

A NERA Publication

Global Energy Regulation

Reporting on energy regulation around the world

Issue No: 60

May 2004

About the Editors

General and European Editor

~ Graham Shuttleworth

Regional Editors

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

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

~ Oscar Arnedillo, **Spain and Portugal**

~ Francesco Lo Passo, **Italy**

In This Issue

European News Pages 1 - 12

North American News Pages 12 - 13

Central & South American News Pages 13 - 15

Asia Pacific News Pages 15 - 17

EUROPEAN NEWS

Great Britain: Regulator Continues Gas Price Probe

Energy regulator Ofgem continues to investigate the cause of the 80% increase in wholesale spot gas prices in September and October 2003, even though demand was at similar levels to previous years. Ofgem has closed its enquiry into five of the seven potential causes for the price increase it previously identified but is further questioning certain producers and interconnector shippers to explain the two remaining potential causes: (1) why gas deliveries from UK fields were lower than expected; and (2) why shippers did not increase imports from continental Europe across the interconnector quickly in response to the high UK price.

Ofgem press release, 28/5/04

Great Britain: Regulator Consults On NGC Income Adjustment

Energy regulator Ofgem is consulting on whether to allow National Grid Company (NGC) an Income Adjusting` Event (IAE) under NGC's System Operator (SO) incentive scheme. The IAE provisions are intended to protect NGC and consumers from the costs of events that were not envisaged at the time Ofgem set NGC's target balancing costs by adjusting NGC's income for these unforeseen events. NGC have



requested £5.54m (US \$10.2m) as an IAE in respect of incremental costs from the tendering of reserve contract holdings for winter 2003/4. Ofgem's initial view is to approve an IAE. However, Ofgem is consulting on whether NGC's proposed IAE level of £5.54m (US \$10.2m) is appropriate.

Ofgem website, 21/5/04

Great Britain: Regulator Consults On Extension Of Electricity Transmission Price Controls

Energy regulator Ofgem is consulting on the extension of electricity transmission price controls to 2007/8, in order to allow for the alignment of electricity and gas transmission price controls to a common review date. Current price controls on Scottish transmission companies, SP Transmission Ltd and Scottish Hydro-Electric Transmission Ltd last until 31 March 2005. Ofgem is proposing to extend these price controls to 31 March 2007. Ofgem is also consulting on the extension of National Grid Company's (NGC) transmission asset price control, which was due to run until 31 March 2006, to 31 March 2007.

Ofgem website, 21/5/04, 13/5/04

Great Britain: Regulator Confirms £1m Transco Fine

Energy regulator Ofgem has confirmed that it will impose a £1 million (US \$1.84 million) financial penalty on Transco for the poor performance of its gas connections business. Ofgem proposed the fine in March 2004, following a review of Transco's connections business prompted by customer complaints.

Ofgem website, 20/5/04

Great Britain: Regulator Consults On Grid Code Under BETTA

Energy regulator Ofgem and the Department of Trade and Industry (DTI) published the third of three consultations on the development of a single Grid Code to support British Electricity Trading and Transmission Arrangements (BETTA), due to be implemented on 1 April 2005. The consultation includes draft legal text of the GB Grid Code.

Ofgem website, 13/5/04

Great Britain: Regulator Reviews Transco's Structure Of Gas Distribution Charges

Energy regulator Ofgem is consulting on its review of Transco's structure of gas distribution charges. Ofgem has identified, and invited comment on, the following questions: (1) whether Transco's distribution use of system charges should be made more cost reflective; (2) whether the capacity/commodity split should be changed; (3) whether a more shallow distribution connection charge should be adopted; (4) whether Transco's economic test for new connections should be reviewed; (5) whether the impact of relative price control regulation of Independent Gas Transporters should be considered; and (6) what are the implications of the review on the potential sale of Transco's regional gas Distribution Networks.

Ofgem website, 13/5/04



Great Britain: Regulator Proposes Price Control Adjustment Mechanism For Renewable Investment

Energy regulator Ofgem is consulting on funding arrangements for the additional investment required to reinforce electricity transmission networks as a result of more renewable generation connections being made and requested than allowed for in transmission companies' price controls. Ofgem proposes to develop an adjustment mechanism to supplement existing price control arrangements. Ofgem is considering three options for the adjustment mechanism design: (1) a lump sum allowance in addition to the existing price control allowance; (2) establishing a revenue driver; or (3) a cost-pass through arrangement. Ofgem's initial view is that a cost pass-through approach is not appropriate. Ofgem intends to publish draft proposals in July.

Ofgem website, 7/5/04

Great Britain: House Of Lords Constitution Committee Publishes Regulatory Accountability Recommendations

The House of Lords Select Committee on the Constitution has published the results of its inquiry into the accountability of Government appointed regulators. The Committee makes a number of recommendations to improve the accountability of government appointed regulators including that: (1) regulators should have a statutory duty to have regard to the principles of good regulation and effective accountability; and (2) appeals should provide an opportunity for the regulated to have their objections reviewed on the merits of the case.

House of Lords Constitution Committee website, 6/5/04

Great Britain: Regulator Proposes Changes To Treatment Of Smaller Transmission Connected Generators

Energy regulator Ofgem and the Department of Trade and Industry (DTI) published their conclusions on the treatment of small generators under the proposed British Electricity Transmission and Trading Arrangements (BETTA). Ofgem/DTI have concluded that: (1) small transmission connected generators in Scotland be provided with a discount against transmission use of system charges for an interim period of three years (at present, 132kV lines are classified as transmission lines in Scotland, but as distribution lines in England or Wales, so smaller generators connected to 132kV lines in Scotland pay transmission charges, whereas those in England and Wales do not); and (2) the obligation of small transmission connected generators to be a party to the GB Balancing and Settlement Code (BSC) be removed in certain circumstances.

Ofgem website, 4/5/04

Austria: Electricity Becomes A Scarce Good

Austrian electricity consumption exceeded its production in 2003 which made Austria a net importer of electricity. According to Arno Gasteiger, CEO of Salzburg AG and spokesman of the Austrian electricity association VEÖ on security of supply issues, there seems to be a real threat to security of supply. Electricity demand in Austria is currently increasing at an annual rate of 2.4 % which in turn leads to significant problems since the Austrian network capacity is not designed for large imports of electricity.

Die Presse, 2/6/04

Belgium: Belgian Electricity One Of The Most Expensive In Europe

NUS Consulting Group has published a study that concludes that Belgian electricity is amongst the most expensive in Europe. The study looked at electricity prices paid by industrial consumers in 14 countries, of which 10 were EU members, and found that Italy (13.55 Eurocents/kWh), Germany (11.44 Eurocents/kWh) and Belgium (10.77 Eurocents/kWh) are the most expensive of the sample.

La Libre Belgique, 28/5/04



Bulgaria: Extension Of Deadline For Privatisation Bids

Bulgaria's privatisation agency has extended the deadline for final bids in the sale of its seven power distributors by a further two weeks. The Bulgarian government hopes to sell 67% stakes in the seven utilities in an effort to liberalise its energy market ahead of EU entry, which is planned for 2007. It is the second time the agency has extended the deadline to allow potential bidders more time to analyse the financial situation of the utilities on sale. So far, five companies are expected to bid for the majority stakes: Enel (Italy), E.ON (Germany), CEZ (Czech Republic), PPC (Greece), and EVN (Austria). By selling the stakes, the Bulgarian Government hopes to raise US\$450 million to cover its widening external deficit and strengthen its role as a leading power exporter in the region.

Reuters News, 1/6/04

EU: Disagreement Over Dropping Of Renewable Energy Targets

The European Commission has currently been under attack by several green groups for its decision to drop its long-term targets for renewable energy within the European Union. The criticism arose after the European Commission had announced that it would miss the target it imposed on itself in 1997 to get 22 % of energy within the EU from renewable sources by 2010. Now the Commission predicts that with existing national policies and measures the EU's 15 former member states will achieve only about 18 % of renewable energies share of total electricity consumption by the target date. The Commission also announced that only four member states -- Germany, Denmark, Spain and Finland -- are on track to achieve their national targets. The Commission proposes additional concrete actions at national and Community level to move its member states closer to the renewable energy target. The Commission will now wait until 2007 before setting post-2010 targets for renewable energy.

Inter Press Service, 27/5/04

France: Draft Law Relating To EDF-GDF Adopted

The French government is aiming to adopt new legislation to treat EDF-GDF like any public limited-liability company by mid-July. This would mean that the government could sell up to half its shares in the utility. Nicolas Sarkozy, the Economy and Finance Minister, said however that the State would keep about two-thirds of EDF-GDF's capital.

Power in Europe, 24/5/04

Germany: Revision Of EEG Adopted

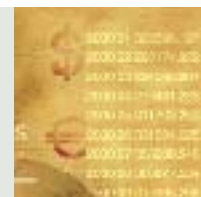
On 2 April 2004, the Federal Parliament adopted the revised Renewable Energies Act (Erneuerbare-Energien-Gesetz - EEG), subject to amendments in the Mixed Parliamentary Committee (Vermittlungsausschuss). The Act focuses on stronger promotion of offshore wind parks, hydropower plants and biomass plants, while applying stricter requirements to inland wind energy and solar energy plants. The Act aims to increase the share of renewable energies to 12.5% by 2010 and 20% by 2020.

Energy Law in Germany, Newsletter Linklaters Oppenhoff & Rüdler, Issue 14, 5/04

Germany: Increasing Electricity From Wind Energy At Increasing Cost

Installed capacity of wind turbines in Germany increased between 1998 and 2003 from 2,800 MW to 14,600 MW. At the same time, the amount of electricity produced from wind energy increased from 5,000 Million kWh to 19,000 Million kWh. The average utilisation rate was on average 17%. The VDEW estimates that the utilisation rate could be as high as 20%. (In comparison, it is 68 % for hydro plants in Germany.)

VDEW, Press Announcement, 1/6/04



Germany: BMWA Announces Amendment Of German Competition Law

The Federal German Ministry of Economics and Labour (BMWA, Bundesministerium für Wirtschaft und Arbeit) has announced that it seeks to amend the German competition law in order to bring it into line with current European guidelines. This is of particular advantage for small and medium size companies, which were until now subject to much stricter rules and regulations than their larger counterparts. Large companies had already been subject to European competition law. The BMWA anticipates that this amendment of the competition law will reduce the administrative burden placed on small and medium size companies. It remains to be seen, however, if and how this might affect the energy sector, both at a national and international level.

BMWA, Tagesnachricht, 26/5/04

Germany: Regulation In Germany Still Cause For Concern

Regulation in Germany, or to be precise, the absence of a market regulator in Germany, still remains a cause for concern for market participants, especially in the gas and electricity market. The major German gas companies, Ruhrgas and VNG Verbundnetz Gas, both reported significant increases in earnings: 75% for Ruhrgas (increase from EUR 800 million to EUR 1,400 million) and a 16% increase for VNG (increase from EUR 176 million to EUR 205 million). This once more raises the question whether the lack of effective market regulation has an adverse effect on consumers in Germany.

Heren Energy, European Gas Markets, p. 6, 28/5/04

Ireland: Regulator Announces Result Of VIPP4 Auction

The Commission for Energy Regulation announced that the four bidders in the relaunched fourth Virtual Independent Power Producers Auction (VIPP4) were successful in securing a total of 218MW. The successful bidders were: (1) CH Power Ltd; (2) Viridian Energy Supply Ltd; (3) Bord Gáis Energy Supply; and (4) ESB Independent Energy Ltd.

CER website, 31/5/04

Ireland: Regulator Consults On Introduction Of Pre-payment System

The Commission for Energy Regulation (CER) published its response to a previous consultation paper on the introduction of a prepayment system for customers in the electricity market. CER also announced its next steps in introducing the prepayment system, which are: (1) an analysis of available prepayment system technologies; (2) a selection of one or two technologies for a pilot project; and (3) a decision on the rate of roll-out of prepayment meters. CER has also proposed the establishment of an industry working group.

CER website, 31/5/04

Ireland: Regulator Approves Distribution Connection Charges

The Commission for Energy Regulation approved ESB's proposed charges for connection to the electricity distribution system. ESB's new charges will apply from 1 July 2004.

CER website, 18/5/04



Ireland: Regulator Publishes Draft Decision On Treatment Of Distribution Losses

The Commission for Energy Regulation published a draft decision regarding the treatment of distribution losses and the introduction of global aggregation in the market settlement process in time for the introduction of the new Market Arrangements for Electricity in 2006.

CER website, 14/5/04

Ireland: Regulator Publishes Draft Decision On Alignment Of Electricity Transmission And Distribution Connection Processes

The Commission for Energy Regulation (CER) has published a draft decision on connection of generation to the electricity transmission and distribution networks. CER previously expressed concerns over the different processes that apply for transmission and distribution connection. The amendments apply to all generators connecting to the transmission and distribution system and provide for the implementation of a queuing system for connection applications.

CER website, 14/5/04

Ireland: Regulator Consults On Strategy For Managing ESB's Dominance

The Commission for Energy Regulation (CER) is consulting on its strategy for managing the expected dominance of ESB in the Irish electricity market, under the new Market Arrangements for Electricity (MAE). CER outlined the high-level guiding principles for its proposed regulatory strategy for dealing with ESB's dominance and highlighted areas of work under that strategy.

CER website, 13/5/04

Ireland: Regulator Publishes Draft Decision On Wind Generation Connection

The Commission for Energy Regulation (CER) published a proposed direction regarding the criteria for lifting the existing moratorium on connection of wind generators to the electricity system. CER agreed to the moratorium after ESB National Grid expressed concern about the impact of the level of wind generation on the reliability of power supplies.

CER website, 11/5/04

Ireland: Gas Supply Tariffs And The Structure Of Distribution Use Of System Charges

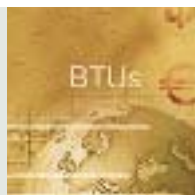
The Commission for Energy Regulation (CER) published a consultation paper on its approach to reviewing Irish natural gas supply tariffs and the structure of distribution use of system charges. The CER's paper sets out principles for the review and a proposed approach to regulating the revenues of Bord Gáis Supply.

CER website, 10/5/04

Italy: Fears Of Black Outs In Italy

Strikes in France against the privatisation of Electricité de France and Gaz de France in 2005 have caused the decline in imports from France, and major concerns in Italy on the risk of black outs. GRTN (the Italian TSO) has stated however that domestic production has been high enough to cover the fall in imports from France. This summer, Italy should have more hydro capacity due to abundant rains in the past months. However, there are concerns about black outs in June-July due to increases in electricity consumption because of air conditioners.

Sole 24 Ore, 28/5/04



Italy: Vote Of Confidence On The Marzano Decree

The Government has put on a fast track the Marzano Decree on the restructuring of the energy sector. The Higher Chamber has given its approval and now the Decree is back again in the Lower Chamber for the second reading.

Sole 24 Ore, 27/5/04

Italy: Bonus To Municipalities Allowing Building Of New Plants

The Marzano Decree (which has just obtained a vote of confidence from the Higher Chamber and is now back to the Lower Chamber for second reading) provides for contributions to be paid to municipalities that allow generating plants above 300 MW to be built in their areas. According to the provisions set by the Decree, owners of new plants have to pay the municipality for using their land a contribution equal to EUR 0.2 per MWh produced in the first 7 years of the plant's operation.

Il Corriere della Sera, 27/5/04

Italy: Increase In Electricity Prices

A report on the first month of activity of the power exchange (Ipex), produced by the Ministry of Productive Activities, shows that the electricity price on the Ipex would result in an increase of electricity prices for non-eligible customers of about 2%. The President of the Competition Authority stated that the increase in prices of Ipex shows that only a further opening to competition of the supply side of the market would have a beneficial effect on prices. Market operators, however, believe the Ipex has been operating for too short a time and it is too early to make a proper assessment of its impact on prices.

Il Corriere della Sera, 20/5/04; Sole 24 Ore, 20/5/04

Netherlands: Gas Power Exchange To Be Established

Dutch gas transmission system operator Gastransport Services and energy exchange APX have signed a Memorandum of Understanding to launch a Dutch gas exchange on 1 January 2005. Gastransport Services and APX expect to finalise plans by September.

Heren European Gas Market, 28/5/04

Netherlands: Dutch Parliament Debates Electricity and Gas Acts

The Dutch Parliament has continued to debate amendments to the Dutch Electricity and Gas Acts. Among the amendments discussed were powers that, if enacted, would enable the Dutch government to designate a business to set up and run power and gas exchanges. The energy regulator DTe, which expressed concerns about the lack of liquidity in the power market, supports the proposed legislative amendments. DTe made six recommendations to the Dutch Energy Minister for improving liquidity in the shorter term. Other proposed amendments debated in Parliament included: (1) granting powers to the Minister of Economic Affairs to take interim measures in anticipation of further legislation that will complete the unbundling of grids; (2) following acceptance of unbundling proposals and in the event of privatisation, a prohibition on producers or distributors holding shares in grid companies; and (3) that electricity and gas grids are owned by the person that constructed them, or subsequent transferees.

Norton Rose Memorandum, 28/5/04; Platts Commodity News, 17/5/04, Power in Europe, 10/5/04



Netherlands: Gasunie To Proceed With Interconnector Project

Dutch Gas incumbent N.V. Nederlandse Gasunie announced it is to go ahead with the construction of a pipeline linking the Netherlands to the UK. The pipeline will run 235km from Balgzand in the Netherlands to Bacton on the Norfolk coast and is expected to cost EUR500 million (US \$612.2 million). Fluxys and Ruhrgas have options to acquire minority stakes in the Gasunie-led project, but have yet to decide whether to exercise their options. Gasunie expects the pipeline to be complete by late-2006.

Heren European Spot Gas Markets, 26/5/04

Netherlands: DTe Removes Competitive Disadvantage of Dutch Electricity Producers

The energy regulator DTe has decided to set the National Uniform Producers Tariff (LUP) to zero as of 1 July 2004. LUP is a contribution paid by Dutch electricity producers towards the cost of the Dutch high-voltage grid. At present, Dutch electricity producers face a competitive disadvantage because producers from neighbouring countries do not have to pay a similar charge. Given prevailing market conditions, DTe decided to set the LUP to zero in order to create a level playing field for Dutch electricity producers and to promote trade.

DTe, www.dte.nl, 4/5/04

Poland: Confidence Regarding Future Gas Business

Poland's oil and gas company PGNiG has expressed confidence that its gas business will not be affected by the decision of the Polish cabinet to allow all industrial consumers to choose their own gas supplier as of 1 July 2004. The market had been due to be opened up on that date only to industrial customers that consumed more than 15 million cubic metres per year.

Platts Commodity News, 1/6/04

Portugal: Portugal Increases Strategic Energy Reserves

Portugal is set to increase its strategic oil reserves by 300,000 tonnes. This increase is in line with the requirements of the International Energy Program as proposed by the IEA. Strategic reserves will increase from the current 90 to 100 consumption-days for gas-oil and fuel-oil, and from 30 to 40 consumption-days for LPG. The increase in reserves also reflects concerns about current oil market uncertainties.

Diário Económico, 24/5/04

Portugal: ERSE Accepts To Reduce Electricity Prices

The head of ERSE, the Portuguese Energy Regulator, Mr. Jorge Vasconcelos, has hinted that tariff regulation might be reviewed in July in order to make it compatible with Spanish tariff levels. Mr. Vasconcelos stated that the changes to Portuguese tariffs are essential to ensure the proper functioning of the Integrated Iberian (Spanish-Portuguese) Market (Mibel). The review is the result of claims made long ago by different consumer groups, like the APIGCEE (the large electricity consumers association), who would like to similar prices to those paid by their Spanish competitors. Electricity prices in Spain are between 10% and 35% lower than in Portugal.

Diário de Notícias, 24/5/04



Portugal: Tensions Mount Over Galp Sale

The conditions for the sale of ENI's share in Galp Energia have caused concern among some participants interested in the bidding. The sale is expected to take place by the end of May and some investors fear that the auction may favour local firms over outside bidders. The government rejected claims that it may favour the bid of a state-owned bank, but the government will impose conditions on the winning bid. The Economy Minister, Mr. Carlos Tavares, said that the winning bidder would have to commit not to increase its holding without the government's consent.

Financial Times, 21/5/04

Portugal: New Investments In Interconnection Capacity

The Portuguese electricity transmission system operator, REN, will invest EUR 100 million (US\$ 120 million) up to 2009 to reinforce the interconnection capacity between Spain and Portugal. This investment, part of the national investment plan on transmission assets, aims to facilitate the proper operation of the Iberian electricity market, Mibel. The Spanish transmission system operator, Red Eléctrica, will also invest in order to double interconnection capacity by 2009. Spain-Portugal interconnection will then reach 1,500 MW.

Diário de Notícias, 17/5/04

Portugal: Portugal To Increase Renewables Production To Comply With European Targets

The Energy Commissioner, Loyola de Palacio, reported that Portugal is, together with Greece, the country that has to make the strongest effort to reach its renewables objectives. By the year 2010, 39%, (including hydro generation), of electricity consumption must be supplied by renewable generation. The current non-hydro production based on renewables is 1 TWh so that it is estimated that 14 TWh of additional renewable production are required to be in line with the targets.

Diário Económico, 17/5/04

Portugal: Green Light To The Privatisation Of Electricidade Do Açores

The Açores Regional Government has given the go-ahead to the privatisation of Electricidade do Açores (EDA). The final say on the privatisation plan rests in the hands of the central government. The proposed timetable foresees that the two-stage privatisation process must be concluded after a six-month period. The plan envisages a total sale of 39% of EDA's shareholding reducing the Regional government's participation after privatisation to 50.1% of the shares. The first stage will put up for sale 33.92% of the holding through a restricted (beauty contest) auction. The second stage will consist of a public offering of the remaining 5.98%. The other shareholder, with 10% of the capital, is EDP, which currently holds an option to buy 15% of EDA.

Agência Financeira, 6/5/04

Portugal/Spain: The CNE Criticises Galp Situation

The Spanish Energy Regulator (CNE) has warned that the Portuguese government's stake in Galp (85% of the total capital) might distort competition in the hydrocarbons market in Spain. Although Galp's share of the Spanish market is less than 3%, the company is one of the candidates interested in acquiring the three hundred petrol stations in Spain owned by Shell. The CNE considers that the expected sale of 33% of the shares of Galp to private investors will not reduce the influence of the Portuguese Government in the company, because it has kept the right to turn down the winning bid. The Portuguese government has lodged a complaint with the Spanish government concerning the content of the CNE report.



It claims that the Spanish Energy Regulator has no authority to voice opinions on the privatisation process conducted by the Portuguese government.

Agência Financeira, 25/5/04; Expansión, 20/5/04

Romania: Investment In Infrastructure To Push Forward Privatisation

Romania's SC Electrica SA National Grid is planning massive investments in infrastructure and a completion of the electrification process in order to finalise its privatisation and arrange an integrated management system of quality, environment and labour safety. The company announced that privatisation and moves towards European integration have prompted increased attention to environmental issues and particularly to the implementation of the certifiable environment management system based on the globally accepted standard ISO 14001.

Rompres, 28/5/04

Spain: The Industry Minister Presents The Guidelines Of The New Government's Energy Policy

The Spanish Industry Minister, Mr. José Montilla, has announced the guidelines for the new energy sector plan. The measures include a possible modification to the 10-year electricity tariff regime issued by the government, a review of the Spanish Plan to Promote Renewables, a revision of the recent regulation on promoting renewables, new negotiations to increase electricity interconnection with France and Portugal, and a revision of the legal status of the energy regulator (CNE) to assure its independence. The Spanish utilities have expressed their concern about the changes to the current tariff regime that aimed, at the time, to provide a stable system of remuneration.

Cinco Días, 27/5/04, 26/5/04

Spain: Iberdrola's Green Electricity Campaign Under Scrutiny

The main Spanish consumers' association (the OCU) has filed a complaint in the courts concerning Iberdrola's green electricity sales campaign. The OCU deems the marketing campaign to be misleading, as it claims it is not possible to establish the origin of electricity consumption. In addition, the Spanish competition watchdog (Servicio de Defensa de la Competencia, SDC) has opened an investigation on the issue and has requested information from Iberdrola. The actions of the OCU and the SDC follow a report by the energy regulator (CNE) that concluded that the advertising campaigns are not in breach of the electricity law (see previous issues of GERN).

La Gaceta, 27/5/04; Expansión, 25/5/04

Spain: Wind Generators Ask For Modifications To The Renewables Legislation

The Spanish Wind Generators' Association (PEE), which represents 85% of wind generation capacity in Spain, will request changes to the new renewable energy regulation. The legislation was approved by the former government in March 2004, and includes a provision whereby wind generators participating in the electricity pool will have to predict their electricity production. If the prediction falls outside a 20% band, wind generators will pay an imbalance charge. PEE considers that current prediction methods have a prediction error of 35%.

La Gaceta, 20/5/04



Spain: The CNE Asks Gas Suppliers For Information On Gas Stocks

Following claims made by the gas system operator, Enagás, that all suppliers, except Enagás itself, currently fail to comply with legal gas reserves requirements, the energy regulator (CNE) has decided to ask the gas suppliers for information on their level of gas in storage. By law, suppliers in Spain have to stock enough gas to supply their clients for thirty-five days. Non-fulfilment of this requirement could lead to fines. Gas suppliers have contended that enough reserves are already available to fulfil the obligation and that the confusion arises because the legislation fails to establish the exact location and characteristics of compulsory storage. A new decree is currently being drafted in Spain to extend regulation of gas stocks, and might be approved before the summer.

Cinco Días, 20/5/04, 6/5/04; El País, 17/5/04

Spain: The CNE Evaluates The Liberalised Electricity Market

The Spanish energy regulator (CNE) has published a report evaluating the situation of the Spanish electricity market after the first year of full liberalisation. The main conclusion is that only 0.2% low-voltage consumers have abandoned the full-service tariff, and that out of those who have exercised their eligibility only 16% have moved to a supplier not associated to its local distribution company. The reasons for the low switching rates are, according to the CNE, the existence of switching barriers, high electricity prices, and few marketing campaigns by suppliers. For large electricity consumers, figures suggest that there are more users paying the full service tariff at the end of 2003 than a year earlier.

Cinco Días, 14/5/04

Spain: The CNE Opens A File On Gas Natural

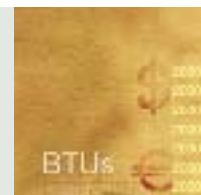
The Spanish Energy Regulator (CNE) has opened an investigation on Gas Natural, the gas distribution market incumbent, for a possible abuse of its dominant positions. This follows the complaints submitted by Endesa and Unión Fenosa to the regulator. Gas Natural is being accused of withholding pertinent information about clients supplied by Endesa and Fenosa. The CNE is concerned that this practice might be considered an abuse of Gas Natural's dominant position as it raises entry barriers for other suppliers in the Spanish gas market. Gas Natural asserts that it is already providing more information than the law requires.

Expansión, 3/5/04

Switzerland: Experimental Exploration Of Geothermal Energy Has Begun

The Federal Swiss Department of Environment, Transport, Energy and Communications (UVEK) has begun the experimental exploration of geothermal energy which has shown that the area around Basel would be preferable for this kind of energy production. The recent attempt follows a long and continuing discussion regarding the usefulness and the potential need for geothermal energy in Switzerland. However, the UVEK estimates that up to 5,000 private households in the Basel region could be supplied with geothermal energy. The economic side of the project remains highly speculative, however, since investment of approximately 40 million Swiss Francs would be required for the project.

Basler Zeitung, 1/6/04



Switzerland: Abandonment Of Nuclear Energy Has Been Decided In Geneva

From September 2004 onwards clients of the Geneva electricity supply company Services Industriels de Genève (SIG) will not receive any electricity that originates from nuclear energy. As far back as 1986, the canton of Geneva had decided to amend the constitution and force the state to ensure electricity supply from 'clean' sources. SIG currently supplies 87 % of its electricity from renewable energy sources.

Der Bund, 28/5/04

NORTH AMERICAN NEWS

US: San Diego Utility Criticizes Bid To Shift Energy Costs As Unfair

A move by two of the state's largest utilities to shift US\$1,000 million in electricity crisis costs to San Diego Gas & Electric threatens to raise what are already California's highest rates by 6.1 percent. SDG&E insists the move is unfair, saying it would create a particular hardship for local businesses, which would bear the brunt of the rate increases.

In addition to dividing the utilities, the proposal has split major consumer advocacy groups in the state. The proposal from Southern California Edison and Pacific Gas & Electric would change the method of paying for electricity California is buying under long-term contracts. The cost of electricity under these agreements -- which were signed at the peak of the crisis in 2001 -- is well above current market rates, and the state's major utilities have tussled annually over how to divide the burden. The issue is expected to come to a vote before the California Public Utilities Commission no earlier than July, according to SDG&E.

The San Diego Union-Tribune Knight Ridder/Tribune Business News, 26/5/04

US: Federal Regulators Affirm, Clarify Order On Market Behaviour Rules

FERC issued a 51-page order affirming a decision it unveiled late last year in which it adopted certain market behaviour rules and related procedural guidelines applicable to sellers' market-based rate tariffs and authorizations. The Commission did clarify a few issues raised by power industry participants in response to the November 2003 decision, including how artificial congestion will be dealt with under the rules. On 26 June 2003, FERC issued an order in which it set forth, as a modified proposal, six proposed market behaviour rules. In the proposal included in the order, FERC addressed behavioural standards covering (i) sellers' unit operation; (ii) market manipulation; (iii) communications; (iv) price reporting to index developers; (v) record retention; and (vi) related tariff matters.

NGI's Power Market Today, 21/5/04

US California Panel Sets Tougher Rules For Power Plants

The California Public Utilities Commission adopted a plan setting tougher rules for ensuring maintenance at power plants in the state. The rules -- requiring operators to keep detailed logbooks and records and verify compliance with maintenance standards -- were designed to tighten up power plant operations in the wake of California's electricity emergency in 2000-01. During the state's power emergency in 2000-01, plants operated by independent power producers often were out of service for repairs at peak demand periods, pushing up wholesale electricity prices and alarming regulators and grid officials.

Reuters, 6/5/05



Mexico: Mexican Energy Minister Resigns In Spat With Fox

Mexico's Energy Minister Felipe Calderon resigned on Monday after President Vicente Fox publicly criticized him over his presidential ambitions. Calderon, a senior member of Mexico's ruling National Action Party (PAN), said in a letter to Fox that the president's criticism was "unjust and excessive".

Reuters 31/5/04

Mexico: Private Sector Could Transport Gas Using Pemex's Pipelines

In the next months private companies will have equal access to Pemex's pipelines to transport natural gas. The Regulatory Energy Commission (CRE) is about to conclude the regulation on natural gas transport for the national system of gas pipelines.

Reforma 24/5/04

Mexico: CFE Turns Back Losses

Mexico's national electric utility, Comision Federal de Electricidad (CFE), had a profit for the first time in 7 quarters. CFE's net profits were about US\$11 million.

Reforma 8/5/04

CENTRAL AND SOUTH AMERICAN NEWS

Argentina: Government Announces A New Energy Plan

On Tuesday 11 May Argentina's President Nestor Kirchner announced an energy plan aimed at solving the country's energy crisis. The plan envisages a number of projects in the power sector, including: the interconnection of the wholesale market (MEM) with the Patagonian wholesale market (MEMSP), the completion of the 692MW Atucha II nuclear plant, expansions to the domestic grid Sadi, the gradual filling of the reservoir of the Yacyretá hydro plant to 83 meters; increases in gas tariffs; and creation of the electronic market for gas (MEG), where all wellhead spot market deals and transport capacity sales have to take place. In order to finance the planned investments, the government decided to raise export tariffs on crude oil and liquefied petroleum gas from 20% to 25% and from 5%, to 20%, respectively. The government also imposed a 5% tariff on gasoline exports.

Business News Americas, 12/5/04

Argentina: New State Oil Company Created

As part of the energy plan announced to solve the country's energy crisis, Argentina's government has decided to create a new state oil company named Enarsa (Energia Argentina). The federal government will own 53% of Enarsa, the provincial governments 12%, and private investors the remaining 35%. It is thought that Enarsa will focus primarily on offshore oil exploration and production projects, in partnership with private local and foreign companies as well as provincial companies. Argentina's formerly state-owned oil company, YPF, was sold to the Spanish Repsol as part of the privatisation process promoted by Carlos Menem in the 1990s.

South American Business Information, 12/5/04; Financial Post, 12/5/04



Bolivia: Hydrocarbons Minister Nogales Resigns Over Referendum Questions

On 25 May the Bolivian President Carlos Mesa accepted the resignation of the hydrocarbons minister, Xavier Nogales. Marked differences between Mesa and Nogales over the content of questions in the national referendum on gas are supposed to be the reason Nogales decided to quit. Xavier Nogales is the third Bolivian hydrocarbons minister to leave the post since Carlos Mesa came to power in October 2003.

BBC Monitoring International Reports, 25/5/04

Bolivia: The Government Publishes Five Questions For The National Referendum On Gas

The Bolivian government has published the questions for the national referendum on gas scheduled for 18 July. On that date Bolivians will be consulted on five issues: (1) whether they want to revoke the current hydrocarbons law approved by former President Gonzalo Sanchez de Lozada; (2) whether the Bolivian state should recover the ownership of all hydrocarbons at the wellhead; (3) on the strengthening of the state-owned oil company YPF, which does not currently have much power; (4) whether they want gas to be used as a strategic resource to obtain sovereignty over an exit to the Pacific Ocean; and (5) whether Bolivia should export gas at all, making gas exports conditional upon the promotion of domestic industrialization, the increase of taxes and/or royalties from 18 to 50% and the use of the funds generated in this way for healthcare, education, roads and jobs. President Mesa also decided to postpone the submission of the new hydrocarbons bill to the Congress until after the national referendum is held, so that “the Bolivian people are left completely free in the referendum to define the country’s national hydrocarbons policy”.

Business News America, 21/5/04; BBC Monitoring International Reports, 13/5/04

Bolivia: Gas Exports To Argentina Delayed

Bolivian gas exports to Argentina – scheduled to start on 22 May – will be probably be delayed until the week of 31 May, because the exporters, Petrolera Andina and Petrobras Bolivia, have not yet submitted their contracts to the Bolivian hydrocarbons regulator. At the end of April, the Bolivian government agreed to export 4 million cubic metres a day (mcm/d) of gas to Argentina for six months, to help relieve its neighbour’s gas crisis. Andina and Petrobras will export 3 and 1 mcm/d, respectively, most likely at a price of US\$0.98/mBTU, in line with the bi-national agreement between Bolivia and Argentina. At the same time, the Argentinean Planning Minister Julio De Vido and the Venezuelan Energy and Mines Minister Rafael Ramirez celebrated the arrival in Buenos Aires of the tanker “General Zamora”, bearing the first shipment of fuel oil from Venezuela. The fuel oil - a substitute for natural gas - is provided under a bilateral agreement that enables Argentina to acquire one million tons of Venezuelan fuel, whereas Venezuela receives farm products and manufactured goods from Argentina.

Business News America, 24/5/2004; EFE News Service, 13/5/04



Brazil: New Generation Projects Approved

The Brazilian regulator for the electricity sector, ANEEL, has authorized six new projects in the electricity generation sector. The planned investments are worth 835 million reais (US\$285 million) and will increase the country's installed capacity by 337MW. The projects include two wind power plants with a total capacity of 285 MW and two small hydro-electric plants located in the centre-west state of Mato Grosso and in the southern state of Santa Catarina. All these projects are due to start operations in 2006. ANEEL also approved the construction of the 8MW Josamar and 6MW Ipaussu thermoelectric plants, which are due to be operational from October 2005 and May 2006 respectively. Meanwhile, it has been reported that Proinfa – the Brazilian incentive program for alternative sources of electric power – has attracted 426 projects with a total capacity of 6,601 MW, twice the amount predicted by the state-owned electricity company Eletrobras.

Business News America, 13/5/04, 4/5/04

ASIA-PACIFIC NEWS

Australia: Draft Decisions On Electricity Transmission Revenue Caps:

The Australian Competition and Consumer Commission (ACCC) has released its draft decision on the revenue caps to apply to TransGrid and Energy Australia, the electricity transmission companies operating in New South Wales and the Australian Capital Territory. The decisions allow for investment totalling almost A\$1.5 billion over the next 5 years. The ACCC has approved price rises for TransGrid of less than 3 per cent in the first year and approximately one per cent in subsequent years in real terms. Energy Australia's prices may rise by up to 18 per cent in real terms over the next 5 years.

www.accc.gov.au, 4/5/04

China: SERC Advances Market Reform

The Chinese government will set up a pilot scheme under which large industrial consumers can buy power directly from large generators, according to the State Electricity Regulatory Commission (SERC). The scheme will operate through the use of bilateral contracts allowing consumers to negotiate their own power prices, especially for peak period usage. Participation will be limited to certain power stations and to industrial customers who meet a series of demand and environmental criteria.

Platts Power in Asia, 27/5/04

Indonesia: Jakarta Details Future Plans

The Indonesian government is drafting regulations covering investment in future power projects in line with the National Electricity Plan (NEP). The plan sets out the requirement to construct more than 31,000MW at an overall cost of US\$30,000 million. As part of the plan, the state-owned power utility PT Perusahaan Listrik Negara will draw up a list of projects suitable for private sector investors.

Platts Power in Asia, 13/5/04



New Zealand: Commission Recommends Regulation Of Gas Pipelines:

The New Zealand Commerce Commission has released a draft decision as part of its inquiry into whether gas pipelines should be subject to regulation. The Commission concluded that two transmission pipelines and four distribution pipelines should be subject to control. To establish whether gas pipelines should be controlled, the Commission must determine whether competition in the supply of pipeline services is limited or likely to be lessened, and whether control would be in the interest of acquirers of the services. The Commission concluded that it would not be in the interest of acquirers for Wanganui Gas to be regulated, and that Nova Gas faces workable or effective competition. A final recommendation is due to be presented to the Minister of Energy on 1 November 2004.

www.comcom.govt.nz, 14/5/04

Pakistan: Nepra Rejects Jamshoro PPA Changes

The National Electric Power Regulatory Authority (Nepra) will not extend the period of the power sales tariff received by the Jamshoro Power Company. The privatisation commission had requested the extension, to improve the prospects for privatising the company. An unidentified Nepra official is quoted as saying that Nepra will not extend the tariffs past 2009, the planned start date of the Wholesale Electricity Market. The power sales tariff is a take or pay power purchase agreement and extending it would reduce competition.

Platts Power in Asia, 13/5/04

Philippines: ERC Orders Napocor Refund

The Energy Regulatory Commission (ERC) has required the state-owned National Power Corporation (Napocor) to refund industrial customers for excessive rates it charged recently. The refund is required because, in October 2002, ERC mandated a rate cut of P0.8/kWh for industrial customers participating in the "special plan to enhance electricity demand" (SPEED) aimed at distressed industries. However, Napocor only implemented a cut of P0.5/kWh.

Platts Power in Asia, 27/5/04

Our Practice

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

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



South Korea: Kepco Postpones Kosep IPO

The state-owned Korea Electric Power Corporation (Kepco) has postponed the initial public offering planned for one of its five fossil-fired generating subsidiaries, Korea South-East Power Company (Kosep), from the end of June to the end of 2004. Analysts attributed the third postponement of the sale in part to disagreements over the value of the 30% stake to be offered for sale.

Platts Power in Asia, 27/5/04

Subscribe to Our Newsletters

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



Contact

NERA Offices

London

15 Stratford Place
London W1C 1BE
Tel: +44.20.7659.8500
Fax: +44.20.7659.8501
Contact: David Hough,
Graham Shuttleworth

Rome

Via XXIV Maggio, 43
Roma 00187, Italy
Tel: +39.06.488.8101
Fax: +39.06.485.838
Contact: Francesco Lo Passo

Madrid

Paseo de la Castellana, 13
Madrid 28046, Spain
Tel: +34.91.212.6400
Fax: +34.91.521.7876
Contact: Oscar Arnedillo

White Plains

50 Main Street
White Plains, New York 10606
USA
Tel: +1.914.448.4000
Fax: +1.914.448.4040
Contact: Jeff Makhholm

Sydney

Level 6, 50 Bridge Street
Sydney
NSW, 2000
Australia
Tel: +61.2.8272.6506
Fax: +61.2.8272.6549
Contact: Greg Houston, Ann Whitfield

NERA also has offices in:

Cambridge, MA	+1.617.621.0444
Chicago, IL	+1.312.573.2800
Ithaca, NY	+1.607.277.3007
Los Angeles, CA	+1.213.346.3000
New York, NY	+1.212.345.3000
Philadelphia, PA	+1.215.864.3880
San Francisco, CA	+1.415.291.1000
São Paulo, Brazil	+55.11.3048.1837
Tokyo, Japan	+81.3.3500.3290
Washington, DC	+1.202.466.3510

About NERA

NERA Economic Consulting is an international firm of economists who understand how markets work. Our clients include corporations, governments, law firms, regulatory agencies, trade associations and international agencies. Our global team of 500 professionals operates in 16 offices across North and South America, Europe, Asia and Australia.

NERA economists devise practical solutions to highly complex business and legal issues arising from competition, regulation, public policy, strategy, finance and litigation. Our more than 40 years of practical experience creating strategies, studies, reports, expert testimony and policy recommendations reflects our specialisation in industrial and financial economics. Because of our commitment to deliver unbiased findings, we are widely recognised for our independence. Our clients come to us expecting integrity; they understand this sometimes calls for their willingness to listen to unexpected or even unwelcome news.

NERA Economic Consulting (www.nera.com), founded in 1961 as National Economic Research Associates, is a Marsh & McLennan company (MMC). MMC is a global professional services firm with annual revenues exceeding \$11 billion. It is the parent company of Marsh Inc., the world's leading risk and insurance services firm; Putnam Investments, one of the largest investment management companies in the United States; and Mercer Inc., a major global provider of consulting services. More than 60,000 employees provide analysis, advice and transactional capabilities to clients in over 100 countries.

Disclaimer:

The information contained in this document is publicly available. It does not incorporate NERA research.

For further information, please visit our global website at: www.nera.com

© Copyright 2004
NERA Economic Consulting.

