulator Proposes Relative Price Control For Independent Distribution Network Operators**

Energy regulator Ofgem published initial proposals for the regulation of Independent Distribution Network Operators (IDNOs) and existing Distribution Network Operators (DNOs) providing services outside their region. Ofgem proposes to set a relative price control for a fixed period of ten years, whereby IDNO charges will follow the incumbent DNO's charges, subject to a pre-determined floor and ceiling. Regarding financial ring-fencing conditions, Ofgem proposes to offer IDNOs an alternative to the requirement for investment grade credit-rating and to reflect changes in ring-fencing conditions proposed as part of the electricity DNOs' recent price control review.

*Ofgem website, 31/1/05*



### **Great Britain: Competition Commission Consults On Energy Codes Guidance**

The Competition Commission (CC) has published draft guidance on how it will approach appeals against decisions made by the energy regulator Ofgem on modifications to energy codes. Energy companies can propose modifications on the various codes that govern how the energy industry operates. Following consultation and consideration within the industry, a code panel will recommend to Ofgem whether the proposed modification should be accepted or rejected. Ofgem's subsequent decision can, from 1 April 2005, be appealed for review by the CC. Up till now, these decisions have been open to judicial review. The CC is consulting on its draft guidance.

*Competition Commission press release, 31/1/05*

### **Great Britain: Government And Regulator Approve Sale Of Gas Distribution Networks**

The Government and energy regulator Ofgem approved National Grid Transco's (NGT) proposed sale of four of its eight regional gas Distribution Networks (DNs). Ofgem's approval is conditional on the development of arrangements to support a divested industry structure, including: (1) clearly defined roles and responsibilities for network owners; (2) new arrangements for taking gas off the network (to be implemented from September 2005); and (3) creation of an agency to take over some of NGT's functions, including administering the processes needed to support gas competition. Ofgem estimated the net benefit to customers to be some £225 million (US\$423.7 million) between 2005 and 2023. In August 2004, NGT announced the sale of four of its eight DNs to three bidders for £5,800 million (US\$10,900 million) in cash plus approximately £130 million (US\$245 million) of assumed liabilities.

*DTI press release, 27/1/05; Ofgem press release, 21/1/05*

### **Great Britain: Regulator Publishes Revised Competition Act Guidelines**

Energy regulator Ofgem published revised guidelines on the application of the Competition Act 1998 in the energy sector. Ofgem has concurrent powers with the Office of Fair Trading (OFT) to tackle cases involving anti-competitive agreements or abuse of dominance in energy markets. The revisions to the guidelines reflect the modernisation of EC competition law, recent developments in case law and Ofgem's experience of applying the Competition Act.

*Ofgem press release, 27/1/05*

### **Great Britain: LNG Import Facilities Win Deregulatory Measure**

The Department of Trade and Industry (DTI) laid before Parliament an Order to come into force on 1 February 2005, which will decrease the regulatory burden on Liquefied Natural Gas (LNG) import facilities. Under the Order, the Secretary of State or Trade and Industry has provided an exemption for LNG facilities from the requirement under the Gas Act 1995 to obtain a gas transporter licence. DTI previously granted a number of exemptions for certain terminals and storage facilities.

*DTI press release, 11/1/05*



### **Austria: E-Control Cuts Electricity Grid Fees**

The E-Control Commission imposed cuts in electricity grid fees from 1 February of the order of around 10-20% on utilities in Salzburg, Carinthia and Burgenland as well as the Verbund's subsidiary, Austrian Power Grid (APG). Walter Boltz, Chairman of E-Control, said that the decision reflected a thorough assessment of the scope for price reductions created by efficiency improvements and increases in electricity volumes delivered. Grid fees in other parts of the country are still under investigation.

*Austria Presse Agentur-OTS, 12/1/05*

### **Belgium: Directive Triggers Changes**

The federal Belgian government has approved draft legislation that will implement the Second Electricity directive. The legislation will deal with many outstanding items in the energy business, including regulations needed to start a power exchange and allowing the regulator to determine multi-year tariffs.

*Platts Power in Europe 31/1/05*

### **Bulgaria: Three-Quarters Of Energy Companies Sold**

State-owned companies in the Bulgarian energy sector decreased from 87 in 2001 to just 24 at the beginning of 2005, according to the energy ministry. The privatisations produced revenues of approximately 1,000 million, predominantly from the divestiture of the seven electricity distribution utilities. Electricity distribution is now wholly private and 91% of service and repair activities are also in private hands. Other utilities that have been privatised include 42% of electricity producers, 10% of the heating utilities and 8% of the coal mining companies. Only 66% of the assets expected to be privatised have been sold to date.

*PARI Daily, 3/2/05*

### **Bulgaria: Court Overturns Grid Fee**

The State Energy Regulatory Commission of Bulgaria is expected to appeal the ruling by the Supreme Administrative Court (SAC) which overturned the transmission fee that eligible power consumers and electricity distributors were obliged to pay to the national transmission grid operator. The fee was ruled illegal by the SAC on 14 December 2004, due to insufficient legal grounds for the inclusion of the cost of maintaining stand-by power capacity in the transmission fee.

*Platts Energy in East Europe, 7/1/04*

### **EU: Energy: European Commission Authorises Germany To Grant 2.7 Billion To Its Coal Industry**

The Commission did not raise any objection to the EUR 2,700 million aid package that Germany proposes to grant to its coal industry for the year 2005. The aid fits within the overall restructuring plan approved by the EC for the German coal industry over the period 2003-2005.

*European Commission press release, 19/1/05*



**France: GDF To Ask For Further Price Increase**

A rise of 3.8% in GDF's prices was approved at the end of 2004, but GDF stresses that the figure is significantly lower than if it had been calculated by the traditional method, linking gas prices to oil prices. Some GDF directors cited 4.4 % as the rise the company is aiming for.

*Le Figaro, 27/1/05*

**France: EDF And Edison Situation Unlocked In One Month**

The Italian and French prime ministers were confident they could reach an agreement allowing EDF to exercise its full stake in Edison's governance, while giving Enel greater access to the French energy market.

*Le Figaro, 26/1/05*

**France: Government Determined To Sell Shares Of National Energy Groups This Year**

The French government confirmed it wanted to open the capital of GDF, EDF and Areva in 2005. The Finance minister stressed that EDF and GDF would not be privatized, since the law limited the sale to 30% of their capital.

*Les Echos, 24/1/05*

**France: Regulator Criticizes RTE For Fibre Optics Plan**

CRE, the French energy regulator, criticised the plan of RTE (electricity TSO) to install fibre optics for its security network as well as for telecommunications. The regulator said that customer charges for the use of the power grid would not cover the cost of the investment estimated at close to EUR 300 million.

*Les Echos 4/1/05*

**France: Industrialists Request State-Regulated Gas Prices**

A large number of industrial companies have demanded that prices in the gas sector continue to be set by the government. They argue that the lack of market opening has resulted in abnormally high prices.

*Les Echos 31/12/04*

**Germany: Kartellamt Criticises Long-Term Municipal Gas Supply Contracts**

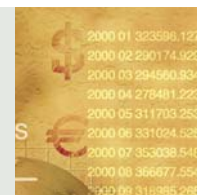
The Bundeskartellamt criticised long-term gas supply contracts between trading companies and municipalities. A detailed discussion paper will explore a liberalisation of contract arrangements to enhance competition.

*Frankfurter Allgemeine Zeitung, 28/1/05*

**Germany: Nuclear Energy Productivity Growth**

Despite "nuclear exit" and the closure of the nuclear energy plant in Stade, the German nuclear energy industry produced more electricity in 2004 than in 2003. This highlights substantial improvements in industry productivity.

*Stuttgarter Zeitung, 27/1/05*



### **Germany: High Security Standards At Nuclear Energy Plant Philippsburg**

The German nuclear energy plant Philippsburg successfully passed a security inspection by the International Nuclear Energy Authority. The inspection had been requested by EnBW, the operator of the plant, after an incident in which mildly radioactive water had leaked into the Rhine.

*Ddp-Wirtschaftsdienst, 27/1/05*

### **Germany: Clement's Controversial Energy Law Proposals**

In the new Energy Law (EnWG) currently being deliberated in the Bundestag, economics Minister Wolfgang Clement proposes to grant lower energy transmission prices to energy-intensive industrial clients than to other customers. The Federal Consumers' Association opposes the proposal, which it believes will lead to higher prices than necessary for domestic customers.

*Frankfurter Rundschau, 26/1/05*

### **Germany: No EC Objections To German Coal Aid**

The EU Commission (EC) cleared the German government's 2,700 million aid package for the coal industry in 2005. The EC said the package was in accordance with a broader restructuring plan for the German coal industry it had already approved.

*AP German Worldstream, 19/1/05*

### **Germany: German Cartel Office Plans New Gas Contract Rules**

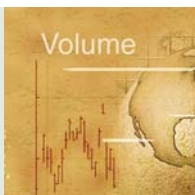
The German Cartel Office is drafting a proposal for cutting the duration of natural gas contracts between German importers and their clients, a spokeswoman for the Cartel Office in Bonn said, confirming a report published Monday in the German press. The proposal is aimed at introducing more competition to the German gas market by breaking the current strong ties between gas distribution companies and their clients - notably local and regional utilities - via long-term supply contracts. Under the prospective Cartel Office regulation, contracts supplying more than 80% of a client's needs wouldn't be allowed to last more than two years, and contracts over 50% of the total amount purchased would be limited to four years.

*Dow Jones Business News, 17/01/05*

### **Germany: Germany's FCO Probes Gas Market Abuses**

Germany's Federal Cartel Office (FCO) has started an investigation into possible market abuse by five German gas suppliers. The FCO suspected the firms - which include RWE's Mitteldeutsche Gasversorgung, Eon's Thuga and EnBW's ODR - were charging excessive domestic tariffs. Other suppliers may also be investigated. The FCO was also considering whether the long-standing link between gas and oil prices is anti-competitive.

*www.utilityweek.com, 14/1/05*



### **Italy: Proposals For Competitiveness In Gas' Market.**

The AEEG submitted to Parliament and the Government proposals to enhance competitiveness in the natural gas market, focusing on management of the national transmission network and the storage system. According to AEEG, ENI still has a predominant role in all activities of the gas sector, due to the low import capacity of the Italian transmission system and congestion on import pipelines that prevent the market from having excess supply, which would allow customers to choose among different supplier. In order to enhance competition, AEEG suggests, among other things, that ENI reduces its stake to a residual 5% in Snam Rete Gas (the main transporter, in charge of managing the national network) and STOGIT (the main storage company) and, eventually, the merger of Snam Rete Gas and STOGIT after ENI's withdrawal. Moreover, AEEG proposes the transfer to third parties of part of the long term import contracts now held by the ENI group.

*AEEG's web site, 28/1/05*

### **Italy: A New Investigation About Course Of Electricity Market.**

The Autorità per l'Energia Elettrica e il Gas (AEEG) has started a preliminary investigation in the electricity market. The new preliminary investigation will mainly focus on the reasons for the high prices that prevailed on the market at the beginning of January, in order to verify whether there is a need to increase control of producers' market power.

*AEEG's web site, 13/1/05*

### **Italy: New Rules To Promote Competition And Guidelines For The Drafting Of The Network Code**

AEEG has set out provisions for preventing price rises not justified by market conditions, resulting from market power of producers, in order to promote competition in the electricity market. AEEG has also issued directives to the GRTN (Italian transmission system operator) demanding a network code that would set out technical rules for connection to the system, metering and dispatch, thus contributing to the transparency of transportation services.

*AEEG's web site, 5/1/05*

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

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

*De Financieele Telegraaf, 11/1/05*

### **Portugal: New Calendar For Galp's Restructuring Plans**

The Portuguese government and ENI, the Italian oil group and owner of the largest stake in Galp, have agreed a new calendar for negotiating the implementation of the contract that would give ENI the right to acquire a stake in a new gas company in exchange for its share of Galp. The new calendar envisages a period of negotiation that would finish at the end of May. This date would be modified depending on the results of the forthcoming Portuguese elections. The restructuring plan has been modified following the European Commission's rejection of the initial Portuguese government plan.

*www.negocios.pt, 28/1/05*



### **Portugal: REN And EDP Agree Termination Of The PPAs**

Negotiations between EDP and REN to terminate their long-term power purchase agreements (PPAs, known in Portuguese as the CAEs) have finally ended. The CAEs cancellation plan foresees a transitional mechanism that will provide compensation to preserve the generators' rights embodied in these contracts. EDP's compensation has been valued at EUR 3,360 million (US\$ 4,370 million). The elimination of these contracts implies that REN no longer has to buy electricity from EDP. REN is still negotiating CAE termination with the other two electricity producers with CAE contracts, Tejo Energia and Turbogás.

*www.negocios.pt, 27/1/05*

### **Portugal: Separation Of Gas Activities**

As part of the energy restructuring plan of the Portuguese government, gas transportation, Carriço storage facility and the LNG regasification plant of Sines will be assigned to REN, while the Algerian and Nigerian gas import contracts will be assigned to Gas de Portugal (GDP), thus effectively separating the regulated and competitive activities. However, whether this reform will become effective will depend on the outcome of the investigation by the Portuguese competition policy authorities.

*Jornal de Negócios, 19/1/05*

### **Portugal: EDP Notifies The Acquisition Of A Stake In Turbogás**

Energias de Portugal, EDP, has notified the competition policy authority, Autoridade da Concorrência, of its intention to acquire 20% of Turbogás' shares currently owned by International Power. Turbogás already owns a CCGT plant located in Tapada do Outeiro.

*www.autoridadedaconcorrenca.pt, 13/1/05*

### **Portugal: EDP Acquires 46.6% Of Portgás**

Energias de Portugal (EDP) has taken control of Portgás through the acquisition of a 46.6% stake previously owned by Gás de Portugal, bringing EDP's stake in the company to 59.6% of the capital. The operation has a value of EUR 84.97 million (US\$ 110.46 million). Because EDP will own a majority of the shares, the operation has to be approved by the Portuguese competition policy authority.

*Jornal de Negócios, 13/1/05*

### **Portugal: EDP Acquires Power Plant Sites**

Last June the Portuguese government approved legislation for the creation of the Iberian electricity market. This law created the possibility for generators to acquire power plant sites that were being rented to them by the transmission company, Rede Eléctrica Nacional (REN). As a result, Energias de Portugal, EDP, has paid EUR 40.6 million (US\$ 52.8 million) to REN for the land where EDP's electricity thermal plants are located (Carregado, Tunes and Setúbal). REN is also to sell the sites where the Tejo Energia, Turbogás and EDP's hydro plants are located.

*Jornal de Negócios, 6/1/05*



**Romania: Romania Abandons Public-Private Concept For Cernavoda 3**

Societatea Nationale Nuclearelectrica (SNN), the state-owned nuclear utility carrying out the Cernavoda 3 project have abandoned the unprecedented concept of a public-private partnership (PPP) to complete the reactor, with a long-term power purchase agreement (PPA) to attract debt financing. SNN stated that the initial round of bilateral discussions had shown that the PPP concept “was not well-matched to this project”. Moreover, the structure of Romania’s power market may not have allowed a PPA with a guarantee issued by the government, as had been planned for Cernavoda 3.

*Platts Energy in East Europe, 7/1/05*

**Russia: Antimonopoly Service Accuses System Operator And FOREM**

The Federal Antimonopoly Service (FAS) ruled on 24 January that the System Operator (SO) and federal wholesale electricity market administrator (FOREM) had violated antimonopoly law. The claim had been filed by Karelski Okatish, a pellet manufacturer, and a company called ZAO MAK-V. According to the FAS statement, SO and FOREM had created obstacles that prevented the two claimant companies from gaining access to the wholesale electricity market. FAS ruled that SO should sign a contract with the claimants. The proceedings against FOREM have been dropped since the transfer of market administration responsibilities to the Trade System Administrator.

*Prime-TASS Energy Service, 26/1/05*

**Russia: FAS Will Not Fine Gazprom**

The Federal Antimonopoly Service (FAS) considered the case of administrative violations by Gazprom regarding the submission of information on transactions with Mosenergo and Aromstroieexport. FAS ruled that no fines will be imposed on Gazprom.

*AK&M, 21/1/05*

**Russia: FAS Ruling On Mosenergo**

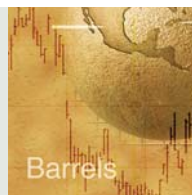
Mosenergo, the Moscow based power utility, was given one month by the Federal Antimonopoly Service (FAS) to eliminate violations of antimonopoly regulations and to return illegal profits to the federal budget. The claimant is Zhilkomservis, a state-owned company supplying heating to domestic cusotmers. FAS ruled that Mosenergo took advantage of its dominant position and received unwarranted profits from sales of thermal power at higher tariffs. Mosenergo is planning to appeal to the Moscow Arbitration Court.

*Prime-TASS Energy Service, 19/1/05*

**Russia: ATS Becomes A Single Operator On The Power Market**

The Trade System Administrator (ATS) became the single market operator on both the regulated and unregulated sectors of the wholesale electricity market from 1 January 2005. Before, ATS was administering only the so-called “5-15” unregulated sector of the wholesale market, and FOREM was administered the regulated sector. At the moment the share of unregulated market trades amounts to 10% of consumption in the central parts of Russia and Ural region. It is expected that the regulated sector will gradually shrink and be eliminated by 1 January 2006. The total annual volume of trades thorough ATS is estimated at 300,000 million kWh, which makes it the largest electricity marketplace in the world.

*Rosiiskaya Gazeta, 13/1/05; Praim-TASS Energy Service 11/1/05*



### **Russia: Government Introduces Capacity And Energy Charges For Power Transmission**

The Government press service announced the decision of 31 December to amend the Principles of tariff-setting for electricity and heat. The new edition of the Principles envisages setting electricity transmission tariffs based on the connected capacity and throughput. The new principles will apply during the transition period of the reforms.

*Praim-TASS Energy Service 11/1/05*

### **Spain: Government Approves Gas Tariffs**

The Spanish Government approved the regulations defining the revenue of regulated activities in the natural gas market, the TPA tariffs and the full-service tariffs. The revenue of the main gas transport assets owner and operator, Enagás, rises by 16%, mainly due to new assets which came into operation last year. In relation to access tariffs, which are set every year, the Government has decided to maintain the 2004 rates. However, the Government increased full-service tariffs, which are reviewed quarterly, by 0.14% for domestic customers and by 0.57% for industrial customers.

*Invertia, 31/1/05*

### **Spain: Spanish Utilities Will Finance Treatment Of Nuclear Waste**

The Spanish Government announced its intention to modify the electricity sector regulations in order to make the Spanish utilities responsible for the costs of treating nuclear waste. The treatment of nuclear waste is conducted in Spain by a public company, Enresa, and it is at the moment financed by means of an electricity tariff surcharge. In the electricity tariffs for year 2005, this item has already been reduced from 0.715% of the electricity bill to 0.173%, i.e. by three-quarters, which nuclear generators will have to pay.

*El País 31/1/05; Cinco Días 5/1/05*

### **Spain: Government Approves Final Allocation Of Emission Rights**

The Spanish Government approved the final allocation of CO2 emission rights to the installations included in the European CO2 trading scheme. This final decision was necessary for the Spanish companies to join the European CO2 market. The main change compared to the draft plan is an increase in the allocation to coal-fired electricity plants, offset by a reduction in the allocation for new entrants.

*Fundación Entorno 21/1/05*

### **Spain: Competition Authority Allows Acquisition Of Factor Energia**

The Spanish Competition Authority (Servicio de Defensa de la Competencia, SDC) has raised no objection to Iberdrola's acquisition of Factor Energia, an independent electricity retailer formed in 1999. Iberdrola will pay EUR 0.6 million (US\$ 0.8 million) for 100% of Factor Energia, which in 2004 had a market share of around 0.3%. This operation was given the green light because of the small size of Factor Energia and the fact that the acquisition will reinforce the position of Iberdrola in the supply market in Catalonia, where Endesa enjoys a leading position.

*Expansión 15/1/05*



### **Spain: CNE Expects More Low Voltage Customers To Move To The Liberalised Market**

The Spanish Energy Regulator, CNE, expects that electricity consumption in the liberalised market during 2005 will reach 37% of the total electricity consumption in Spain, compared to 34% in 2004, as low voltage consumers exercise their eligibility. CNE expects that in 2005 17.5% of low voltage consumption will be in the liberalised market.

*La Gaceta 11/1/05*

### **Spain: CNE Criticizes Calculation Of The 2005 Electricity Tariffs**

The Spanish Energy Regulator, CNE, criticized the calculation of the electricity tariffs for 2005, which the Spanish Government approved at the end of December 2004. The CNE considers the methodology employed by the Government to be neither transparent nor objective. In addition, the CNE has forecast lower growth for electricity demand than the Government, which would lead to a tariff deficit of around EUR 139 million (US\$ 183 million).

*Expansión 10/1/05, 4/1/05*

### **Switzerland: Environmentalists Oppose Draft Energy Supply Law**

The WWF Switzerland, the Swiss Energy Foundation and the Swiss Farmers' Association refused to accept the draft Energy Supply Law in its current form. They threatened a referendum unless the draft law is amended to promote the use of renewable energies (in particular through a cost-covering feed-in tariff scheme for green power).

*Berner Zeitung, 7/1/05*

### **Turkey: Turkey's Step Forward For A Clean Air Project In Istanbul And Ankara**

Avrasya Enerji, a Turkish Company that distributes compressed natural gas (CNG), has signed an agreement for the purchase of machinery and equipment for compressing and distributing natural gas through a chain of CNG refuelling stations to be installed in the largest cities such as Istanbul and Ankara. This is the first Turkish initiative aimed at reducing air pollution by using natural gas as alternative fuel for the automotive industry and is in line with the European Union Directive on alternative fuels for road transportation.

*PR Newswire Europe, 5/2/05; The Associated Press, 20/1/05*

### **Turkey: Turkey's Gas Release Tender Deadline Postponed Until 25th February**

Botas, the state-owned Turkish gas company, has delayed the deadline for companies to submit tenders in its gas release programme until 25th February. The tender is for a total of 16,000 million cubic metres per year (Gm3/yr), about 64% of the total market. A key obstacle has been the renegotiation of long term supply agreements between Botas and suppliers – Russia's Gazprom, Algeria's Sonatrach, Nigerian LNG, and Iran's NIOC. Suppliers must swap large volume agreements with state guarantees for contracts with private companies for smaller volumes (blocs of 250 million cubic metres/year).

*European Spot Markets, 28/1/05*



## NORTH AMERICAN NEWS

### **US: Bush Plan Calls For Bonneville Power To Be Market Priced**

The Bush administration called for reforms allowing Bonneville Power Administration to charge its customers market-based rates, rather than those based on the cost of producing the electricity. Northwest lawmakers vowed to block the proposal, contained in the president's 2006 budget, saying it could raise the region's electric power rates by as much as 20% and it would cost Northwest consumers more than US\$480 million in the first year, and at least US\$2.5 billion over three years. Bonneville, the federal power marketing agency based in Portland, Oregon, supplies nearly half the electricity in the Pacific Northwest, most of it from a system of federal dams along the Columbia and Snake rivers.

*Dow Jones & Company, Inc., 7/2/05*

### **US: New Jersey Utilities To Buy 7,900 MW Of Power In Web Auction**

New Jersey utilities will purchase 7,900 megawatts of electricity through Internet-based auctions run by state regulators - 5,100 MW to meet about a third of their residential and small commercial customers' needs, and 2,800 MW for their large commercial and industrial customers. This is New Jersey's fourth such auction and it will use the same model the utilities have used effectively for several years. Having utilities purchase a portion of power each year for multiple years is meant to protect customers from the possibility of high prices in any given year. New Jersey's electricity rate caps expired in August 2003 but the original vision of competitive retail markets, in which alternative suppliers would lure customers away from their incumbent utilities with lower prices, didn't pan out. Regulators weren't comfortable fully exposing customers to volatile wholesale prices so they developed the auctions as a kind of hybrid between regulated and market-based rates. Other states facing expiring rate caps have also adopted the auction model.

*Dow Jones & Company, Inc., 7/2/05*

### **US: Entergy Transmission Pricing Plan Draws Chorus Of Protests**

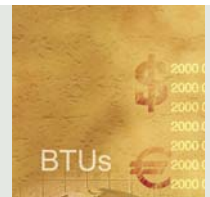
A transmission pricing plan filed by Entergy as part of the utility's proposed independent coordinator of transmission (ICT) plan is getting mostly negative reviews in recent filings made at FERC in response to a petition by Entergy for a declaratory order. In its 3 January 2005 filing, Entergy said that FERC should rule that Entergy's proposed ICT will not become a "public utility" under the Federal Power Act or a "transmission provider" under the utility's open access transmission tariff (OATT) and should confirm that Entergy's transmission pricing proposal, as it will be administered by the ICT, fully complies with the Commission's transmission pricing policy.

*NGI's Power Market Today, 7/2/05*

### **US: Exelon And PSEG Want To Sell Power Plants To Satisfy Regulators**

Exelon Corporation and Public Service Enterprise Group plan to sell some power plants and nuclear power capacity to get regulatory approval of the companies' proposed merger, according to filings with regulators in Illinois, New Jersey, Pennsylvania and with the federal government. The federal government caps how much energy any one company can produce in each region of the country. Combined, PSEG and Exelon own 136 hydroelectric and fossil-fuel burning plants and 21 nuclear reactors. The companies say they would divest control of 2,600 MW at the nuclear power plants they own, mostly in the mid-Atlantic region. Their new company would continue to own and operate the nuclear plants.

*The Associated Press, 4/2/05*



**US: Pacific Gas And Electric Company Resumes Bidding Process For Long-Term Electricity**

Pacific Gas and Electric Company announced it is resuming its long-term procurement process, after a temporary delay that began in January. PG&E expects to issue updated Request for Offers (RFOs) in March, with a submission deadline for initial offers in April. PG&E has modified the bid review process to conform to the new requirements contained in the California Public Utilities Commission long term procurement decision, issued in December 2004. ■

*PRNewswire-FirstCall, 3/2/05*

**US: More Michigan Customers Chose Utilities In 2004, But Fewer Options**

More electricity customers picked their utility in 2004, but they had slightly fewer options than the year before, according to a Michigan state report released on Michigan's electric industry. About 18,740 industrial and commercial customers chose alternative electricity providers in 2004, a 45 percent increase from the previous year, according to the Michigan Public Service Commission's annual electric competition report. The number of alternative electric suppliers competing against Consumers Energy Company and Detroit Edison Company dropped by two last year to 24.

*The Associated Press, 1/2/05*

**US: Commission To Decide In FPL Fight With Business Customers Over Meters**

A long battle over how much Florida Power & Light Company should repay to some big business customers for higher electric bills caused by faulty meters is heading to state regulators. The state's largest electric company is embroiled in a battle with four major companies over a type of meter that the utility has acknowledged malfunctioned while measuring peak electricity use by large business customers. FPL has refunded more than 100 commercial customers who overpaid because of the meters but says the effort by the four remaining customers is simply an attempt to exploit financially the equipment flaw. Lawyers for the customers say the problem is bigger than FPL is admitting and may affect other companies who don't know it.

*The Associated Press, 30/1/05*

**US: ONEOK Okla. Natgas Unit Seeks Rate Increase**

NEW YORK, Jan 28 (Reuters) - ONEOK Inc. (OKE.N) unit Oklahoma Natural Gas Co. said Friday it asked state regulators to review its rates, citing substantial costs in the operation of its gas distribution system, which serves more than 800,000 customers. ONG said it asked the Oklahoma Corporation Commission to adjust its base rates to produce an additional \$99.4 million in annual revenues, with \$38.5 million paid in additional income taxes and the remaining applied against increased investment and expenses. Regulators last reviewed ONG's rates in 2000, but the company has not had an increase in its base rates since 1995

*Reuters News, 28/1/05*



### **US: California Utility Commission Launches Peak Pricing For Big Electricity Users**

The California Public Utilities Commission funded the installation of advanced electricity meters for large customers and approved various programs to reduce demand this summer. The meters will enable various pricing programs still in the works. In addition, the commission ordered the development of peak prices in the summer for large consumers, who will either have to reduce demand when supplies are tight or pay very high prices. Also, the commission voted to start a market where consumers can bid in a price at which they will reduce demand. Those bids that are less than the spot market prices from suppliers will be taken from the consumers, who will then cut usage. Commercial and residential consumers that lower total usage during summer months by 20% compared with the previous year will receive a 20% discount on their electric rates. The commission also approved the utilities use of cycling air-conditioning systems on and off when the state is short of power. Customers in this program will also receive discounted rates. Finally, big customers will be notified a day in advance when supplies are expected to get tight the next afternoon.

*Dow Jones & Company, Inc., 27/1/05*

### **US: AEP To Pay \$81 Million To Settle Claims Of Gas Price Manipulation**

American Electric Power said Wednesday it will pay \$81 million to end a lawsuit and investigations by federal regulators who accused the utility's traders of manipulating prices in the natural gas market. The U.S. Commodity Futures Trading Commission sued the company in 2003, alleging the traders sent thousands of false or misleading reports to industry publications from 2000-2002. AEP fired five traders in 2002 for giving false information to Platts, an energy-industry trade publication whose price index is sometimes used as a benchmark to set prices in natural gas contracts. The settlement requires AEP to pay \$30 million to the commission, \$30 million to the Justice Department and \$21 million to the Federal Energy Regulatory Commission, the company said.

*Associated Press Newswires, 27 /1/05*

### **US: Panelists Question Whether FERC Screens Eliminate Market Power Possibility**

There's a chance that power companies could successfully pass interim generation market power tests adopted last year by federal energy regulators and yet still have the potential ability to wield market power, FERC staff and Commissioners were warned at an all-day technical conference. The overall message delivered by several utility industry representatives and other parties is that the two screens should be considered a work in progress and that FERC should take a good, hard look at revising the tests.

*NGI's Power Market Today, 27/1/05*

### **US: Agency, Utility Reach Gas Deal; Centerpoint Hike Still Faces Hurdles**

CenterPoint Energy has cut a tentative deal with state regulators that could speed approval of a rate increase for the Minneapolis-based utility's natural gas customers. Rather than proceeding to trial, commerce officials and CenterPoint agreed to settle, which is common in rate cases, according to Marya White, manager of energy planning and advocacy at the Commerce Department. CenterPoint's original proposal would raise the average customer's bill by \$3.17 a month, but only involve delivery charges. Delivery accounts for 20 percent of a customer's bill and is the portion that CenterPoint gets to keep. The remaining 80 percent is the cost of the gas itself, which is set by the open market and merely passed on to gas producers by the utility. Gas prices have been sharply higher this winter than in 2003-04. CenterPoint is the state's largest gas utility and has more than 700,000 customers in Minnesota, including 68,000 in Ramsey, Dakota and Washington counties.

*St. Paul Pioneer Press, 26/1/05*



**US: FERC Looks To New Congress For Clarity On LNG Jurisdiction**

Citing the highly public jurisdictional spat between it and the state of California, the Federal Energy Regulatory Commission has called on Congress to modify Section 3 of the Natural Gas Act (NGA) to make “clear and unambiguous” that FERC has exclusive authority over the siting of liquefied natural gas (LNG) import terminals onshore and in state waters, as well as over pipeline facilities that deliver gas from the LNG terminals.

*Natural Gas Intelligence, 25/1/05*

**US: What Was On Table At Peoples Lunch? ; Private Meeting Between Gas Company, Regulators Is Probed**

Attorney General Lisa Madigan is probing a private luncheon earlier this month involving two top state utility regulators and executives with Peoples Energy at a time when the gas company is trying to block a bid to refund \$149 million to Chicago area consumers. The focus of Madigan’s interest is whether the Illinois Commerce Commission’s chairman, Edward Hurley, and fellow commissioner Lula Ford may have violated the state’s Open Meetings Act and state ethics laws. Both have denied wrongdoing.

*Chicago Sun-Times, 24 /1/05*

**US: Puget Sound Energy Faces Proposed \$500,000 Fine Over Safety Problems**

Puget Sound Energy would upgrade 200 miles of gas pipeline and pay a \$500,000 fine for safety violations under a proposed agreement with the Washington Utilities and Transportation Commission. At issue are 67 cases of poor pipeline maintenance cited by the commission in June. The problems, which violate pipeline safety laws, were discovered in Pierce and King counties during inspections that were completed in 2003. Under the proposal, the Bellevue-based utility would be required to replace 200 miles of corrosion-prone, bare-steel pipe with plastic pipe throughout its 11-county service area over the next 10 years. It would also repair or replace pipes that are close to buildings and upgrade computer systems to improve pipeline maintenance.

*Associated Press Newswires, 22/1/05*

**US: Numbers Abound In AGL Rate Request**

Just three weeks after the Georgia Power rate case ended, the state Public Service Commission is considering a new -- although significantly smaller --- increase request in utility bills. Initial hearings on an Atlanta Gas Light rate increase request began this week. If approved, it would cost the average residential customer about \$1.45 more per month, on bills now averaging about \$26 per month.

*The Atlanta Journal – Constitution, 22/1/ 05*

**US: Louisiana PSC Orders Statewide Review Of Electric Rates**

Amid complaints that Louisiana’s utility rates are too high to attract new businesses to the state, the Public Service Commission has ordered a customer-by-customer review of rates paid by all residential, commercial and industrial users. The rate review would be the first step to determine what kind of help on rates the PSC could offer. Determining which class of customer pays more than its fair share is difficult to determine because of rebates and discounts.

*The Associated Press, 20/1/05*



### **US: Mirant to Pay \$458M to Settle Calif. Energy-Crisis Claims**

SAN FRANCISCO -- Mirant Corp. (MIRKQ) said it has agreed to pay \$458 million to settle claims it received unfairly high prices for electricity it sold to California utilities during the western U.S. energy crisis of 2000-2001. "We broke no laws," Curt Morgan, Mirant's chief operating officer said in an interview. "We're paying refunds on a no-fault basis," he added. "The Federal Energy Regulatory Commission has gone back after the fact and said that market prices were too high."

*Dow Jones Business News, 14/1/05*

### **US: Rates Falling For Laclede Gas Customers**

Natural gas rates are falling for the 631,000 customers of Laclede Gas Co. in eastern Missouri. A rate reduction effective Thursday should shave about 11 percent off the bill of an average residential customer for the remainder of the winter heating season, the state Public Service Commission said. Rates will fall to 71 cents per 100 cubic feet of gas, down from the current 83 cents. The reduction reflects estimated changes in the wholesale cost of natural gas, which is not regulated by the state agency. Laclede Gas serves residents in St. Louis city and county, as well as in the counties of St. Charles, Butler, Iron, Franklin, Jefferson, Madison, St. Francois and Ste. Genevieve.

*Associated Press Newswires 13/1/05*

### **US: FERC Still Seeking To Improve Gas Storage Data-FERC Chmn**

Federal Energy Regulatory Commission Chief Patrick Wood III told reporters Wednesday the commission is still contemplating ways to improve natural gas storage data that's released to the public. The Energy Information Administration, the Department of Energy's statistical arm, releases a natural gas storage data report every week that's closely-watched by the energy industry. The report shows the amount of gas in storage and can move market prices significantly.

*Dow Jones International News, 12 /1/05*

### **Canada: Ontario Energy Board Approves Amalgamation Of Two Ontario Utilities**

Two hydro utilities in southeastern Ontario will be allowed to merge, according to the Ontario Energy Board. Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. made an application to the board proposing the amalgamation in November 2004. The merger, which is expected to save millions of dollars per year, would lower financial costs for the companies and improve customer service, the board said in a release. The board regulates the province's electricity and natural gas sectors.

*The Associated Press, 12/1/05*

### **Mexico: Pemex Needs \$8.9 Bln In 3 Years To Repair Pipelines**

Petroleos Mexicanos, Mexico's state-owned oil monopoly, needs to spend 100 billion pesos (\$8,900 million) from 2006 to 2008 to improve maintenance of pipelines and avoid accidents, said the company's chief executive officer.

*Bloomberg 31/1/05*

### **Mexico: Mexican Environmental Authorities Shut Down Key Pipeline**

Mexican environmental authorities, citing a list of violations and failures to comply with standards, have shut down one of the nation's key big-volume pipelines following a spill.

*EFE News Services (at [www.rigzone.com](http://www.rigzone.com)) 17/01/05*



## CENTRAL AND SOUTH AMERICAN NEWS

### **Argentina: Government Concludes Negotiations To Import Gas From Bolivia In 2005**

Argentina has finally reached an agreement with Bolivia to increase gas imports to 6.5 million cubic meters per day (mcm/d) during 2005. The most controversial issue was the price of Bolivian gas supplies; in 2004 Argentina was paying US\$ 1.60/mBTU, but Bolivia claimed that such price was too low and was meant as a gesture of solidarity towards Argentina at the time of the energy crisis. After lengthy negotiations, Argentina accepted US\$ 2.08/mBTU for its additional gas imports from Bolivia, which is approximately the same price that Brazil currently pays Bolivia for about 20 mcm/d.

*Platts, International Gas Report, 14/1/05; Business News America, 12/1/05*

### **Argentina: ENRE Fines Electricity Distributors In Buenos Aires**

ENRE – the Argentinean regulator for the electricity sector – imposed a fine on the three distribution companies operating in Buenos Aires province for service interruptions during a recent heat wave in early January. The total amount of the fines is 13 million pesos (US\$ 4.4 million). Edenor – controlled by the French EDF and serving the northern part of Buenos Aires and the surrounding area – was fined 400,000 pesos; for Edesur – which is controlled by the Chilean Enersis and serves the south of Buenos Aires – the fine was 460,000 pesos; lastly, Edelap – which is controlled by the US power company AES and distributes electricity in the Buenos Aires province – was fined 140,000 pesos. Edesur and Edenor were also fined 6.6 and 5.4 million pesos respectively for not investing enough money to meet demand. On the other hand, distribution companies claimed that power cuts were due to unusually high temperatures and that investments in the distribution business went down after the peso was devalued against the dollar and tariffs were frozen three years ago.

*Business News America, 12/1/05*

### **Chile: The Government To Introduce Energy Savings Plan**

The Chilean government has decided to introduce a program aimed at increasing efficiency in energy use in the short and medium term. The Chilean government is also considering whether to limit the share of total natural gas imports provided by any single country and hence to force diversification of fuel sources. At the moment, Argentina is the sole provider of natural gas to Chile. In 2004 Argentina cut its gas exports to Chile; as a result, Chile experienced several power cuts, since many of its power plants are gas-fired.

*Business News America, 24/1/05; Platts, Global Power Report, 6/1/05;*



## ASIA PACIFIC NEWS

### **Australia: Regulator Consults On Contestable Network Augmentation**

The South Australian regulator has released a discussion paper on a proposed expansion in contestability of augmentation to the state's electricity distribution network. The paper seeks comments on the proposal. It continues a partial review of the state's Distribution Code, which began in 2001.

*www.saiir.sa.gov.au, 18/1/05*

### **Australia: Street Lighting Prices May Soar**

Electricity distributor EnergyAustralia has applied to the New South Wales state regulator, IPART, to raise street lighting prices by 70%. EnergyAustralia cites new maintenance standards as one reason for the price rise. It also blames the elimination of cross-subsidies, after regulatory changes imposed last year. Local authorities will bear the price rise, if it is approved.

*The Sydney Morning Herald, 14/1/05*

### **Australia: Plan To Penalise Power Utility For Unplanned Blackouts**

The Western Australian State Government plans to introduce new penalties for unplanned power interruptions by the state's integrated electricity company, Western Power. The penalties were not in the electricity code of conduct that took effect on 1 January, but were likely to be in part two of that code, which will be issued later this year.

*The West Australian, 14/1/05*

### **Australia: Power Retailer Seeks Review Of Price Determination**

Electricity retailer AGL SA has sought a review of the South Australian regulator's December determination on electricity standing contract prices. The review relates to wholesale energy costs, retail operating costs, and the retail margin. The application also alleges several procedural errors by the regulator, the Essential Services Commission of South Australia.

*www.saiir.sa.gov.au, 12/1/05*

### **China: SEPA Orders Halt On Projects**

A lack of adequate environmental impact assessment studies has led the State Environmental Protection Agency (SEPA) to suspend construction work at 26 power generation projects. A statement by SEPA stated that the construction of the projects had begun without approval of their environmental impact assessment studies. The move follows criticism of projects proceeding on the basis of only local approval by a number of government agencies. Beijing officials have cited this uncoordinated approach as a likely cause of excess capacity in 2 to 3 years. Generation growth is also expected to strain the coal transportation and power transmission systems.

*Platts Power in Asia, 3/2/05*



### **China: Draft Law Encourages More Use Of Renewable Energy**

A law has been drafted to boost environmental protection by promoting projects that use renewable energy. The law will offer discount loans to renewable energy projects as well as specific tax breaks for energy efficient products and for renewable energy projects.

*China Daily, 11/1/05*

### **India: State Govt To Issue Ordinance On Compulsory Use Of CNG**

The state government of Ahmedabad will issue an ordinance on the compulsory use of compressed natural gas (CNG) in vehicles. The governance will initially be restricted to the use of CNG in the public transport vehicles such as buses, auto-rickshaws and state government vehicles. The rule has been cleared by the state cabinet but must now be sent to the Governor for approval. The government will also set up 10 CNG supply stations by the year-end in Ahmedabad city.

*Business Standard, 10/1/05*

### **Indonesia: Indonesia Issues Regulation On Power Generation Projects**

The Indonesian government issued a regulation allowing independent power producers to build power generation plants in partnership with state-owned power company PT Perusahaan Listrik Negara. Investors can receive a licence from the government either through bidding or if the power generation project meets one of the government's criteria, such as use of renewable fuel or location of power projects at mine mouths. PLN will buy electricity from IPPs but retain the sole right to distribute and sell electricity to customers.

*Dow Jones International News, 17/1/05; The Jakarta Post, 18/1/05*

### **Indonesia: Indonesia Exempts Goods For Oil Explorations From Import Duty**

The government has abolished import duty on goods needed in oil and gas explorations in a bid to increase levels of exploration. The Energy and Mineral Resources Ministry has also proposed amendment to regulation on reimbursement of value added tax and value added tax during explorations.

*Asia Pulse, 2/2/05*

### **Pakistan: Kesc Sale Approaches, Saudi-Backed Group Makes Highest Bid For KESC.**

A Saudi Arabian-backed consortium, Kanooz al Watan, made the highest bid on Friday in the auction of a 73 percent stake in regional Pakistani power utility Karachi Electric Supply Corp (KESC). The sale of KESC has been delayed a number of times reflecting opposition to the sale on the part of employee unions and opposition political parties, as well as a lack of bidders. The utility still faces severe financial problems.

*Reuters News, 4/2/05; Platts Power in Asia 20/1/05*

### **Philippines: Philippine Regulator Approves New Method To Set Electricity Prices**

The Energy Regulatory Commission (ERC) has approved a new method for calculating the price of electricity which is based on each distribution utility's efficiency rather than on the value of its assets or investments. The Distribution Wheeling Rates Guidelines (DWRG) replace the traditional Return on Rate Base (RORB) methodology which has been used for over 80 years. The ERC chairman has said that DWRG "employs incentives to induce cost-cutting that are expected to result in lower electricity rates in the long term."

*AFX Asia; 12/1/05*



### **Philippines: Transco Auction Set For End Of February**

The Power Sector Assets and Liabilities Management Corp. (PSALM) is planning to auction the National Transmission Corp. (Transco) by the end of February and award the contract by June. Transco operates the country's high-voltage transmission network and is valued at around \$2,000 million. The winning concessionaire will be allowed to operate Transco for 25 years, renewable for another 25 subject to performance conditions. Ownership of the company and its transmission assets will remain with the government.

*BusinessWorld, 17/1/05*

### **Philippines: Philippines' Meralco Told To Implement 4th Phase of Refund**

The Energy Regulatory Commission (ERC) has ordered the Manila Electric Company (Meralco) to implement immediately Phase 4A of its refund program, valued at US\$40.9 million, and to say when it will implement the next stage of the refund program. The refund was ordered by the ERC and the Supreme Court. Since June 2003, Meralco has been obliged to refund to its customers 0.3 US cents per kilowatt hour delivered between February 1994 and May 2003.

*Asia Pulse, 14/1/05*

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## **Our Practice**

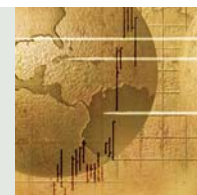
NERA is at the forefront of the continuing transformation of the energy industries worldwide. We have pioneered in developing approaches for introducing competition in segments such as power generation (where competition is workable) and for improving the regulation of sectors (where it is not). We work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