25

n/e/r/a

Consulting Economists
NATIONAL ECONOMIC RESEARCH ASSOCIATES, INC.
http://www.nera.com

AN MMC COMPANY

# Global Energy Regulation

*Reporting on energy regulation around the world*

June 2001

**IN THIS ISSUE**

*European News ...... Pages 1 - 10*

*North American News ..... Pages 10 - 14*

*South American News..... Page 14 - 16*

*Asia-Pacific News ..... Pages 16 - 17*

## EUROPEAN NEWS

***Great Britain: Government Embarks on Review of Long-term Energy Objectives.*** The Government has announced that Energy Minister Brian Wilson will chair a group leading a review of the options for meeting long-term energy objectives. The Performance and Innovation Unit of the Cabinet will be responsible for the management of the project. The review will consider the role of the nuclear industry, fossil-fuel generation and renewables in meeting long-term energy objectives. The group is due to report by the end of the year but it is undecided whether the report will be a statement of future government policy or a consultative document for ministers.
Utility Week, 29/6/01; DTI press release, 25/6/01

***Great Britain: Regulator Approves NGC's Charging Methodologies.*** Energy regulator Ofgem has announced its approval of the National Grid Company's (NGC) Use of System Charging Methodology and Connection Charging Methodology. However, Ofgem's formal approval is subject to NGC reviewing the methodology for setting Transmission Network Use of System Charges for Demand.
Ofgem press release, 28/6/01

***Great Britain: Regulator Sets Out Draft Proposals for Transco.*** Energy regulator Ofgem has published draft proposals on the price controls to apply to the national gas pipeline operator, Transco, from April 2002 to 2007. Separate price controls will apply to: (1) the assets that make up the National Transmission System (NTS); (2) Transco's role as system operator; (3) Transco's 12 local distribution zones in aggregate; and (4) metering and meter reading services. Ofgem has decided against the 'focused' approach in valuing Transco's regulatory assets, which if applied would have reduced it by £2 billion (US$2.8 billion). The regulator is proposing to cut revenues by 14% in 2002. Most activities will be governed by an "RPI-2" price control.
Ofgem press release, 27/6/01

*Graham Shuttleworth, General Editor*
*Kristina Sepetys, US Editor*
*Greg Houston and Ann Whitfield, Australian and New Zealand Editors*

***Great Britain: Regulator Announces Approach to Setting Scottish Administered Prices.*** Energy regulator Ofgem has set the administered pricing arrangements that are to apply in Scotland to 31 March 2002. The Scottish Wholesale Price (SWP) cap will consist of an "energy component" *plus* the "Balancing Service Use of System" charges to suppliers (retailers) *minus* 1.5%. The energy component of the SWP will be a weighted average of monthly indices for Electricity Forward Agreements published by Argus (20%), Heren (20%), Platts (20%) and Spectron (40%), allocated to half-hours using the half-hourly profile of prices in the UKPX. Scottish top-up and spill prices have also been announced.
Ofgem press release, 22/6/01

***Great Britain: Centrica Acquires Stake in Power Station.*** Centrica has acquired a 60% share of Humber Power Limited (HPL) the owner of a 1,260MW CCGT power station in Lincolnshire, with TotalFinaElf increasing its stake in HPL from 12.5% to 40%. Energy regulator Ofgem is consulting on the regulatory matters arising from the acquisition, which is subject to the provisions of UK merger control law, prior to making recommendations to the Director General of Fair Trading.
Ofgem press release,19/6/01

***Great Britain: Regulator Makes Proposals on Maximum Resale Price Rules.*** Energy regulator Ofgem has issued its final proposals for new Maximum Resale Price (MRP) rules. MRP rules will only apply to electricity and gas resold (by landlords) to domestic customers. To align practices in gas and electricity, electricity will now be resold at cost price, as gas already is.
Ofgem press release,14/6/01

***Great Britain: Regulator Consults on Performance Standards.*** Energy regulator Ofgem is consulting on the draft secondary legislation on standards of performance in electricity distribution and supply. Ofgem proposes that existing standards for the ex-PES distribution businesses be retained. A separate consultation document will consider standards of performance in relation to metering.
Ofgem press release, 4/6/01

***Croatia: Proposed Timetable for Liberalisation.*** The energy laws currently before Croatia's parliament contain proposals to open the natural gas market for large users in January 2002. Domestic customers would be allowed to switch suppliers from 2003, with city dwellers becoming eligible first. However, one of the largest customers, the national electricity company HEP, has a long-term contract with INA (the oil and gas monopoly) at high prices until 2015. HEP is looking into the possibility of renegotiating.
FT Energy East European Energy Report, 19/6/01

***Czech Republic: Energy Regulator Faces Recruitment Difficulties.*** The new Czech Council for Energy Regulation (URE) is having difficulty recruiting experienced staff and is having to rely instead upon training new recruits from scratch. The Council is under fire from the electricity and gas industries, which complain that the lack of experienced staff prevents the Council from acting in important areas.

FT Energy East European Energy Report, 19/6/01

***France: EC To Referee over EDF Row.*** The European Commission intends to take legal action against the foreign investment restrictions imposed by the Governments of Italy and Spain. These restrictions followed EDF's attempts to acquire stakes in Montedison of Italy and Hidrocantabrico of Spain. The Commission is also considering further "Commission Directives", which do not require approval by member states, if the French do not implement EU liberalisation measures in France itself.

FT Energy EU Energy, www.online.ftenergy.com, 25/6/01

***France: CRE Proposes Access Tariffs for Power Grid.*** National electricity regulator CRE has submitted to Government its proposals for third-party access tariffs for the power grid. The proposals require Governmental approval, based on the advice from the State's competition council, before they can replace the provisional pricing structure introduced by EDF in March 1999.

FT Energy Power in Europe, www.online.ftenergy.com, 18/6/01

***France: New Wind Tariffs Provisionally Agreed.*** France's renewable energy producers have reached an agreement with the secretary of state for industry on the tariffs at which EDF will buy wind energy from them. The agreement still needs formal approval from regulator CRE. CRE is unlikely to view the new tariffs favourably, since they are almost double EDF's own production cost. The higher costs will ultimately be borne by customers.

FT Energy EU Energy, 11/6/01; FT Energy Power in Europe, 4/6/01, www.online.ftenergy.com

***Germany: Power Grid Owners Set Up New Representative Organisation.*** Eleven German power grid owners have set up a new organization, called VDN, to represent their interests as grid operators on technical, economic and regulatory matters. The new members include the grid divisions of RWE, Eon and EnBW, as well as three regional and five municipal grid owners.

FT Energy EU Energy, www.online.ftenergy.com, 25/6/01

***Germany: Agreement Reached on Nuclear Phase-Out.*** The German Government has signed a deal with the country's four main power groups to phase out nuclear energy over the next 20 years. Nuclear power currently accounts for approximately one-third of Germany's electricity requirements. The energy industry believes

that future Governments may reverse the phase-out policy.
FT Energy EU Energy, www.online.ftenergy.com, 25/6/01

***Germany: Eon Subsidiary Cuts Grid Access Prices After Cartel Office Investigation*.** Following a comparative investigation into access fees on German electricity grids by the Cartel Office, Edis Nord, an East German subsidiary of Eon, has said it will cut its grid access fees. The Cartel Office found that Edis charged 130% more than Germany's cheapest distributor, and 40% to 50% more than a West German utility of comparable size and costs.
FT Energy EU Energy, www.online.ftenergy.com, 25/6/01

***Germany: Ruhrgas and Wingas Publish Gas Storage Terms*.** German gas companies Ruhrgas and Wingas have published prices and conditions for third-party use of their gas storage facilities. The five German gas importers, of which Ruhrgas and Wingas represent two, must open their facilities for virtual and physical third party storage by 30 June under the German third-party access gas agreement.
FT Energy EU Energy, 25/6/01; FT Energy International Gas Report, 25/6/01, www.online.ftenergy.com

***Germany: Court Case Over SNAM Gas Deliveries*.** Gasversorgung Süddeutschland (GVS) and Ruhrgas have been accused by local utility Schwäbisch-Hall of blocking third-party access and thereby preventing gas supplies by Italy's SNAM. The case is currently in court. Traditional regional supplier GVS has refused third-party access largely for technical reasons.
FT Energy International Gas Report, www.online.ftenergy.com, 25/6/01

***Germany: EC Warning About Implementation of EU Gas Directive*.** The European Commission has warned Germany for the second time that it has failed to fully implement the EU gas directive, because it has not adopted a national law that enforces the open access arrangements already in place. The German economics minister commented that this is only a "formal problem". He later announced that the new national law would be in place latest by the end of the year.
FT Energy, EU Energy, 25/6/01; FT Energy International Gas Report,11/6/01, www.online.ftenergy.com

***Germany: Industry Preparing for Update of VV2*.** The German electricity industry is already in discussions to update the VV2 industry agreement on network usage, according to the electricity federation VDEW. The federal economics minister has demanded that companies should charge lower and non-discriminatory network charges, declaring that "a lot of cheating is going on". VV2 expires at the end of this year.
FT Energy Power in Europe, www.online.ftenergy.com, 18/6/01

***Germany: RWE Concerned About Investment in Coal-Fired Power Stations.*** RWE has expressed concern that the low prices for power will hamper investment in the maintenance and rebuilding of old coal-fired power stations, required because of plans to phase out nuclear power (see news item above). RWE's technical chief sees "long term risks for producers if prices do not cover costs". Wholesale revenues from German power remain below production costs, following a fall in prices of 50% to 60% after liberalization four years ago.
FT Energy EU Energy, www.online.ftenergy.com, 11/6/01

***Italy: Five In the Race for Elettrogen.*** Iberdrola has pulled out of the race for Eletttrogen, the electricity producer due to be sold off by Enel. Enel has been forced to sell Elettrogen, with 5,450 megawatts of capacity, because of the so-called "Decreto Bersani", in order to reduce its market share in electricity production. Italpower, Edigen, Newco, Endesa-ASM-BSCH and AES all remain in the competition, and the result should be announced in mid-July.
Il Sole 24 Ore, 16/6/01

***Netherlands: Endesa and RWE Continue Dutch Acquisition Plans.*** Endesa of Spain and RWE of Germany will continue pursuing their acquisitions of Dutch electricity companies Remu and NRE (Endesa) and gas companies Intragas and Obragas (RWE). They reacted positively to the parliamentary debate over the policy rules on privatisation proposed by the Minister of Economic Affairs. The Minister developed the rules in response to a parliamentary motion stating that the legal ownership of energy network companies must remain in public hands. The proposed policy rules state that networks must indeed remain in public legal ownership but that up to 49% of their exploitation can be privatised from 1 January 2001, and up to 100% by 2004 (under certain conditions). The rules are intended to form the basis for new legislation.
Het Financieele Dagblad, 28/6/01

***Netherlands: Minister Requires Clear Split Between Network and Supply Operations.*** The Minister of Economic Affairs has said that the incumbent energy companies must speed up their efforts to create a clear split between their network and retail supply operations. The statement was made in response to a complaint by new entrant Energiebedrijf.com, which argued that incumbent suppliers still use the traditional names and logos, something which is not permitted under the new Electricity Act 1998.
Het Financieele Dagblad, 26/6/01

***Netherlands: Gasunie Appeals Against DTe Publication of Prices.*** Gasunie has taken energy regulator DTe to court over the regulator's desire to publish the prices that Gasunie charges distribution companies for gas delivered to households. Gasunie

considers this information too commercially sensitive. Under current liberalisation plans household customers will only be free to choose a different supplier from their local distribution company in 2004.
Het Financieele Dagblad, 26/6/01

***Netherlands: Energy Companies Fear US Compensation Claims***. Dutch energy companies fear compensation claims from US investors if the Government decides that legal ownership of energy networks must remain in public hands. Dutch energy companies have entered into various "cross-border lease" arrangements with US investors, providing financial advantages to both parties. Under US law, a cross-border lease effectively transfers ownership to US investors. Dutch energy companies are concerned that US tax authorities may claim back the financial advantages that US investors derived from the arrangements, if the Dutch Government requires companies to remain in Dutch public hands.
Het Financieele Dagblad, 21/6/01

***Netherlands: Electricity Producers Consider Court Action Against EDF.*** Dutch electricity producers are considering taking EDF to court over its legal claim ("beslaglegging") on the high voltage network of Dutch company TenneT. EDF lodged its claim when Dutch producers threatened to cancel long-term electricity import contracts with EDF. Since liberalisation, these contracts have been out of the money. EDF's claim effectively freezes TenneT's assets. If EDF does not set aside its claim on the high voltage network, the Dutch State will not finalise the purchase of TenneT from the electricity companies for NLG 2.6 billion (around US$ 1.0 billion).
FT Energy Power in Europe, www.online.ftenergy.com, 18/6/01; Het Financieele Dagblad, 7/6/01

***Netherlands: Partial Private Sector Involvement in Energy Distribution.*** In a letter to Parliament, the Minister of Economic Affairs has stated that municipal and provincial governments will be allowed to involve the private sector in electricity and gas distribution activities through concession arrangements. The letter was submitted in response to a motion in Parliament, submitted by member Crone, stating that distribution networks should remain in legal ownership of the public sector, because of fears that security of supply will be endangered by sales of the networks to private sector companies. The Minister indicated that Crone's motion can be executed in two ways, either through a concession arrangement or through another legal construction, whereby local governments remain the legal owners of the networks.
Het Financieele Dagblad, 9/6/01

***Netherlands: Gasunie Reconfirms Separation.*** A Gasunie spokesman has reconfirmed the company's intention to separate the organisation of its trading and transportation arms by January 2002,

and to make a legal separation a few months later. Gasunie is not legally obliged to split the company, but says the separation is in line with European trends. Gasunie expects that the split will create two hundred new jobs.
Het Financieele Dagblad, 8/6/01

***Netherlands: Gasunie Threatens DTe with Court Action.*** Gasunie has threatened to take energy regulator DTe to court over whether tariffs for gas transport should be cost-based. Gasunie believes such a requirement would be against the Gas Act, which prescribes negotiated instead of regulated tariffs. Gasunie claims it has the right to set tariffs based on "market value". If not, Gasunie says it would have insufficient means to invest in the network, and would not be able provide adequate security of supply. Gasunie fears the Netherlands would become a "transit" country, and that other countries would obtain a commercial advantage over the Netherlands.
Het Financieele Dagblad, 7/6/01

***Netherlands: Energy Sector Threatens with Large Compensation Claims.*** In a letter from industry organisation EnergieNed to provincial and municipal shareholders, the energy sector has warned that it may issue compensation claims worth billions of guilders if the Government decides to stop plans for full privatisation of electricity and gas networks. If that happens, EnergieNed expects that the total value of the networks, currently estimated at NLG 25-35 billion (around US$ 10-13 billion), may fall by billions of guilders.
Het Financieele Dagblad, 5/6/01

***Netherlands: DTe Consults on Gas Transportation and Storage.*** DTe published a consultation document on the new guidelines ("Richtlijnen") for gas transportation and storage. The central themes of the consultation document include promotion of trade in gas and cost-reflectivity in tariffs. DTe will issue final guidelines for gas transportation and storage at the end of August 2001. The guidelines will set the basis for indicative tariffs and conditions for gas transportation and storage, which companies would have to adopt from 1 January 2002.
DTe website, http://www.nma-dte.nl, 5/6/01

***Netherlands: DTe Warns Gasunie About Transport Tariffs for Large Users.*** Energy regulator DTe is critical of the gas transport tariffs that Gasunie charges to large users. The market for large users has been open since August 2000. DTe has the impression that Gasunie's transport tariffs do not satisfy the existing Guidelines ("Richtlijnen") for 2001, in particular the need for tariffs to be cost-based. DTe has warned Gasunie that it will take a firmer approach on this issue in 2002.
Het Financieele Dagblad, 2/6/01

***Netherlands: DTe and NMa Will Jointly Monitor Electricity Market.*** Energy regulator DTe and competition authority NMa have announced plans to set up a joint system for monitoring the development of competition in the liberalising Dutch electricity market. DTe/NMa will collect market data and analyse them with a view to assessing electricity prices and behaviour of market participants.
DTe website, http://www.nma-dte.nl, 29/5/01

***Netherlands: "Platform" Proposes Tariff Options for Gas Transport.*** The Platform for Energy Liberalisation has outlined four different options for the structure of gas transportation tariffs: (1) postage stamp; (2) entry-and-exit; (3) zone-to-zone; and (4) point-to-point. The Platform members, who include energy users, producers, network and supply companies, stated there was insufficient time to reach consensus on a preferred option, leaving it to politicians to decide which option is the best. The Platform was set up to advise on the acceleration of the energy sector liberalisation timetable in the Netherlands.
FT Energy EU Energy, www.online.ftenergy.com, 29/5/01

***Spain: CNE Considers that EDP's Acquisition of Hidrocantábrico Could Increase Competition but that EDF's Could Reduce it.*** The Spanish Energy Commission (CNE) issued a report on the recent indirect acquisitions of Hidrocantábrico (HC) by Electricidade de Portugal (EdP) and Electricité de France (EdF). The CNE report says ownership by the Portuguese utility could have positive consequences for competition in the Iberian market, since it could lead to the creation of an Iberian market, which would reduce the market shares of the incumbent Spanish utilities. At the same time, the CNE considers that EdF's indirect acquisition of a stake in HC via the German group EnBW could damage competition, because it would effectively allow EdF to control the use of available interconnection capacity between Spain and France. In addition, it would reduce the incentive for the French utility to facilitate construction of additional interconnection capacity.
Cinco Días, 29/6/01

***Spain: Electricity Tariffs Will Not Be Linked to the Retail Price Index.*** The current methodology for setting electricity tariffs includes a yearly adjustment which takes the RPI as a reference. Instead, Pedro Meroño, the CNE´s chairman (Spanish Energy Commission) stated that the new methodology will be based on actual raw material and distribution costs. Tariffs for the transmission and distribution activities will be set so as to recover the utilities' costs, including an allowance for an appropriate return on capital.
La Gaceta del Jueves, 28/6/01

***Spain: CNE Analyses New Investment Requirements in the Energy Sector*.** From this year onward, the CNE will produce a yearly report on the anticipated growth of electricity and gas consumption in Spain, examining the balance between capacity and demand in both gas and electricity markets and the implications of these trends for quality of supply.
Cinco Días, 28/6/01

***Spain: Anti-Trust Office Asks for Fines to be Imposed on Repsol-YPF.*** The Servicio de Defensa de la Competencia (Anti-Trust Office), which is part of the Ministry of Economy, asked the Tribunal de Defensa de la Competencia (Anti-Trust Authority) to impose a fine on the oil company Repsol-YPF because of its price fixing activities and anti-competitive contractual relationship with petrol stations operating under the Repsol-YPF brand. The Office says that these practices violate anti-trust laws and that customers may be paying more than they would under a more competitive environment.
La Gaceta del Sábado, 23/6/01

***Spain: Brussels Investigates EdF's Position in the Spanish Market*.** The European Commission has sent a questionnaire to the Spanish Government to be submitted to the utilities affected by the acquisition of electricity company Hidrocantábrico. Its purpose is to evaluate the impact of EdF´s entry into the Spanish electricity market. This enquiry results from recent events in the European market, such as EdF´s acquisition of a stake in the Italian group Montedison. The EU Commissioners rejected the legality of member states' attempts to limit capital investments within EU liberalised markets, such as electricity. According to Frits Bolkestein, the Internal Market Commissioner, the existence of different degrees of market opening is - on its own - insufficient grounds for applying any kind of entry constraint.
ABC, 22/6/01; Cinco Días, 21/6/01

***Spain: Anti-Trust Authority Imposes a Fine on Cepsa.*** The Tribunal de Defensa de la Competencia (Anti-Trust Authority) imposed a fine of 200m pesetas (US$1m) on Cepsa, the second largest Spanish oil company, because of price fixing practices. The company, which has a 25% market share in the Spanish refined oil products market, announced that it will appeal against the fine in the courts. The practices in question occurred in the distribution activity, where the company fixed prices in petrol stations through Cepsa supply contracts. This measure affects 1,000 of a total of 1,500 oil-stations supplied by the company.
Expansión, 6/6/01

***Spain: Minor Power Interruptions Likely to Occur in Spain this Summer.*** According to Endesa, Iberdrola, Unión Fenosa and Hidrocantábrico, the members of UNESA (the Spanish electricity companies association), it is likely that there will be minor power interruptions this summer, due mainly to problems in the distribution network. UNESA explained that these problems were due to the difficulty of obtaining the administrative permits for investment in distribution and transmission networks and urged local authorities to accelerate the process so that power interruptions can be avoided in the future.
El País, 5/6/01; ABC, 5/6/01

## NORTH AMERICAN NEWS

***US: California Regulators Likely to Halt Consumers' Ability to Shop for Power.*** State regulators are expected to pull the plug on electricity deregulation's core feature: the ability of customers to shop around for alternative power. After 1 July, residential and business customers would no longer be allowed to shop for a new electricity provider under a measure expected to be approved by the California Public Utilities Commission. State leaders fear that after stepping in and buying premium-priced power to avoid blackouts this year, big businesses will flee for a better deal, sticking small consumers with the government's energy bill. Those consumers would then face higher rates, causing even more to flee. Business leaders, alternative energy providers and some state officials are desperately trying to head off the move, saying they've saved a bundle on energy through the "direct access" option of bypassing the major utilities.
San Jose Mercury News, 27/6/01

***US: More Former Power-Plant Workers Speak of Intentional Damage to Plants.*** A second wave of former power-plant workers stepped forward to say they witnessed power merchants intentionally damage generators — including some in Orange County — a practice they believe led to price gouging of Californians. The generating companies, Duke Energy and AES Corp., denied the new round of allegations, made by a half-dozen workers who took their stories public or contacted legislators with offers to provide sworn testimony. One of those speaking out, a former manager at Duke's Chula Vista plant, told The Orange County Register that he supports the testimony of three former colleagues who told a Senate committee that new parts at the plant were destroyed, routine maintenance was neglected and generators were unnecessarily throttled down.
The Orange County Register, 26/6/01

***US: Connecticut Orders CL&P to Return US$21.1 million to Customers.*** The Connecticut Department of Public Utility Control (DPUC) said that electric customers of Connecticut Light and Power Co. (CL&P) will receive US$21.1 million in benefits for over-earnings by the utility. Customers will benefit on a non-cash basis in the form of reduced liability for stranded costs. The DPUC emphasized this decision will not change customers' bills. Customers will receive the benefit of a reduction to their stranded cost obligation. Further, the department's proposed tariff re-balancing, lowering distribution rates and raising the generation service charge by the same amount, is designed to provide an incentive for increased electric retail competition in Connecticut.
Reuters, 20/6/01

***US: Regulators Allow Mississippi Power to Pass Along Cost to Consumers.*** The Mississippi Public Service Commission approved a measure that will allow Mississippi Power Co. to pass along to consumers a cost that had previously been paid by the utility. But both the PSC and Mississippi Power say it will better control future fuel costs. The order approving the "energy cost management clause" allows Mississippi Power to buy fuel in the future at a predetermined price. Before the order, the cost of the fuel to run generating plants could be passed on to consumers, but not the fee associated with contracting. Now that cost can be passed on to consumers. The new approach is a result of a PSC order in November 2000, when the commission told Mississippi Power to find a better way to deal with the uncertainty of future fuel prices, particularly natural gas. The PSC said at the time that "hedging" is a reasonable way to stabilize prices.
The Sun Herald, Biloxi, 20/6/01

***US: Utility Insiders Reconsider Opt-Out Measure for Large Power Users.*** As the last key piece of energy legislation awaits approval, utility industry insiders are dissecting the measure and coming up with concerns. From next year, Assembly Bill 661 would allow large power users to opt out of the regulated monopoly utility systems of Nevada Power Co. in Las Vegas and Sierra Pacific Power Co. in Reno. Advocates, including representatives of gold mines and casinos, call it the "Repower Nevada" amendment. And many people are worried that Repower Nevada will allow large power users to avoid the mother of all rate increases, a possible US$450-700 million increase in energy rates for Nevada Power and a US$100-200 million increase for Sierra Pacific.
Las Vegas Review-Journal, 20/6/01

***US: California Will Borrow Up to US$5 Billion to Buy Energy.*** California State Treasurer Phil Angelides announced that he will borrow up to US$5 billion to pay for future power purchases, a move he said was necessary to avoid a continued drain on California's budget and cuts in other state programs. Since mid-January, energy purchased by the state Department of Water Resources on the spot market and under long-term contracts has come out of the state's general fund, the source of most state spending. Once the loan becomes final, however, energy will be purchased with the proceeds. Made possible by an emergency order from the governor, the loan will ultimately be paid off by customers of the state's investor-owned utilities through their electricity rates. The state has so far committed US$8.2 billion from the general fund to electricity purchases. Of that amount, Angelides said the Department of Water Resources has actually spent about US$6.1 billion on power purchases, and has received about US$900 million back from customers' electricity rates.
The Sacramento Bee, 20/6/01

***US: Agreement to Resolve Major Regulatory Issues, Provide for Sale of SDG&E's Transmission Assets.*** California Gov. Gray Davis and San Diego Gas & Electric (SDG&E) today jointly announced a preliminary agreement to eliminate any future "balloon payments" by SDG&E customers related to the US$750 million in power costs that the utility has yet to collect. Gov. Davis, SDG&E and the utility's parent company, Sempra Energy, have entered into a Memorandum of Understanding (MOU) to settle several outstanding regulatory cases before the California Public Utilities Commission (CPUC), including the resolution of undercollection. Under the MOU, SDG&E also agreed to sell its transmission network to the state for 2.3 times book value, or approximately US$1 billion, plus retirement of related debt of approximately US$180 million. The sale of transmission assets is subject to ratification by the state legislature, Federal Energy Regulatory Commission approval and completion of certain actions by the CPUC. The regulatory settlements are subject to independent review and approval by the CPUC and are not contingent upon the sale of the transmission assets.
News Release, 18/6/01

***US: California Spent US$43 Billion on Long-Term Power Contracts.*** The US$43 billion California is spending on long-term power contracts is only an estimate, state officials acknowledged, and the amount could easily go higher or lower because about half the supply is tied to fluctuating natural gas prices. The disclosure came as the state released edited versions of the 38 electricity contracts it has signed so far, many at prices that exceed the newly deflated spot and futures markets. The state contracts cover about half the power the state will need to buy and will cost an average of $69 per megawatt-hour over the next 10 years, state officials have

said. Up to 70 percent of the electricity will come from new plants yet to come online.
The Sacramento Bee, 16/6/01

***US: Loopholes in California's Electricity Contracts Could Threaten Price Stability.*** After months of negotiations, the state could still be at the mercy of generators because of clauses in the contracts that allow prices to fluctuate or deals to be canceled. The $43 billion in contracts are key to Gov. Gray Davis' efforts to secure a dependable source of electricity for the state and eliminate much of its vulnerability on the costly spot market. But, according to details of the contracts released Friday, about 70 percent of the electricity to be sold under the contracts with 18 companies is coming from power plants that are still under development. At least 40 percent of the contracts require the state to have sold bonds to pay for the power by 1 July. That appears unlikely, and may give some companies an escape clause. About half of the contracts also allow power suppliers to adjust the electricity price if the price of natural gas — which many plants use for fuel — goes up or down. Davis agreed to release the contracts only after he was ordered to do so by a court.
San Jose Mercury News, 16/6/01

***US: San Francisco Chronicle: Gouging Charges Expanded by ISO.*** The California Independent System Operator accused four major power companies and two smaller ones of market manipulation and called for the cancellation of their rights to offer electricity in the state. The ISO, which had already demanded the censure of Williams Energy and AES Inc., has added Reliant Energy, Mirant Corp., Dynegy Inc., and Duke Energy to the list of companies it accuses of price gouging. However, the energy companies, most of which are to apply for renewal soon, tried to shrug off allegations of monopoly control in California's power industry, saying that the complaints raised by the ISO contained no new arguments. The state has requested that the Federal Energy Regulatory Commission reach a ruling by June 15 for Williams and AES and by June 28 for the other firms. The ISO plans to bring its claim before a federal appeals court if federal regulators dismiss the state's request.
FT World Media Abstracts via Comtex, 15/6/01

***US: Grand Jury to Probe California Markets.*** Investigations into generators' power trades mount, with Attorney General Bill Lockyer announcing that a grand jury will be convened in July. In the meantime, a Senate subcommittee keeps looking into various factors that drove up power prices. The latest subject is the South Coast's emission trading program, which saw prices soar after third-party traders entered the scene. The California Public Utilities Commission is also looking to identify illegalities.
California Energy Markets, 15/6/01

***US: CPUC Provides Qualified QF Relief, Approves Some MOU Provisions to Expedite Edison Deal.*** The California Public Utilities Commission approved on June 13 a relief package for qualifying facilities – telling Southern California Edison to make back payments of 15 percent for past energy purchases and endorsing three voluntary contract amendments that could provide more cash for generators. Before getting paid, QFs are required to demonstrate need.
California Energy Markets, 15/6/01

## SOUTH AMERICAN NEWS

***Argentina: Electricity Infrastructure Expansion Needed.*** In order to avoid an energy crisis in the short term, both electricity generation and transmission should be expanded. According to Cammesa (Compañía Administradora del Mercado Electrico), between 1992 and 2000, electricity demand increased by almost 50% while transportation capacity was expanded by 15%. Silvio Resnich, President of ATEERA (Asociación de Transportistas de Energía Electrica), said that US$600-700 million are needed to solve future problems of congestion. Furthermore, electricity consumption is growing by an average of 6% annually, requiring an annual addition to generation capacity of 1,200 MW, which represents an investment of US$1,500 million. If the expansion measures are not carried out, some specialists affirm that existing electric capacity would be fully utilised by 2003.
El Clarin, 13/6/01

***Bolivia: Brazil Calls for Competitive Pricing of Bolivian Natural Gas.*** Brazil's ambassador to Bolivia, Stelio Marcos Amarante, asked formally for Bolivian gas to be priced more competitively, considering the potential of alternative technologies for electricity generation. The feasible alternative technologies include hydroelectric, thermoelectric or thermonuclear power plants. In addition, Brazil requested that the devaluation of its currency should be reflected in price schedules for Bolivian gas.
Business News Americas (Bnamericas.com), 26/6/01

***Bolivia: Government Considers Extending Price Freeze.*** Bolivian authorities are considering the possibility of extending a gasoline and diesel price freeze for an additional year. In the initial freeze, which expires on 7 July, the price for gasoline was set at US$0.50 per litre and for diesel at US$0.47 per litre. The financial consequence of this measure is so far a debt to oil companies of US $18 million.
Business News Americas (Bnamericas.com), 26/6/01

***Bolivia: Expansion of the Bolivia-Brazil gas pipeline.*** An enlargement of the Bolivia-Brazil gas pipeline capacity from 30 million m3 per day to 40 million m3 is taken for granted by the Brazilian government. This operation will be done through the joint venture TBG (Transportadora do Gasoduto Bolivia Brasil) that includes Petrobras, Enron, El Paso, British Gas, TotalFina and Elf. The cost of this project is US$900 million and is intended to give gas supplies to 18 thermal generation units that will be in operation by 2003.
Gazeta Mercantil, 21/6/01

***Bolivia: Producers Claim that Government Should Not Set Prices.*** Bolivian producers maintain that they should set the price of exported gas to Brazil, not the government. President Hugo Banzer said that volumes of gas exports are a priority, and therefore that a price reduction to increase the competitiveness of Bolivian gas could be allowed.
Business News Americas (Bnamericas.com), 13/6/01

***Brazil: Energy Electricity Rationing to Continue into Next Year.*** The Brazilian Minister of Mining and Energy, Jose Jorge Lima, indicated the possibility that the energy-rationing plan might continue into the beginning of 2002. Initially, it was supposed to cover the period 1 June to 30 November 2001. As originally conceived, the plan required a 20 percent reduction in consumption. However, for the year 2002, it will aim to keep energy savings at the 10 percent level. The Brazilian energy crisis has been attributed to the decrease in rainfall in the last four months and the lack of investment in the electricity sector.
EFE News Service, 15/6/01

***Brazil: Aneel Auctions 2 Of 3 Transmission Contracts.*** Brazil's electricity regulator (Aneel) auctioned two of the three transmission line projects on offer on the Rio de Janeiro Stock Exchange. Parana state integrated power company Copel was the sole bidder for the first contract (Connection line Bateias-Jaguariaiva (137km – 230kV)) and will receive US$2.41 million per year. The second project (Connection line Itumbiara-Marimbondo (212km – 500kV)) was assigned to Brazil's Pem Engenharia that bid US$7.72 million revenue per year. No bids were received for the third contract (Connection line Ouro Preto 2-Vitoria (370km – 354kV)).
Business News Americas (Bnamericas.com), 14/6/01

***Brazil: Brazilians Fail To Meet Goals Of Energy-Rationing Plan.*** After 10 days of application of the energy rationing plan, most Brazilians failed to comply with the measures induced by this plan. The plan envisages a 20% reduction in electricity consumption but figures released by the government show that only a 16-17% reduction has been achieved. This fact could result in fines and blackouts.
EFE News Service, 11/6/01

***Venezuela: Chavez Seeks to Speed Up Gas Sector Opening.*** President Hugo Chavez is willing to intervene as far as he can, in order to accelerate the opening of the gas sector to private participants. Top officials in the hydrocarbons sector were called to Palacio Miraflores to discuss the state of projects related to the natural gas sector.
Business News Americas (Bnamericas.com),18/6/01

***Venezuela: Companies Criticize Gas Tender.*** Companies tendering for 11 blocks of associated natural gas exploration and development in Venezuela have expressed their concerns about the licensing process to the Mines and Energy Ministry. Their concerns include uncertainty over the VAT payment, the adjustment of tariffs with respect to inflation and fluctuation in the exchange rates, and more generally the lack of clear rules to ensure an accurate estimation of costs.
Business News Americas (Bnamericas.com),18/6/01

## ASIA-PACIFIC NEWS

***Australia: Australian Competition and Consumer Commission Opposes Roll-In of Victorian Pipeline Costs.*** The Australian Competition and Consumer Commission (ACCC) issued a final decision opposing roll-in of the Southwest Pipeline to the Victorian gas transmission system. While the ACCC agreed that some system security benefits and competition benefits will accrue from the pipeline, the ACCC is not convinced that there are sufficient benefits to justify a higher tariff for all users to recover the full investment. The ACCC has recommended that GPU GasNet submit a revised proposal as part of the 2002 scheduled review of its access arrangement. The ACCC expects that there will be firmer evidence of the likely use of the pipeline and its benefits at that time.
www.accc.gov.au, 29/6/01

***Australia: Australian Competition and Consumer Commission Calls for improved Governance in the National Electricity Market***. The ACCC has called for all governments involved in the National Electricity Market (NEM) to focus on framework questions surrounding the national electricity market and not become involved in the day-to-day operation of the market. The ACCC has argued that the electricity market framework must delineate the role of governments, limit it to the broader policy issues and leave the operation of the market to participants. Anything short of this would send a negative signal to investors in the market. It is also argued that, to date, governance arrangements of the NEM have proven slow to resolve issues surrounding the integration of energy markets with network services, largely because of the political nature of the issue.
www.accc.gov.au, 21/6/01

***India: AES offers to buy Enron's Dabhol share.*** AES is reportedly willing to take over Enron's 65% share in the Dabhol Power Company. Dabhol operates a 740 MW Naptha-fired plant in Maharashtra State and has a 1,440 MW LNG-fired plant under construction. Dabhol and the Maharashtra State Electricity Board (MSEB) are involved in a dispute over the PPA for the naptha plant and over their commitment to take power from the new plant. Construction of the new plant, which is nearly complete, has been suspended.
FT Energy Power in Asia, 28/6/01

***Indonesia: Power Crisis Threat***. Indonesia urgently needs investment in generation to meet rising demand for power, says Unocal Indonesia, a long term investor in the country. However, investors may be unwilling to commit capital given the poor financial state of PLN, the power utility, and the country's history of PPA disputes.
FT Energy Power in Asia, 28/6/01

***Japan: Tepco to introduce long-term contracts***. Tepco plans to introduce long-term contracts with generous discounts to secure market share in the face of increasing competition to supply large users. Users signing contracts for a period of three to five years can expect to pay 2% to 3% less in basic fees than those with one year contracts.
FT Energy Power in Asia, 28/6/01

CONTACTS

*National Economic Research Associates*
*15 Stratford Place*
*London W1C 1BE*
*United Kingdom*
*Tel: +44 (20) 7659 8500*
*Fax: +44 (20) 7659 8501*
*Contact: Graham Shuttleworth, David Hough*

*National Economic Research Associates*
*One Main Street*
*Cambridge, Massachusetts 02142*
*USA*
*Tel: +1 (617) 621-0444*
*Fax: +1 (617) 621 0336*
*Contact: Michael Tennican*

*National Economic Research Associates*
*Level 6, 50 Bridge Street*
*Sydney*
*NSW, 2000*
*Australia*
*Tel: +61 (2) 8272 6506*
*Fax: +61 (2) 8272 6549*
*Contact: Greg Houston, Ann Whitfield*

*National Economic Research Associates*
*Antonio Maura 7*
*28014 Madrid*
*Spain*
*Tel: +34 (91) 521 0020*
*Fax: +34 (91) 521 7876*
*Contact: David Robinson, Oscar Arnedillo*

NERA also has offices in:

*Washington, DC*
*(+1) 202 466 3510*
*Cambridge, MA*
*(+1) 617 621 0444*
*Chicago, IL*
*(+1) 312 573 2800*
*Ithaca, NY*
*(+1) 607 277 3007*
*Los Angeles, CA*
*(+1) 213 346 3000*
*New York, NY*
*(+1) 212 345 3000*
*Philadelphia, PA*
*(+1) 215 864 3880*
*San Francisco, CA*
*(+1) 415 291 1000*
*Brussels, Belgium*
*(+32) 2 740 2140*


***About NERA*** National Economic Research Associates, Inc. (NERA) provides research and analysis of economic and financial issues arising in litigation, regulation, public policy and management. Established in 1961, NERA is an international firm of consulting economists recognised for its work in energy, antitrust matters, securities litigation, telecommunications, employment and discrimination, intellectual property, environment, health, transportation, international trade, sports and water.

***About the Energy Practice*** Our economists are leaders in the application of microeconomics to every aspect of the energy industry. Electricity companies, gas companies, governments, and energy sector regulators throughout the world look to NERA to help them find solutions to a variety of complex commercial and regulatory problems. NERA provides advice on issues such as regulation, privatisation, restructuring, liberalisation, design of trading arrangements, tariff and contract design, and transmission pricing. NERA has extensive experience in the application of quantitative methods to economic issues in the energy industry. NERA's work is based on a rigorous analytical approach combined with detailed knowledge of the technological, commercial and political realities involved.

***NERA's Website*** You can find this and past issues of the Global Energy Regulation Newsletter at www.nera.com.

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