

Reporting on energy regulation issues around the world

Global Energy Regulation

August 2007
Issue 99

Contents

- 1 European News
- 8 North American News
- 12 Central and South American News
- 14 Asia Pacific News

Editor

Graham Shuttleworth

Regional Editors

Kristina Sepetys: US

Greg Houston and Ann Whitfield:
Australia and New Zealand

Oscar Arnedillo: Spain, Portugal,
France, Belgium, and Latin America

Francesco Lo Passo: Italy

European News

UK

Britain To Release More Gas Entry Capacity Ahead Of Winter

Ofgem has approved a proposal by National Grid (NG) to change the Gas Network Code in order to increase the amount of gas available through the national transmission system (NTS) this winter. National Grid, the operator of the NTS, have proposed to release further amounts of interruptible NTS entry capacity using the same auction process as for firm capacity. Another proposal, still awaiting approval by Ofgem, would allow holders of capacity at one entry point to sell their capacity for use by other traders at a different site.

Platts Commodity News, 29/08/07

Ofgem To Deregulate Prices At UK LNG Store

Ofgem has published consultation documents on the next price control and eventual full price deregulation of National Grid's four LNG stores, at Avonmouth, Dynevor Arms, Glenmavis and Partington. The stores provide both unregulated commercial storage services and regulated activities such as provision of gas for resolving "locational transmission constraints", maintaining operating margins, and supplying Scottish Independent Undertakings fed by road tanker. Ofgem will publish Initial Proposals for this price control in October, with final proposals in December, for application from April 2008.

Gas Matters Today, 06/08/07

Ofgem Publishes Renewables Obligation April '06-March '07

Energy regulator Ofgem has published information on the scale of the Renewables Obligation (RO) for the period 1 April 2006 to 31 March 2007. The RO obliges supply companies to source an increasing portion of the electricity they sell from renewables. According to information received to date from suppliers, the total Renewables Obligation on electricity supplied to customers across the UK is 21,629,676 megawatt hours (MWh). On electricity supplied in England and Wales it is 19,390,016 MWh, on electricity supplied in Scotland it is 2,022,791

284860.834
278481.223
311703.253
331024.525
353008.548
366677.554
318985.265
298025.713
297384.835
335 291.534

MWh and on electricity supplied in Northern Ireland it is 216,869 MWh. Supply companies have had to comply with their obligation, which is set at 6.7%, before 1 September 2007. They may have done this either by presenting Ofgem with Renewables Obligation Certificates (ROCs) to the value of 6.7% of electricity supplied to customers, or by using a buy-out clause which allows them to pay £33.24 per MWh for any shortfall, or by using a combination of ROCs and buy-out. The obligation for 2007-2008 is set at 7.9%.
Ofgem Website, 10/08/07

Ofgem Halves Supply Market Rules

Ofgem's review of supply market regulations and licence conditions boasts improving the protection of vulnerable customers while clearing the way for innovative products, according to a press release issued on 1 August. A key result of Ofgem's supply licence review is the termination of the 28-day rule, which required contracts offered by supply companies to contain a 28-day notice that obstructed the companies' ability to offer long-term contracts and realise 'more sustainable energy services'. Other features of the review involve termination of half of the existing licence conditions in order to invite new entry in the supply market, a revision of conditions to facilitate smart metering and improving information on carbon monoxide risks for customers. The new rules governing the supply market are effective as of 1 August.
Ofgem Website, 01/08/07

Austria

Implementation Of National Unbundling Provisions Only Carried Out Formally

Gas grid operators have provided their "Equal-treatment reports", which they have to submit on a yearly basis to the regulator, E-Control. The Equal-treatment report reviews the implementation of the code of conduct intended to impose duties on employees in relation to non-discrimination. The report shows that companies have formally carried out national unbundling provisions. However, regarding organisation and management of human resources, different areas remain entangled in many companies, rendering it impossible to guarantee that operation of the grid is independent of sectors open to competition.
E-Control, 22/08/07

Belgium

Regulator Opposes Third Party Exemption Request For Poerderlee Gas Storage Project

The Belgian federal energy regulator, Commission de Régulation de l'Électricité et du Gaz (CREG), has advised the Belgian government not to grant the “regulatory holiday” requested by Gazprom and Fluxys’ joint gas-storage project at Poerderlee. Gazprom and Belgian gas transport operator Fluxys had asked for the project to be exempted from the third party access rules and the tariff regulation, in order to attract funding. However, CREG proposes that the installation should be regulated, in order to promote competition in the Belgian gas market.

Global Insight Daily Analysis, 03/08/07

Regulator Concludes Investigation Over Electrabel’s Price Increase

The Belgian federal energy regulator, Commission de Régulation de l'Électricité et du Gaz (CREG), published the conclusions of its investigation into price increases announced by Electrabel in June 2007. Electrabel proposed to increase residential customers’ gas prices by 17% and electricity prices between 3% and 7%. Following the investigation, CREG recommended the Belgian government should impose price caps on Belgian energy markets in certain circumstances.

DJ Bourse, 02/08/07

European Union

EU To Restrict Russian Access To Energy Sector

The EU is considering plans to curb foreign access to the energy sector, particularly electricity and gas transmission grids. The European Commission working paper proposes a reciprocity clause to keep out investments from the countries where European investors face restrictions, such as Russia or Saudi Arabia. The Commission working paper suggests several preventive options ranging from examining potential buyers, to declaring the European energy sector a “strategic industry” and preventing most non-EU countries from entering.

FT.com site, 29/08/07

Commission Approves E.ON’s Acquisition Of Viesgo And Endesa Europa

The European Commission (EC) approved the acquisition by German energy company E.ON of Viesgo, a Spanish subsidiary of Italian Enel, and a number of Endesa generation assets in Spain and other European countries. The EC concluded that the operation would not hinder competition in the internal energy market because E.ON has a low market share in the countries affected by the deal (Spain, Italy, France and Poland).

El País, 07/08/07; Global Insight Daily Analysis, 07/08/07



Nine Member States Oppose Commission's Unbundling Proposals

Nine of the 27 European Union member states, including France, Germany and Italy, have signed a letter to the European Commission (EC) stating their opposition to the EC's proposals to unbundle vertically integrated energy utilities. These governments consider that a competitive energy market does not require separation between the generation and transmission activities. This letter follows a previous one, signed by eight member states including Spain, the United Kingdom and Sweden, which supported the EC's views. The EC is to formalise its energy unbundling proposal by 19 September 2007.

Les Echos, 06/08/07; Global Insight Daily Analysis, 06/08/07

France

Government Approves Increase In Full-Service Electricity Tariffs

The French government approved an increase in the full-service electricity tariffs applied by Electricité de France (EdF). From 16 August 2007, regulated electricity prices increased by 1.1% for households and 1.5% for industrial consumers. The French energy regulator, Commission de Régulation de l'Énergie (CRE), supported the increase in household prices, but concluded that industrial electricity tariffs require a further increase to reflect the costs of electricity supply to these consumers.

La Tribune, 16/08/07; Les Echos, 06/08/07

Germany

German Regulator Decides On Gas Grid Tariffs

Germany's energy regulator, the Bundesnetzagentur, authorised various gas network charges through delegated powers and by its own authority. In all cases, the regulator disallowed some costs submitted by the companies, ranging from 2% (SWN Stadtwerke Neumünster GmbH) to 32% (Wirtschaftsbetriebe Norderney GmbH). The new tariffs are valid until 31 March 2008. The decisions on gas tariffs are based on the Bundesnetzagentur's examination of the companies' current operating expenditures, the accounting cost of their fixed and current assets and their cost of capital.

Bundesnetzagentur, 01/08/07

Regulator Introduces Uniform Process For Switching Gas Supplier

The German regulator, the Bundesnetzagentur, has now decided on a uniform process across the country for switching gas supplier, to be implemented as binding rules covering any switch. Under these rules, the process of switching will be automated to the greatest possible extent and based on a uniform electronic data format. The Bundesnetzagentur has aligned the new process with the rules agreed in 2006 for switching electricity supplier. The process of switching gas supplier on this new basis takes effect on 1 August 2008.

Bundesnetzagentur, 28/08/07



Ireland

UK Firm To Bring Power Market Real Competition

Scottish and Southern Energy is to enter the newly deregulated Irish energy market, importing its own electricity across the north-south interconnector. The company expects to start operations on 1 November 2007, day one for the start of the deregulated market. Initially it will concentrate on the commercial and industrial markets but it plans to enter the domestic market within the next two years.

Irish Independent, 08/08/07

Italy

Energy Savings Increased More Than Expected Due To “White Certificates”

Aeeg’s checks on more than 2000 energy saving actions undertaken by gas and electricity distributors and by energy services companies during the period 2005-2006 show that providing incentives to energy savings through the “White Certificates” mechanism has been thoroughly successful. This mechanism has led to savings of about 900,000 tons of oil equivalent, twice the mandatory target of 468,000, which the distributors were to meet in the period 2005-2006.

Aeeg web site, 23/08/07

New Instruments To Increase Comparability Of Electricity And Gas Prices

Aeeg has started the process of collecting information from interested parties for the design of tools intended to help final customers compare commercial offers by electricity and gas retailers. In particular, internet engines will be created that search for and compare commercial offers. Such engines are intended to provide a case-by-case forecast of annual energy bills and possible savings relative to current prices.

Aeeg’s web site, 08/08/2007

Netherlands

NMa To Tighten Regulatory Framework For Electricity Network Operators

The Dutch competition authority, NMa, has published its proposal for the new regulatory framework for regional electricity network operators. The new framework is expected to increase the average efficiency discount (x-factor) for the fourth regulatory period, 2008 to 2010. The tightening of the regulatory framework follows the NMa’s investigation into the profits of network companies published earlier this year, which showed sufficient leeway to raise x-factors without jeopardising the quality of the networks. Parties can submit reactions to the proposal in the six weeks beginning 30 August.



The NMa's final method decision, expected later this year, is also dependent on the decision of the Dutch Minister of Economic Affairs on the management of the High-Voltage (HV) networks. By the Independent Network Management Act, regional network operators are to turn over management of their HV-networks to the TSO, Tennet, from 1 January 2008.

[This proposal follows the earlier proposal of 17 July 2007 to increase the x-factor for gas distribution networks from 3.7% at present to 6% for the third regulatory period, 2008 to 2010, for similar reasons.]

DTe website, 30/08/07

NMa to Change Gas Tariff Code For Regulation Of Extra-High Pressure Transmission

The NMa published a proposal to amend the Gas Tariff Code to accommodate the regulation of transmission tariffs for "Extra-High Pressure" networks (pressure exceeding 16 bar), effective from January 2008, the start of the third regulatory period. The decision marks the expansion of the tariff structure for large users (> 170.000 m³ per annum) with a new tariff class for gas transmission on extra-high pressure lines. The proposal is available for review for six weeks from 27 August. Parties have until 8 October to submit reactions to the proposal.

DTe website, 27/08/07, Case number: 102754

NMa Changes Q-Factor Method Decision 2007

The NMa has decided that the formula for the quality factor (q-factor) of individual network operators needs to be amended to account for sensitivity to network interruptions caused by other network operators at different voltage levels. (The NMa had issued a Method Decision on 27 June 2006 that describes the q-factor as well as the efficiency discount or x-factor applicable to network tariffs.) The amendment will not affect the average q-factor in the Netherlands and it will have a marginal effect on the transmission tariffs determined by the NMa at year-end. Parties in the energy sector have until 20 September to respond to the NMa's decision.

DTe website, 09/08/07, Case number: 102282

Portugal

Regulator Approves Reduction In Electricity Tariffs

The Portuguese Energy Regulator, ERSE, approved a reduction in the electricity tariffs paid by final customers. Tariffs will decrease by 2.6% and 4.3% for residential and industrial clients, respectively. The new tariffs come into effect on 1 September.

Agência Lusa - Serviço Economia, 13/08/2007

Portuguese Company Galp Wins Tender For A 400MW Wind Power Farm

The Ministry of Economy and Innovation has announced that the Ventiveste Consortium has won the tender for a 400MW wind power farm. The Ventiveste Consortium is controlled by three Portuguese companies: energy company Galp, steel and metal company Martifer, and renewable energy operator Enersis, which hold 34%, 33% and 30% of the consortium, respectively.

Dow Jones Energy Service, 02/08/07

Romania

Romanian Government Reconsiders Privatisation Of Power Distributors

The Romanian Minister of Economy and Finance yesterday announced that the government is reconsidering the sale of three electricity distributors due to be sold later this year: Electrica muntenia Nord, Electrica Transilvania Nord and Electrica Transilvania Sud. The minister said that one of the reasons is that Electrica had supported the system during droughts this year, and he believes that "state-owned distributors would step in promptly in difficult moments".

Global Insight Daily Analysis, 27/08/07

Russia

Russia Approves OGK-5 Takeover By Enel

The Federal Antimonopoly Service (FAS) of Russia approved Enel's plans to take over 100% of OGK-5, a wholesale generation company with four power plants in central Russia, and a total capacity of about 8700MW. Enel already owns 30% of OGK-5.

Global Insight Daily Analysis, 28/08/07

Russia To Liberalize Associated Gas Market; RAO UES And Gazprom Agree On Long-Term Gas Contracts

According to the head of Federal Tariff Service, Sergei Novikov, the plan to liberalise the market of associated natural gas may be adopted in the fourth quarter of 2007. The Ministry of Natural Resources will hold negotiations with Gazprom and RAO UES to facilitate access of refined associated gas to gas distribution networks and its usage in electricity generation.

A spokesman of RAO UES said that the Unified Energy Systems and Gazprom have come to an agreement on terms for long-term gas contracts to supply gas to the wholesale and territorial generation companies (OGKs and TGKs). The quantities of gas supplied under the contracts have yet to be agreed.

Ria Novosti, 7/08/07, 13/08/07



FAS Loses 70% Of Cases Against Gazprom

Head of the Federal Antimonopoly Service (FAS), Igor Artemiev, told a news conference that FAS loses 70% of its cases against Gazprom on violations of antimonopoly legislation. On the other hand, FAS wins 80% of its cases against other monopolies, including RAO UES and Russian Railways. Mr Artemiev noted that the experts who work on cases against Gazprom are the same as those who work on cases against other companies.

www.oilru.com, 08/08/07

Spain

Government Approves Regulation On Electronic Electricity Meters

The Spanish government has passed a regulation on the introduction of new electronic electricity meters. The new meters will be able to meter hourly consumption and can be read remotely, enabling the introduction of more complex electricity tariffs. Existing meters will have to be replaced according to a schedule to be set by CNE, the Spanish energy regulator.

Energía, 27/08/07

Government Sets SoLR Auction Volume

The Spanish Government approved the contract volumes to be purchased in the second SoLR Auction by distribution companies to cover sales to tariff customers. In the auction, which will be held on 18 September, distribution companies in Spain and Portugal will buy between 4,000 and 10,000MW of baseload contracts to be delivered in the fourth quarter of 2007.

BOE, 02/08/07

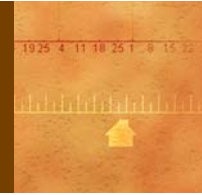
North American News

US

FERC Revises Market-Based Rates, Wants To Prompt Competition

The Federal Energy Regulatory Commission issued an order reforming its market-based rate (MBR) program and a notice of rulemaking that would ease long-term contracts and enhance transparency in electricity markets. The new MBR program, Order No. 697, divides market-based rate sellers into two categories: those that own 500 MW or less of generation in aggregate per region, and all other power sellers.

California Energy Markets, 26/06/07



Illinois Governor Signs Relief Package For Angry Electricity Customers

Governor Rod Blagojevich signed into law a US\$ 1,000 million relief package aimed at high electric rates, which spiked at the beginning of the year, following a 10-year rate freeze. The package offsets about half those increases through rebate checks of at least US\$ 100 per Ameren customer and bill credits for ComEd customers. Other moves include scrapping the old auction system and setting up a new Illinois Power Agency to help negotiate power prices.

The Associated Press, 28/08/07

Federal Regulators Pave Way For Aquila Acquisition

Aquila Inc., which operates electric and natural gas utilities in Missouri, Colorado, Iowa, Nebraska and Kansas, said that federal authorities had cleared its proposed acquisition by utilities Great Plains Energy Inc. (based in Kansas City) and Black Hills Corporation (based in South Dakota) for a combined US\$ 2,600 million. If state regulators approve the deal, it is expected to close in early 2008.

The Associated Press, 28/08/07

State Regulators Call On FERC To Reject PJM's Proposal To Settle Dispute Over Market Monitor

State regulators told the Federal Energy Regulatory Commission that a proposal by the PJM Interconnection to settle charges that PJM management interfered with the market monitoring unit "does not constitute sound policy". The settlement offer does not resolve increase the independence of the market monitor, fails to address PJM's historic tariff violations, and creates an unacceptable risk that PJM could continue to hamper the market monitor, according to the Organization of PJM States Inc.

Public Power Weekly, 28/08/07

FirstEnergy Pays Maximum Fine For 'Black Rain'

FirstEnergy Generation Corporation was fined US\$ 25,000—the legal maximum—for a "black rain" that fell on 28 Beaver County, Pennsylvania homes and properties in June 2007, the Pennsylvania Department of Environmental Protection announced Monday. In that incident large amounts of gray, gritty material from the company's power plant fell on the towns of Shippingport and Raccoon. A previous black rain that took place in July 2006 affected more than 300 homes, for which FirstEnergy was fined US\$ 25,000 earlier this year.

McClatchy-Tribune Regional News - The Pittsburgh Tribune-Review, 28/08/07



Ohio Renewable Energy Bill Soon To Be Introduced

Backers of renewable energies are stepping up efforts to get legislation passed this year mandating that 20% of Ohio's total energy come from wind energy production. Ohio's electric rate stabilization plans expire on 31 December 2008. The state will then move to a fully deregulated market. Backers of renewable energies say electric rates are expected to soar under full deregulation and that wind power will decrease rates or level them off.

Dayton Daily News, 28/08/07

Cal-ISO Nears Completion Of Landmark Interconnection Tariff

During a 27 July workshop, the California Independent System Operator and stakeholders discussed a near complete proposal for how remote resources, including renewables, are interconnected with the power grid. In late June, the Cal-ISO released a "straw proposal" for remote resource interconnection (RRI), intended to spread the high costs of connecting remote resources through the Cal-ISO's transmission access charge, rather than imposing them on a small generator. FERC ruled that renewables cannot be given advantages over other remote resources.

California Energy Markets, 06/08/07

NY Authority Conditionally OKs National Grid, KeySpan Buy

The US\$ 7,300 million acquisition of Keyspan Corp by National Grid PLC has received conditional approval from the New York State Public Service Commission. The conditions relate to financial ring-fencing for customers, service quality and details around the required sale of Ravenswood. If National Grid accepts these conditions, the transaction will move swiftly to completion.

Dow Jones News Service, 23/08/07

Michigan Regulators Approve Increase In Consumers Energy Natural Gas Rates

The Michigan Public Service Commission approved an increase in the natural gas rates charged by Consumers Energy. A typical residential gas bill will increase by about US\$ 2.36 per month, enough to increase the company's annual natural gas revenues by US\$ 50 million, 56% of the increase that the utility had requested.

Associated Press Newswires, 22/08/07



House Energy Bill Would Boost Natural Gas Rate Decoupling

A recent amendment to House energy legislation will require state utility regulators to examine the decoupling of natural gas revenue from demand, a rate design that allows gas utilities to promote efficiency and conservation without cutting their revenues. This will not be a mandatory requirement but it will help gas utilities achieve environmental gains without sacrificing profits.
Energy Washington Week, 22/08/07

Michcon Settles With Michigan PUC On Arrangement To Sell Excess Storage In Exchange For Short Rate Moratorium

Michigan Consolidated Gas, a unit of DTE Energy, reached an agreement with Michigan regulators, whereby it will sell excess storage gas at a profit in exchange for foregoing a base rate increase next year. MichCon will share the gas sales proceeds with its customers but will still be able to earn its authorized return on equity without raising base rates until 2010.
Foster Natural Gas Report, 17/08/07

DC Circuit Opinion Concedes That FERC's Policy For Selection Of Proxy Company Group In Natural Gas Pipeline Rate Cases Is Obsolete Or Inadequate

FERC has been asked to justify the policy and practice it has established for the selection and design of the "proxy groups" used to calculate natural gas pipeline transmission rates of return on equity. Petal Gas Storage LLC and High Island Offshore System LLC led the challenge to the proxy selection process and to FERC's decision to set their return on equity within the range of returns of members of a chosen proxy group. The DC Circuit Court of Appeals concluded that FERC had failed to explain how its proxy group arrangements were based on the "principle of relative risk" and asked FERC to justify its risk assumptions.
Foster Natural Gas Report, 10/08/07



Central And South American News

Brazil

Regulator Asks For Electricity Tariff Reductions

The Brazilian energy regulator, Agência Nacional de Energia Elétrica (Aneel), has asked several electricity distribution companies to reduce their full-service tariffs. The affected distributors (and the associated rate cuts) are Celesc (residential rates – 5.3%; industrial rates – 1.2% to 3.0%), Celpa (residential rates – 13%; industrial rates – 6.6% to 11.1%), Escelsa (residential rates – 12.5%; industrial rates – up to 16.7%), Elektro (18.5%), CPFL Piratininga (16.1%) and Bandeirante Energia (12%).

Business News Americas, 30/08/07, 07/08/07; Jornal do Comércio do Rio de Janeiro, 29/08/07; Valor + News, 22/08/07

Regulator Proposes Amendments To Electricity Supply Regulations

The Brazilian energy regulator, Agência Nacional de Energia Elétrica (Aneel), has submitted proposals to the Energy Ministry to amend the electricity supply regulations. Aneel proposed to allow customers in the free market to resell their existing supply contracts. According to Aneel, this will reduce the risk borne by free-market consumers and will increase liquidity in the short term market.

Folha News, 22/08/07

Regulator To Auction Transmission Lines

The Brazilian energy regulator, Agência Nacional de Energia Elétrica (Aneel), will auction 1,930 km of electricity transmission lines, in seven separate projects. The auction will take place on 9 November 2007. The prequalification process is open until 21 September.

Business News Americas, 22/08/07

Regulator Fines Petrobras

The Brazilian energy regulator, Agência Nacional de Energia Elétrica (Aneel), will fine Brazilian utility Petrobras US\$ 41 million for failing to perform on a natural gas supply contract with a number of Brazilian thermal generation plants. Petrobras will appeal against Aneel's decision, alleging that reasons beyond its control prevented compliance with the supply contract.

Business News Americas, 16/08/07

Chile

Senate Approves New Energy Act

The Energy Commission of the Chilean Senate approved a reform to the electricity sector regulations, known as the Tokman's Bill. This bill aims to secure electricity supply in situations when an electricity generation company enters into bankruptcy. The bill will be voted by the Senate on 4 September but faces opposition from Chilean generator, which predict that the bill will force them to sell their output below the market price in bankruptcy cases.

Business News Americas, 30/08/07

Electricity Tariffs To Be Increased Next September

The Chilean Energy Minister announced that electricity tariffs will be increased in September 2007 by between 5% and 6%, due to higher electricity generation costs following reduction in natural gas availability and low hydro reserves.

Agence France Presse, 28/08/07; Dow Jones, 27/08/07

El Salvador

Competition Authority Completes Investigation Into Distribution Companies

The Competition Authority of El Salvador has finished its investigation into alleged abuses of dominant position by several electricity distribution companies. The companies being investigated are Caess, AES-Clesa and Delsur. The Authority's conclusions will not be made public for three months.

Business News Americas, 22/08/07

Peru

Regulator Imposes Fine On TGP

The Peruvian energy regulator, Organismo Regulador de la Inversión en Energía y Minería (Osinergmin), will fine the Peruvian joint venture Transportadora del Gas del Perú (TGP) for infringing the environmental impact assessment and security regulations in the construction of a pipeline in the Camisea region. TGP is a consortium of several international utilities, including Algerian Sonatrach and Belgian Suez-Tractebel.

Agencia EFE – Servicio Económico, 04/08/07



Asia Pacific News

Australia

ESC Proposes Significant Reduction In Gas Network Charges

The Victorian Essential Services Commission (ESC) released a draft decision for the three monopoly gas distribution businesses that seeks to reduce charges significantly below those proposed by the businesses. Depending on the service area, cuts in real prices (before allowing for inflation) are between 10.1% and 18.7%. The ESC reduced the value of the equity beta from 1.0 to 0.7, which yields an after-tax, real WACC of 5.6% (last year's WACC was 6.8%). Network tariffs account for approximately 40% of the gas customer's bill in Victoria. The proposed change is expected to produce an average household one-off saving of between A\$ 28 (US\$ 23) and A\$ 52 (US\$ 43).

ESC Media Release, 28/08/07; ESC Gas Access Arrangement Review 2008-2012 – Draft Decision, 28/08/07

ESCOSA, Envestra Appeal Decision

Envestra's appeal of the final decision by the Essential Services Commission of South Australia (ESCOSA) has been decided by the District Court. Envestra's appeal related to the network management fee, the value of the roll-forward of the regulated asset base, the debt margin, gamma and equity beta (the last three being used to determine the Weighted Average Cost of Capital). The Court decided in favour of Envestra's appeal on one account, the gamma, which is used to determine the treatment of franking credits. The decision is worth an additional A\$ 4.5 million (US\$ 3.7 million) to Envestra over the arrangement period.

Envestra Media Release, 27/08/07

DVP Access Arrangement Approved

The Australian Competition and Consumer Commission (ACCC) issued its final decision on the access arrangement to apply on the Dawson Valley Pipeline (DVP). The initial reference tariff has been reduced from that initially proposed by Anglo Coal after the ACCC expressed concern that non-capital costs were overstated. The DVP was constructed in 1996 and transports coal seam methane 47 km from the fields in Dawson Valley, central Queensland to another pipeline.

ACCC News Release, 23/08/07

Supreme Court Decides In Favour Of ESC For Gas Licensing

Last year the ESC found that Alinta Asset Management (AAM), as a contractor for Multinet, had been in a position since July 2003 of providing services on the Multinet gas distribution network that required it to be licensed under the relevant gas code. In 2006, AAM filed proceedings against the ESC that claimed to the contrary. The key issues of the case were the interpretation of AAM's role—whether it had been an “operator” and “providing services” for the purpose of the Code and Act. The Court found that AAM was bound to comply with the Code. The ESC stated that it will have to take the decision into account in the current gas distribution review in Victoria.

ESC Gas Access Arrangement Review 2008-2012 – Draft Decision, 28/08/07;
AAM v ESC (No 2) [2007] VSC 210, 22/08/07

China

SERC To Delay Split Of China Power Assets

The State Electricity Regulatory Commission (SERC) announced that China expects to complete the separation of power generation from transmission assets, initially scheduled for the end of August, by the end of 2007. The Chinese government sold 10.8 GW of generating assets in May 2007 and intends to sell another 8 GW of generating capacity by the end of 2007. As part of China's move towards a liberalised electricity market, a further separation of power transmission and sales is expected shortly afterwards.

Reuters News, 27/08/07

China Prioritises Use Of Renewable Energy

A new regulation issued by the Chinese government states that electricity distributors must use electricity from wind farms and other renewable energy (RE) sources before purchasing power from fossil fuels. According to the regulation, nuclear power is next in the pecking order, followed by natural gas or coal-bed methane, coal and fuel-oil, respectively. China aims to increase the share of RE generation to 16% of its energy mix by 2020.

Dow Jones International News, 07/08/07

China To Standardise Power Trading

China's State Electricity Regulatory Commission (SERC) has made available for consultation (1) the Directing Proposals on Standardising the Present Power Trading and (2) the Provisional Administration Rules on Power Trading Organs. On 12 July, the State Grid Corporation, which controls 80% of China's generation assets, opened 30 trading centres at three levels—state, regional and provincial.

Xinhua Business Weekly, 30/07/07



India

Andhra Pradesh Raises Wind Power Tariff

The government of the state of Andhra Pradesh (AP) has proposed raising the tariff for wind power from 2.70 to 3.10 Rs. per unit. The government of AP expects the tariff increase to boost wind-power capacity additions to 1,000 MW. *Indian Business Insight, 24/08/07*

MSEB Fined For Power Connection Mess

The Maharashtra Electricity Regulatory Commission (MERC) fined the state electricity board (MESB) Rs. 200,000 for failure to refund payments by consumers for connection to new power infrastructure. The decision followed complaints that MSEB was asking for an Outright Contribution (ORC) plus the cost of meters when providing new power connections. MESB has, in turn, filed a review petition before the MERC, stating that abolishing the ORC will only help big builders to get power without spending money on infrastructure. However, insiders pointed out that MSEB has been collecting ORC payments from small consumers, for which these legal grounds do not apply. *The Times of India, 24/08/07*

CERC Can Impose Grid Charges

The Supreme Court has ruled that the Central Electricity Regulatory Commission (CERC) is empowered to impose availability-based tariffs (ABT) and unscheduled interchange (UI) charges in order to maintain discipline in the grid. With this decision, the court has dismissed the appeal of Central Power Distribution, which claimed the use of ABT in relation to UI charges was outside the jurisdiction of the CERC on the grounds that it is not part of 2004 CERC Regulations. *The Economic Times, 21/08/07*

CERC Incentive For Power Plants Short Of Buyers

The CERC has proposed an incentive scheme aimed at helping functioning plants that struggle to find buyers due to low demand or high cost. The current scheme provides incentives for coal-fired and gas-based units on the basis of actual generation or the plant load factor. The new scheme is proposed to be implemented by October 2007. *Indian Business Insight, 06/08/07*

Philippines

PSALM To Sell Off More Napocor Assets

The Philippine privatisation agency, Power Sector Assets and Liabilities Corp. (PSALM), has identified additional assets of electricity producer National Power Corp (Napocor) to be privatized by the end of the year: generating units Palinpinon (192.5 MW), Panay (146.5 MW) and Tiwi-Makban (685 MW). The sale would bring the level of privatisation in the electricity market to 50%. By end-2008, PSALM hopes to achieve 70% privatisation, which is a requirement for implementation of retail competition and open access.

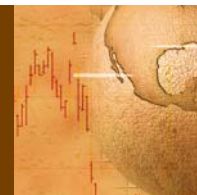
Philippine Daily Enquirer, 25/08/07

South Korea

South Korea To Facilitate Investment In US\$ 200 Million Carbon Fund

The 200 billion won (US\$ 212 million) carbon fund, announced by the Ministry of Commerce, Industry and Energy on 24 August, aims to finance renewable energy projects in order to reduce carbon dioxide emissions and recover methane gas from landfills. The reduced carbon dioxide emissions could potentially be sold on both local and foreign climate exchange markets under the 1997 Kyoto protocol. South Korea is planning to establish a carbon market by the end of the year, with the government and state-run energy companies as the main buyers.

Korea.net News, 26/08/07; Global Insight Daily Analysis, 24/08/07



Our Practice

NERA is at the forefront of the continuing transformation of energy industries worldwide. Our experts have developed 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 minimising new risks, including issues related to climate change and other environmental initiatives.

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.

Subscribe

NERA produces two newsletters that report and analyse energy matters around the world. *Energy Regulation Briefs* summarise 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 organisation 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.

To view the latest editions or to receive our newsletters each time they are published, click here:

www.nera.com/newsletters.asp.

About NERA

NERA Economic Consulting is an international firm of economists who understand how markets work. Our more than 45 years of experience creating strategies, studies, reports, expert testimony, and policy recommendations reflects our specialisation in industrial and financial economics. Our global team of more than 600 professionals operates in over 20 offices across North and South America, Europe, and Asia Pacific.

NERA Economic Consulting (www.nera.com), founded in 1961 as National Economic Research Associates, is a unit of the Oliver Wyman Group, an MMC company.



Contact

London

15 Stratford Place
London W1C 1BE
Tel: +44 20 7659 8500
Fax: +44 20 7659 8501
Contact: 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 (Boston),
Gene Meehan (Washington DC)

Sydney

Darling Park Tower 3
201 Sussex Street
Sydney NSW, 2000
Australia
Tel: +61 2 8864 6500
Fax: +61 2 8864 6549
Contact: Greg Houston, Ann Whitfield

Additional NERA Offices:

Boston, MA	+1 617 621 0444
Brussels, Belgium	+32 2 282 4340
Chicago, IL	+1 312 573 2800
Denver, CO	+1 303 327 1467
Detroit, MI	+1 313 267 9500
Frankfurt, Germany	+49 69 710 447 500
Ithaca, NY	+1 607 277 3007
Los Angeles, CA	+1 213 346 3000
Melbourne, Australia	+61 3 9623 9800
New York, NY	+1 212 345 3000
Paris, France	+33 1 45 02 30 00
Philadelphia, PA	+1 215 864 3880
San Francisco, CA	+1 415 291 1000
Shanghai, China	+86 21 6335 3358
São Paulo, Brazil	+55 11 9653 4834
Tokyo, Japan	+81 3 3500 3290
Washington DC	+1 202 466 3510

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 2007
National Economic Research
Associates, Inc.