

Reporting on energy regulation issues around the world

# Global Energy Regulation

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## European News

### UK

#### **Energy Review—A Secure And Clean Energy Future**

The UK Government announced that the Energy Ministry will lead a review of UK energy policy and that policy proposals will be brought forward next year. The Terms of Reference of the Review are broad in scope and cover aspects of both energy supply and demand. It will focus on policy measures to help the government meet its objectives beyond 2010. A formal consultation process is expected around the turn of the year.

*DTI Press Release, 29/11/05*

#### **Final Proposals To Extend National Grid's Electricity Transmission Price Control**

Ofgem has published final proposals for the extension by one year the price control of National Grid Electricity Transmission plc's "transmission owner". This extension will allow Ofgem to align the price control review dates for the companies that either transmit electricity on the high-voltage network or transport gas through the high-pressure pipeline system. An Ofgem review is now underway to establish a new five-year price control for these companies.

*Ofgem Press Release; 28/11/05*

#### **Scottish Power Loses Fight Against New High Voltage Grid Use Charges**

Scottish Power's legal challenge to Ofgem's decision to approve National Grid's new charging arrangements for the high-voltage transmission network has been dismissed on all counts by the High Court. The new charging system, which came into force when the GB-wide market was created, means the further away a power generation source is from the main load centre in south-east England, the higher its transmission costs will be.

*Dow Jones International News, 28/11/05; Platts EU Energy, 4/11/05;*





### **The Renewables Obligation Buy-Out Fund (2004-2005)**

The Renewables Obligations (RO) for electricity supplied to customers in Britain totalled 16 GWh in its third year of operation. A total of 10 GWh of ROCs were submitted by suppliers to Ofgem before the statutory deadline of 1 October . The total of RO buy-out payments received was £150 million. The only company to fail to comply with the RO was Atlantic Electricity & Gas, which is in administrative receivership.

*Ofgem Press Release, 3/11/05*

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### **Austria:**

#### **Agreement On Framework For Eco-electricity Generation**

The government passed an updated version of its renewables law this month. The new legislation sets out objectives for eco-electricity expansion until 2011. Subsidies for green generation (wind power, biomass, biogas, solar power, hydro power) will be limited to EUR 17 million (US\$19.7 million) each year to 2011. The new legislation still needs to be agreed with the European Commission.

*Austria Presse Agentur—OTS, 28/11/05; Platts Commodity News, 28/11/05*

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### **Belgium:**

#### **Regulator Publishes Report On The Organisation Of The Electricity Market**

CREG published a report on the reforms to the organisation of the Belgian electricity market proposed by the government. The analysis had been requested by the Belgian Economy Ministry, and focuses on the effects on electricity prices and security of supply of the government's proposal to give preferential treatment to the imbalances caused by certain generators, in order to foster new entry into the Belgian electricity generation market. CREG found that this measure could be discriminatory and proposed simpler measures to encourage new entry into the market, such as reductions in network access fees.

*CREG News, 23/11/05*

### **CREG Publishes Decision On Gas Network Code**

CREG has decided to reject the Network Code proposed by the Belgian gas transport operator, FLUXYS. CREG considers that the proposed code is incomplete. FLUXYS will need to draft a new version of the code, since the approval of the regulator is required for the network code to enter into force.

*CREG News, 21/11/05*

### **CREG Publishes Gas Consultation Report**

CREG has published the conclusions of the public consultation conducted between May and July 2005 on the operation of the natural gas market in Belgium. The report concludes that the main reservations expressed by agents that took part in the consultation process refer to difficulties in accessing transit capacity, the lack of liquidity of the Zeebrugge hub, the lack of liberalisation of the L-gas market (for low calorific gas coming from the Netherlands), and the discretionary methods used to allocate and reconcile gas on the distribution networks. CREG is currently conducting several studies to explore possible solutions for these major problem areas.

*CREG News, 10/11/05*

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## **Bulgaria:**

### **Trade Unions Argue for Control Over Energy Regulator**

The Economic and Social Council has proposed the creation of a public council which would have the power to veto draft decisions of the State Water and Energy Regulatory Commission (SWERC). The proposals follow a substantial energy price hike by the SWERC. Under the proposals the public council would include representatives of businesses, trade unions and consumers. The proposals also state that in the event that SWERC is proved incompetent, its mandate should be removed.

*Bulgarian News Digest, 31/10/05*

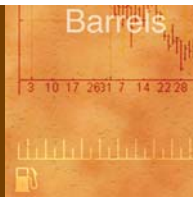
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## **European Union:**

### **EU Commission Presents Report On Energy Markets**

The European Union (EU) Commission has published the conclusions of its investigation into the degree of competition in the European energy markets. The Commission's report concludes that EU energy markets are not fully competitive. In particular, the Commission considers the main problems to be the lack of liquidity in wholesale markets, the lack of transparency, the high level of vertical and horizontal concentration, and the low level of interconnection.

*Gaceta de los Negocios, 21/11/05; Cinco Días, 15/11/05*



### **EU Commission Will Not Analyse The Effects Of Gas Natural's Takeover Bid**

The European Commission decided not to analyse the effects on competition of the proposed takeover bid of Endesa by Spanish utility Gas Natural. The Commission considers that the merger has no "European dimension", since 74% of Endesa's European business is conducted in Spain. The Commission based its decision on the audited accounts of Endesa, while Endesa applied the newly adopted international accounting standards to argue that less than two-thirds of its European operations take place in Spain.

ABC, 15/11/05

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### **France:**

#### **Government Establishes Working Group On Energy Liberalisation**

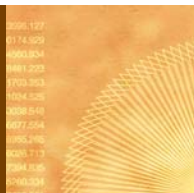
The French government has decided to create a working group to analyse the current situation and the degree of competition in the French gas and electricity markets. This decision follows the publication of a report by the European Commission, in which the Commission criticises the low level of liberalisation of most European energy markets. The energy working group will also analyse the movement towards full liberalisation of the French energy markets, which will take place on 1 July 2007.

*Les Echos*, 17/11/05; *Agence France Press*, 16/11/05

#### **Increase In Solar Energy Feed-In-Tariffs**

The French government has decided to increase the feed-in tariffs received by some photovoltaic solar energy installations in France. The tariff increase benefits household solar installations, for which tariffs are raised by 50%, and solar panels installed by industrial facilities and the commercial sector, whose tariffs are increased by 100%.

*Les Echos*, 15/11/05



## Germany:

### **Electricity Blackout In Münsterland**

The blackout of 250,000 consumers in Münsterland for up to six days this month could have consequences for RWE, the utility responsible for the network. RWE stated that the high and medium voltage network in the region had complied with German and European requirements and contained sufficient headroom. However, ice and storm had caused serious damage to the network, leading to the blackout. The Bundesnetzagentur, the federal energy regulatory authority, asked RWE for a more detailed account of the causes and the extent of the damages due to the blackout. Meanwhile, the consumer organisation in North-Rhine-Westfalia (Verbraucherzentrale) encouraged customers affected by the blackout to apply for damages to RWE.

*Frankfurter Allgemeine Zeitung, 30/11/05;*

### **Class Action Against Gasag**

Gasag, the largest German communal gas supplier, increased tariffs for its more than 700,000 customers by more than 10% from 1 October. In response, the customer organisation (Verbraucherzentrale) encouraged final customers to initiate a class action lawsuit against Gasag. More than 40 customers have now submitted a formal complaint to the State Court of Berlin.

*Frankfurter Allgemeine Zeitung, 26/11/05*

### **RWE Concession On Gas Contracts**

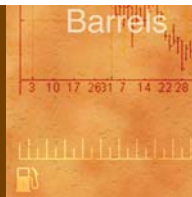
RWE offered its Stadtwerke customers in Westfalen, its largest service area, gas supply contracts with a shorter duration than was available in the past. So far, 52 out of the 70 Stadtwerke in the area have opted for the new contracts. RWE's decision pre-empts an order from the Federal Cartel Office, which views long-term gas supply contracts as a restriction of competition.

*Financial Times Deutschland, 23/11/05*

### **E.On Publishes Gas Price Calculation**

E.On Hanse announced an increase in gas prices by 10% in January 2006. At the same time, the company published data used for its cost calculation suggesting that its profit margins have decreased since 2004 from 1.8% to 1.0%, despite price increases. E.On's PR action provoked mixed reactions in the industry and the press.

*Financial Times, 22/11/05*



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## Ireland:

### **Viridian And ESB National Grid Plan New Interconnector**

Viridian and ESB National Grid are planning to build a second interconnector between Northern Ireland and the Republic of Ireland. The second interconnector will have a capacity of 300 MW, which will double the existing capacity of 300 MW provided by the first interconnector. A spokesman for the Irish Commission for Energy Regulation said that the new link would be important for the development of the all-island electricity market due to commence in 2007.

*Irish Independent, 24/11/05*

### **Irish Regulator Sets Limits On Installation Of New Renewable Capacity**

The Commission for Energy Regulation has proposed to set a limit of 500 MW on installation of new renewable capacity over and above connection offers currently being processed. Ireland has 795 MW in outstanding connection offers and 809 MW of installed renewable capacity. If all applicants take up their connection offers Ireland will have 1604 MW of installed capacity, which will meet Ireland's target under the EU directive on renewables for of 13.2% of gross consumption to be generated from renewable sources by 2010, or approximately 1432 MW of installed capacity.

*Platts Commodity News, 14/11/05*

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## Italy:

### **Enel Starts Auction For Virtual Power Plant**

Enel has started the procedures to launch the auction for 3,800 MW of "virtual" capacity for 2006, as provided for by AEEG (the Italian regulator). The auction will be use the pay-as-bid rule.

*Staffetta Quotidiana, 29/11/05*

### **Incentives And Penalties To Increase Security In Gas Distribution**

AEEG has completed the regulation of security in gas distribution by establishing penalties for when a gas distributor fails to achieve the minimum security level set by the regulator. The new regulations also introduce incentives intended to increase monitoring of odourisation quality, a reduction in leakage and fewer accidents related to distribution networks. The system, which will operate on voluntary basis for the period 2006-2008, will be mandatory from 2009.

*AEEG's web site, 23/11/05*



### **White Certificates: Increase In Demand For Certification.**

Since 1 January 2005, electricity and gas distributors and supply companies have submitted 331 requests to AEEG for certification of energy savings in order to receive white certificates. The overall saving target for 2005 is set at 155,000 tonnes of oil equivalent.

AEEG's web site, 11/11/05

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## **Netherlands:**

### **Research Council Reviews Power Outage In Haaksberg; Energienet Zeeland Not Vulnerable**

The Research Council for Safety is preparing to investigate the lengthy interruption to the supply of electricity which hit the province of Overijssel recently. Energy watchdog DTe also demands a full report on the power outage. It will study whether the energy companies have maintained their cables and lines properly.

ANP Infonet, 30/11/05; Provinciale Zeeuwse Courant, 29/11/05;

### **Energy Sector Wants To Introduce Code of Conduct**

After an investigation by energy regulator DTe, energy companies are going to set up a code of conduct for the transfer of retail customers. DTe is receiving more and more complaints about bad practices in telesales.

MD Business News, 29/11/05

### **Brinkhorst Keeps Faith In Market**

Dutch Energy Minister, Laurens Jan Brinkhorst says there is no clear evidence that the Dutch wholesale market is not working properly despite its "oligarchical" nature. However, he told Parliament he was monitoring the situation closely. Whilst waiting for an update of last July's annual monitoring reports from regulator DTe, Brinkhorst is drawing up a list of the possible measures, including virtual power plant (VPP) auctions. DTe is due to issue proposals on VPPs shortly, as consultations closed on 1st October.

EU Energy, 18/11/05

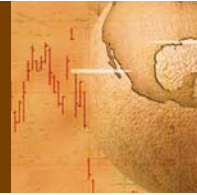
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## **Portugal:**

### **ERSE Issues Two Reports**

The Portuguese energy regulator, ERSE, issued two reports in relation to the quality of service and environmental promotion. The report on service quality sets out 2004 data on technical and commercial quality of service, and also other aspects of service quality in Portugal in 2004. The second report provides information on results after four years of Environmental Promotion Plans and describes the new regulatory measures adopted to align environmental plans with the revenues for regulated activities.

[www.erse.pt](http://www.erse.pt), 29/11/05, 28/11/05



### **Government And ENI Still In Conflict**

The Portuguese government has stated that ENI is unwilling to reach an alternative agreement on Galp's shareholdings following rejection by the European Commission (EC) of the initial restructuring proposal. After the EC's refusal, both parties signed an agreement last January to negotiate alternative arrangements for the gas and oil activities that Galp operates. The Italian company rejected three proposals presented by the government since last May. The Portuguese government rejected two alternative proposals by the Italian company.

*Diário Económico, 28/11/05, 24/11/05*

### **Galp To Float 10% Of Shares**

The Portuguese energy firm Galp is going public for 10% of its total shares. The shares will be made available to small investors and Galp employees, and the offer will stand until the first half of 2006. The government is in favour of this measure in order to block ENI's call option, which would allow the company to reach 47% of total shareholding from its current 33% holding. The Italian energy company and the Portuguese government are currently negotiating ENI's role in the Portuguese restructuring process.

*Diário Económico, 24/11/05*

### **New Starting Date For Mibel**

The new target date for launching the Portuguese forward electricity market is set on 1 July 2006. This is considered to be the first step in the creation of the Iberian electricity market, Mibel. The forward market will consist of two main entities: the Portuguese market operator of the forward electricity market (OMIP) and the clearinghouse (OMIClear).

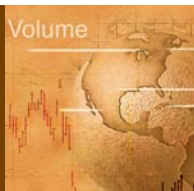
*Jornal de Negócios Online, 21/11/05*

### **Galp To Speed Up Gas Assets Sale**

The Portuguese government has requested the main gas supplier in Portugal, Galp, to speed up the sale of gas assets to REN, the Portuguese electricity system operator. This process implies the sale of regasification, high-pressure transportation and natural gas storage assets. This divestment process is part of the restructuring process of the Portuguese energy sector, which includes converting REN into the gas system operator and asset owner, separate from the gas supplier involved in competitive activities, i.e. Galp.

*Jornal de Negócios Online, 15/11/05*





### **Amendments To The Law On Electricity Tariffs Approved**

The State Duma passed the law obliging the Russian Government to establish caps for electricity and heat tariffs before submitting the draft budget for 2006. The bill has been approved by the Federation Council.

*ITAR-TASS, 23/11/05; SKRIN, 10/11/05*

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## **Spain:**

### **Government Could Prevent Wind Generators From Participating In The Pool**

The Spanish government might modify the support scheme for wind energy generation. At present, wind energy installations in Spain can choose between selling their generation to the electricity pool and receiving a premium in addition to the pool price, or selling their production at regulated feed-in-tariffs. Given the high electricity pool prices over the last few months and its concern about the costs of the renewables support scheme, the government may decide not to allow wind generators to participate in the market. However, according to wind energy companies, this measure will impede achievement of objectives set by the government in its Renewable Energy Plan 2005-2010.

*Expansión, 30/11/05*

### **Full-Service Industrial Tariffs In Place Until 2010**

The full-service tariffs for industrial electricity consumers, which were supposed to disappear in 2007 in Spain, will continue to exist up to 2010. The extension of the life of industrial full-service tariffs had been requested by the Spanish Large Electricity Consumers Association (Asociación de Empresas con Gran Consumo de Energía, AEGE).

*ABC, 25/11/05*

### **Competition Authority Publishes Report On Gas Natural's Takeover Bid**

The Servicio de Defensa de la Competencia (SDC), the competition authority in Spain, published its report on the proposed takeover of Endesa by Gas Natural. SDC concludes that the proposed merger might increase both vertical and horizontal concentration levels in certain markets. Therefore, SDC has asked the Spanish competition court, Tribunal de Defensa de la Competencia (TDC), to investigate the transaction further. TDC will publish its decision mid-January 2006, although the final decision regarding the takeover lies with the Spanish government.

*El Mundo, 12/11/05; Cinco Días 11/11/05*



### **Regulator Supports Gas Natural's Takeover Bid**

The Spanish Energy Regulator, Comisión Nacional de Energía (CNE), has published a report in which it concludes that the takeover of Endesa by Spanish utility Gas Natural will not harm the reliability and continued investments in regulated activities in the Spanish energy sector. However, CNE proposed some conditions on the takeover, mainly limits to indebtedness, compulsory asset sales, investment in the gas and electricity regulated businesses, and the separation of regulated activities.

*Enervia, 11/11/05*

### **Government Approves Winter Gas Supply Plan**

The Spanish Industry Minister has approved the Winter 2005-2006 Plan, whose objective is to guarantee gas supply during the winter months, when gas demand peaks. The Winter Plan stipulates that regasification plants should keep minimum gas stocks, that gas exports to France could be restricted, that two LNG tankers will store gas to guarantee supply to the regulated market and that the gas transport operator, Enagás, will limit gas withdrawals from underground storage. The Plan will be in force between 1 November 2005 and 31 March 2005.

*Cinco Días, 11/11/05*

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## **Switzerland:**

### **Rejection Of CO2-Levy Ordinance**

The legislative subcommittee for the environment, area planning and energy rejected the federal ordinance on the CO<sub>2</sub>-levy on heating fuels in Switzerland. In the original draft of the ordinance, the levy applied to both car and heating fuels. Following industry resistance, the draft ordinance was restricted to heating fuels, but was still blocked.

*Platts – EU Energy, 18/11/05*

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## **Turkey:**

### **Transfer Of Tupras Shares To Koc-Shell Gets Final Approval**

The tender for Tupras has been approved by the Privatisation High Board. There is now no obstacle to the transfer of Tupras shares to the winning consortium. Turkey's competition board has already approved the sale under the condition that third party access to Tupras's LPG import and storage facilities at its Izmir refinery is granted for a period of three years. The consortium now has until 22 December to arrange financing for the deal.

*Platts Commodity News, 16/11/05; Turkey Today, 9/11/05;*



### **Privatisation Of Electricity Distribution Officially Launched/Turkish Regulator Relaxes Gas Distribution Area Rules**

The Privatisation High Board has announced the privatisation of electricity distribution companies in the official gazette. The distribution companies will be privatised through block sale of shares. The government plans to complete the privatisation tenders for all regions by end-2006. Meanwhile, Turkey's energy market regulator EPDK has extended the area in which a gas distributor can operate from five to eight regions.

*Turkey Sectors and Companies Today, 2/12/05; Platts Commodity News 11/11/05*

## **North American News**

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### **US:**

#### **ALJ Endorses Exelon-PSEG Merger To Pennsylvania Regulators**

An administrative law judge for the Pennsylvania Public Utilities Commission has recommended that the PUC approve the proposed merger of Exelon and the Public Service Enterprise Group. However there will be a public consultation period for a further month before a final decision is made. The merged company would be called Exelon Electric and Gas and be based in Chicago, with assets of US\$79 billion and annual revenues of around US\$27 billion.

*Platts Commodity News, 30/11/05*

#### **Utility Regulators Launch Weatherisation Effort**

Iowa Utilities Board, Iowa Bankers Association and the Iowa Retail Federation have joined forces to coordinate an initiative to help Iowans improve the insulation of their homes before the coming winter. Rising fuel costs mean that domestic heating will cost far more than in past years and insulation, or weatherisation, can cut up to 10 % from home heating bills, according to the John Norris of the Iowa Utilities Board.

*Associated Press Newswires, 24/11/05*

#### **PSC Approves Rule Allowing Minimum Payment To Avoid Cutoffs**

The Arkansas Public Service Commission has announced that it has amended a regulation governing service disconnections during cold weather between December and March. The new rule will allow customers meeting low-income guidelines to pay a minimum of 50 % of the total bill, with the unpaid portion of the bill being deferred until April. The PSC has taken this step in the light of forecasts that natural gas bills could rise by 15 to 26 % this winter.

*Associated Press Newswires, 23/11/05*



### **New Rule Would Lower Natural Gas Deposits For Some**

The Indiana Utility Regulatory Commission has approved a new rule that will reduce the maximum deposit that the major natural gas companies in Indiana can charge to customers with a bad payment record. Under this new rule the deposit cannot exceed more than two months of their average monthly bill. Previously the deposit could be up to four times their annual bill.

*Associated Press Newswires, 23/11/05*

### **High Court Says Co-ops Restricted To Electricity Alone**

Rural electric cooperatives, which were created to bring power to secluded areas during the Depression, are still restricted to generating, distributing and selling that electricity, the Kentucky Supreme Court ruled. The divided court ruling overturns an earlier victory for the Jackson Energy Cooperative Corporation, which wanted to sell propane gas and offer other services.

*The Associated Press, 23/11/05*

### **Attorney General Accuses Energy Company Of Deceiving Regulators**

Attorney General Bill Lockyer has filed a second lawsuit against Sempra Energy in San Diego County Superior Court, alleging that the company made misleading statements about its ability to maintain natural gas supplies which contributed to California's energy crisis in 2000 and 2001. The suit seeks at least US\$1 million in fines and divestiture of some of Sempra's assets.

*Associated Press Newswires, 22/11/05*

### **Regulators Approve PG&E Rebates For Natural Gas Conservation**

The California Public Utilities Commission has approved a programme that will automatically give 20% rebates to Pacific Gas and Electric customers who reduce their natural gas usage by at least 10%. About half of its 4.1 million natural gas customers are expected to benefit, generating total rebates of about US\$200 million. The program has been devised by PG&E and The Utility Reform Network, a consumer group, to address the expected rise in natural gas prices during this coming winter.

*Associated Press Newswires, 19/11/05*



### **FERC: Large Gas Stocks May Not Make Up Storm Losses**

The Federal Energy Regulatory Commission (FERC) has predicted that existing gas stockpiles may not be sufficient to counter extended production outages in the Gulf of Mexico, following the impact of Hurricanes Katrina and Rita. Several weeks of mild weather has allowed an accumulation of 53 billion cubic feet in commercial storage. However Steve Harvey, deputy director of FERC's Office of Market Oversight and Investigations warned that any significant cold weather is likely to drive prices higher, possibly much higher over short periods. Prices will also depend and on how successful states are in implementing fuel conservation programmes.

*Dow Jones International News, 17/11/05*

### **Regulators OK Enron Settlement From Rolling Blackouts**

Federal regulators have approved an agreement worth about US\$250 million that lets Enron Corp. settle civil claims of price gouging and energy market manipulation stemming from the rolling blackouts of 2000-2001 in Western states. Although the deal appears as a US\$1.5 billion settlement, the payout may actually be closer to US\$250 million since the money will come from the Enron assets being divided among creditors in its bankruptcy proceedings.

*Dow Jones International News, 16/11/05*

### **Laclede Gas Rates Rising 46%**

The Missouri Public Service Commission has announced that Laclede Gas Co. rates are to rise from 83 cents to US\$1.13 per 100 cubic feet of gas, to cover increases in the wholesale cost of gas. The typical residential customer's bill will rise by 46% on average.

*Associated Press Newswires, 10/11/05*

### **Natural Gas Rates Rising For Some Customers**

The Missouri Public Service Commission has announced that increases in the cost of wholesale gas will cause gas rates charged by Atmos Energy and Aquila to rise. For example, rates are rising from 84 cents per 100 cubic feet of gas last winter to US\$1.14 per 100 cubic feet for Aquila Inc.'s 32,000 customers. Natural gas bills will increase by about 55% for the 34,500 Atmos Energy Corp. customers, as rates in that area are going up by 44 cents per 100 cubic feet of gas.

*Associated Press Newswires, 3/11/05*



### **Utility Raises Gas 11%**

State regulators in North Carolina have approved the third price increase for PSNC Energy in four months, as a result of the continuing increases in the wholesale cost of gas. For a typical PSNC household, an average monthly winter heating bill will have increased in the past year from US\$112 to US\$174. The company, which serves 407,000 customers statewide, has bought about 43% of the natural gas it needs and has it in storage but is not charging its customers as much for natural gas as it is paying now.

*The News & Observer, 1/11/05*

### **Kansas City Power & Light Successfully Rebutts Market Power Presumption**

Kansas City Power & Light (KCP&L), a subsidiary of Great Plains Energy, announced that the FERC agreed that KCP&L has successfully rebutted a presumption of market power in KCP&L's control area and the control area of the Kansas City, Kansas, Board of Public Utilities (BPU). This was the first time the FERC has accepted a rebuttal of the presumption of market power under its revised market-based rate program. The FERC's action removes the potential need for KCP&L to refund a portion of its market-based wholesale sales. In addition, KCP&L can continue to make wholesale sales at market-based prices in these control areas.

*Business Wire, 21/10/05*

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## **Canada:**

### **BC Utilities Commission OKs Kinder Morgan/Terasen Deal**

The British Columbia Utilities Commission Thursday said it will approve Kinder Morgan Inc.'s acquisition of Vancouver-based Terasen Inc. with some conditions. The conditions include insulating the Terasen gas utilities from higher costs resulting from any credit rating downgrades or financial risk at Kinder Morgan affiliates. The acquisition still needs federal government approval under the Investment Canada Act.

*Dow Jones News Service, 11/11/05*

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## **Mexico:**

### **CRE Warns About Gas**

According to the Energy Regulatory Commission (CRE), Mexico will import 5 times more gas by 2013. CRE's president stated that Pemex needs to invest more in gas extraction, urging approval the initiative to allow private participation in exploration and production of dry natural gas.

*Reforma, 29/11/05*



### **Mexican Senate Approves Pemex Tax Reform**

Mexico's Energy Department applauded a Senate decision to approve changes in tax rules for state oil monopoly Pemex. Under the current system, Pemex surrenders most of its income to the government in the form of taxes, leaving it with little money for investments.

*Business Week 9/11/05*

### **Fox Launches Central-American Refinery**

President Fox announced the creation of a large refinery to process petroleum products. The plan is for the countries to invest in a refinery large enough to supply Central-America and the southwest of Mexico. The project is also to install a plant to convert gas in LNG, a hydroelectric plant and Pemex gas stations in Central-America.

*Reforma, 3/11/05*

## **Central And South American News**

### **Argentina:**

#### **Electricity Tariffs To Be Unified In 2006**

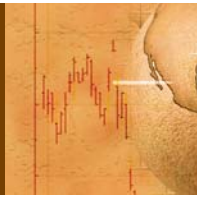
In 2006, the Argentinean government will unify the four levels of electricity tariffs applicable to residential consumers, thermal generators, industrial clients and public services since the 2001 economic crisis. The unification is intended to remove the deficit of the generation market, which has required the Argentinean National Treasury to transfer more than US\$ 1,400 million to the electricity sector. However, low income residential clients will still receive a subsidy to cover the difference between current and new tariffs.

*INFOBAE Diario, 21/11/05*

#### **Gas Prices For Industrial Consumers To Increase By 30%**

According to a Resolution by the Argentinean Energy Ministry (Secretaría de Energía), all industrial consumers with annual gas consumption above 9,000 m<sup>3</sup> will become open to retail competition on 1 January 2006 and will not be able to acquire gas from distribution companies at regulated prices. Gas prices are expected to rise by 30% for these customers.

*INFOBAE Diario, 10/11/05*



## Brazil:

### **ANEEL Approves Full-Service Tariffs Increases**

The Brazilian electricity regulator, Agência Nacional de Energia Elétrica (ANEEL), has approved tariff increases for five distribution companies: Light, Ceron, Electroacre, Manaus Energia and Boa Vista Energia. Light, which serves 3.45 million clients in the region of Rio de Janeiro, will be able to increase full-service tariffs for residential clients by 7.28% whilst tariffs for commercial and industrial clients will rise between 20.94% and 28.23%. Tariffs for Ceron, Electroacre, Manaus Energia and Boa Vista Energia will increase, on average, 5.42%, 5.19%, 19% and 6% respectively. In addition, ANEEL has announced that full-service tariffs are expected to increase further during 2006.

*Business News Americas, 28/11/05, 3/11/05, 2/11/05, 31/10/05*

### **ANEEL Authorises 105 Companies To Participate In December's Electricity Capacity Auctions**

The Brazilian electricity regulator, Agência Nacional de Energia Elétrica (ANEEL), has authorised 83 selling and 22 buying companies to participate in the electricity capacity auctions that will be held on 16 December 2005 (see recent issues of GERN). These companies have to deposit financial guarantees by 14 December. The auctions involve a total of 10,900 MW, including 45 hydro and 69 thermal plants (of which 12 can use biomass), and will have a reference price of Brazilian Real 116/MWh (US\$ 52.64/MWh).

*Gazeta Mercantil, 23/11/05; Business News Americas, 11/11/05*

### **ANEEL Auctions Concessions For The Construction Of Transmission Lines**

On 17 November, the Brazilian electricity regulator, Agência Nacional de Energia Elétrica (ANEEL), auctioned seven concessions for the construction of 21 electricity transmission lines. These lines, with total length of 3,000 km, will be built by twelve Brazilian and two Spanish companies within 24 months. The competition between these companies has resulted in a 43.3% reduction in the transmission tariffs compared to the levels expected by the government.

*Expansión, 18/11/05; Gazeta Mercantil News, 17/11/05;*

*Business News Americas, 14/11/05*



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## Chile:

### **Regulator Asks For Changes In Electricity Distribution Regulations**

The Executive Secretary of the Chilean energy regulator, Comisión Nacional de Energía (CNE), Mr. Luis Sánchez Castellón, emphasised the need to improve the regulatory framework of electricity distribution, particularly with respect to tariff reviews. Up to now, electricity distribution tariffs, which represent 50% of the full-service electricity tariffs, have been set on the basis of two studies: one third of the distribution revenues depends on the results of a study carried out by the distribution companies, while two thirds of the final value depend on the results of an analysis conducted by the regulator. CNE considers, however, that the current government will not make the necessary regulatory changes.

*El Mercurio, 15/11/05*

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## Cuba:

### **The Cuban Government Announces Increase In Electricity Tariffs**

The Cuban government has announced an increase in full-service electricity tariffs, which will come into effect in December 2005. The rise, which will depend on each household's average consumption, aims at increasing energy efficiency by providing incentives to reduce electricity consumption. The tariff increase will reach 333% for monthly electricity consumption above 300 kWh, while full-service tariffs for residential consumers will remain unchanged for the first 100 kWh in each month.

*Europa Press, 24/11/05; Granma 23/11/05*

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## Ecuador:

### **Ecuadorian Government Drafts Electricity Sector Bill**

The Ecuadorian Ministry of Economy seeks public consensus for the Electricity Sector Bill which was presented to Congress at the end of November for approval. The bill recognises the existence of an electricity tariff deficit from 1 April 1999 until 31 December 2005, since full service tariffs have been systematically set below real costs by the National Electricity Council (Conelec). Electricity distribution companies will receive around US\$800 million as compensation, although they are required to invest those funds in the distribution network.

*El Comercio, 28/11/05; Reuters-Noticias Latinoamericanas, 23/11/05*



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## Guatemala:

### **Adjustment In Electricity Full-Service Tariffs**

The Guatemalan electricity regulator (Comisión Nacional de Energía Eléctrica, CNEE) has approved a uniform increase in full-service electricity tariffs in Guatemala due to the increase in the costs of the power purchase agreements (PPAs) signed by the Guatemalan distribution company EEGSA for the supply to tariff consumers. At the same time, CNEE is in discussion with six cogenerators to reduce their capacity payments. This reduction, which will have a retroactive effect from 1 November, may amount up to US\$ 9 million per year and may imply a reduction in full-service tariffs for final consumers from February 2006. *Siglo Veintiuno*, 24/11/05, 16/11/05

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## Asia Pacific News

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## Australia:

### **Directlink Request To Be Regulated Provisionally Approved**

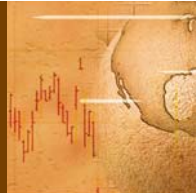
The Australian Economic Regulator has released a Draft Decision approving an application from the owners of Directlink to convert the transmission line into a regulated service. Directlink is one of the interconnectors between the New South Wales and Queensland regions of the National Electricity Market. The initial regulatory asset base is to be set at A\$116.68 million (US\$86.29 million), giving a revenue allowance of A\$12.1 million (US\$ 8.95 million) this year.

[www.aer.gov.au](http://www.aer.gov.au), 10/11/05

### **States Agree To Partial Handover Of Powers**

The Ministerial Council on Energy meeting has finished with agreement reached between the States and the Commonwealth on a partial handover of regulatory powers. Despite initial concerns that delays were likely, the Australian Energy Regulator will be responsible for the regulation of electricity and gas distribution from 2007. States will continue to be responsible for regulation of the retail sector, with a legislative timetable set for these powers to transfer to the new national regulator in the future.

*The Australian*, 5/11/05



## China:

### **China To Trade Power On Futures Market And South Adopts Electricity Reform**

China's State Electricity Regulatory Commission has issued basic rules on the operation of the power market. The rules, which will be effective from 1 December, say that electricity power can be traded in modes of contract trade including spot transactions and futures. Meanwhile, the electricity grid in southern China has become the third regional power network to introduce more competition. The new market-based mechanism will allow market players, including grid companies and power generating firms, to bid through long- and short-term contracts. At the moment, only 14 coal-fired power plants in the region have participated in the market-based system, representing 17% total generation capacity in southern China.

*China Daily, 22/11/05; SinoCast China Business Daily News, 11/11/05*

### **China To Adopt Certification System For Electricity Industry Regulator**

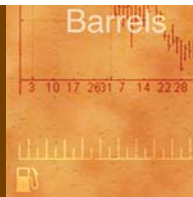
China will adopt a certification system for the electricity industry from 1st December according to the electricity industry regulator. The State Electricity Regulatory Commission of China will issue separate certificates to companies in the power generation, transmission and supply sectors, based on the firms' business performance and environmental protection standards. The licenses will be required for any unit or individual to engage in power generation, distribution, and transmission.

*Dow Jones International News, 21/11/05; Xinhua China Economic Information Service, 2/11/05*

### **China To Require Oil Companies To Build Reserves—Report**

China will soon put in place regulations requiring the nation's oil companies to build their own refined oil reserves to guard against possible shortages. The Ministry did not disclose the capacity of the required reserves, but did say that it would be within 20% of China's current refined oil consumption.

*AFX International Focus, 14/11/05*



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## India:

### **Innovative Order (Different Power Tariffs For Urban And Rural Consumers)**

The Karnataka Electricity Regulatory Commission's fourth tariff order has fixed a higher tariff for urban customers and reduced the tariff for rural customers. The tariff differential is supposed to reflect the differences in quality of supply between urban and rural areas.

*Indian Business Insight, 31/10/05*

### **Panel Set Up To Examine Open Access In Power Distribution**

The Power Ministry and the Forum of Power Regulators has set up a panel to look into open access in distribution and bringing surplus captive power into the grid. The Forum will prepare an action to achieve open access in distribution by 2009 and connect 5,696 MW of surplus captive power to the grid.

*Financial Express, 3/11/05; The Press Trust of India Limited, 31/10/05; Hindustan Times, 6/11/05*

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## Indonesia:

### **BPH Migas Ready To Face KPPU On Gas Transmission Line**

Downstream regulatory agency BPH Migas is ready to go to the Business Competition Supervisory Agency (KPPU), should a pipeline project connecting gas-rich Kalimantan and densely-populated Java go ahead without a tender process. BPH Migas argues that a tender process is needed because no other company is allowed to build a pipeline connecting similar areas. PT Perusahaan Gas Negara (PGN), the state gas distributor, has asked to be appointed as the special right holder for the project and has already signed a memorandum of understanding with the China National Offshore Oil Corporation, which is ready to fund the pipeline.

*The Jakarta Post, 26/10/05*

### **Jakarta Offers Project Incentives**

The government has issued a presidential regulation intended to enhance incentives and government support for public-private partnerships (PPP) in energy and other infrastructure projects. The regulation is intended to provide more comprehensive management and allocation of risk in PPP projects and to incentivise projects, for example through tax exemptions.

*Platt's Power in Asia, 24/11/05*



### **Indonesia Ends Pertamina's Monopolistic Fuel Supply**

Pertamina, Indonesia's state-run oil and gas firm, will no longer be the only fuel supplier in Indonesia. According to the law, other domestic and foreign companies are allowed in the fuel supply and distribution after 23 November 2005, when Pertamina's monopoly expires. New operators can sell fuel at market price or government-subsidised fuel products. However, it has been reported that companies entering the market in the more densely populated Java will be required to operate in underdeveloped regions of Indonesia as well. *Xinhua News Agency, 17/11/05; AFX – Asia, 6/11/05*

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### **New Zealand:**

#### **Court Upholds Commission's Powers**

The legality of the Commerce Commission's regulatory regime has been upheld by the High Court, which dismissed a challenge by Unison Networks against various aspects of the Commission's approach. Justice Wild ruled that the price thresholds used by the Commission to screen companies and its subsequent decision-making processes were consistent with the Commerce Act. The ruling gives a significant boost to the Commission in its upcoming battle with Transpower.

*New Zealand Herald, 29/11/05; [www.comcom.govt.nz](http://www.comcom.govt.nz), 28/11/05*

#### **Transpower Faces Further Scrutiny Over Proposed Price Increases**

Transpower's proposal to increase transmission charges by 19% next year and 13% each year for the following four years has drawn the attention of the national regulator. Commerce Commission thresholds permit Transpower to increase prices at 1% less than the rate of inflation per year. The company claims that the increases are necessary to finance new investment in the network. Transpower is already under investigation by the Commission for previous breaches of the regulatory thresholds.

*Dominion Post, 26/11/05; [www.comcom.govt.nz](http://www.comcom.govt.nz), 26/11/05*

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### **Pakistan:**

#### **KESC Sale—A Real Challenge**

Following the default on the sale of Karachi Electric Supply Corporation by the Saudi company, Kanooz Al-Watan, the Federal Cabinet has permitted the Privatisation Commission to accept a matching bid. In line with the privatisation rules the second bidder, Hasan Associates consortium, was asked to raise their offer of 2 US cents per share to 3 US cents per share. The KESC balance sheet continues to be in the red, requiring hefty subsidies from the government for the company to continue in production.

*Business Recorder, 8/11/05*



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## Philippines:

### **Hydropower Asset Sale Attracts Attention Of 13 Companies**

Thirteen firms have joined in the pre-bidding for hydroelectric assets offered for sale by the Power Sector Assets and Liabilities Management Corp. (PSALM). Meanwhile, PSALM is set to issue bid documents for the sale of the National Transmission Corp. (Transco) this month, although the sale may be moved to later in 2006, as the Energy Regulatory Commission is still determining Transco's maximum allowable revenue.

*BusinessWorld, 2/11/05*

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## Singapore:

### **Singapore's EMA Seeks Feedback On LNG Imports**

Singapore is considering building a LNG terminal early next decade with a final decision expected in 2006. Prior to a decision, Singapore's Energy Market Authority is conducting a consultation on the LNG demand forecast, investment opportunities and the proposed business and regulatory model.

*Gas Matters Today Asia, 27/10/05*

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## Thailand:

### **Thai Court Blocks EGAT IPO Pending Legal Review**

The Supreme Administrative Court has issued an injunction to suspend the long-delayed share sale of EGAT just one day before subscriptions were due to open. Judge Charan Hathagam said the court was halting the IPO pending a review of the legality of government decrees authorising the share offer. No timeframe has been given for the court's review of the decrees.

*Dow Jones Commodities Service, 15/11/05*

### **PMs Call For Power Subsidy Fund Dropped**

The National Energy Policy Office (Nepo) has dropped Prime Minister Thaksin Shinawatra's idea of a fund to subsidise electricity prices. Nepo said that although fuel price increases were likely to make power more expensive, the power price should be allowed to float freely to reflect its actual cost; intervention would keep power bills unrealistically low and people would not be motivated to save. However, the Energy Ministry has been tasked to work out how it can help the more than nine million households nationwide which use less than 150 units (kilowatt-hours) of electricity a month.

*Bangkok Post, 3/11/05*



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## Our Practice

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

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NERA Economic Consulting is an international firm of economists who understand how markets work. Our more than 40 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 500 professionals operates in 19 offices across North and South America, Europe, Asia, and Australia.

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