NERA
Economic Consulting

Reporting on energy regulation issues around the world

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European News

UK

Ofgem And DECC Issue Statement On Offshore Transmission

Ofgem and the Department of Energy and Climate Change have issued a statement regarding the regulatory regime for offshore electricity transmission networks. Licences to build and operate the offshore networks will be issued following a competitive tender, run by Ofgem. Ofgem estimates that £15,000 million of investments in new transmission infrastructure is required to deliver an expected 39 GW of offshore generation capacity. The recent statement sets out the process Ofgem will follow for the first round of competitive tenders that will commence later this summer.
Ofgem website, 26/06/09

Ofgem Reopens SGN Price Control

British gas distribution networks are now required to hold auctions in which they can buy rights to interrupt network users to reduce the need to invest in their networks. The gas distribution price control allows companies to apply for a reopener if they make investments in response to the results of these auctions. Following the first year of the interruptions tender process, only Scotia Gas Networks (SGN) applied for a reopener. This month, Ofgem has proposed to reopen SGN's price control to allow the company to recover the cost of reinforcement works costing £16.3 million.
Ofgem website, 09/06/09

Consultation Details Conditions For New UK Coal Power Stations

The Department of Energy and Climate Change has published a consultation on the development of clean coal technology in the UK. The consultation describes plans to require any new coal-fired power stations to fit at least 400MW of capacity with carbon capture technology. A financial incentive funded by electricity suppliers will support up to four commercial-scale carbon capture and storage (CCS) demonstrations in the UK. Additionally, the government will

require that all new coal-fired power stations retrofit CCS to their full capacity within five years of CCS becoming “proven”, which the government expects to happen by 2020. If CCS does not become proven by 2020, the government would consider other measures to reduce emissions from coal, such as an annual cap on power stations’ emissions, a limit on running hours or an emissions performance standard (in tonnes of CO2 per unit of generation).
DECC Website, 17/06/09

Austria

Proposal For New Competition Law Presented

The Austrian regulator, E-Control, has welcomed the proposal for the new Law to Accelerate Competition in the Energy Sector presented by the Economy Ministry. E-Control said that the new law would bring advantages for consumer rights and increase competition. E-Control noted that article 7 of the law requires the federal Minister to determine if an infrastructure project is in the public interest. E-Control said that local authorities must therefore take into account the national interest, as well as local or environmental interests, when assessing energy sector planning applications.
E-Control website, 02/06/09

Competition Watchdog Demands Explanation Of Petrol Prices Following Decoupling From Platts Prices

The Austrian competition watchdog, the Bundeswettbewerbsbehörde (BWB), wants oil companies to explain their method of setting petrol prices. At the end of last year, the BWB found that an increase in petrol prices quoted in Platts was immediately passed through to consumers. However, price decreases were only passed through after two days on average. Moreover, price increases were passed through to a greater degree than price decreases. Since the beginning of 2009, the BWB found that petrol prices have no longer been developing in line with Platts prices, so that price fluctuations were difficult to understand. In April, BWB asked Platts for an explanation of their quoted prices, but did not receive an answer. As Platts is based in London, the BWB now wants to call on the British Office of Fair Trading for assistance. At the same time, the BWB is negotiating with oil companies to implement a voluntary agreement under which they would provide data on their price formation on a daily basis through a virtual data room.
Bundeswettbewerbsbehörde website, 26/06/09

Bulgaria

SEWRC Cuts Gas Tariff

The State Energy and Water Regulatory Commission has reduced the gas price by 33.14% from 1 July 2009 to €187 per 1000 cubic metres. The decision means the Sofia district heating company's tariff will also fall by 19.21%, to €31 per MWh.

SeeNews, 25/06/09; Bulgarian News Agency, 25/06/09

European Union

Commission Clears Essent Takeover By RWE

The European Commission has given its approval to the acquisition of Dutch utility Essent NV by Germany's RWE, since the operation would be unlikely to distort competition in the Netherlands or in Germany. The approval is conditional upon RWE selling Essent's stake in SWB, a Bremen-based municipal utility, to which RWE has already agreed.

German News Digest, 24/06/09; Reuters News, 23/06/09

Commission Gives Conditional Approval To Vattenfall's Acquisition Of Nuon

Swedish state-owned energy company Vattenfall has been granted conditional approval by the European Commission for the acquisition of Dutch power company Nuon. The only condition imposed on the deal consists of the sale of Nuon's retail electricity business in Germany, to avoid negative effects on retail competition in Berlin and Hamburg.

Dow Jones International News, 22/06/09; Reuters News, 22/06/09

Commission Fines Electrabel In CNR Takeover

The European Commission has fined Belgian electricity company Electrabel €20 million for failing to seek prior antitrust approval of its purchase of 50% of the shares in French hydroelectric generator Compagnie du Rhone in 2003. The companies only filed for antitrust approval in 2008, but received clearance since the deal did not raise competition concerns.

Associated Press Newswires, 10/06/09; Reuters News, 10/06/09

France

Tariffs Of Local Gas Distribution Companies Take Effect

The new tariffs for local distribution companies (LDCs) in the gas sector became effective on 1 July 2009. The tariffs incentivise the LDCs to control costs and to improve service quality. The regulator said that, due to their multi-annual nature, the tariffs would give all market players a better overview of future tariff evolution and encourage competition within the LDCs' territories. The tariffs were drawn up by the regulator with a regulatory framework identical to that of GrDF, the main gas distribution company. In particular, the tariffs will have the following features: (1) a regulatory period of four years, combined with an annual revision of tariffs in proportion to inflation and an LDC-specific factor; (2) financial incentives to improve service quality and (3) a correction mechanism to guarantee network operators a certain level of revenues.

Commission de Régulation de l'Énergies website, 18/06/09

Ministers Approve Tariffs For Electricity Transmission And Distribution

The Ministers for Economy and Energy approved the new tariffs for electricity transmission and distribution (known as "TURPE 3") on 5 June 2009. The decision and the February 2009 proposal of the French regulator, the Commission de Régulation de l'Énergie (CRE), have been published in France's Official Journal. These tariffs will become effective on 1 August 2009 and introduce a number of incentive elements. The tariffs will be valid for a regulatory period of four years. At first, transmission tariffs will increase by 2% and distribution tariffs by 3%. After that, tariffs will develop according to a CPI-X formula. Outperformance of controllable operating expense will be shared between grid operators and consumers. Losses and quality incentive mechanisms are also introduced. The CRE proposal extends the use of the pass-through account (CRCP) to eliminate the revenue risk associated with variations in volumes and outlines the rules for unwinding any increase in the CRCP.

Journal Officiel de la République Française, 19/06/09; RTE website 19/06/09

Germany

Network Operators Intend To Form New Market Area

Five network operators are currently evaluating the possibility of forming a nationwide market area for H-gas. The network operators are bayernets, Eni Gas Transport Deutschland, E.ON Gastransport, GRTgaz Deutschland and GVS Netz. They would cooperate through a mutually owned company, NetConnect, which would be responsible for gas balancing, the virtual trade point and a market area information platform. The companies have signed a letter of intent.

EON Gastransport website, 09/06/09

Gaspool Market Area Receives Clearance From Competition Watchdog

The new market area Gaspool has received clearance from the German competition watchdog, the Bundeskartellamt. Gaspool is a joint venture between the gas grid operators Gasunie Deutschland, ONTRAS - VNG Gastransport, Wingas Transport and Dong Energy Pipelines. StatoilHydro Deutschland will also participate in Gaspool.
Ontras website, 23/06/09

Italy

Electricity And Gas Rates To Decrease From 1 July

Electricity and gas bills will fall in the next quarter as a result of the reduction in electricity and gas reference prices set by the Italian regulator, effective from 1 July. The electricity reference price will decrease by 1% and the gas reference price by 7.7%. The weighted average reduction of energy prices will amount to about 5.7%. This is the third price reduction in 2009; the total reduction since the beginning of the year amounts to about 8.4% for electricity (excluding tax) and to about 21% for gas.
AEEG Press release, 30/06/09

Simplified Electricity And Gas Bills

Aeeg has launched a consultation on its proposals to make electricity and gas bills more comprehensible, easier to read and more transparent. Aeeg's proposals aim at guaranteeing proper information and allowing final customers to compare offers more easily. Aeeg proposes four different options to increase the transparency of energy bills, and an option for dual fuel bills (electricity and gas in the same bill).
AEEG Press release, 17/06/09

Approved Text On Gas Retail Markets

Aeeg has approved the Text on Gas and LPG Retail Markets. The main purpose of the Text is to support the development of a liberalised gas market. The Text simplifies and collects all provisions related to gas retail markets and defines a single national value for the reference price component that covers the costs of retailing. Moreover, the Text provides a new definition of customers covered by the safeguard program, which allows them to pay the reference price set by the regulator and updated quarterly.
AEEG Press release, 05/06/09

Netherlands

NMA Disallows Tennet Runback Contracts In The Maasvlakte Area

The Dutch Competition Authority, NMa, has recently decided against plans by Tennet, the Dutch transmission system operator, to make “runback contracts” (sic) mandatory for new electricity producers. Tennet had planned to use such contracts to ease congestion on the Maasvlakte section of its network, by forcing power producers to reduce their production at times of a shortage of transmission capacity, without any compensation. NMa has decided to disallow the use of these contacts on the grounds that they may lead to discrimination against new power producers, who would bear the full risk of congestion. Existing power producers would bear none of this risk since they would not have to enter into a similar contract. NMa also said it believed that the existing arrangements offer sufficient scope for Tennet to deal with potential congestion issues.

Energiekamer website; 03/06/09

Portugal

Gas Tariff Decrease

The Portuguese energy regulator, ERSE, has approved an average decrease in gas tariffs of 3.9% for domestic customers, 2.1% for small and medium companies and 4.2% for large customers. Decreases were in general greater for those distribution networks with the highest tariffs, in order to harmonize tariff levels across Portugal.

Correio da Manha, 16/06/09; Jornal de Negócios, 15/06/09; Agência Lusa, 15/06/09

Romania

Romania To Publish Timetable For Ending End-User Price Regulation

Following an announcement by the European Commission that it will begin infringement proceedings against Romania for non-compliance with EU energy market rules, ANRE has announced that it will prepare a timetable for ending end-user price regulation in the electricity and gas markets.

Rompres, 25/06/09; Mediafax News Brief Service, 25/06/09

E.ON To Challenge Regulator’s Decision In The Courts

E.ON Gaz Distributie, which operates gas distribution networks in Romania, plans to take legal action against ANRE following its decision to cut gas distribution tariffs by 3% from 1 May 2009. The company claims that ANRE’s decision seriously affected its financial status, preventing it from recovering costs of 172 million lei (€40.7 million) that the company claims are justified.

SeeNews, 25/06/09; Enerjetika.net website, Ziarul de Bacau website, 29/06/09

Russia

Liberalised Market Share Will Increase To 50%

According to the Energy Minister Sergei Shmatko, from 1 July 2009, the share of the liberalised electricity market will increase from 30% to 50%. In the rest of the market, prices will continue to be set by the government.

Nezavisimaya Gazeta 30/06/09, PRIMETASS 29/06/09

Spain

First Auction of Spain-Portugal Electricity Financial Transmission Rights Held

The first auction for financial transmission rights related to the interconnection between Spain and Portugal was held on 29 June. The auction sold 100 forward contracts, each of 1 MW, for hedging exports from Spain to Portugal in every hour of the second half of 2009. The resulting price was €2.01/MWh. The auction used a sealed-bid procedure in which bidders submitted a supply or demand curve (price-quantity offers or bids) for up to 25 blocks. The quantity auctioned was equal to the quantity available on the Spanish electricity system.

OMEL Subastas website, 29/06/09

Government Sets Electricity Tariffs for Supply Of Last Resort And Access

The Spanish government has set the Tariffs for the Supply of Last Resort for electricity consumers with a contracted capacity under 10 kW that take effect on 1 July. This tariff is 2% higher than the comparable full-service tariff in effect until June 2009, reflecting changes in the access tariff as well as in the expected cost of wholesale electricity in the second half of 2009. Other changes include the elimination of the "free" 12.5 kWh to which consumers were entitled under the full-service tariffs and of the surcharges applied to consumption over certain thresholds. Tariffs for consumers with a contracted capacity under 3 kW, or who fulfil certain socio-economic criteria, will be frozen until 2012. Consumers with a contracted capacity above 10 kW and below 15 kW may still be supplied by the supplier of last resort, but will see price increases of 5% every quarter (up to a maximum of 20%), to secure supply and avoid distorting competition in the retail sector. Network access tariffs paid by most domestic customers will include a lower capacity charge (down about 18%) and a higher unit rate per kWh (up by 48%). For high voltage customers, overall increases amount to 30%.

Ministry of Industry website, 29/06/09; Spanish State Gazette website, 29/06/09

Government Sets Natural Gas Supply Of Last Resort And Access Tariffs

The Spanish Government has decreased the Tariffs for the Supply of Last Resort for domestic consumers of natural gas by an average of 4.2% starting from 1 July. Consumers without gas heating (i.e., with an annual consumption equal to or lower than 5,000 kWh) will see their Tariff of Last Resort reduced by 0.1% and the tariff for consumers with an annual consumption above 5,000 kWh will decrease by 5.4%. The methodology for the calculation of these tariffs was approved by the government on 22 June. The government has decided to increase access tariffs, together with regasification and other service tariffs effective on 1 July. Most tariffs saw a 10% increase, although tariffs for underground storage did not change.

Ministry of Industry website, 29/06/09; Spanish State Gazette website, 29/06/09

Competition Commission Opens Investigation Into Electricity Distributors For Alleged Anti-Competitive Practices

The Spanish National Competition Commission (CNC) has opened an investigation into five electricity distributors for allegedly interrupting remote access to the customer data required when changing supplier. The CNC emphasized that the alleged actions come only days before full market liberalisation. This investigation comes two months after the CNC imposed a fine on the electricity distributors for abuse of market dominance for refusing to provide customer data to an independent supplier, while at the same time providing the information to vertically integrated suppliers. The CNC has 18 months to reach a decision on the matter.

National Competition Commission website, 25/06/09

Electricity Supply Of Last Resort Auction For Spain And Portugal Held

On 25 June, OMEL Subastas held the ninth electricity Supply of Last Resort auction for the acquisition of forward energy contracts to supply Spanish and Portuguese tariff customers. The auction included two quarterly base-load contracts and two quarterly peak-load contracts (8am to 8pm, daily except for Saturdays, Sundays and Spanish national holidays). The auction of base-load contracts for the third quarter of 2009 (2009Q3) closed at €42/MWh for 4,800 MW, while 2009Q4 closed at €45.67/MWh for 5,000 MW. The auctions of 670 MW of peak-load contracts closed at €47.60/MWh for 2009Q3 and €51.31/MWh for 2009Q4. The Spanish government use these prices to calculate the Tariffs of Last Resort that take effect for domestic electricity consumers on 1 July.

OMEL Subastas website, 25/06/09; Spanish State Gazette website, 22/06/09

Natural Gas Supply Of Last Resort Auction Held

On 16 June, OMEL Subastas held the first auction for the acquisition of forward gas contracts to supply Spanish Tariff of Last Resort customers. A yearly base-load contract, which requires sellers to deliver 3,600 GWh, sold at a fixed price of €16.18/MWh. A “winter” contract, which requires sellers to deliver 2,750 GWh, sold at a fixed price of €19.77/MWh. These prices, together with spot market and oil prices, are used to set the gas Tariffs of Last Resort each quarter.

Spanish State Gazette website, 22/06/09; OMEL Subastas website, 16/06/09

Switzerland

Switzerland Signs Agreement With France To Ensure Gas Supply

Switzerland and France have signed an agreement to strengthen gas security of supply. Switzerland does not have any underground gas storage and has therefore used the French storage at Etrez in the past. Negotiation between the two countries started following the transposition into French law of an EU directive in 2006 that could have disadvantaged Swiss consumers. In the agreement, the countries commit to treat end-consumers in France and Switzerland on a non-discriminatory basis in the case of shortages. Moreover, Swiss gas companies will be guaranteed gas reserves in France’s gas storage facilities.

Eidgenössisches Departement für Umwelt, Verkehr, Energie und Kommunikation website, 23/06/09

Regulator To Inspect Transmission Tariffs

Swizterland’s federal electricity regulator, the Eidgenössische Elektrizitätskommission (ElCom), said it would inspect the 2010 transmission tariffs announced by the TSO, Swissgrid, under the Electricity Supply Law (Stromversorgungsgesetz). The Law gives ElCom the power to impose reductions or to prohibit increases. The tariffs announced by Swissgrid are 26% higher than the 2009 tariffs (not including changes in the cost of system services).

ElCom website, 08/06/09

2009 Transmission Tariffs Remain In Place

The Swiss federal administrative court (Bundesverwaltungsgericht) has rejected the request of a number of claimants to suspend a tariff decision by the regulator until the court's decision on the case. On 6 March 2009 the Swiss regulator ordered a reduction in the 2009 transmission tariff of 40%. In its decision the regulator denied possible appellants any delay in implementation ("aufschiebende Wirkung"). A number of network owners and generators subsequently appealed against the tariff decision. In an interim decision, the administrative court rejected the request from some appellants to suspend implementation. Therefore, the 2009 tariffs imposed by the regulator will remain in place for now. The administrative court will decide on the lawfulness of the regulator's tariff decision at a later point.
ElCom website, 18/06/09

Regulator Approves 2009 Tariffs Of Groupe E

The Swiss regulator, ElCom, has approved the tariffs of Groupe E following an in-depth examination. Groupe E calculated tariffs applying from 1 October 2008 using a method recommended by the electricity sector. However, ElCom did not accept this method of calculation and ruled that the tariffs had to be based on the Electricity Supply Law and the Electricity Supply Decree as revised on 12 December 2008. Groupe E therefore recalculated its tariffs, leading to a significant reduction in the price increase. On 25 June 2009 ElCom approved these revised tariffs, which actually took effect on 1 January 2009. Groupe E will net off the overrecovery during the last quarter of 2008 when setting tariffs for 2010/11.
ElCom website, 26/06/09

Turkey

Government Not To Raise Power Prices

On 22 June, Turkish Energy Minister Taner Yildiz stated that the Turkish government had no plans to raise electricity prices in July. The Turkish energy market regulator, EPDK, carries out quarterly reviews of input prices to determine whether or not to change the wholesale electricity price charged by the state power company. At the last review, on 1 April 2009, the Turkish government decided to reduce electricity prices to households and industrial customers. For the current review of 1 July, the EPDK has not announced any adjustment, so that the current prices are expected to stay in place for the next three months.
Hurriyet Daily News website, 22/06/09; Turkey Today via Dow Jones factiva, 01/07/09

North American News

US

FERC Clears Atmos' Fort Necessity Storage Project In Louisiana, Grants Market-Based Rates

FERC has authorized Atmos Pipeline and Storage LLC to construct and operate a salt dome gas storage project in Louisiana. The project, consisting of three caverns in the Fort Necessity salt formation, with a total capacity of 15,000 million cubic feet, will be phased in over five years and is expected to be completed by August 2013. Atmos will provide firm and interruptible storage and interruptible hub services. No negative competition issues are expected; the project has been judged to be in the public interest and the company has been granted market-based rate authority.

Foster Natural Gas Report, 19/6/09; FERC website, 19/6/09

National Academy of Sciences Recommends Changes to Appliance Efficiency Standards

The National Academy of Sciences (NAS) has asked the US Department of Energy (DOE) to reconsider the way it sets efficiency standards for household appliances. Currently, DOE takes into account only the energy actually used to operate the appliance. The NAS proposes that standards should instead be based on "full fuel-cycle measurement," taking into account not only the amount of energy consumed but also the type of energy. One implication of such a shift would be a boost in the efficiency ratings of gas-fired appliances. Although appliances that use electricity are typically more efficient that those that use gas, the new method of standard-setting would take into account the energy losses in the generation and distribution of electricity.

National Academy of Sciences press release, 27/05/09; Carbon Control News, 01/06/09

Pace Of New Nuclear Construction May Be Slower than Expected

Although 17 companies have applied for licenses to build new nuclear plants in the US, only six apparently plan to begin construction as soon as their license applications are approved, according to the US Nuclear Regulatory Commission (NRC). According to the NRC's annual review of licensing activity, most of the applications to build 17 plants with a combined 26 reactors are for "longer term use" by companies that want to retain the option to build nuclear plants in the future.

MarketWatch, 17/06/09; Associated Press, 30/06/08

Congress Examining FERC Transmission Project Incentives

The chairman of the US House of Representatives Energy and Environment Subcommittee said he would investigate whether Federal Energy Regulatory Commission (FERC) incentives designed to encourage new power line construction are benefiting consumers. Representative Edward Markey has asked FERC to report on whether the higher rates granted to utilities for power line construction have actually translated into greater transmission capacity and efficiency. Specifically, Markey has asked FERC to provide information on the cost of the incentives to consumers, the status of projects receiving incentives, the benefit to consumers, and the process FERC uses to determine whether incentives are still necessary to encourage power line construction.
Inside F.E.R.C., 08/06/09; Electric Utility Week, 08/06/09

Senate Expanding FERC Market Authority

The Senate Energy and Natural Resources Committee has approved a proposal to give FERC broader authority to police electricity and natural gas markets. Under its new authority, if FERC suspects a company of manipulating energy markets, it will be able to order that company to stop operations while the Commission conducts its investigation. FERC will also have the power to freeze the assets of companies suspected of market manipulation, and to issue emergency orders changing or suspending electricity rates for up to 30 days.
Environment & Energy Daily, 15/06/09; Inside F.E.R.C., 15/06/09

Central And South American News

Brazil

ANEEL Authorizes Tariff Increases For Six Distributors, Mandates Reductions For Other Five

The Brazilian energy regulator ANEEL has published new tariffs for 11 distribution companies, which will force five of them to reduce their distribution charges. Changes in tariffs for residential customers range from a reduction of 3.73% (for DMEPC) to an increase of 11.50% (for Copel, although Copel has announced that it will not increase its distribution charges). Changes in tariffs for high voltage customers range from a reduction of 12.33% (Demei) to an increase of 24.95% (Mux Energia). In addition, ANEEL has orderd a retroactive reduction of 0.48% in Electropaulo's 2007 tariffs that the company will implement by adjusting its clients' bills from July this year.
ANEEL press releases, 23/06/09, 16/06/09; Dow Jones Newswires, 17/06/09; Business News Americas, 16/06/09

Auctions For 11 GW Hydro And Wind-Power Generation Projects To Take Place Later This Year

The Brazilian Ministry for Mining and Energy has approved plans to auction off the Belo Monte hydro project that will have a generation capacity of 11.2 GW. The auction is expected to take place on 30 September, and the project's value is estimated at US$3,600 million. In addition, the Ministry has relaxed the obligations on companies interested in bidding for wind-power generation projects on 25 November. The modified rules allow companies to import equipment with generation capacity over 1.5 MW, whereas before companies were only allowed to import equipment with generation capacity over 2 MW. By relaxing the rules, the government hopes to increase the number of participants in the auction.

Reuters, 26/06/09; Agencia O Globo, 24/06/09;
Business News Americas, 24/06/09, 26/06/09

Peru

Regulator To Launch Tender For 500 MW In Renewables

The Peruvian regulator for energy and mines, OSINERGMIN, will launch a tender for renewable electricity generation projects in the fourth quarter of 2009. This tender aims to provide incentives for the generation of electricity from renewable sources, an objective that has been declared by law to be "of national interest and public necessity." As such, tender winners will be entitled to various benefits including priority in dispatch and the right to receive a premium, in addition to the regulated price, to guarantee these generators a minimum return on their investment.

Business News Americas, 15/06/09; Andina, 15/06/09;
Decreto Legislativo N° 1002, 02/05/08

Electricity Tariffs Slightly Reduced

OSINERGMIN has lowered tariffs for electricity by between 0.5% and 1.6%. This reduction was the consequence of the reduction in the estimated cost of generation resulting from the lower prices of copper and aluminum, as well as lower inflation and exchange rates.

El Comercio, 03/06/09; RPP, 02/06/09

Asia Pacific News

Australia

Review Of Possible Use Of TFP For Determining Prices And Revenues

The Australian Energy Market Commission (AEMC) released three consultants' reports commenting on the use of Total Factor Productivity (TFP) for the determination of prices and revenues in the national electricity and gas distribution and transmission networks. Among the key findings, the consultants said that current regulatory data for the industry are not robust enough to support TFP analysis. In addition, evidence from electricity and gas distribution in the state of Victoria indicated that the use of TFP is sensitive to the choice of inputs and outputs, the time frame and the methodology of calculating growth rates. Another report concluded that under a TFP approach, it would be necessary to identify a group of comparable firms which are subject to similar external cost drivers, which would be difficult to achieve in Australia given multiple geographically different jurisdictions.

Australian Energy Market Commission website, 12/06/09

New Zealand

Transpower's Request To Amend Settlement Rejected

In 2005, the Commerce Commission announced its intention to take control of Transpower's transmission services because Transpower breached the price path threshold. However, both parties reached an administrative settlement. Recently, following a considerable increase of instantaneous reserve fees, Transpower proposed to amend the settlement in order to reduce its exposure to reserve fees by treating them as a pass-through to South Island Generators. The Commission has rejected the proposal arguing that the increase was predictable and that it was Transpower's responsibility to manage and forecast its costs and risks. The regulator concluded that the settlement provides the right incentives to manage risk associated with the provision of services and that if Transpower is allowed to pass through instantaneous reserve fees, Transpower would face worse incentives for future investment decisions in regulated services. In addition, the Commission stated that limiting the ability to amend the arrangements in future was essential to keep the integrity of any settlement process.

New Zealand Commerce Commission website, 29/06/09

Revised Guidelines On Cost Of Capital

The Commerce Commission released its revised draft guidelines on the framework and its approach to estimating the cost of capital. The framework aims to add consistency and predictability to regulated businesses' estimation of the cost of capital.

New Zealand Commerce Commission website, 29/06/09

China

Regulator Defies Speculation and Holds Fuel Prices Constant

The National Development and Reform Commission (NDRC) denied suggestions that it would increase fuel prices. Despite the announced move toward a market-based system in recent months, the NDRC has proved reluctant to increase domestic fuel prices in line with the recent jump in the price of crude oil. In the latest round of increases, Chinese fuel prices grew by just 7%. As a result of the fuel-pricing policy, refining margins have fallen to less than $1 in many cases.

Xinhua's Business Weekly, 01/06/09, Breakingviews, 02/06/09

Regulator Announces Renewable Subsidy

The State Electricity Regulation Commission (SERC) announced a subsidy of 2,000 million yuan (US$290 million) for development of renewable power generation across China. SERC plans to give the subsidy to more than 200 projects, with a combined capacity of over 8 million MWh.

Reuters News, 25/06/09; Xinhua's China Information Service, 25/06/09

India

Government Mulls Divestment Of Energy Companies

The central government is considering restarting a frozen programme of divestment despite calls from unions to abandon it. The government intends to privatise firms that have hitherto been entirely government owned, including Coal India and Oil India. Following the privatisation of the Rural Electrification Corporation and the Power Grid Corporation, employees are likely to receive a share of the company as part of the IPO.

The Economic Times, 02/06/09; The Times of India, 12/06/09

Load Shedding Likely In Absence Of Rain

Indian states reliant on hydropower face load shedding in the coming months unless rainfall increases. In the state of Orissa, power generation is at an all time low, with production from hydro plants less than 15% of capacity. The water level has also dropped at the Prakasam barrage in Anhadra Pradesh, threatening electricity production, after officials ordered the release of water for irrigation earlier in the year. Despite efforts by the Central Electricity Regulatory Commission, many states still do not allow open access to transmission capacity for interstate trade, worsening the crisis.

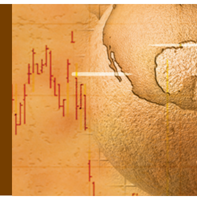
The Hindu, 20/06/09; The Times of India, 24/06/09

Philippines

Meralco Eyes Windfall From PBR

The Manila Electric Company (Meralco) expects to earn US$10 million per month for the next seven months from its Performance Based Regulation incentive. The Energy Regulatory Commission introduced the scheme to improve quality of service. The scheme has come under criticism from consumer groups for providing excessive rewards to the firm.

The Manila Times, 12/06/09; The Philippine Star, 12/06/09



Our Practice

NERA is at the forefront of the continuing transformation of energy industries worldwide. Our experts have developed approaches for introducing competition in segments such as power generation, where competition is workable, and for improving the regulation of sectors where it is not. We work with companies and governmental bodies worldwide to design competitive power markets and to develop tariffs and rules of access for regulated transmission and distribution systems for electricity and gas and transport of oil and oil products. With industry restructuring, we also help companies develop strategies for exploring new opportunities and minimising new risks, including issues related to climate change and other environmental initiatives.

NERA helps our clients to develop new regulatory strategies and, when needed, support our clients with analysis and testimony before regulatory commissions, antitrust and competition policy agencies, and domestic and international courts. Our economists help clients to decide which lines of business to pursue; to divest assets no longer consistent with their strategy; to identify and evaluate opportunities for mergers, acquisitions and investment; and to develop bidding, trading, contracting, and marketing strategies and organisations. Our work also includes designing and conducting energy auctions and providing strategy and valuation advice on mergers and acquisitions, the financing of energy companies, and the financial restructuring of distressed companies.

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NERA produces two newsletters that report and analyse energy matters around the world. *Energy Regulation Briefs* summarise NERA's views on the economics behind topical developments in energy sector regulation. Previous issues have discussed regulators' use of "benchmarking," FERC's Order 2000, problems in the California electricity sector, and competition policy in the UK electricity market. The *Global Energy Regulation Newsletter* compiles brief summaries of news stories about energy regulation around the world. The coverage includes network regulation, industry restructuring, and the organisation of electricity and gas markets. The "GERN" allows energy sector professionals to easily keep in touch with looming problems, the latest developments in regulatory methods, and innovative solutions. To view the latest editions or to receive our newsletters each time they are published, click here: www.nera.com/newsletters.asp.

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