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EUROPEAN NEWS

In this Issue

Great Britain: Ofgem Publishes Reviews of NETA Energy regulator Ofgem has published two reviews of the New Electricity Trading Arrangements (NETA); one of the general performance of NETA and a second of the experience of smaller generators operating under NETA. Ofgem's main findings are: (1) wholesale electricity prices are 20-25% lower than they would have been under the Pool; (2) market liquidity is greater than under the Pool; and (3) NGC's daily costs of balancing the system have halved. In the second review, Ofgem concludes that the adverse impact of NETA on smaller, 'green' generators may jeopardise the Government's existing environmental targets unless additional support is introduced.

Ofgem press release, 31/8/01

Great Britain: Regulator Consults on Procedures for the Renewables Obligation Energy regulator Ofgem is consulting on administration of the Renewables Obligation, which requires a certain percentage of licensed suppliers' total sales to come from renewable sources. Ofgem is consulting on the functions it is responsible for performing, including: (1) the accreditation of generators; (2) the issuing of Renewables Obligation Certificates; (3) compliance assessment; and (4) annual reporting procedures.

Ofgem press release, 30/8/01

Great Britain: Regulator Appoints Former Head to Advisory Panel Energy regulator Ofgem has appointed its former Director General, Professor Stephen Littlechild, to a new advisory panel of industry experts that is being established to better inform future regulatory decisions.

FT.com, 27/8/01

Great Britain: Regulator Proposes Amendments to Gas Connection Charges Energy regulator Ofgem is consulting on its proposed amendments to regulations concerning gas connection charges. Ofgem's proposals are intended to

Graham Shuttleworth, General Editor

Kristina Sepetys, US Editor

Greg Houston and Ann Whitfield, Australian and New Zealand Editors

stimulate the extension of gas networks to premises in remote areas by extending from 5 years to 25 years the period over which a gas transporter may request contributions towards the cost of providing a main for an infill project.
Ofgem press release, 21/8/01

Great Britain: Regulator Publishes Environmental Action Plan Energy regulator Ofgem has published an environmental action plan setting out its role, responsibilities and policies in relation to the protection of the environment. In the plan, Ofgem's priority areas of work include: (1) considering whether further price control incentives are justified to reduce losses and increase energy efficiency; (2) reviewing the treatment of embedded generation; (3) encouraging emissions trading schemes; and (4) administering the Government's policy to increase the contribution of renewables and its new energy efficiency commitment programme.
Ofgem press release, 20/8/01

Great Britain: Government Proposes New Energy Efficiency Targets Under the Utilities Act 2000, the Department for Environment, Food and Rural Affairs (DEFRA) has published proposals setting the level of energy efficiency improvements required of electricity and gas suppliers. The proposals are intended to help achieve the Government's Kyoto commitments and reduce fuel poverty among lower income consumers. Suppliers with more than 15,000 customers are required to achieve savings and energy regulator Ofgem is responsible for apportioning the savings between suppliers.
DEFRA press release, 17/8/01

Great Britain: Innogy Swaps Yorkshire's Distribution Business for Northern Electric's Supply Customers Innogy Holding plc announced its intention to swap its 94.75% interest in Yorkshire Electric plc (an electricity distribution business) and the associated debt, for Northern Electric's supply business. The deal will extend Innogy's customer base to approximately 7 million. Energy regulator Ofgem is consulting on the regulatory issues involved in the transaction before making recommendations to the Director General of Fair Trading.
Ofgem press release, 16/8/01; Innogy press release, 6/8/01

Great Britain: Consultation on Market Abuse Licence Conditions Continues The Minister for Energy has issued a further consultation document on revised proposals for two licence modifications intended to prevent "detrimental behavior" during the "bedding period" of the New Electricity Trading Arrangements (NETA). These conditions would expire one year after their introduction except by consent from licensees to their continuation or a Competition

Commission reference. Energy regulator Ofgem welcomed the consultation and issued its own consultation document on guidelines for companies setting out how it will monitor and ensure compliance with the conditions, if they are agreed.
DTI press release, 14/8/01; Ofgem press release, 14/8/01

Great Britain: IPE Electricity Futures Traded for First Time
On 10th August, the first IPE electricity futures contract was traded. The trade, between Powergen and Carr Futures Inc, was for 20 lots (equivalent to 14,680MW) of March 2002 at a price of £18.35 per MWh (US$26.79 per MWh). A second trade for 20 lots (equivalent to 14,400MW) of September 2001 took place shortly after at a price of £18.12 per MWh (US$26.46 per MWh). The IPE's electricity futures were launched on 19th March, prior to the introduction of the New Electricity Trading Arrangements.
IPE press release, 10/8/01

Great Britain: Regulator Consults on New Protections for "Worst Served" Customers Energy regulator Ofgem has issued preliminary proposals to protect the "worst served" electricity customers, usually those living in remote areas. Ofgem has proposed that customers suffering more than three interruptions of more than three hours duration should receive compensation of about £50 (US$73).
Ofgem press release, 7/8/01

Croatia: Parliament Adopts Five Energy Laws The Croatian parliament has adopted a package of five laws aimed at establishing an energy regulator, and at restructuring and liberalising Croatia's electricity and gas markets. In 2003, electricity customers consuming more than 40 GWh per year (about 40 customers and 10% of the market) and gas customers consuming more than 100m3 per year (only 4 customers at present) will become eligible. The government recently increased gas prices by 10%, the first rise since 1997, in anticipation of gas price liberalisation.
FT Energy East European Energy Report, 20/8/01

Germany: Municipal Utility Switches Gas Supplier for a Second Time Stadtwerke Heidelberg, a city utility business, is dropping its existing gas suppliers Enron and Mannheimer Versorgungs- und Verkehrs-Aktiengesellschaft (MVV) in favour of Ruhrgas and Wingas. This decision comes despite using Enron for only one year and after lengthy negotiations over transmission access with Ruhrgas. The new contracts will last for three years. The utility's reason for switching its supplier again is a better price and the convenience of the new supply route.
http://www.heidelberg.de/stadtblatt/stbl1001/stadtul.htm, Wall Street Journal (Europe), 23/8/01

Germany: Bundeskartellamt Wants to Judge Aral Takeover
Having applied to the European Commission for jurisdiction over takeover of DEA by Shell, the Bundeskartellamt (the highest German Competition Authority) has asked for the right to to approve the planned takeover of Aral by BP. The Bundeskartellamt argues that it is in a better position to assess the deals than the European Commission because it has a better knowledge of the German market. Dr Ulf Böge, president of the cartel office, is confident to win permission from the Commission in both cases.
Wall Street Journal (Europe), 21/8/01

Hungary: Draft Electricity Liberalisation Bill To Go Before Cabinet The Hungarian cabinet will discuss the latest draft of the liberalisation bill with a view to Parliament passing the law this autumn. Liberalisation is expected to begin with a 33% market opening in 2003, although the consumption threshold for eligible customers has not been specified. Private operators have reservations about the bill, not least because many important details have yet to be specified in the secondary legislation.
FT Energy East European Energy Report, 20/8/01

Netherlands: DTe Publishes Draft Guidelines for Dutch Gas Sector On 31 July 2001, DTe published draft guidelines ("richtlijnen") applicable to indicative tariffs and conditions for gas transportation and storage companies for the year 2002. DTe opted for an entry and exit point pricing system and, as a general rule, daily balancing. Gas storage facilities will have to be partly opened for third party access. The draft guidelines were issued following DTe's June 2001 information and consultation document on the same topic. DTe also published notes of the regulatory consultation meetings on the new guidelines that took place between 27 June and 18 July 2001.
DTe website, http://www.nma-dte.nl, 31/8/01, 24/8/01, 31/7/01; FT Energy EU Energy, 3/8/01

Netherlands: DTe Sets X Factors for Dutch Gas Sector for 2002 and 2003 DTe has determined the x factors for gas network and gas supply companies for the years 2002 and 2003. Annual x factors for gas network companies were set at 9.0% for all companies, with the exception of two companies with slightly lower x factors, of 8.8% and 7.7%, resulting in an overall average x factor of 8.9%. Benchmarking was used to determine the x factors. For gas supply companies, annual x factors were set equal to the cpi (consumer price index) for all companies. The regulatory decisions were accompanied by a background report on the setting of x factors for gas network companies.
DTe website, http://www.nma-dte.nl, 30/8/01, 24/8/01

Netherlands: Price Volatility on APX Prices on the Amsterdam Power Exchange (APX) are reported to have been high this summer and more volatile than those observed on German and other European power exchanges. Industry observers quote unexpected maintenance outages and the small number of suppliers as possible reasons. TenneT, the transmission system operator, conducted an investigation into the price spikes but in its preliminary conclusions did not report any evidence of market manipulation, instead attributing the problems to low levels supply. However, a report by an independent consulting firm concluded that the problems were due to insufficient market oversight by DTe, TenneT and APX (see our July 2001 issue). DTe has also initiated an investigation of price volatility on the APX, conducted by four "wise men".
Het Financieele Dagblad, 30/8/01

Netherlands: Appeals Against X Factors for Retail Supply of Power "Unfounded" The Minister of Economic Affairs has issued a decision document in which she declares the appeals of various companies against the x factors set on 13 October 2000 for electricity retail supply companies "unfounded". Companies can appeal against the Minister's decision via the "College van Beroep voor het Bedrijfsleven", a specials appeals body for the business sector.
DTe website, http://www.nma-dte.nl, 24/8/01

Netherlands: Monthly Interconnector Prices Soar The monthly auction of cross-border interconnector capacity for September 2001, run by TSO Auction (set up by Dutch, German and Belgian TSOs), saw prices rise to unprecedented levels on the routes from Germany into the Netherlands, with prices set at •16,942 per MW. Industry commentators attribute the high prices to a massive demand for import capacity into the Netherlands.
FT Energy Power in Europe, 24/8/01

Netherlands: DTe Approves Network Capacity Plans DTe has written a letter to the Minister of Economic Affairs stating that the regulator has no reason to expect that electricity network operators will be unable to satisfy the total demand for transport capacity on electricity networks. The letter followed an investigation by DTe of the capacity plans of electricity network companies in the Netherlands.
DTe website, http://www.nma-dte.nl, 17/8/01

Netherlands: Gasunie Not Satisfied With Draft Regulatory Guidelines Gasunie has submitted a large number of comments on DTe's draft guidelines for the indicative tariffs and conditions for the Dutch gas sector (see news item above). Gasunie considers the

intentions of DTe "dangerous" and overly "interventionist", and commented that ultimately a judge may have to decide how far the powers of the regulator reach.
Het Financieele Dagblad, 15/8/01

Netherlands: APX To Be Renamed Endex APX, the Amsterdam Power Exchange now run by TenneT, the Dutch transmission system operator, is to be relaunched under the name Endex. The new company intends to provide a platform for the development of a European exchange for electricity futures, which is scheduled to go online early next year.
FT Energy Power in Europe, 13/8/01

Netherlands: Stranded Costs Cleared by European Commission The European Commission has ruled that the Dutch government is allowed to compensate utilities for assets stranded by the introduction of competition. Stranded costs in the Dutch electricity sector include city heating plant and the coal gasification plant at Demkolec.
FT Energy EU Energy, 3/8/01

Netherlands: Gasunie Transport Arm Sets Out Future Charges In a meeting with shippers on 20 July, Gasunie's transportation arm set out the future terms for transport over its network. Gasunie Transport intends to adopt a zonal pricing system and to adhere to an hourly balancing regime. Gasunie also indicated that, although tariffs for individual shippers may vary, the overall revenues will be largely the same as before, since Gasunie's charging principle is based on market value.
FT Energy EU Energy, 3/8/01

Russia: Tariffs Fixed Until 2002 The Russian government has announced that electricity and heat tariffs will not rise until next year, in an attempt to control inflation. Electricity and heat tariffs rose by 20-30% during the first half of 2001, significantly above the 13% rate of inflation.
FT Energy East European Energy Report, 20/8/01

Spain: The Energy Commission Identifies Difficulties in the Retail Electricity Market In its "Report on Prices for Year 2000", the Spanish Energy Commission (CNE) argues that full retail liberalisation in 2003 will be hampered by the difficulties faced by eligible clients when they want to switch supplier. According to that report, 95% of eligible customers choose to remain with their traditional supplier and new entrants have only been able to capture 0.01% of the retail market.

The main difficulty identified by the CNE is the lack of effective separation of commercialisation and distribution. The CNE also

stresses the technical difficulties facing customers who have chosen a competitive supplier, which delay settlement up to a year. The cost of sophisticated metering equipment for residential customers leads the CNE to suggest the need for an alternative approach.
The CNE detected an increase in retail prices towards the end of 2000, which reduced the amount of energy bought outside the regulated tariff. This increase was due, said the CNE, to an increase in costs of production.
Expansión, 27/8/01, 20/8/01

Spain: Iberdrola to Start Retailing Algerian Gas in October
Iberdrola announced that it has signed eight gas supply contracts with Spanish industrial customers and that supplies will start to flow in October. Iberdrola's first shipments of Algerian LNG are covered by a recent agreement with Sonatrach. Iberdrola's portfolio of gas supply contracts include agreements with ENI and Gas Natural, as well as with Pemex in Mexico and Petrobras in Brazil. The company has stated that firm contracted supplies amount to 5.3 bcm and an additional 2.8 bcm are being negotiated. Iberdrola has also bid for released Algerian gas and will know the result in October.
ABC, 30/8/01

Spain: Electricity Companies Criticize Price in Algerian Gas Contract Auction The auction of 25% of the pipeline gas volume contracted with Algeria (currently managed by Gas Natural) will allocate the equivalent of approximately 8% of annual Spanish natural gas consumption to between 4 and 10 candidates until 1 January 2004. Candidates submitted their bids in early August and include electricity companies (Unión Fenosa, Iberdrola, Endesa and Hidrocantábrico) as well as oil companies (Cepsa and BP).
The amount collected by the auction and paid to Gas Natural is limited to a maximum of 306 million Euro (US$ 275 million), covering gas commodity costs, international transport costs and a management fee for Gas Natural of 10.15 million Euro (US$ 9.13). The Government will announce the auction results in October.
Expansión, 22/8/01

Spain: Tariffs for Commercial Natural Gas Decrease by 3.67% On 21 August, the domestic and commercial end-user piped natural gas tariffs were reduced by 3.67% and maximum prices for LPG were reduced by 4%. These reductions are additional to those registered in May for natural gas and in July for LPG.
Cinco Días, 21/8/01

Spain: The Catalan Government to Impose New Quality of Service Standards for Electricity Distribution The Catalan Government has prepared two draft decrees aimed at increasing the quality of supply. These draft decrees foresee penalties of up to 3 million Euro (US$2.7 million) for those companies that do not fulfill

their commitments and act in a negligent manner. These draft decrees are motivated by repeated blackouts in Cataluña. According to Fecsa-Enher (of the Endesa Group) the supply problems are related to the delay in building the Les Gavarres line, which is blocked by municipal opposition on environmental grounds. However, the company agreed to pay compensation for the blackouts. A similar compensation agreement was reached with hotels when severe storms interrupted their supply.
Cinco Días, 13/8/01

Spain: The European Commission Rejects, in its Preliminary Conclusion, the Entry of EDF in Hidrocantábrico The European Commission has reached a preliminary conclusion that EDF's take-over of Hidrocantábrico (through the German company EnBW) would be incompatible with the common market, since it would represent an obstacle to competition in the Spanish electricity sector. The core argument of the European Competition Commissioner, Mario Monti, is that EDF would cease to be a new operator in the Spanish electricity market if linked to Hidrocantábrico. The link would "reinforce the position of joint dominance in the Spanish wholesale electricity market". In particular, "EDF would lose its incentives to increase its electricity exports to Spain, through the increase of the interconnection capacity with France".
The parties can present counter-arguments during August. The European Commission will take its definitive decision before 8 October.
Expansión , 9/8/01; ABC 7/8/01

NORTH AMERICAN NEWS

US: FERC Maps New Vision of Grid – Four Major RTOs U.S. federal regulators have dramatically defined the future for transmission owners and power market participants by declaring a new vision for the grid: four major regional transmission organizations (RTOs) in the country, one in each major geographic area. The Federal Energy Regulatory Commission's (FERC's) new goal, clearly the product of a brand-new dynamic created by the appointment of two members recently, moves toward the "national grid" that the Bush White House talked about in its energy strategy this spring. It marks a fundamental change in posture for FERC, which had been reluctant to mandate the size and configuration of RTOs.
Electrical World, July/August 2001

US: Retail Electric Competition: Bloom Off the Rose Retail electric competition has fallen precipitously in New Jersey, with the

number of customers choosing suppliers falling by more than half since the beginning of the year. Participation has also fallen off in New York, while Maryland has seen a slight increase. The trend reflects continued high prices in the wholesale market – largely driven by increased gas prices – that make it difficult for retail marketers to provide power cheap enough to beat capped utility rates. Although wholesale prices began to rise last year, some marketers were serving clients under long-term contracts. As these expire, however, few are renewing the deals or offering contracts to new customers.
Electrical World, July/August 2001

US: Spot Electricity Prices Down More than 50 Percent in Some Geographic Areas Wholesale power prices in the U.S. spot market remain relatively low with prices in some cases more than 50 percent below July contract levels set in June. The trend is repeated across the country at all major trading hubs, but is most dramatic in the West, where a price cap imposed by the FERC has made severe price spikes unlikely.
Electrical World, July/August 2001

US: Avista to Pay $2.1 Million Fine The U.S. Commodity Futures Trading Commission announced its first enforcement effort against electric power companies, claiming that former traders at Avista Energy manipulated Palo Verde futures contract pricing to their advantage. Avista and its former head of trading have agreed to pay substantial fines, without admitting guilt. The company said it decided to settle the charges to avoid the cost of litigation and the distraction from its core business.
California Energy Markets, 24/8/01

US: Utility DSM Programs Show Gains By all accounts, the biggest success story of summer 2001 has been Californians' efforts to conserve energy as a way to prevent system blackouts and capture financial incentives. California's regulated utilities this month released second-quarter reports on their ratepayer-funded efficiency and conservation plans.
California Energy Markets, 24/8/01

US: Windfall Profits Tax Bill Gains Momentum Prospects are looking brighter for a controversial bill that would impose a windfall profits tax on excessively priced power sales. A 100 percent tax would be slapped on profits from energy charges not deemed reasonable, which is defined as the equivalent of cost-based rates, plus a 20 percent return on capital, under SBx2-1 by Senator Nell Soto (D-Pomona). The reasonableness determination would be made by the California Public Utilities Commission and apply to energy sales going back to 1 January 2001. Suppliers of renewable energy would be exempt.
California Energy Markets, 24/8/01

US: More Power Trades Done On-Line
Nearly 40 percent of electric power transactions at the wholesale level are now being conducted through electronic platforms, according to a national survey of traders. Though Western power traders are in line with the latest trend, those in the Midwest have advanced to about 48 percent of trades being done on line. Below average are dealers in Texas, where one in five transactions is done electronically. While EnronOnline is the most used platform, the newer Intercontinental Exchange (ICE) has gained an equal footing with EnronOnline.
California Energy Markets, 24/8/01

US: Bush Administration Delays Review of Air-Pollution Sources The Bush administration is delaying a potentially controversial review of pollution from power plants and factories, announcing that the program would be addressed in comprehensive clean air legislation in September. The Environmental Protection Agency had been scheduled to release a study of its program reviewing sources of air pollution. The program had become the subject of intense lobbying and speculation by environmentalists and industry. The program, commonly known as “new source review,” is of particular interest to the Northeast, because many of the plants affected are located in the Midwest and produce pollution that gets blown into the region. Attorneys general from Massachusetts, Connecticut, and New York, along with environmental groups, have sued to force the government to enforce the law.
The Boston Globe, 15/8/01

US: New Jersey Utility to Cut Electricity Rates New Jersey electric customers will see a 2% cut in their bills starting 1 August, the latest reduction accepted by Public Service Electric and Gas Company as part of the deregulation of the energy industry. The cut will bring down the bill of a typical customer — one who uses about 500 kilowatt-hours a month — by US$1.20, from US$56.02 to US$54.82, company officials said. The rate reduction is the third of four cuts agreed by PSE&G as part of the deregulation introduced by Gov. Christie Whitman in February 1999. The company cut rates by 5 percent in August 1999, and shaved another 2 percent in February. The final cut — a reduction of 4.9 percent a year from now — will bring down rates a total of 13.9 percent since deregulation.
The Record, 1/8/01

CENTRAL AND SOUTH AMERICAN NEWS

Argentina: Ministry Postpones a Deregulation of the Electricity Sector The Argentina Ministry of Infrastructure announced that the deregulation of the electricity sector would be

postponed. The majority of legislators and private electricity firms joined in rejection of the reform proposed by the Government.
EFE News Services, 16/8/01

Brazil : Worst is Over in Electricity Crisis The Brazilian Government announced that the three-month-old electricity rationing plan was working successfully and was likely to prevent rolling blackouts this year and allow an easing of rationing next year. According to the Government even in the worst-case scenario rationing would not exceed 5% next year. Government cautioned that there were still some difficult issues to be solved to complete the transition from a state-controlled electricity industry to an open and market-driven one, with a sound regulatory framework.
Financial Times, 28/8/01

Brazilian Government Will Create a State Company to Buy Electricity Brazilian Government has announced its intention of creating a new state company, Comercializadora Nacional de Energia de Emergencia (CNEE), to buy electricity generated by mobile plants (i.e. units that can be transported in containers, trailers, barges) to guarantee reserves. The Government will invite foreign producers to present proposals to sell electricity. The selection of the proposal will be based on three criteria: (1) the price of electricity, (2) the technical conditions and (3) the delivery period. The contract will be for a maximum of three years.
Business News Americas, 9/8/01.

Chile: Interconnection Bill The Chilean electricity regulator, CNE, has prepared a new bill to regulate power interconnections and to define payments to generators for capacity and reserves. The bill defines the framework for interconnection projects between Chile's northern grid SING and Peru and between the Chile's central grid SIC and Argentina.
Business News Americas, 3/8/01

ASIA-PACIFIC NEWS

Australia: Queensland Pipeline Draft Decisions The Australian Competition and Consumer Commission has issued draft decisions on access arrangements proposed for the Carpentaria Gas Pipeline (CGP) and the Roma to Brisbane Pipeline (RBP). In these draft decisions the ACCC was only able to assess the non-tariff elements of the proposed access arrangements and has proposed a number of amendments. Amongst other things, these amendments are intended: to remove the potential for the service providers to change the non-tariff terms and conditions of access without consultation by changing the Standard Access Agreement; to ensure that prospective

users should not be required to unnecessarily reveal any commercially sensitive information; to have the service providers seek the ACCC's approval to include an extension as part of the covered pipeline; and to have any expansion of capacity beyond 175TJ/day and 101TJ/day respectively included as part of the covered pipeline subject to the Commission's agreement.
www.accc.gov.au, 23/8/01

Australia: Form of Regulation for NSW Electricity Distributors The Independent Regulatory Tribunal of NSW has released a discussion paper on the form of regulation to be adopted for NSW electricity distribution businesses at the beginning of the next regulatory period. The discussion paper lists 4 alternative forms of price control for discussion: revenue cap; revenue yield; weighted average price cap and a hybrid revenue/price cap.
www.ipart.nsw.gov.au, 10/8/01

Australia: Full Retail Competition The Australian Competition and Consumer Commission has issued its determination on amendments to the National Electricity Code to facilitate the introduction of full retail competition (FRC). The code changes establish the broad framework for the introduction of FRC, which will eventually enable all customers, including households, to choose their electricity retailer. The code changes allow: retail level metering data to be used in the current wholesale electricity market; the details of metering arrangements to be determined by each jurisdiction; and competition to occur on the basis of either existing meters or time-of-use (interval) meters. The ACCC stated that considered FRC was capable of stimulating demand side responsiveness that could prevent the need to lay out large amounts of capital on generation or network investments that are only used over relatively short periods.
www.accc.gov.au, 2/8/01

Thailand: 300 MW Tender for Green Power Sparks Interest Among SPPs On 15 October Small Power Producers (SPPs) will bid for the right to sell up to 300MW of renewable power to EGAT, the Electricity Generating Authority of Thailand. The power will be subsidised by a premium on EGAT's purchase price from SPPs. SPPs are offering to sell more than 700MW, more than twice the power being solicited.
Power in Asia, 7/8/01

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