

Reporting on energy regulation issues around the world

Global Energy Regulation

September 2006
Issue 88

Contents

- 1 European News
- 12 North American News
- 16 Central and South American News
- 19 Asia Pacific News

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Australia and New Zealand

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France, Belgium, and Latin America

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European News

UK

Ofgem Decision Regarding Notices Of IAEs Submitted By NGET

When setting revenue allowances for the 2005/06 incentive scheme of National Grid Electricity Transmission Ltd (NGET), Ofgem provided for the company to pass through costs arising from certain "Income Adjusting Events" (IAEs) to customers. NGET notified Ofgem on 30 June 2006 of IAE-related costs of £35.77 million (US\$ 67.60 million). Ofgem assessed whether NGET acted efficiently in managing constraints and risk and whether NGET incurred the costs resulting from IAEs efficiently. Ofgem decided to allow only £29.5 million (US\$ 55.76 million) causing NGET to make a loss of £4.04 million (US\$ 7.64 million) under the 2005/06 incentive scheme.

Ofgem Decision Letter To NGET, 25/9/06

Ofgem Publishes Initial Proposals For Gas Distribution One Year Price Control Review

Ofgem published initial proposals for its one year price control on 25 September 2006. The Gas Distribution Networks (GDNs) expect to overspend on non-replacement capital expenditure in the current five-year control period by 65% (£843 million (US\$1,593 million)) and wish to pass almost all of this cost onto consumers. Ofgem proposes that shareholders fund approximately 40% of the overspend, despite acknowledging that the majority of these costs arose from factors outside of GDNs' control.

Ofgem Press Release, 25/9/06



Government Expresses Concerns Over Suez-GdF Merger

The Belgian federal and regional governments published their common position on the Suez-Gaz de France (GdF) merger. The Belgian governments believe GdF should sell its holding in Belgian utility SPE, and that SPE should be allowed to purchase the nuclear plants currently owned by Electrabel. In addition, the governments' statement asks for remedies in both gas distribution and transport in Belgium, controlled by Suez through Distrigaz and Fluxys, since GdF is the main foreign provider of gas to the Belgian market.
Platts EU Energy, 22/9/06

Regulator Requires Fluxys To Commercialise Transportation Services To And From Zeebrugge

CREG has decided to oblige Belgian gas transport network operator, Fluxys S.A., to offer gas transport services between the Zeebrugge hub and the neighbouring terminals from 1 January 2007, replacing the services currently offered by Distrigaz. CREG also set down the rule that no shipper would have access to the Zeebrugge hub without a transportation contract. CREG's decision follows a study conducted by the regulator on possible measures to improve liquidity in the Zeebrugge hub.
CREG Press Release, 14/9/06

Regulator Consults On New Code Of Conduct And Gas Network Regulations

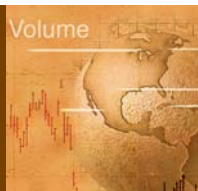
CREG opened a public consultation on two energy sector issues. The first issue is CREG's proposal for a new code of conduct for the regulator, while the second issue is the draft proposal issued by Fluxys S.A., at the request of CREG, on new rules for third party access to the Belgian gas network. Both consultations will close on 15 October 2006.
CREG Press Release, 4/9/06

Bulgaria:

Bulgaria Regulator Rejects Domestic Gas Price Increases

The Bulgarian State Energy and Water Regulation Commission (SEWRC) rejected a request from the state-run gas firm Bulgargas to increase domestic gas prices by US\$ 12.48 per 1,000 cubic metres of gas. However, SEWRC permitted a price rise of US\$ 3.64 to US\$ 200.59 per 1,000 cubic metres of gas from 1 October 2006.

Bulgarian News Digest, 27/9/06; 25/9/06



Regulator Plans Single Daily Tariff For Electricity

As part of a working report into household electricity tariffs, SEWRC plans to replace a two-step tariff for day-time electricity with a single tariff. The new tariff will require domestic electricity customers to pay US\$ 0.10/kWh for electricity in the day, while the night tariff remains unchanged at US\$ 0.06/kWh. The proposals are intended to leave average electricity costs unchanged. The current daytime tariff charges users US\$ 0.06/kWh for the first 75 kWh consumed and US\$ 0.11/kWh thereafter. The reason for the change is to prevent the cross-subsidisation which occurs under the two-step system.
PARI Daily, 9/9/06

European Union:

Commission Approves Electrabel's Takeover Bid Over Cogas

The European Commission (EC) has approved the merger between Electrabel Nederland BV and Dutch company Cogas. Electrabel Nederland is a subsidiary of Belgian Electrabel, which is controlled by French utility Suez. The EC concluded that even though the two merging companies overlap in certain business areas, mainly in the supply of electricity to large industrial consumers, the deal would not significantly impede competition in the European Union.

Agence France Press, 29/9/06; Dow Jones Capital Markets Report, 29/9/06

Commission Approves GdF-Suez's Golden Share

The EC has decided to allow the French government to keep a controlling minority interest in Suez-GdF if both companies finally merge. The EC concluded that this "golden share" does not infringe European regulations, although it has required the French government to provide additional details on the assets covered by the golden share (which, in principle, is limited to gas transportation assets, LNG terminals and gas strategic reserves). On the other hand, the EC has announced that it will investigate the protection enjoyed by E.ON since it merged with Ruhrgas. The German government could force the company to divest its gas business if it were purchased by another company.

Enervia, 29/9/06; Gas Matters Today, 11/9/06; Agence Europe, 9/9/06; La Tribune, 8/9/06



Commission Rules Against Spanish Energy Regulator

The EC has decided that the conditions imposed by the Spanish energy regulator, Comisión Nacional de Energía (CNE), on E.ON's takeover bid for Spanish utility Endesa, infringe European regulations. In its "reasoned opinion", the EC concludes that CNE's resolution breaches the EU Merger Regulations and the EC Treaty, since it restricts the free movement of capital within the European Union. The EC has also formally asked the Spanish government to amend the regulations approved last February 2006, by which the CNE's powers over mergers were extended. The EC's decision is legally binding, and if the Spanish government does not respond satisfactorily to its requests, it could be referred to the European Court of Justice.

Expansión, 27/9/06; Agence Europe, 27/9/06; Platts Commodity News, 26/9/06

France:

Parliament Discusses Energy Bill

The French Parliament is discussing a draft energy bill, which among other things, provides for the privatisation of Gaz de France (GdF), by reducing the holding of the French State to 34% of its shares. In addition, the draft energy bill aims to prepare the French electricity market for full liberalisation in July 2007 and amends the composition of the board of the French energy regulator, CRE, which will have new members representing consumers' interests. The French Parliament will vote formally on the bill on 3 October 2006; however, certain provisions, including the article on the privatisation of GdF, have already been adopted by the members of the French Parliament.

Les Echos, 28/9/06; Platts Global Power Report, 21/9/06; Agence France Press, 11/9/06, 6/9/06

GdF And Suez Propose Remedies To Merger Operation

French utilities GdF and Suez have proposed five remedies to the objections raised by the European Commission (EC) in the statement of objections sent to the merging companies last month. Among other things, GdF and Suez would: (1) transfer part of their gas activities to a new company, which they would sell; (2) reduce GdF's stake in Belgian generation company SPE; and (3) split Belgian gas transport operator Fluxys into three independent business areas. The final EC decision on the merger is expected by mid-November 2006.

Agencia EFE, 21/9/06



Government Publishes Regulation On Renewable Energy Guarantees Of Origin

The French government published in the Official Journal a new regulation on guarantees of origin for electricity generated from renewable energy sources and cogeneration. This regulation implements European Directive 2001/77/CE, on the promotion of renewable energy sources.

Legifrance, 7/9/06; CRE Press Release, 6/9/06

Germany:

German Cartel Office Initiates Market Abuse Case Over Supply Cut Threats

The German cartel office has opened a market abuse case against one of Germany's big four energy suppliers (EnBW, E.ON, RWE and Vattenfall) over threats to cut supplies. The cartel office did not identify the firm under investigation, but said one of the suppliers had threatened to cut off supplies to a customer that said it would withhold payment of its energy bill until the supplier explained its price increases. The cartel office said that this was not an isolated incident; many consumers had complained about suppliers threatening to cut off their gas or power supplies.

Platts Commodity News, 25/9/06

Intraday Trading Starts On German Power Bourse EEX

Intraday trading started on 25 September on the German power exchange EEX. It offers hourly parcels of electricity up to one hour in advance. In future, the exchange may offer quarter-hour deliveries up to 45 minutes before delivery. The trading platform is available around the clock, seven days a week and offers trading and settlement in the four German transmission grid zones. EEX plans to extend the platform to include further countries. The exchange council of EEX also announced December 2006 as the launch date for EEX spot trading in the grid area of Etrans in Switzerland.

Reuters News, 25/9/06; EU Energy, 8/9/06

Court Awaits Supreme Ruling Before EWE Gas Case Decision

The court of Oldenburg postponed rulings on three separate lawsuits against utility EWE regarding retail gas pricing, until the Supreme Court of Justice (BGH) reaches a decision on two major cases, said EWE, Germany's fifth largest utility. The company faces class action suits from two consumer groups involving 85 consumers in the Oldenburg and East Friesland regions. The BGH is expected to decide whether retail gas pricing issues fall under the jurisdiction of state or cartel courts and are governed by German Civil Code paragraph 315.

Platts EU Energy, 22/9/06



German Economy Ministry Outlines Tougher Measures On Market Abuse

In response to high energy prices, Michael Glos, the German Economy Minister, announced in Parliament special rules to curtail the market power of energy suppliers. The Ministry of Economy is working on changes to competition law. According to the Ministry, the changes will make it harder to disprove allegations of abuse of market power. At present, the cartel authorities can only act if there is a price difference of at least 10% relative to a comparable firm. In future, a large difference between production costs and wholesale prices could be sufficient to count as “suspicion of abusive behaviour”. The cartel authorities are currently investigating the practice of including emission permits in the cost of electricity, when these permits were distributed freely. The Ministry is also investigating options to facilitate the connection of third parties to the transmission grid and the possibility of forcing the four largest energy firms to invest more in cross-border capacity.

Handelsblatt, 19/9/06; www.Sueddeutsche.de, 8/9/06

Italy:

AEEG Updates Electricity And Gas Tariffs

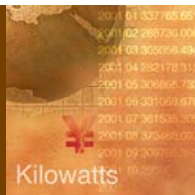
The AEEG, the Italian energy regulator, updated electricity and gas tariffs for the period October-December 2006. The increase in prices for households will amount to 0.3% for gas and to 1.6% for electricity. The increase in electricity tariffs is due to recovery of the difference between the expected and actual costs of the Single Buyer for purchasing electricity for captive customers and to an increase in the component which covers the costs of CIP 6 electricity. The increase in gas tariffs is due to a rise in transportation costs which is not offset by a simultaneous decrease in distribution costs due to a reduction in components related to equalisation mechanisms.

AEEG's web site, 29/9/06

Minister For Economic Development Presents A Proposal To Complete Liberalisation Of The Energy Sector And To Increase Energy Savings

The Minister for Economic Development presented to the High Chamber (Senato) a proposal to order the Government to adopt measures that complete the liberalisation of the Italian energy market, increase energy savings and the use of renewable energy sources and re-define the competences of the Italian regulator. The Government will issue legislative decrees on (but not limited to): incentives for new pipelines, regasification terminals and storage infrastructures; measures to enhance competition in the energy market; creation of a market for electricity and gas futures and an increase in targets for energy efficiency for electricity and gas distributors.

High Chamber's web site, 27/9/06



AEEG Launches A Consultation On A National Communication Standard Between Gas Distributors And Retailers

The AEEG launched a consultation document on setting a nationwide standard for communication between gas distributors and retailers. The standard is intended to implement measures by AEEG on the quality of service, to increase the entry of new retailers and to facilitate switching from one supplier to another.

AEEG's web site, 27/9/06

Netherlands:

X-Factor And Tariff Basket For TenneT

The NMa published a draft decision (on 6 September) and a final decision (on 27 September) on the x-factor and tariff basket volume weights to apply to the revenue control of TenneT, the national electricity grid company, for the period 2007-2010. The NMa decision sets the x-factor equal to 1.4 (i.e. a real reduction in prices of 1.4% per year).

DTe website, Dossier 102137, 27/9/06; DTe website, Dossier 102138, 6/9/06

DTe Publishes X-Factors And Q-Factors For Regional Electricity Distribution Companies

DTe published the x-factor to apply to price controls on regional electricity distribution companies for the period 2007-2009. This x-factor will be 1.1 (i.e. a real reduction in prices of 1.1% per year). DTe also published "q-factors" to allow for variations in the companies' performance on quality of supply. These q-factors impose further changes in the price control of -0.1% to +0.6% per year.

DTe website, Dossier 102140, 27/9/06; DTe website, Dossier 102141, 27/9/06

Hearing On Reverse Quality Conversion

The NMa announced it would hold a hearing on 3 October 2006 to discuss proposals to amend codes governing the gas balancing regime, in order to permit "reverse quality conversion".

DTe website, Dossier 102404, 26/9/06

DTe Reaction To Energiened Proposal On Compensation To Customers

EnergieNed submitted a proposal suggesting that compensation paid to customers whose supply of electricity is interrupted should be amended. The current payment of €35 (US\$ 19) would be replaced with a range from €21 (US\$ 11) up to €84 (US\$ 44), depending on the duration of the interruption. DTe responded with some suggested amendments to the proposal.

DTe website, Dossier 102344, 21/9/06



Portugal:

Court Rejects The Suspension Of The Wind Tender Negotiation Process

The suspension of negotiations in the Portuguese's wind energy tender process, imposed by the Lisbon Administrative and Fiscal Court, has not been put into effect. The court had ordered a suspension of negotiations between the Government and the winning parties after receiving a complaint by the energy consortia led by Spanish Iberdrola listing possible irregularities in the tender evaluation. However, the court decided to discontinue this suspension because delays to the tender process may affect the public interest. In the meantime the court has reached no final decision on the irregularities of the tender process.

Jornal de Noticias, 29/9/06; Platts EU Energy, 22/9/06

Thirty Nine Interested Parties In The Biomass Tender Process

According to the Economics Ministry, thirty-nine firms showed interest in the tender process for construction of 150 MW of biomass plants. The installed capacity must be operating in 2010 in order to comply with the Portuguese renewables energy production targets. Annual energy production from biomass is expected to be around 52 GWh in 2010.

Diário Económico, 20/9/06

New Regulation In Gas Transportation

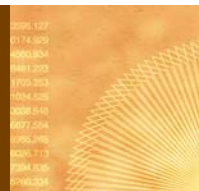
The Portuguese energy regulator, ERSE, approved a new regulation in natural gas transportation. This regulation is considered crucial for the privatisations of Galp and REN, since Transgás is an essential part of the process (see previous GERN issues). The new regulatory framework sets out, among other things, the tariff regime and network access conditions. In addition, Transgás, the transportation company, will manage the Algerian and Nigerian long-term take-or-pay gas contracts. These contracts are used first to meet supplier of last resort obligations, then demand from customers with consumption above 2,000 million cubic meters and, lastly, the needs of electricity plants. In addition, Transgás will auction natural gas in excess of the requirements for its regulated market.

Diário Económico, 13/9/06; Agência Lusa, 12/9/06

Full Eligibility In The Electricity Market

From 4 September, 5.8 million Portuguese electricity customers are eligible to choose their electricity supplier. However, retailers other than EDP seem to be reluctant to operate in the liberalised market until the 2007 tariffs are known. It is expected that the inflation-rate ceiling on domestic customers' regulated tariffs will be removed, so that the liberalised market will be more attractive for both retailers and domestic customers.

Agência Lusa, 4/9/06



Portugal To Pay EUR 354 Million In Emission Rights

The total cost for the CO2 emissions allowances that Portugal is expected to pay for in the 2008-2012 period amounts to EUR 354 million (US\$ 425 million). This payment derives from the Kyoto agreement because Portugal is expected to have emissions above its allowed levels.

Jornal de Noticias, 1/9/06

Romania:

Regulator Questions Price Paid By Distribution Companies

The Romanian Gas Regulatory Authority (ANRGN) has raised questions about the prices charged to distribution companies by domestic gas producers; in particular the state-run incumbent Petrom. ANRGN allowed a price increase of 24% in Q3 2006, but has observed a rise of up to 41%. Romanian authorities intend to raise the price of domestic gas to that of imported gas purchased on international markets, which is currently almost twice as expensive. ANRGN, which regulates final domestic tariffs and tariffs for public institutions (e.g. schools), announced that these tariffs would remain unchanged until the end of 2006.

European Spot Gas Markets, 21/9/06; Rompress, 14/9/06

Russia:

Cheap Gas Era Comes To End

Deputy Prime Minister, Viktor Khristenko, and the head RAO UES of Russia, Anatoly Chubais, both spoke in favour of liberalisation of gas markets. RAO UES of Russia is interested in buying gas from Gazprom in excess of set quotas, at market prices. The plans are at the preliminary stage of development.

Russian Broker Reports, 29/9/06

Partial Deregulation Of Electricity Market

Prime Minister Mikhail Fradkov signed a decree whereby up to 10% of electricity consumption may be priced freely with immediate effect. From 1 January 2007, market participants will be able to enter into a long term electricity trading agreements for a one year duration. According to Anatoly Chubais the residential electricity tariffs should continue to be regulated for the next two to three years.

Dow Jones International News, Prime-TASS Energy Service (Russia) 1/9/06



Spain:

Utilities To Pay For CO2 Emissions Rights At Powernext Prices

The Spanish Ministry of Industry has sent to the CNE, the Spanish energy regulator, a draft of a secondary regulation that determines the way utilities' wholesale market revenues will be reduced by the value of the CO2 emissions rights they received for free. According to the draft, the generator's monthly settlement from Spanish market operator, Omel, will be reduced by 1/12th of the annual allocation of emissions rights received by each plant multiplied by the monthly average price of those rights in the French market Powernext.

Gaceta de los Negocios, 25/9/06

Ministry Of Industry Withdraws ENI's Authorisation To Sell Natural Gas

The Ministry of Industry has withdrawn ENI's authorisation to sell natural gas in Spain because it has not started operations. ENI received the authorisation in 2003 on condition that it would be withdrawn in two years time if the company did not make use of it.

Cinco Días, 21/9/06; Gaceta de los Negocios, 21/9/06

Ministry Of Industry Modifies Bill On Supplier Of Last Resort

The Ministry of Industry has modified a bill by which Gas Natural will be the only supplier of last resort from January 2008 onwards. The modification appoints not only Gas Natural but also Endesa, Unión Fenosa and HC Energía. Suppliers of last resort will offer the so-called last-resort tariff from 1 January 2008, when the Spanish gas market will be fully liberalised. The last-resort tariff will take the form of a maximum price for consumers who do not exercise their right to buy gas in the liberalised market.

Gaceta de los Negocios, 19/9/06

Congress Is Discussing Electricity And Gas Bills

The Spanish government has sent Congress two draft bills which implement European Directives on the common electricity and gas markets as well as introducing other changes. Regulated tariffs will disappear in 2008 and 2011 for gas and electricity, respectively. However, consumers will have the right to pay the last-resort tariffs that will be established when regulated tariffs disappear. In addition, the draft bill states that REE and Enagás, the electricity and gas transmission system operators, will each have to create a separate business unit for system operation whose managing director must be approved by the government. Enagás will be banned from selling gas.

Cinco Días, 18/9/06; El País, 2/9/06

Switzerland:

Swiss Parliament Debates The Future Of Its Power Market

The Swiss parliament debated the future of its power market on 11 September. Afterwards it was announced that Switzerland is to open its power market for energy-intensive users in 2008, before opening it for smaller and household consumers after five more years. Differences between the upper and lower house still need to be addressed and some parts will be subject to a referendum. Parliament also said that the power transmission grid is to remain in Swiss hands, although not necessarily owned directly by cantons and communities.

Platts Commodity News, 12/9/06

Turkey:

Turkey Commences Privatisation Of Distribution Companies

Three Turkish electricity distribution companies were put up for tender on 30 August 2006 by the Privatisation Administration (PA). Bids are invited by 15 December 2006 for a 100% stake in the three firms. Turkey's privatisation programme, supported by the International Monetary Fund, has divided the state-owned incumbent Turkiye Elektrik Dagitim into 21 smaller companies, twenty of which remain under state control. The PA also announced on 21 September 2006 that potential investors in these three firms should apply for prequalification in electricity distribution tenders by 4 October 2006.

Turkey Sectors and Companies Today, 21/9/06; European Daily Electricity Markets, 31/8/06

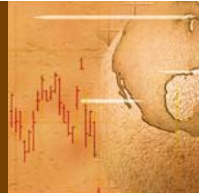
North American News

US:

PUC May Investigate Power Market Manipulation

The Texas Public Utility Commission recently took the first step toward launching an investigation, by releasing a report by an outside consultant showing that a company may have declined to sell available power into the market, boosting prices. The report didn't name the company involved.

The Dallas Morning News, 5/10/06



Three Western Pennsylvania Gas Companies Cut Rates Ahead Of Winter

Equitable Gas, Dominion Peoples and Columbia Gas have all filed reduced gas prices with the Public Utility Commission, citing clement weather and increased gas supplies as the reason. Equitable will charge its customers US\$ 9.98 per thousand cubic feet (Mcf), down US\$ 3.74 from a year ago. Dominion Peoples will charge US\$ 8.67 per Mcf for the final quarter of this year, down from US\$ 9.21 per Mcf at present and from US\$ 12.82 per Mcf in the final quarter of 2005.

Dow Jones International News, 30/9/06

Cheyenne Natural Gas Rates Going Up

The State Public Service Commission has approved a 43.5% increase in natural gas rates paid by customers of Cheyenne Light Fuel and Power. Cheyenne Light claim strong demand coupled with flat supply as the reason for the US\$ 15 million rate increase. The Office of Consumer Advocate is seeking more information from Cheyenne Light.

Associated Press Newswires, 29/9/06

NJNG Customers Get Price Break On Falling Wholesale Prices

New Jersey state regulators have approved a request by New Jersey Natural Gas for a rate decrease of 6.7%, saving the average domestic customer US\$ 18.28 per month over the coming winter.

Dow Jones International News, 28/9/06

National Fuel Gas In Tentative Settlement

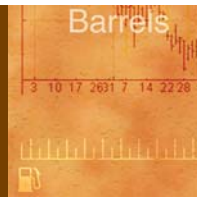
National Fuel Gas Co. has reached a tentative settlement with state regulators regarding a complaint about natural gas rates filed with the Federal Energy Regulatory Commission (FERC) by New York's Public Service Commission, the Pennsylvania Public Utility Commission and the Pennsylvania consumer advocate office. Terms of the "settlement in principal" were not disclosed.

Associated Press Newswires, 26/9/06

FERC Gives Preliminary Approval To Rockies Express Billion Dollar Rex-West Natural Gas Pipeline Project

FERC has given preliminary agreement to the Rockies Express Pipeline company's proposal to construct and operate natural gas pipeline facilities with a capacity of 1,500,000 dekatherm/day between the Cheyenne Hub (Weld County, Colorado) and the interconnection with Panhandle Eastern Pipe Line Co (Audrain County, Missouri). While FERC's preliminary determination says that Rockies Express' proposals are in the public interest, final approval will depend on a favourable environmental review.

Foster Natural Gas Report, 22/9/06



California And The West; PUC Clears Way For Liquefied Gas Imports

California utility regulators have approved new rules for the state's natural gas industry, following a two-year investigation into the state's future demand for natural gas. The rules will allow the import of LNG and establish benchmarks to ensure the adequacy of storage facilities and pipelines, and the quality of imported natural gas. They also set procedures under which utilities should contract for supplies. However a coalition of environmental, consumer and community groups plan to challenge the decision in the courts on environmental grounds.

Los Angeles Times, 22/9/06

California ISO Hails FERC Approval Of Market Redesign; Market Redesign And Technology Upgrade Receives Conditional Approval

FERC unanimously gave a green light to the California Independent System Operator Corporation (California ISO) for its Market Redesign & Technology Upgrade (MRTU) program, helping it proceed toward a planned November 2007 implementation date. While critical to the future of the wholesale energy system in California, MRTU will not have any immediate impact on the average consumer.

Business Wire, 21/9/06

FERC Says Firm Can Expand Investments In Utilities

In June, the Capital Research and Management Co. (CMRC), a unit of Capital Group International, asked FERC for permission to acquire on behalf of its mutual funds up to 20% of the voting securities of any one utility, with no single fund holding 10% or more of the voting securities of any one utility. FERC staffers said FERC agreed to give Capital Research and Management that authority, but only for three years.

Dow Jones & Company, Inc., 21/9/06

Keyspan To Raise Gas Rates 5.4%; Utility Says It's Still Selling Off Pricey Post-Katrina Supplies

KeySpan Energy Delivery New England has asked the Massachusetts regulator for approval to raise its gas rates by 5.4%. Despite falling wholesale prices for natural gas, KeySpan is still selling off inventories of gas it bought last autumn at high post-Katrina prices. The mild winter meant that more of this expensive gas is still in storage and must be distributed at the higher price.

The Boston Globe, 16/9/06



NStar Set To Reduce Natural Gas Rates; Utility Also Will Offer A Lock-In Price Option

NStar Gas has asked state regulators to approve new rates for its 300,000 gas customers from 1 November that will reduce the average domestic monthly gas bill by US\$ 38. Residential and small-business customers will be given the option to lock in this new rate until May 2007 to protect themselves against any rate increases during this period.

The Boston Globe, 15/9/06

Connecticut OKs New Electric Bidding Process

Connecticut's utilities regulator approved a plan designed to attract generators of affordable and reliable electricity. Connecticut and ISO New England, which manages the wholesale supply of electricity for the region, estimate that the state will be short between 600 and 700 megawatts next year. The proposal also includes requests for demand and load response, that is, strategies and mechanisms for conserving energy when demand peaks, or routinely, regardless of pressure on the system.

McClatchy-Tribune Business News Formerly Knight Ridder/Tribune Business News, The Day, 15/9/06

Illinois Auction Declared Successful

Illinois recently completed its first electricity auction. ComEd owns no generation and must go to the open market to buy electricity for 2007 and beyond. Illinois Commerce Commission staff and an independent auction monitor provided ongoing oversight of the process, which was administered by NERA, the auction manager.

PRNewswire, 15/9/06

PSEG And Exelon Announce Termination Of Proposed Utility Merger; Companies Cite Insurmountable Gaps With New Jersey Board Of Public Utilities

Public Service Enterprise Group Inc. (PSEG) and Exelon Corporation announced that Exelon has given PSEG formal notice of termination of the merger agreement announced 20 December 2004. The companies have agreed to withdraw their application for merger approval, which has been pending before the New Jersey Board of Public Utilities for more than 19 months. Discussions with state officials and other interested parties had identified insurmountable differences over issues including, among other things, rate concessions and market power mitigation.

Business Wire, 14/9/06



Regulators Debate How To Let Electric Companies Raise Rates

The Missouri Public Service Commission has been holding hearings around the state to discuss how to implement a law that allows electric companies to recoup their fuel costs more easily and quickly from customers. Under the old system, when an electric company wanted to raise rates, the Commission would hold a rate hearing, during which the company's overall financial picture was considered. With the new law, the Commission would hold a rate hearing upfront, but would set down a process defining how the utility could raise or lower rates after that.

The Associated Press, 7/9/06

New York Commission Says It Will Pursue Audit Of Con Ed

A state regulatory agency said it will pursue an independent audit of the Consolidated Edison power company in light of outages in the metropolitan region over Labor Day weekend. The review comes in addition to an ongoing Commission investigation of the company for its response to a 10-day blackout in Queens in July.

The Associated Press, 7/9/06

Mexico:

Mexican Regulator Approves Telecom Concession For CFE

Mexico's telecommunications regulator (Cofetel) issued a favorable opinion on a request by the state-run electric utility Comisión Federal de Electricidad, for a telecom concession to provide "carrier-of-carriers" services. Now it is up to the Communications and Transport Ministry to issue the telecom concession.

Dow Jones 14/9/06

Central and South American News

Argentina:

Oil Companies Must Obtain Government Approval For New Products; Government Launches Diesel Supply Tender

A resolution published by the Argentinean Energy Secretariat obliges oil companies to obtain government approval for new products introduced after 1 September. As a result, Royal Dutch Shell has been ordered to stop selling a new premium diesel fuel. Argentina is going through a diesel shortage and the government has tried to induce oil companies to meet demand by importing diesel. The regulation has been published because Shell refused to import diesel. Argentina's government has launched a tender for the supply of up to 600,000 cubic meters of diesel to alleviate the country's shortages. Preference is



given to Venezuelan fuel. If needs are not met in the tender, Argentina's state energy company Enarsa will award the remainder to a supplier and be charged with purchasing the fuel. The day before the launch of the tender, Argentina's government published a resolution by which the volume of diesel that companies are allowed to import tax-free was trebled to 600,000 cubic meters. *Noticias Financieras*, 29/9/06; *Business News Americas*, 6/9/06; *Reuters News*, 5/9/06

Bolivia:

Government Suspends Nationalisation Of Petrobras To Start Bilateral Talks

Bolivia's government suspended the resolution that gave control over the sale of oil and fuel to State oil company YPFB. The suspension is due to pressure exerted by the Brazilian government and Petrobras, Brazil's federal energy company, and is aimed at allowing talks between them to restart.

Business News Americas, 15/9/06, 14/9/06; *Reuters News*, 14/9/06

Brazil:

Regulator Confirms Power Contracts Auction

The Brazilian Government has confirmed its intention to auction rights to build and operate a series of electricity projects. The power regulator set the ceiling on the price for selling energy in the auction at 125 Brazilian reals per MWh (US\$ 57.55/MWh) for hydroelectric plants and 140 Brazilian reals per MWh (US\$ 64.46/MWh) for thermoelectric plants. Concessions will be awarded to the company offering the lowest price for generated electricity.

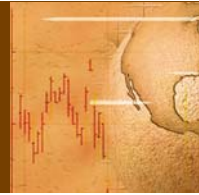
Business News Americas, 20/9/06; *Latin America News Digest*, 20/9/06; *Dow Jones International News*, 19/9/06

Colombia:

Government To Hold New Ecogas Auction

Colombia's government cancelled the sale by auction of the state owned natural gas company, Ecogas, on 29 September and has launched a new auction for 24 November. The auction was cancelled because the only bidder, a group of six local pension funds, offered a price that was less than 90% of the government's minimum price. Colombian bidding rules oblige the government to give first option in any privatisation to social groups. The next auction will be open to a broader range of bidders, which are expected to offer a higher price.

Dow Jones International News, 30/9/06



Ministries Submit Ecopetrol Modification Bill To Congress

Colombia's Ministry of Mines and Energy and Ministry of Finance and Public Credit have submitted a bill to Congress to restructure state oil company Ecopetrol in light of plans for a partial sell-off. The legislation would allow Ecopetrol to carry out R&D and to sell traditional and alternative energy sources. It would also allow the company to produce, mix, store, transport and sell oxygenated compounds and bio-fuels.

Business News Americas, 21/9/06

Regulator Awards E&P Contract Oil Property

Colombia's hydrocarbons regulator, AHN, has awarded British Emerald Energy an E&P contract for the Maranta oil property. Initial exploration will run for 18 months.

Business News Americas, 15/9/06

Ecuador:

National Congress Confirms Unique Electricity Tariff

Ecuador's Congress confirmed a reform which creates a new subsidy for the electricity sector. The subsidy will support a single electricity tariff for all the distribution companies. The reform will also permit penalties for electricity theft and will restructure the National Electricity Council.

El Comercio, 15/9/06

Congress Approves Power Bill

Ecuador's Congress approved a bill that proposes paying the US\$ 950 million debt of the country's electricity distributors. The bill will become law once it is published in the official gazette. In the final version, President Alfredo Palacio's proposals to get rid of a fixed service rate for all distribution firms and to determine electricity prices depending on the types of consumers were finally rejected (see previous GERN issue).

Reuters News, 14/9/06

Nicaragua:

National Assembly Approves Disbursement For Power Purchasing

Nicaragua's National Assembly approved the disbursement of US\$ 5 million to state transmission company Entresa to buy power on the Central American market. The aim of the funds is to ease the country's energy crisis (see previous GERN issue), preventing outages until November, when general elections are to be held.

Business News Americas, 28/9/06



President Submits Bill To Reform Energy Law

Nicaraguan President, Enrique Bolaños, sent the National Assembly a bill to reform the Law of Energy Stability. The reform is aimed at easing the country's electricity crisis (see previous GERN issue). It proposes to extend until December 2007 subsidies for those consuming 150 kWh or less per year and to authorise automatic monthly tariff adjustments to take into account variations in generation costs.

Global Insight Daily Analysis, 20/9/06; Business News Americas, 20/9/06; Agence France Presse, 19/9/06; NOTIMEX, 19/9/06

Regulator Launches Geothermal E&P Concession Tender

Nicaragua's energy regulator, INE, launched an international tender for E&P concession on three geothermal blocks. The contract is due to be awarded in April.

Business News Americas, 19/9/06

Peru:

Government Reaches Agreement With Gas Companies On Price Regulation

The Peruvian government has reached an agreement with gas companies developing the Camisea natural gas project. The agreement reduces the ceiling on natural gas prices for the domestic market and regulates price increases. Prices will increase by a maximum of 5.0% a year until 2012 and by a maximum of 7.0% until 2017. They will be based on a reference index made up 40% of a basket of energy prices and 60% of prices of machinery and equipment for the oil and gas industry.

Dow Jones International News, 7/9/06

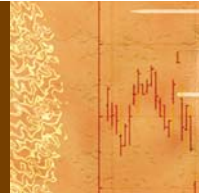
Asia Pacific News

Australia:

Access Decisions For Pipelines In Queensland

The Australian Competition and Consumer Commission (ACCC) issued its draft decision on the revised access arrangement for the Roma-to-Brisbane pipeline. The Commission proposed several revisions, one being a 10% reduction in the reference tariff to apply to firm forward haulage services. Furthermore, Australian Pipeline Trust Petroleum Pipelines Limited (APTPPL) agreed to establish an electronic register for users to access information regarding spare and developable capacity. The Commission also released its draft decision on the Ballera-to-Wallumbilla Pipeline, proposing to accept Epic's access arrangements.

www.accc.gov.au, 21/9/06, 31/8/06



Alinta Challenges Licence Laws

Alinta Asset Management is seeking a ruling in the Supreme Court of Victoria that it does not require a gas distribution licence and is not required to comply with the National Third Party Access Code for Natural Gas Pipeline Systems. Since Alinta owns a 10% stake in Multinet, a gas distributor that is authorised by the Essential Services Commission (the Commission), Alinta argues that Multinet's compliance meets the regulatory requirements of both companies. Under the Gas Industry Act, it is an offence to distribute or retail gas as a principal or an agent without a licence issued by the Commission.

The Australian Financial Review, 15/9/06; www.Esc.Vic.Gov.Au, 13/9/06

Armenia:

PURC Sets Service Quality Criteria

The Public Utilities Regulation Commission has set service quality targets for the Russian-owned Armenian Electricity Network. The criteria limit the extent of electric power voltage fluctuations and the number of annual cut-offs.

ARKA – News (Armenia), 28/9/06

China:

Endesa Purchases Chinese Carbon Credits

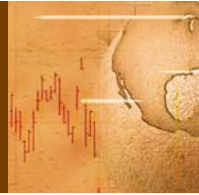
Endesa has received approval from Spanish and Chinese authorities for acquisition of carbon credits by participating in four clean development mechanism projects in China. Endesa plans to buy the credits from the Jiuquan Sanyuan Hydropower Development Company and from part of the China Huaneng Group. Endesa will acquire all certified reductions in greenhouse emissions achieved through certain renewable generation projects from 2006 to 2012, amounting to a total of 2.7 million metric tons of CO₂.

Platts Power in Asia, 28/9/06

Chinese Clampdown On Energy Wastage

The State Regulatory Commission has, for the second time in two years, increased power prices to selected customers operating in energy-intensive sectors in a bid to restrict wasteful investment. Under the plans, electricity prices will rise above average tariffs by 50% within 3 years for consumers operating plants targeted for closure by Chinese authorities on grounds of inefficiency.

Reuters News, 28/9/06



Huang Power Granted Approval For New Power Plants

Huang Power has received approval from the National Development and Reform Commission to build two coal-fired power stations in Shantou city. The investment will cost up to 9.21 billion yuan (US\$ 1.16 billion), each plant having a capacity of 1000 megawatts.

AFX Asia, 14/9/06

India:

Regulated Electricity Tariff Increases In Tripura

Following a request from the Tripura State Power Corporation (TSPC) on 4 August 2006, the Tripura Electricity Regulatory Commission (TERC) has allowed an average tariff increase of 4.99%. This is below the 10.6% increase requested by TSPC. To limit the pressure on costs, TERC agreed to support TSPC in collecting outstanding payments and preventing illegal electricity connections.

Hindustan Times, 22/9/06

KERC Warns Of Power Crisis

The Chairman of the Karnataka Electricity Regulatory Commission has warned of power shortages if steps are not taken to reduce transmission and distribution losses and prevent illegal power connections, especially in the agricultural sector. He said that on average, revenue collection accounted for less than 20% of power supplied to customers. Currently the state is experiencing power shortages of 8-10%, which are likely to increase in coming years unless action is taken.

The Hindu, 20/9/06

DGH Receives Increased Power To Regulate Upstream Oil And Gas Sectors

The Petroleum and Natural Gas Ministry has transferred some of its powers to regulate the upstream oil and gas sectors to the Directorate General of Hydrocarbons (DGH). Following the transfer, the DGH will be able to monitor and regulate companies' exploration and development plans for commercial discovery of hydrocarbon reserves. The DGH said that it aims to minimise exploration costs in the sector and will set up a national data repository to facilitate exploration in the Indian Basin.

Gas Matters Today, Asia, 11/9/06



Indonesia:

Indonesian Regulator Awards Special Rights To Gas Distributors

Indonesia's downstream regulator BPG Migas has awarded exclusive gas distribution rights to Perusahaan Gas Negara (PGN) and Energasindo Heksa Karya in separate regions. These exclusive rights will last for 25 years and are intended to give legal certainty to investors. The Government intends to sell a 5.31% stake in PGN this year to raise Rupiah 3 trillion (US\$ 331 million).

Gas Matters Today Asia, 6/9/06

New Zealand:

Unison Settles With Commerce Commission

Unison Networks has reached an administrative settlement with the Commerce Commission following the Commission's statement of intent to declare control of it last year. From 1 December this year, through the remainder of the five-year regulatory period, Unison will be reducing its average charges to comply with the price path threshold set by the Commission. Unison was found to be earning significant excess profits, with specific harm to consumers in Rotorua and Taupo. The settlement also includes measures to change pricing so that it reflects the costs of supply.

www.comcom.govt.nz, 27/9/06

Electricity Commission Chairman Dumped

The first Electricity Commission chairman, Roy Hemmingway, will be leaving office at the end of November, despite having sought a second three-year term several months before. The Chairman said, "I can only conclude that I am being removed from office because I stood up to the Government as an independent regulator should." Earlier this year Hemmingway was the head of the panel that rejected Transpower's 400-kilovolt transmission line. (See *Global Energy Regulation Newsletter*, issue 87, p. 19, and issue 83, p. 19).

Dominion Post, 14/9/06

Pakistan:

OGRA Proposes New Tariff Regime

The Oil and Gas Regulatory Authority (OGRA) has suggested a new distribution tariff to the Pakistani Government. OGRA has allowed a variable rate of return of 8% plus the Karachi InterBank Offer Rate (IOR). The tariff includes incentives to reduce gas losses from the distribution network. The Authority has also urged the Government to cease its subsidisation of domestic tariffs as this distorts the relative prices of competing fuels such as liquefied natural gas, kerosene or liquefied petroleum gas.

ARIF RANA, 27/9/06



PCB Delays Privatisation Until 2007

Having reviewed recommendations from the Committee for the Proper Sequencing of Strategic Sale of Public Sector Entities, the Privatisation Commission Board (PCB) has decided that the process of privatising various state-owned firms should be reviewed next in 2007. However, during the PCB's recent review, it approved the prequalification of certain firms wishing to participate in the bidding process for the state-owned power and telecommunications companies.

The Baluchistan Times, 9/9/06

Philippines:

Approval Gained For Coal-Fired Power Station

GN Power Company has received approval for a 600-megawatt coal-fired power plant costing Peso 43,903 million (US\$ 869 million) at an integrated energy complex in Barangay Alasain on Luzon. The approval gives GN Power pioneer status, which provides investment incentives such as an income tax break for six years.

Platts Power in Asia, 28/9/06

Thailand:

Thai Court Opts To Hear Consumer Groups' Privatisation Concerns

Thai courts agreed on 11 September 2006 to hear a legal challenge lodged by consumer groups regarding the privatisation of energy company PTT. The recently deposed Thai Prime Minister, Thaksin Shinawatra, and two other defendants were required to provide explanations of their roles in the privatisation process to the court within 30 days. The court's ruling suggested that PTT may be forced to buy back shares sold off in 2001. However, the recent Thai military coup leaves the consequences of the court's decision in doubt.

Global Insight Daily Analysis, 11/9/06

Vietnam:

Competitive Generation Market To Be Tested From 2007

Electricity of Vietnam (EVN) will operate a competitive market in electricity generation from January 2007, which will pave the way for more market liberalisation. Initially, nine predominantly state owned generation companies will participate in a test market to be operated by the National Power Regulating Centre.

Vietnam News Brief Service, 19/9/06



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NERA helps 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 organisations. Our work also includes designing and conducting energy auctions and 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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