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EU Energy

EU to reexamine ties with Russia

The short summer conflict between Russia and its smaller neighbor Georgia over the breakaway Georgian region of South Ossetia has soured relations between the European Union and Russia, on which the EU depends for around half of its gas imports.

On September 1 the EU said it had frozen talks on a new partnership agreement with Russia until it withdraws its troops in Georgia to pre-August 7 positions after EU heads of government met in an emergency council.

"We decided that we will postpone our discussions on the new strategic partnership," French president and current president of the EU, Nicolas Sarkozy, told reporters in Brussels after EU leaders met to discuss the Russia-Georgia crisis.

"This crisis means we have to reexamine our relationship with Russia," he said.

The aim of the new partnership agreement is to set a legal framework for relations between the EU and Russia, including on energy issues.

"Those of you who say we're too dependent on Russian oil and gas, well, we have to make an effort," said Sarkozy. "We need to diversify our energy sources, not just geographically. We're also talking about renewables, nuclear power."

"We intend to push forward the climate [change] package," said Sarkozy, referring to measures intended to boost low carbon energies, cut oil dependency and tackle climate change.

And in their meeting conclusions on September 1, EU leaders said the "recent events" illustrated the need for the EU to intensify its efforts to improve energy supply security, particularly by diversifying energy sources and supply routes.

With growing energy demand in the EU, however, Russia is set to remain a key long term energy supplier. EU talks with Russia on the new partnership agreement to replace the previous agreement from 1997 only started in July, with the second round due September 15-16.

But the partnership talks are now dependent on the outcome of Sarkozy's planned visit to Moscow on September

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EC OKs new market coupling companies

The European Commission gave the green light in August for two new joint ventures setting up companies to allocate cross border transmission capacity.

The first approval, on August 14 was for central western European power transmission system operators to set up a company to allocate transmission capacity across the Belgian, French, German, Luxembourg and Dutch borders. The company, dubbed the "Capacity Allocation Service Company for Central Western Europe," or CASC, is a joint venture between TSOs CEGEDEL of Luxembourg, ELIA System Operator of Belgium, RTE EDF Transport of France, TenneT of the Netherlands, and Germany's ENBW Transportnetze, RWE Transportnetze Strom and E.ON Netz.

The second approval on August 22, allows for a group of European power transmission system operators and energy exchanges to go ahead with a joint venture to offer market coupling services between Germany and Denmark and a platform for secondary trading of transmission rights. The European

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EU, Russia review ties

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8 with the EU's de facto foreign minister Javier Solana, where they are to push for Russia to withdraw from Georgia.

Earlier on September 1, the European Parliament president Hans-Gert Pottering said the EU needed to show a united front against Russia.

"Should one EU member state be faced with a threat to cut off its energy supplies, all the other EU member states would have a duty to support it," said Pottering.

The 10 former Communist states that joined the EU in 2004 and 2007 are particularly dependent on Russia for their energy supplies, while the EU as a whole relies on Russia for around half of its gas imports.

"We should reduce our dependence on third countries for energy supplies, and at all costs avoid one-sided dependencies," said Pottering. "It is vital both to increase our energy efficiency and to promote a balanced energy mix by investing in all sectors in a suitably balanced manner."

Pottering also told the leaders that "solidarity...also implies that we should resolutely implement the European pipeline projects which have been decided."

The EU wants to diversify its gas supplies by opening up a "fourth corridor" supply route south of Russia, crossing Georgia, to the Caspian Sea region.

It has declared the 30 billion cubic meter/year Nabucco pipeline project, which would carry gas from the Georgian/Turkish border through Turkey to Baumgarten in Austria a "priority project of European interest."

UK head of government Gordon Brown had earlier called for a cut in Russian energy imports and for building relationships with other oil and gas producers.

EC OK market couplers

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Market Coupling Company (EMCC) proposed by transmission system operators Energinet of Denmark and E.ON Netz and Vattenfall Transmission of Germany, together with the Norwegian Nord Pool and German EEX energy exchanges, complies with EU Merger regulations, the EC said in a press statement. "

Under EU law, both CASC and the EMCC had to be scrutinized by the European Commission's competition authorities to check they complied with European merger rules, after the joint ventures were notified to the commission in July.

After examining the operations, the EC concluded that the proposed transactions "would not significantly impede effective competition in the European Economic Area (EEA) or any substantial part of it."

The commission said it found "no horizontal overlaps between the transmission networks" of the participating TSOs in either group and that the new CASC and EMCC joint ventures were not large enough to increase the risk of their members' vertically integrated parent companies "coordinating activities" within each jv grouping.

Moreover, the EC said the companies had both been designed to comply with an EU regulation on conditions for access to the network for cross-border exchanges in electricity that was agreed by Ministers and the European Parliament in June 2003.

CASC will "harmonize long-term auctions of power transmission capacity by creating a one-stop-shop for market participants," the commission said August 14, adding that market players would benefit from being able to work with one auction office instead of dealing with different offices and rules when requesting cross-border capacity.

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HIGHLIGHTS

US Obama's energy plans offer hope, challenge for EU

US Presidential hopeful Barack Obama's energy plans, unveiled on August 28 at a speech in Denver, offer both hope and challenges for the European Union, should they be put into action in the future.

In a bid to cut the US's dependence on imported oil, the Democratic nominee for the presidency backed investment in domestic natural gas reserves, clean coal technology and nuclear power. He also called for efforts to bring in more fuel-efficient cars. The policy plans, if they were carried out, could offer some hope for the European Union.

The EU, determined to slash carbon dioxide emissions to combat climate change, is also keen on boosting renewable energy sources and many in Europe are hoping for a resurgence of nuclear power. to replace fossil-fired plants.

Clean coal is also high on the agenda for Europe, with the UK government, for example, currently running a competition to award funding for a demonstration clean coal project. Were the US to invest much more heavily in clean coal and nuclear power, that would have several benefits. It would mean the US would be producing less carbon dioxide. The US would not be using so much oil and imported gas, which would help cut prices globally, helping European consumers too.

The US and EU could share new energy technologies in which Obama said he wanted the US to invest $150 billion (€102 billion). "I'll invest $150 billion over the next decade in affordable, renewable sources of energy – wind power and solar power and the next generation of biofuels," he said in his Denver speech, pledging to create 5 million new jobs along the way.

The challenge in the plans is for countries such as the UK, which have hoped to get a head start in renewable energy and clean coal technologies and so build up their own technological know-how in the hope of exporting clean energy products in the future.

Although some European companies are already leaders in renewable energy technologies, like Denmark's Vestas, if the US rapidly stepped up investment, it could beat other European companies to the new jobs on offer from developing clean energy technologies first.

In his speech Obama tied US reliance on foreign oil to the nation's economic, security and environmental problems. "For the sake of our economy, our security, and the future of our planet, I will set a clear goal as president: in ten years, we will finally end our dependence on oil from the Middle East," said Obama.

The European Union is also increasingly concerned over its dependence on imported fuels, with natural gas particularly high on the agenda after the recent conflict ween Russia and Georgia.

Energy central to planned Spanish government reforms

The Spanish government announced on August 14 a program of 24 economic reforms to be carried out during 2008 and 2009, including many which are designed to boost the country's energy sector. The energy-related economic reforms are designed to "encourage energy efficiency and reduce the emission of greenhouse gases" as well as speed the "liberalization of the energy sector," the Spanish government said in a statement.

Among the reforms is a proposal for new regulation concerning the major auctions of natural gas, which is to be brought in before the end of November 2008 to be fully functioning by January of 2009.

Electricity is another focus of the economic reforms. The national supply of electricity is to be more highly regulated and measures will be taken to strengthen competition among electricity suppliers.

The EU electricity directive and the Spanish electricity market law both stipulate the end of regulated tariffs by 2009 at the latest. But regulated tariffs have been a useful trump card in efforts to stem consumer price inflation, which reached 4.2% in 2007, the economy ministry said in January.

A bill for energy efficiency and renewable energy will be drafted by the ministry of industry, tourism and commerce, emphasizing community goals for energy efficiency and climate change.

The program of economic reform comes after the Spanish prime minister Jose Luis Rodriguez Zapatero interrupted his holiday to call an emergency meeting on August 13 to talk about ways of liberalizing the Spanish economy and allaying the country's deepening financial crisis.

Among the measures discussed at the meeting was the simplification of the approval process for environmental plans for public works. This would allow the government to accelerate infrastructure projects in Spain's construction industry, which would include new gas and power projects. Rising fuel and food costs have pushed up Spain's annual rate of inflation to 5.3%, the highest level since 1993, according to government statistics released on August 13.

Coal remains key In Poland's energy policy to 2030

Poland's economy ministry said August 12 it had drafted the country's energy policy to 2030. The draft, which assumes that coal will remain Poland's fundamental raw material for energy production, has been sent to government ministries and stakeholders for consultations, and the government expects to approve the final document by the end of the year, the ministry said in a statement.

"In the opinion of the economy ministry, the key to Polish energy security will be taking advantage of our

own energy raw materials, diversifying fuel supplies and developing power and industry infrastructure," the ministry said. "Coal will remain the base fuel for Poland's power sector," the statement added.

The draft policy includes environmental protection as one of its three strategic goals, but the ministry admitted that meeting the European Commission's targets would be difficult for such a coal-dependent country.

"For Poland, which produces more than 90% of its electricity from coal, lowering CO_2 emissions by 20% by 2020 seems to be particularly difficult. A solution which might ease the restrictiveness of this demand could be delaying the introduction of the European Commission's proposal to auction all power sector CO_2 allowances," the ministry said.

Nuclear power is another possible tool for reducing greenhouse gas emissions, the ministry said. A decision on constructing a nuclear power plant would only be taken after thorough analysis and society consultations, the statement said.

"The economy ministry will encourage producers to make greater use of renewable energy sources, high-efficiency co-generation and promote technologies to reduce emissions," the statement said.

Energy security is another strategic goal of the draft policy and Poland is interested in seeking supplies from the Caspian Sea area, the Middle East and Latin American countries. The country also hopes to stimulate investments in new power capacity, the statement said.

The ministry advocates achieving its third strategic goal, market competitiveness, by liberalizing regulation of the country's heating energy sector and making it easier to access the energy network to facilitate infrastructure investments, the statement said.

EC decision on Germany offers insight on renewables aid

Two recent decisions by the European Commission on German state governments' aid to solar energy companies provide a window into the commission's thinking on when financial assistance for renewable energy might be appropriate – or unacceptable.

The EC recently authorized €47 million ($69 million) in aid to Wacker Schott towards a solar wafer factory in the eastern German state of Thuringia. But it also has initiated an in-depth investigation into a €48 million payment to Deutsche Solar, also for a solar wafer factory, in the neighboring state of Saxony. Both regions can provide aid to companies because of their low standards of living and high unemployment rates, commission officials said.

European Union rules broadly prohibit government financial aid to particular companies and industries to prevent member states from seizing unfair competitive advantages. These regulations can be waived, though, if the assistance helps economically distressed areas and is designed to promote larger EU objectives, such as increasing renewable energy generation.

The Wacker Schott project involves two new solar wafer plants in Jena, which are considered as a single investment of €322 million. The commission found the grant of aid to be compatible with Regional Aid Guidelines 2007-2013 and, in particular, with the rules on large investment projects, and expects the project to "significantly increase direct and indirect employment. "

At Deutsche Solar, however, "we need to ensure that the aid does not merely reinforce the competitive position of the company without added value for regional cohesion," said competition commissioner Neelie Kroes.

The commission noted that Deutsche Solar already has two plants in Freiburg, called FreiburgSouth and FreibergSaxonia, and intends to build a third plant in FreibergEast.

An extension of FreibergSouth will also receive state assistance, the EC said, and "the German authorities considered that this aid did not need to be notified to the Commission because the total investment costs were below €50 million."

The EC is now investigating whether construction of the FreibergEast plant actually forms a single project with the extension of the FreibergSouth plant, as this would have an impact on allowable aid payments. The EC's regional aid guidelines include a progressive reduction of the regional aid ceiling for very large projects "because these suffer less from typical regional handicaps than smaller projects."

If the EC determines that the two measures form a single project, state aid for the FreiburgEast plant would have to be reduced. Deutsche Solar and the German authorities maintain they should be considered as separate investments, but the commission is investigating the potential technical, functional, strategic and geographic links between the two projects, which started at virtually the same time.

Nord Pool cleared for US-based companies to trade EU power direct

US-based companies are to be able to trade European power and carbon directly from the US, Nordic power and carbon exchange, Nord Pool said August 28 after being cleared by the US Commodity Futures Trading Commission to set up access terminals in the US.

The CFTC has granted Nord Pool the right to establish direct customer relations with domestic US companies, Nord Pool said.

"Nord Pool has noticed an increased interest from financial investment firms and banks in the US over the last years and therefore we are very satisfied that Nord Pool can approach US companies and give them the ability to trade in Europe's largest and most liquid power market," said Nord Pool CEO Torger Lien.

Nord Pool is the world's largest power derivatives exchange and Europe's second largest carbon exchange for trade in EU emission trading scheme allowances and certified emission reduction credits. It has more than

400 members from 20 countries across a wide range of energy producers and consumers, as well as financial institutions.

Turkish minister delays Tehran trip over gas deal issues

Turkish energy minister Hilmi Guler has postponed a planned trip to Tehran after ongoing problems in talks with Iran have prevented the two sides from finalizing a wide-ranging gas deal announced in 2007, an official at Turkey's energy ministry said on August 25.

Guler had been expected to fly to Tehran at the end of August in the company of Turkish foreign minister Ali Babacan to finalize the deal despite opposition from Brussels and Washington. "We are very close ... Turkey is the key country for the transport of Iranian gas to Europe," Iran's official Fars news agency quoted Iranian President Mahmoud Ahmadinejad saying after a visit to Istanbul in August.

Turkish media linked failure to do so to pressure on Turkey from the United States which, together with the EU, seeks to economically isolate Iran's energy industry because of its nuclear program.

The deal was widely expected to be signed during the visit, and Defending the deal, which calls for Turkish investment in Iranian gas production and construction of a pipeline to transport it to Turkey for export to Europe, Turkish Energy Minister Hilmi Guler said: "We are an independent country, and this is in our interest."

A Turkish official complained that negotiations had stalled over a long list of technical issues, including the price which Turkey will pay for gas it receives from Iran under the agreements.

"They were due to make a joint declaration but the negotiations are stuck and currently we don't see how that can happen," he said, confirming that Guler may be able to fly to Tehran a week later, depending on his schedule.

The spokesman confirmed that the sale would use buy-back methodology through which TPAO would produce gas which it would then sell to Iran, which would sell the gas back to Turkey at a higher price.

He also confirmed that the two sides had reached an agreement over the transit of Turkmen gas to Turkey via Iran and on to Europe.

"There's no problem with that part of the deal except we're not sure if and when Turkmenistan can produce enough gas to send through this route," he said, pointing out that there were doubts over the size of Turkmen reserves and production capacity. "We're awaiting the results of a new assessment of reserves," he added. Last week, the official confirmed that Tehran's failure to address the technical problems it has with its gas extraction and transmission system is one problem. These have caused Tehran to cut exports to Turkey during the coldest period in the last three winters.

"The situation is very serious. They still haven't solved the technical problems with the supply and it seems we will again face shortages next winter," he said.

A final agreement was to have been signed by the end of last year but has been repeatedly postponed. According to some reports, the two countries were to have signed the final agreement last week during the state visit of Iranian President Mahmoud Ahmadinejad. The failure to sign was widely reported as having been a "snub" to Iran, prompted by US pressure on Ankara to drop the deal. Turkish energy minister Hilmi Guler August 25 denied that US policy on Iran delayed the deal.

Meanwhile, Hojjatollah Ghanimifard, vice president for investment affairs at Iran's state oil company NIOC, said Iran would turn to the East for energy industry development financing if the West continued to deny it. Fars quoted Ghanimifard saying: "Iran's call for international financing for oil and gas can easily be moved from the west to the east," where state-run Asian companies were keen to secure future energy supplies.

EU must complete Nabucco gas pipeline: US Senator

The top Republican on the US Senate's Foreign Relations Committee has called on the European Union to help build oil and natural gas pipelines that would circumvent Russia and reduce Moscow's control over the flow of fuel to Europe from Central Asia.

Europe must commit to construction of the critical Nabucco gas pipeline, Senator Richard Lugar of Indiana told an audience in Bucharest, Romania, on August 28 during a two-week, nine-country tour of Eastern Europe and Central Asia – which also included a visit to Georgia.

"Nabucco is intended to be the final link connecting Caspian energy resources with European consumers, but it is being challenged by the Russian-backed alternatives," he said. "Failure to complete the Nabucco pipeline would be significant blow to European security, and challenge unity in the trans-Atlantic community," Lugar added.

The senator argued that allowing Russia to control fuel transmission would allow it to have a strong hand in European politics.

The specter of a natural gas shutdown, something that Russia has threatened its neighbors with before, "could cause death and economic loss on the scale of a military attack," argued Lugar. "Such circumstances are made more dangerous by the prospects that nations might become desperate, increasing the chances of armed conflict and terrorism," he added.

Lugar also blasted Italy and Germany for having made bilateral deals with Russia to transmit natural gas, thus undercutting any European strategy to reduce the Russian monopoly.

■ As *EU Energy* went to press the government of Azerbaijan expressed strong support for the Nabucco pipeline, despite concerns that the recent fighting in Georgia had jeopardized the proposed €7.9 ($11.476) billion pipeline project.

Rising gas prices to test oil link

Continental Europe faces a large rise in natural gas prices, as the strength of crude feeds through into long-term gas contracts indexed to oil. Is it time to break the link? And if gas-to-gas competition works in theory, is it practical in the continental European context? Whether for or against, LNG may prove the critical factor. **Ross McCracken**

As oil prices have risen, so inevitably have prices for natural gas contracts indexed to oil, which cover a majority of gas supply contracts to the European market. According to Shankari Srinivasan, managing director, Europe, for Cambridge Energy Research Associates, the oil link means that having been around $10 MMBtu in January, long-term continental gas contract prices will move towards $16 MMBtu in October and to $18 MMBtu in January 2009. Even in the UK, where there is gas-to-gas competition, "we are seeing the influence of oil-indexed contracts on the National Balancing Point," she said.

This has led many to consider whether the oil link should be broken. The question is both theoretical and practical. First, would a fully competitive gas market deliver more efficient market outcomes, particularly with regard to price? And, second, do conditions exist for such a market to function in the fashion desired?

Proponents of breaking the link argue that gas and oil are no longer competitive substitute products. Oil has been largely displaced from power generation and its share of the heating market has declined. By far, oil's biggest market is transportation, an area in which gas plays an insignificant role. If the ability to substitute gas for oil and vice versa has diminished, this means that the price of a heating and power generation fuel is being set mainly by the dynamics of the market for transportation fuels. Why should rising car ownership in China, for example, raise the cost of gas to continental European users when there is no shortage of gas supply in their regional market?

In addition, if the gas price does not reflect the balance or imbalance between supply and demand then it will not send the right signals to investors. High oil-driven gas prices will tend to encourage investment in new gas supply, whether the demand is there or not, while low oil-driven gas prices will retard investment even in the event of impending gas shortages. In a fully competitive gas market, high prices would spur investment and increase supply, while low prices would see supply contract and demand rise until the market achieved a new equilibrium.

However, while the trend has clearly been towards the separation of the gas and oil markets in terms of usage, it is by no means complete. Srinivasan said that in the UK power sector, during the high gas price period of 2005/06, there was a visible decline in gas usage. This was mainly compensated for by a higher coal burn, but also some additional oil-fired power generation. In addition, gas still competes with oil in residential and industrial markets in continental Europe.

Opponents of gas-to-gas competition argue that oil and gas prices move in tandem regardless of whether there is a formal link. Sergei Komlev, head of Contract Structuring and Price Formation Directorate of Gazprom Export, writes in a paper obtained by Platts *International Gas Report* that "the fact of the matter is that the prices of oil and gas . . . move in tandem even without any artificial peg. In the fully liberalized markets of the US and Britain, where gas and oil prices have no formal link to each other, this link always recurs when demand and supply are balanced."

Others see the relationship as more deeply rooted. Dominique Finon, senior research fellow at France's National Center for Scientific Research, writes that "gas production costs are in fact linked to oil field development costs . . . a deep-rooted linkage exists despite the fact that natural gas and oil are used for different purposes on different markets and are not in direct competition with each other. The linkage between the two does not necessarily have to meet physical substitution criteria should their market price drastically diverge."

Lower prices?

Komlev also disputes the central notion that gas-to-gas competition would result in lower prices. He says, "One can only expect gas prices to be lower than those of oil if there is an over supply. But in the context of a rising energy deficit, it would be naive to bank on the emergence of a buyer's market on the continent in the next decade. And this means that expectations of prices lower than oil-indexed ones are just an illusion."

This is interesting as a Gazprom official is essentially arguing that with the supply of imported gas to Europe increasingly controlled by an oligopoly of foreign state-controlled producers, gas-to-gas competition in European markets would transfer pricing power to gas suppliers. It would, in effect, be to Gazprom's advantage. Finon makes the same point, but from a different perspective: "oil indexation is a very effective protection against major exporters' monopoly power. Indeed, in a highly concentrated upstream gas industry negotiated prices based on oil-indexation remove market power from buyer and seller alike."

This is where the theoretical and practical aspects of the argument collide. Gas-to-gas competition is predicated on a perfect market; and its application

assumes that a perfect market can be created. This is the goal of the European Commission, which through its proposals to liberalize and integrate European gas markets, hopes to protect the individual European consumer against the monopoly powers of Europe's traditional incumbents. But while it can create conditions which increase competition for consumers, it has much less power to increase competition amongst foreign producers, who are too few and too geographically far apart to play off against each other easily.

Internal market conditions equally represent a barrier to gas-indexed prices. According to the report *An Enduring Relationship? Oil and Gas Prices in Europe*, published by CERA in July, a gas market with sufficient liquidity could provide an alternative index to oil in gas contracts. But while continental European hubs do exist, they have not developed to the point where they could become a viable alternative. "The relatively illiquid and local nature of European gas hubs raises obstacles for buyers and sellers of gas because of the potential for drastic price swings," says Srinivasan. "As a result, many prefer the security provided by the global and deeply liquid oil markets."

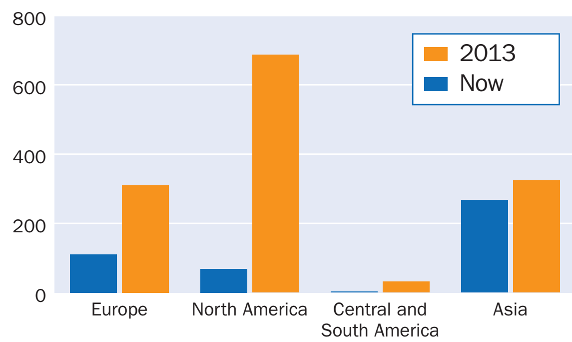
Nevertheless, the market is changing. Srinivasan says some long-term contracts for pipeline gas are seeing a proportion of volume freed up for spot sales. In addition, Algeria has publicly stated that it is willing to sell more gas on a spot basis. Further, high gas prices will start to have an impact on demand. Although too early to draw conclusions, industrial demand for gas in continental Europe appears to be flattening, said Srinivasan, arguing that if higher gas prices hit consumption, it will create pressure to adopt alternative pricing mechanisms.

But a malfunctioning gas-indexed market may be worse than none at all. A perfect, or near perfect market, requires multiple sellers to function well, none of whom are large enough to exercise pricing power, just as much as it requires multiple buyers. Finon writes, "Markets must not only be transparent and liquid; they must be "deep" with many interested buyers and sellers. So when we think that gas-indexed contracts will be more efficient, we must not forget that efficient spot markets can easily be distorted by a concentration of market power in the hands of one or more sellers or buyers." He adds, "oil indexing eliminates not only the ability of any one player to influence prices, but also the incentive to do it."

Komlev argues that Europe's already high and increasing dependence on foreign gas will prevent a well functioning gas-indexed market. "One should not forget that the development of well-functioning wholesale gas markets in the US, Canada and Australia owed everything to these countries' gas self-sufficiency and the existence of thousands of independent producers on the supply side," he writes. "Britain's growing dependence on a single supplier, Norway, has already brought up the issue of the expediency of returning to oil indexation. . . The European Commission, while failing to enthuse about it, has officially admitted that neither Gazprom nor any other major gas exporter could possibly manipulate prices involving long-term contracts that are indexed to the price of oil."

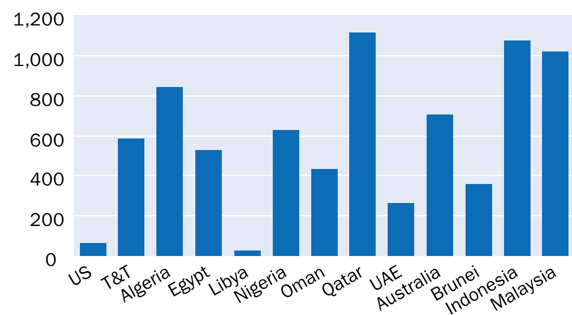
There is also the question of volatility. Finon says that "gas-indexed prices are not only more volatile that those in traditional oil-linked contracts, but they are also more

LNG regasification capacity by region (Bcm/yr)



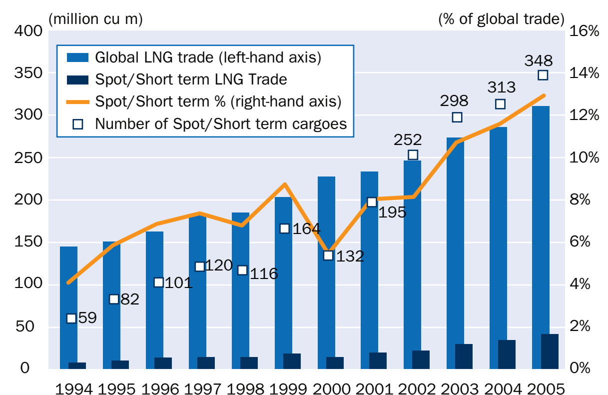
Source: LNG Daily

LNG suppliers and volume in 2007 (Bcf)



Source: EIA

Estimated distribution of contract versus spot cargoes of the historical LNG market



Source: Petronet LNG

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volatile than oil prices and other commodities. . . This is explained in particular by the fact that it is much more difficult and expensive to store gas than oil."

Komlev makes a similar point: "One should also bear in mind that free gas prices are highly volatile, much more so than oil-pegged prices. By switching to pricing based on supply and demand, European consumers will not receive lower prices. However, they are guaranteed to receive higher price volatility, one that is only made stronger by the speculators."

Recent experience in the UK appears to bear out both points: some contract prices at the NBP have been more volatile and risen higher than oil-indexed prices on the continent, despite record prices for oil. But this partly reflects the time-lag effect of price rises for oil-indexed gas contracts, the strength of which has still to feed through. Nevertheless, that gas-indexed prices would be more volatile is almost certain as oil-indexation is based on an average of prices, generally over a three to nine-month period. And if gas-indexed prices are more volatile than those for other commodities, it detracts from the argument that they would provide better pricing signals to investors. By contrast, a perceived advantage of oil-indexed pricing is that by smoothing price volatility it facilitates investment in what is a long-term and highly capital-intensive industry.

LNG hope

The great hope of market liberalizers is that LNG will come to the rescue. Unlike pipeline gas, LNG can be transported to any destination that has a receiving terminal. It diversifies the number of sellers to which a buyer has access. It could therefore provide a counterweight to UK dependence on Norwegian gas or Spain's reliance on Algeria, for example, although it provides fewer opportunities for land-locked eastern EU states dependent on Russian gas.

Srinivasan said that even small amounts of LNG could make a difference as it introduces new suppliers and opportunities for different pricing models. Long-term pipeline gas contractors have the flexibility to reduce volumes and to renegotiate prices at regular intervals, she says. But LNG is "not necessarily a lower cost source of supply." Srinivasan points out that upstream costs for gas are rising just as fast as for oil. LNG is also connecting the European market to others; "when looking at the European market, much more attention now needs to be paid to the US and the growing availability of unconventional gas sources," Srinivasan said.

However, Komlev takes a different angle, arguing that LNG levels the playing field for gas against oil. He says that "joule for joule", natural gas has not exceeded 70% of the value of oil, owing to the extra cost involved in transportation and storage. He sees this discount disappearing precisely because of LNG. "The situation is gradually changing in favor of gas, thanks to the growing role played by LNG in global trade. LNG leads to a convergence of the commodity properties of oil and gas."

Moreover, the proposition that LNG cargoes would be traded in much the same way as crude cargoes are today, using spot trade as a means of price discovery, has already received a response from producers in their consideration of an OPEC-style gas cartel. This prospect, combined with a growing dependence on imports, makes highly relevant Komlev's argument that gas-indexed prices only result in lower prices in the event of surplus supply. It appears that gas-to-gas competition, while good in theory, may not deliver what it promises in practice, although LNG does seem to be the critical factor. How, for example, would oil-indexed prices of $18 MMBtu on continental Europe look against a backdrop of spot LNG cargoes floating unsold on the Atlantic Ocean?

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Trade secrets: Stakeholders urge caution on tougher transparency rules

Hot on the heels of *EU Energy* publishing Platts' first transparency last issue, the Amsterdam Power Exchange group released its own survey of market players' attitudes to the European Commission's proposals for increased transparency in the European energy markets. Opinions are mixed, but most share the sentiment that any rules on disclosure need to tread a fine balance between helping regulators limit market abuse without demanding so much information that European markets become unattractive prospects for trade. **Gala Colover** reports.

The debate over whether there is a need to toughen up EU rules on transparency in the European power and gas markets continued to build steam over the summer ahead of the expected publication at the end of September of a joint report on a consultation by the European Regulators' Group for Electricity and Gas (Ergeg) and the financial European securities regulators CESR's joint working group on a market abuse regime for the wholesale power and gas markets and improvements in the publication of data about use of power and gas infrastructure.

The European energy market is virtually unanimous on the urgent need for more transparency in the flow of real time data on physical supply and demand for both the power and gas markets, according to Bert den Ouden, CEO of the Amsterdam Power Exchange (APX) Group.

But, writing in the company's quarterly transaction and monitoring report, Energy Viewpoints, published in August, he warns against plans also now being discussed by the European Commission and national energy and securities regulators to introduce tougher rules on disclosure by traders of transactions in the spot and forwards energy markets.

The commission is considering extending existing EU rules on disclosure of trades in the wholesale European energy markets as part of plans to create a more level playing field for competition. Last September, it included detailed trade reporting requirements in early drafts of its third energy market opening package, but dropped these from its final published proposal, instead calling for traders to keep records of transactions, after the EU's internal market commissioner, Charles McCreevy, objected, calling for more research (*EUE 166/1*).

The commission subsequently mandated the joint Ergeg and CESR working group to research and advise on what data the market needs to be published, what records companies should keep on power and gas physical and derivatives trading, and how the EU's market abuse law should be applied to commodity and derivatives trading. If the commission and EU governments agree with the regulators' conclusions, that report could form the basis of formal binding technical guidelines on transparency.

But, writing in the APX Group's quarterly report, den Ouden cautions that plans now being considered by energy regulators to introduce tougher rules on disclosure of over-the-counter (OTC) transactions could harm the development of wholesale energy markets.

"Transactions transparency is a secondary issue at this stage in the evolution of the EU wholesale markets," den Ouden says. "Our quarterly survey suggests that market participants are undecided on whether more stringent disclosure would increase liquidity or confidence in the market."

He says that while it was clear from a survey of 30 traders and policy makers from across the EU, conducted on behalf of the APX Group by consultants Moffatt Associates, that more disclosure would help regulators identify or prevent market abuse or excessive speculation, there remained "a real concern that the cost of compliance might outweigh the benefits."

Moffatt Associates reported that respondents expressed a lack of certainty that increasing rules on monitoring transactions in the energy sector would have an impact on liquidity, but most thought that any impact on liquidity was more likely to be positive rather than negative – particularly in the case of gas.

But Peter Styles, chairman of the European Federation of energy traders' (EFET) electricity committee, believes too much regulation would reduce market liquidity. "EFET has outlined in consultative exercises a fear that the imposition of significant new obligations could lead to a reduction of the number of market participants, thereby in turn producing a negative effect on wholesale power and gas liquidity and competition," he wrote in the APX Group quarterly report.

"Our members want to facilitate the efficient operation of [the European energy] markets," he said. He argued that energy traders already promote transparency of market volumes and prices by passing their own data to exchanges, showing their bids and offers on broker screens and disclosing transaction information to trade publishers.

Styles is worried that although the European Commission dropped its early draft proposals last September for reporting of individual transactions, there still appears to be some appetite in Brussels for toughening up rules on market disclosure.

Most players in the European energy trading community are vehemently opposed to the prospect of being forced to report on individual transactions, Styles told Platts in an interview on August 26. French plans to oblige every individual wholesale energy market participant to report to the regulator details of every single transaction they conclude, are a major concern to traders, he said.

The French regulator, CRE, has already launched its own initiative in relation to 2007 annual transactions. At the beginning of July this year, it asked all traders active on the French power and gas markets to send it details for every annual transaction concluded in 2007, Styles said. "EFET was extremely disappointed with the misleading presentation of the results of a consultation on market monitoring by the French regulator CRE during the late Spring," Styles told Platts.

Writing in the APX Group's quarterly report he said: "We continue to face proposals for greater disclosure of details of individual wholesale energy transactions to regulators. The CRE in France has recently consulted on a plan to require national reporting. Ergeg and CESR are conducting an investigation at the behest of the European Commission into how energy and financial markets should monitor the operation of wholesale markets in power and gas as commodities and of markets in related derivatives contracts. EFET does not believe that any of these bodies has yet carried out a thorough impact assessment and cost benefit analysis in relation to extended transaction transparency and reporting requirements."

Styles is concerned that too much emphasis is being placed on the wrong area. Rather than worry about the commercial details of their rivals' transactions, traders are more concerned about whether transmission system operators are allowing fair access to their networks, or whether incumbent power producers or gas importers supply enough information about their planned and actual output, he wrote in the APX Group's quarterly report.

"We're having to look much more closely at what kind of market regime we want to recommend or agree to," Styles told Platts, referring to the CESR, Ergeg consultation on market abuse.

"We're not in any way trying to say that there doesn't need to be a set of market abuse rules," he said. "There should be. But the question is what sort of rules they are and under what framework? If they are under MAD (the Market Abuse Directive, which cross refers in part to MiFiD, the EU's Markets in Financial Services Directive), how can that be adapted?" And if it's under a different legislative instrument, then what shape should that take?"

Styles said he anticipated that the CESR, Ergeg working group was likely to find that MAD, which is designed for the financial markets, is not readily adaptable to the commodities market. Extending its scope to cover electricity and gas trading "could also set a difficult precedent for establishing similar controls – perhaps international in character – in related energy and other commodity markets, including oil, petrochemicals and metals and their attached derivatives markets," he added.

"Regarding transparency, we are saying that getting more of the physical use of infrastructure data out in the open is more urgent than focusing on transaction reporting right now," Styles told Platts.

The EU's legally binding Congestion Management Guidelines and Ergeg's Guidelines for Good Practice on information management and transparency – assessed in Platts' energy markets transparency tracker (*EUE 189/8*) – aim to address some of these problems. But, says Styles: "These important aspects of market integration have not yet been resolved on a pan-European scale, nor even within most regions."

"The biggest concern on the power side is about the release of generation data," he explained. But he said EFET sees a need to distinguish between the need for full, plant by plant disclosure (both ex-ante and ex-post) from one TSO to another (in a neighboring country) and the need to release the same information publicly. "The crucial point regarding publication is to look at what the market needs," he said. "We want the primary legal obligation for publishing use of infrastructure information to focus on the party that originally holds the data," Styles said.

On the other hand the crucial point, regarding TSO to TSO disclosure of generating plant availability, is the improvement in prediction of available cross border transmission capacity this should facilitate, he added.

Stakeholders shy from compulsory transaction reporting

Respondents to the Moffatt Associates survey had clear thoughts on when and how transactions data should be made available, with most respondents agreeing that "it should only be supplied to regulators on request and if there is a suspicion of wrong doing," Moffatt Associates reported. Stakeholders also agreed that any new rules on transparency in the energy markets should be consistent with existing rules, such as those required under the EU's Markets in Financial Services Directive (MiFiD).

"[TSOs] failure to harmonize extends in electricity markets, for example, to their methods of congestion management, their assessment of available transmission capacity at borders and their isolated organization of national intra-day and balancing markets," he wrote in the APX Group's quarterly report.

EFET would like to see addressed specifically the lack of transparency in the Swiss and Eastern European power sectors, he told Platts. "The biggest export countries are France and a few of the Eastern European states and the biggest physical hub is Switzerland," Styles said. "It is crucial that traders and foreign TSOs obtain access to more detailed generation data in these areas.

"The Swiss electricity interconnections and wholesale hub are very important. So any transparency solutions that don't take account of Switzerland will be imperfect," he said.

EFET moreover has some doubts about a shift to flow-based capacity allocation, particularly in Eastern Europe, given the inherent opacity of the method, Styles added.

Transmission capacity available to market participants is limited and allocation at central European borders is likely to get even more difficult with the growth in production of wind power, he said. Wind turbine output under a non-interruptible feed-in tariff regime brings with it a less predictable intermittency of electricity flow.

Meanwhile the power supply-demand balance may be getting tighter, Styles said. "That will also make TSOs more conservative in their cross border allocations, unless counter-balanced by improvements in their own access to data about foreign plant availability." Disclosure of detailed plant availability data from one TSO to another would help TSOs to maximize transmission capacity available for cross border auctions, he said.

It would be erroneous to extend the current rules on transaction reporting as described under MiFiD to the power and gas markets, according to Styles. "These are immature markets so they are susceptible to liquidity difficulties and barriers to entry," he told Platts, "but there is not the same systemic risk as exists in the pure financial instrument and credit markets."

"Abuses of this type are not intrinsic to the operation of the mainstream traded markets, rather they are linked to the surviving traditional structure of parts of the energy sector in Europe," he wrote in the APX Group's quarterly report. He highlighted "formidable" barriers to entry in the gas markets in particular, which he blamed partly on "artificial complexity and opacity" built into long term legacy contracts. These "continue to deter new entrants," he said.

Styles warned against any EU member state prejudging the outcome of the Ergeg, CESR report on energy data disclosure and launching their own schemes that might duplicate any later rulings at the Community level. "This would lead to administrative burdens for international suppliers," he wrote in the APX Group's quarterly report.

There is also a worry that commercially sensitive data would be handled appropriately: "International suppliers are not convinced that all European countries and regulators apply sufficiently vigorous confidentiality standards to staff, who would see commercially sensitive transaction data," he writes.

And, returning to traders' greatest concern – liquidity – Styles says "existing traders may well vote with their feet and just trade less in a national market subject to stringent reporting requirements. Some market parties might even exit such a market."

EFET's alternative proposal

Instead of toughening up rules on transaction reporting, Styles calls for regulators to put more effort into sourcing "basic information" from transmission system operators and market platforms "such as exchanges or brokers." EFET is already looking into how traders might be able to better help regulators – or any other surveillance authority – access information on OTC deals shown on brokers' screens and how the traders' organization might be able to assist in coordinating such an exchange of data, Styles says in the APX Group's report.

However, he points out that traders have developed their own methods to make the most of what market data is available from TSOs. "Careful tracking and analysis of the flows on high voltage networks and high pressure gas pipelines can, in our experience, yield very interesting indications of how the pan-European market is functioning," he says. "A corresponding careful review of the manner in which TSOs then calculate available transmission capacity and actually allocate capacity, especially across national borders, will potentially also tell regulators a lot about competitive conditions," says Styles.

Indeed, he adds, armed with this information alongside a thorough analysis of suppliers' and shippers' nominations received by TSOs and data on transaction volumes and prices in the OTC markets that are published by the industry press, "probably a much more efficient market review can be achieved, than by starting from raw transaction data gathered from scores of individual market actors."

But, Styles concedes, traders should be forced to release transaction data if there are "reasonable grounds to suspect abuse of a dominant position."

Steve Huhman, vice president of Morgan Stanley agrees regulators should have the power to demand traders hand over information on transactions when there is

suspicion of collusion in the market. But, otherwise, he warns against introducing legislation forcing companies to part with such data.

Operational vs commercial data

Also writing in the APX Group quarterly report, Huhman says power and gas market data can be divided into “operational” and “commercial” categories.

“Immediate transparency of operational information is crucial for competitive markets to function on a level playing field,” he says.

Any traders with “superior access” to data on the physical market, for example, would have a “huge competitive advantage,” says Huhman. “It is therefore important for operational data to be made available as soon as possible. Otherwise it is inevitable that the information will spread informally, but unevenly, providing an unfair competitive advantage to those who have better access.”

The EU’s Congestion Management Guidelines already go some way to addressing transparency of such operational information. But extending transparency rules to commercially sensitive information would be a mistake, according to Huhman.

“It is Morgan Stanley’s view that current European electricity and gas markets are not yet deep and liquid enough to allow release of individualized commercial data without causing unacceptable harm to market participants,” he writes.

Huhman says there is not the same degree of urgency to make commercially sensitive information – and market transaction data in particular – available, compared with operational data. He concedes such information would greatly help regulators to protect consumers from any manipulation of the market. But, he says, “release of this same information to the market in general…is more problematic. Doing so can provide insights into competitors’ positions and strategies which would be viewed as legitimate proprietary information.”

Consequently, Huhman urges any such release of such data in the future to be made in aggregate form only. “Transparency is important, but legitimate claims to privacy exist as well,” he concludes. “Only when the cost –benefit analysis clearly favors the contemplated regulation should it be implemented,” he says.

Too much information?

However, regulators do not want to go so far as 100% transparency in the EU’s power and gas markets because it would kill trade, Johannes Kindler, who is the vice chairman of Ergeg and vice president of Germany’s energy regulator, the Federal Network Agency, and a member of CESR, told Platts June 9 (*EUE 185/5*). “Every forward trade needs a betting element,” he told Platts on the sidelines of a conference in Brussels. Kindler warned that a flood of information to the market would be useless.

Writing in the APX Group’s report, his Austrian counterpart, Walter Boltz, clarified the need to distinguish between enforcing obligations on record-keeping and reporting in order to help regulators protect against market abuse and to facilitate “efficient price formation.”

Boltz, who is managing director of Austrian energy regulator e-Control, and chairman of Ergeg, says current EU rules governing trade –under the Markets in Financial Services Directive (MiFiD) – largely fail to cover the electricity and gas sectors, which mainly trade in the non-regulated OTC markets, which are instead governed by “general competition law.”

“Comprehensive information on underlying demand and supply of the commodity has to be available to market participants,” says Boltz, because, unlike for other commodities, price formation in power and gas markets is strongly linked to a plethora of underlying physical constraints.

“Future demand and supply strongly depend on external factors, such as weather, hydrology, problems in infrastructure, etc.” Boltz writes. “Non-existent or reduced storability contributes to high price risks in electricity and, to a lesser extent gas balancing markets.”

One solution could be to extend current financial regulations to non-regulated markets “and include transparency obligations for underlying markets,” Boltz says. “However this contaminates the financial market regulation with the goals of commodity price formation.” This would divert the aim of financial market regulation away from its main aims of protecting investors, prohibiting abusive behavior and maintaining market stability, he says.

So, Boltz proposes another way forward: putting in place rules for power and gas “where transparency requirements are established irrespectively of the exact character of the market participant. Transparency in this sense encompasses the underlying physical market as well as the financial market and also the fundamental data which govern demand and supply,” he says.

“Only a comprehensive approach can affect market behavior,” says Boltz. “At the moment there is no such approach.”

The conclusions from the Ergeg, CESR joint working group’s report and its recommendations for transparency and record-keeping will be published by end-September – in time for the commission to decide its view by end-2008.

COMPETITION

Belgium

CREG accuses competition watchdog of energy failures

Belgian regulator, the CREG, has accused the nation's Competition Council of not doing a thorough job in analyzing the causes of power and gas price increases in 2007. It has identified eighteen specific criticisms on which it would like to hold a dialogue with the Competition Council, but says the Council "does not seem disposed to have an exchange of views."

The CREG looked at the pricing issue at the request of the then energy minister when the increases were announced in mid-2007. It concluded that there were pointers to restrictive trade practices on the part of Distrigaz, Electrabel and Electrabel Customer Solutions, including "excessive pricing, predatory pricing and price squeeze."

However, the CREG had no powers to act, and passed the information to the Competition Council when the energy minister asked it also to take a look.

In early July this year, the Council said it had found no case to answer. The Council's conclusions were based on the results of benchmark analyses nationally and internationally, on comparison with regulated tariffs and on effects-based analysis. The CREG "deplores" the fact that despite spending more than a year looking into the case and putting five officials on the job, the investigation "was [in its view] by no means thorough."

DSOs to pass 75% of share capital to public sector

Distribution system operators in the Belgian region of Wallonia will in principle have to pass 75% of their share capital to the public sector by 2018 under legislation passed in July. The minimum threshold has been 70% since July, but was previously 51%.

The change was incorporated in a comprehensive update of electricity and gas laws which completed the implementation of EU directives relating to deregulation and renewables.

In practice, the market is running ahead of the legislation since there is already agreement in principle among those local distribution operators in which Belgium's largest utility Electrabel holds a stake (so-called "mixed" intercommunals) to set up a single operator, Netwal, to be wholly owned by the local or provincial authorities. This is expected to be operational from 2009.

The problem of private sector ownership does not currently arise in the case of the seven other power and/or gas intercommunals in Wallonia.

Publigas to buy 12.5% Fluxys stake

The board of Belgian municipal holding company Publigas decided on August 27 to exercise its pre-emption right to buy a 12.5% stake in Belgium's gas network operator Fluxys, Christian Viaene, secretary-general of Publigas said August 28.

After the transaction Publigas will hold 45% of Fluxys.

GDF Suez has relinquished some of its stakes in Belgian companies, including Fluxys, to meet conditions set by the European Commission for its recent merger.

On July 4, GDF Suez said it had agreed to sell the 12.5% stake to investment company Ecofin.

Publigas had 60 days to exercise its pre-emption right after the announcement by GDF Suez, Viaene said.

"We called the board of Publigas together and we decided to exercise our pre-emption right," he said.

Publigas is to pay the same price that GDF Suez gave for its sale to Ecofin, namely €228.3 million, he added. The transaction means Publigas will hold 45% of the transport operator and GDF Suez will hold 44.75%.

Prior to its merger with GDF, Suez controlled Fluxys with a 57.25% share.

According to Belgian press reports in July, the federal government, which holds a "golden share" in Fluxys entitling it to influence strategic decisions, wants to pass a law which would force GDF Suez to reduce its stake in Fluxys to below 25%.

The government wants to restrict any "supplier of electricity or gas, any producer of electricity, or any intermediary" to a stake in the grid operator of no more than 24.99%. The bill could be passed as early as September, the reports said.

France

Domestic gas tariffs to rise 5%, power 2%

French residential gas and power tariffs are to rise by 5% and 2% respectively from August 15, the government said in its official journal August 14.

In a statement August 7, the government said it had requested the price rises to cover increases in energy suppliers' costs following fuel price rises of recent months.

"The government wishes that this adjustment strictly reflects the change in the costs of Electricite de France and Gaz de France-Suez," it said.

The government approved the tariff hikes after the energy regulator CRE gave its non-binding opinion August 11 but despite subsequent comments from the CRE that the increases will not be sufficient to cover companies' costs.

On August 11 the CRE told the government that both the power and gas price rises were not high enough to cover the higher costs borne by Electricite de France and GDF-Suez, the country's dominant power and gas

suppliers.

Despite this, the government wrote the tariff hikes into law and published its decision in its official journal on August 14.

In the documents published on August 15, the CRE said the government's decision to raise gas tariffs by 5% was based on a new formula to work out GDF-Suez's costs which has not yet been audited by the regulator.

Under the previous formula, audited by the regulator, the price rise should have been much higher, it said.

The regulator also called for the publication of the indexation formula for the tariffs in a bid to improve transparency to producers and consumers.

EDF is 85% state-owned and the recently merged GDF-Suez is 36% owned by the state.

The move comes despite comments in recent months from ministers that gas tariffs would not increase from July.

French consumers would not see their "bills rise for the third time this year," ecology minister Jean-Louis Borloo told French press in May. This was reiterated by economy minister Christine Lagarde on July 1, according to media reports.

French gas tariffs rose by 5.5% in April, after a 4% rise in January.

France imports almost all its gas and thus must buy from world markets, either through long-term or short-term contracts. It imports around 30% of its gas through LNG supplies.

In a separate statement August 14, EDF said the government's decision would mean the power price for residential customers using the fixed "green" tariff would increase by sub-inflation levels. "The price increase is in accordance with the public service agreement signed by EDF and the French government in October 2005, which guarantees that until 2010, any rise in electricity prices will not exceed inflation for households," said the state-controlled company.

"Over the last 12 months inflation climbed to 3.6%, in a climate of soaring fossil fuel prices," EDF said. Business customers on EDF's "yellow" and "green" tariffs would see their prices rise by less than €5/MWh, it said.

The European Federation of Energy Traders slammed the French government's continuing use of fixed tariffs. EFET said in a statement that regulated tariffs obstruct a necessary link between wholesale and retail markets.

"Volatility is better hedged using risk management tools, available to large consumers and traders in the European internal energy market," said the group. "In the short run the prolongation of the TARTAM [transition tariff] applying to alternative retail energy suppliers, has placed an even tighter straitjacket on the energy supply market," EFET said.

The TARTAM tariff was introduced by the government to give companies that had left fixed tariffs for wholesale prices the option to return to fixed rates. "In the long run, both traditional regulated tariffs and the TARTAM could have a serious impact on the development of new generation capacity in France," said EFET.

The group said it would "continue its work in pursuit of the goal of a really open and effective French wholesale energy market."

CRE proposes transmission, distribution tariffs to 2012

The French energy regulator, CRE, is proposing transmission and distribution tariff increases for the next four years which are several percentage points lower than system operators have asked for. Market players have until mid-September to react.

Power grid operator RTE sought an 11.5% increase over the period 2009-2012. This is based on RTE's preferred option of putting only part of its interconnection auction revenues (more than €300 million over the period) toward minimizing tariff increases and investing the rest. If all this revenue is applied to minimizing the tariff increase, then it wants 8.6%.

CRE is counter-offering 8.5% and 5.6% (€8.80/MWh ($13/MWh) and €8.60/MWh on average for the period) based on a 7.25% rate of return on the regulatory asset base. RTE asked for 7.75%.

Electricity distribution grid operator ERDF sought an increase of 15.1%. CRE says 8% is enough on a comparable basis, but that ERDF's request does not reflect an RTE tolling charge and costs specific to distribution to French islands (principally Corsica). That implicitly takes the ERDF request to 19-20%. CRE says 10% is justified (€33.2/MWh on average).

CRE proposes that quality-related financial incentives and penalties are capped at 0.5% of annual turnover, and notes that transmission quality has been improving, but distribution quality has been deteriorating. It has taken this as another opportunity to complain about the time it is taking for EDF and ERDF to unbundle their IT systems which affects its ability to assess quality.

CRE can only measure ERDF's compliance based on customers in the unbundled system, that is, those who have exercised their eligibility rights and only a limited number of consumers on the regulated tariff (around 50% of business consumers and "a few" residential consumers).

Germany

Cabinet agrees changes to foreign investment law

Germany's cabinet on August 20 approved changes to a law on foreign investment in Germany which would allow the government to investigate acquisitions of large stakes in German companies by non-EU companies.

Under the draft law, which has to pass through the upper house of parliament after the summer break, any purchase by an entity based outside the EU or the European Free Trade Area of 25% or more of the voting rights in a German company could be investigated for

"possible danger to public order and safety."

Investigations would have to start within three months of the deal's conclusion, and any concessions required would have to be ordered within two months of the government receiving full documentation of the deal.

The majority of foreign investments would not be affected, economy minister Michael Glos said.

State funds, for example, often buy significantly less than 25% shares in companies. Therefore, Germany would remain open to foreign investments, he said.

The law could come into force by the end of this year.

Greece

EC clears Italy's Edison, Greece's Hellenic Petroleum power jv

The European Commission has cleared plans by Italian power company Edison and Greek energy company Hellenic Petroleum to set up Greece's second largest power generator, it said on August 27.

The two companies agreed in July to set up the 50:50 joint venture with the aim of developing through subsidiaries more than 1.5 GW of generating capacity in Greece–about 12% of total Greek output. This total includes Hellenic subsidiary T-Power's 390-MW combined cycle gas turbine plant at Thessaloniki that is already operational.

Edison already owns 65% of Greek power developer Thisvi, which is building a 420-MW CCGT in Thisvi, central Greece. Edison and Hellenic plan to merge T-Power and Thisvi into a single company controlled by the new joint venture.

The joint venture is also to be active in power trading and marketing, Edison said in July, and may also invest in renewables in Greece and opportunities in power generation and trading in the Balkans.

The commission said on August 27 that the new joint venture would not impede effective competition in Greece or Europe in general as its market share would not be significant.

Hungary

OMV backs out of MOL bid

Austria's OMV said August 6 it had withdrawn its takeover offer for Hungary's MOL because of European Commission objections to the deal.

OMV made the Ft32,000/share (€143/share, $210/share) offer for MOL in September last year, and applied shortly after for EU approval of the potential deal. MOL, however, continually opposed the takeover and built a strong defense by selling shares to banks and other companies loyal to the Hungarian company.

But OMV said it was the European Commission's objections, outlined in a statement issued on June 16, that finally scuppered its bid. OMV said it did not share these concerns and submitted a number of commitments it "would have been willing to offer." These included merging one of OMV's refineries – the Schwechat plant in Austria – with MOL's Bratislava unit in Slovakia.

"We offered to combine the refineries of Schwechat and Bratislava to create a European refinery cost center and said we were prepared to divest a stake in the center," OMV CEO Wolfgang Ruttenstorfer said in a conference call August 6. "This concept is quite usual in Germany and in the Czech Republic," he said. "But the commission did not accept this proposal and wanted more far-reaching commitments. We decided this would not make sense for us, so we have decided to revoke the declaration of intent [to merge with MOL]," Ruttenstorfer said.

MOL welcomed OMV's decision. "This decision recognizes, as MOL has consistently maintained for over a year, that their irrational business plan for combination of the two businesses raised very serious competition issues, was inherently value-destructive and would be against economic and strategic rationale," it said in a statement.

OMV said it "continues to believe strongly that consolidation in the central European oil and gas industry will continue." The company is "now considering various options to maximize the value of its 20.2% stake in MOL and to benefit from value creation in the consolidation process." Analysts believe this could involve a sale of the OMV stake back to MOL. "In the most likely scenario OMV will offer its stake to MOL itself if the companies can agree on the price," energy analyst Peter Tordai of Budapest-based KBC Securities said. "Selling shares on the market is not realistic, in our view, and there are no other buyers on the horizon," he said. Despite the EU objections to the deal, Ruttenstorfer said OMV thought its proposal would have been good for the European energy market.

"The EU has stated the need for a common European energy policy and to support a policy of creating stronger European energy companies to ensure the security of supply for the region – fundamental objectives for our proposed combination with MOL," he said.

"We strongly believe in our original rationale for a strategic alliance with MOL. The combination of both companies would have significantly enhanced the security of energy supply throughout the region through both greater diversification of crude oil supply, as well as the greater scale in upstream to generate additional growth of the combined resource base," he said.

Ruttenstorfer said the MOL deal as it was proposed by OMV would have been value accretive, but the Commission objections would have made this impossible. "OMV has a core principle to only follow and implement value accretive deals," he said. "We pursued our goal as long as there was a reasonable chance that such a transaction would meet our disciplined criteria for value generation. Given the indication from the European Commission that it would not accept our remedy proposal, OMV's board has concluded that such a merger would not fulfill our standards."

The Netherlands

Essent prepares to follow Nuon with network unbundling

Dutch utility Essent's network arm has reported increased costs in its network operation in the first half of 2008 as the company made alterations to its organization in the run-up to an expected demerger. Profits were lower in the first half of 2008 compared with the same period in 2007, the company reported on August 7. The local-government-owned utility made €94 million of profit, down 59% from €230 million on the back of broadly stable revenues of €668 million, down 4% from €698 million.

Essent is preparing to split its network arm from its supply and trading arm, The network arm would remain in government hands while the commercial arm might be able to pick up an international partner.

Dutch law requires all Dutch companies to separate activities fully by January 2011, but Essent and its rival Nuon are acting in advance of that deadline.

Essent's rival Dutch utility – Nuon – says that it effectively split its supply and network operations from July 1, 2008 renaming the grid arm Continuon and splitting management functions.

Essent said August 7 that its network arm would be known as Enexis from January 1, 2009 and would take up occupancy of a new head office, near Rosmalen.

Shares in the network company are to remain in government hands. Essent itself could look for new partners for its commercial arm. "The shape of a new market model is slowly coming into focus," Essent said. "Preparations for a future without a network operation, although possibly with a new international partner, are demanding much attention."

Essent is the largest energy company in the Netherlands and supplies electricity, gas and heating to domestic and business customers. Dutch provincial authorities together hold 74% of the shares in Essent: Groningen (6%), Drenthe (2.3%), Overijssel (18%), Flevoland (0.02%), Noord-Brabant (30.8%) and Limburg (16.1%). Nearly all the municipalities in these provinces and a number of municipalities in Friesland together hold the remaining 26%.

Spain

Office for supplier switching gets green light

The secretary general for energy at Spain's industry ministry has authorized a new office for supplier switching, Oscum, to oversee the process of changing power and gas supplier for both large and small consumers, Spain's official state gazette reported on August 20.

Oscum's role as defined under the 2007 electricity and hydrocarbons act is to enforce competition and act as a watchdog, ensuring transparency, objectivity and independence in the supplier switching process.

All consumers are free to switch suppliers, but some have chosen to stay on regulated tariffs, which do not expire until January 2009 for electricity – for gas they expired in July this year.

Oscum will have to present an annual report to the industry ministry and the energy regulator, CNE. It is a joint stock company that is jointly owned by the gas and power suppliers (15% maximum ownership in each sector), and gas and power marketers (35% maximum). No one single company or group of companies is allowed to own more than 20%.

UK

Minister warns against energy windfall tax: report

UK Business Secretary John Hutton has argued against Britain imposing a windfall tax on energy firms, saying it would only lead to higher charges for consumers, according to an interview with the Daily Telegraph newspaper on August 28.

Hutton also said he is looking for French utility EDF to conclude a deal to take over UK nuclear generator British Energy within two weeks, which will pave the way for a new era of nuclear power plants in the UK, the paper reported (*see story below*).

Although Hutton said there was "genuine concern" about the difficulties families faced with soaring energy bills this winter, adding that the government was looking at providing extra support, he said lawmakers should not do anything that would increase bills directly.

He told the paper the "right framework" was needed to ensure £100 billion (€124 billion, $184 billion) was invested in nuclear, renewables and clean coal technology over the next 10 years.

His comments, in an interview with the Telegraph, come as Prime Minister Gordon Brown faces growing demands to tax the profits of energy firms.

More than 70 Labour MPs have signed a petition, organized by left-leaning think tank Compass, urging the government to claw back some of the huge profits made by the companies.

Although a windfall tax has not been ruled out, it is understood the Prime Minister is looking at an alternative levy on carbon emissions.

Hutton told the Telegraph that he does not believe energy companies have been ripping off customers who have benefited "very considerably" from low prices in recent years. "The era of cheap energy is over. The question is how we are going to adjust to that and what sort of help can we provide to those who are going to struggle the most," Hutton said.

Hutton also revealed EDF was talking to British Energy about how to overcome shareholder opposition to its previous £12 billion offer, saying the deal was still "a

good one" and remained the key towards developing a new generation of nuclear power plants in the UK.

"We need to make progress with that transaction as quickly as we possibly can," Hutton said in the interview. "It's for the majority of shareholders to come to a view about how they want the future of that company to be addressed. We are clear that the EDF deal is a good one. It will allow us to fast-track nuclear development," he said. "I really want to move on. I don't think we can go on very much longer without knowing how things are going to unfold. I would like this all to possibly be resolved within the next couple of weeks."

Any deal to take over British Energy requires state approval due to the state's 35.2% stake in the company. British Energy generates around 20% of UK electricity and has prime sites for new nuclear power plants.

BE shareholder to push for Centrica merger: reports

British Energy shareholder Invesco has told the government why it thinks Centrica should merge with the UK nuclear generator.

Invesco's head of investment Neil Woodford will lay out his plans to the shareholder executive, the body that manages the sale of government assets, the Sunday Telegraph newspaper said on August 24.

Invesco is BE's largest institutional shareholder with a 15% stake, and also holds a 5% stake in British Gas-owner Centrica.

The newspaper quoted Woodford as saying a merger between the two companies was the "obvious solution." "Together they can work out a joint venture with EDF to build nuclear sites," Woodford said.

Earlier in August Centrica confirmed it remained interested in a £22.5 billion (€28 billion, $41 billion) merger with BE, although the announcement received lukewarm support from the government.

In July, a £12 billion takeover of BE by French utility EDF collapsed at the final hurdle, after its major shareholders, including Invesco and M&G, thought the proposed offer of £7.65/share in cash or £7/share in cash plus contingent value rights – which offer future payouts that would be linked to the future profitability of BE's power stations – undervalued the company.

However, the government, which owns a 35% stake in BE, has told reporters that it still prefers a takeover by EDF.

Energy minister Malcolm Wicks, during a visit to Lagos, Nigeria, last month, described a deal with EDF as "the most sensible option," adding: "We think that's the natural link." British ministers support a link with EDF because they value the French company's nuclear expertise, according to reports.

EDF already owns and runs 58 nuclear reactors in France.

People familiar with the talks told the *Financial Times on Sunday* that the government would sell its stake to EDF only if the French company managed to win the support of more than half the institutional shareholdings for the deal. Centrica is thought to be keen to get its hands on BE's nuclear output to strengthen its electricity supplies and reduce its exposure to gas.

Any deal to take over British Energy requires state approval due to the state's 35.2% stake in the company.

British Energy generates around 20% of UK electricity and has prime sites for new nuclear power plants.

Minister urges greater openness on energy companies

UK industry minister John Hutton has queried the big price rises for retail energy supply in a letter to the energy regulator Ofgem, seen by Platts on August 18. He has asked for their accounts to be more open.

"During the recent retail price increases by supplier companies, the lack of transparency around the profitability of their supply and generation arms has led to confusion in the media and among the wider public," the letter said. "My view is that the lack of transparency as to the accounts of our major energy supply companies is potentially problematic both in terms of the reputation of the industry itself and in terms of good policy making," Hutton said in the letter.

"I would be particularly interested to hear your views on the merits of requiring vertically integrated energy companies to report the accounts of their supply and generation businesses separately," he added. "You may of course already be reflecting on this as part of your probe, and your understanding of the practicalities of this suggestion and the potential views of industry would be most welcome," ended the excerpt seen by Platts.

Ofgem is probing the retail energy market, following in the footsteps of a parliamentary select committee which published its findings late last month. It recommended further scrutiny of the country's forward gas market, and of electricity sales to small and medium enterprises. It also recommended that these aspects of the energy markets be referred to the powerful Competition Commission for an investigation, if energy regulator Ofgem was unable to take robust steps itself.

Business group calls for new energy watchdog

The British Chambers of Commerce, representing UK businesses, called August 11 for a new independent watchdog to be set up to focus on the energy needs of businesses.

In a statement, the BCC said that this could replace the role currently played by consumer group Energywatch.

From October this year Energywatch, which defends the rights of domestic and business customers, will be merged into a larger consumer body with other watchdogs, known as Consumer Focus.

The BCC fears this could have a negative impact on the body's ability to cater to the needs of businesses. Energywatch currently receives some 32,000 calls from businesses seeking help and advice each year.

"A new and dedicated business watchdog would ensure that this vital service is not lost in the creation of a single consumer group covering a range of industries," the BCC said.

The group said businesses enjoy less protection than household consumers. Energy suppliers do not have to publish their tariffs for business users, as they do for household users. Household customers can switch every 28 days, but businesses are often asked to sign contracts lasting up to five years.

"With the economy slowing and energy bills on the rise, it is totally unacceptable that hard-pressed businesses are left so open to exploitation by energy suppliers," said the BCC's Director General David Frost. "If a 'super consumer group' is to be established, as the government plans, there is little doubt in my mind that this service will be all but lost, leaving companies at the mercy of the suppliers."

ELECTRICITY

Austria

Nuclear politics threaten regional power deal

Differences of opinion on nuclear power threaten to tear apart a deal which would bring closer ties to three regional utilities. Following demanding negotiations earlier this year Tirol's Tiwag utility agreed to purchase an 8% holding in Upper Austria's Energie AG; the deal would also give Tiwag an eventual option on up to half of Energie AG's 26% slice of the neighboring Salzburg energy utility. Energie AG was pressed to find new owners for about 40% of its shares in order to raise some €600 million ($881 million) in cash needed to finance an earlier buyout of shares held by the Energie Allianz utility group.

But a side paper to the Tiwag/Energie AG agreement calls for Tiwag to wind down its ties with German utility E.ON, in particular the German Grafenrheinwald nuclear plant where Tiwag is committed to participate in costs of the plant refueling. This in effect would cancel the profitable arrangement whereby Tiwag swaps reservoir-generated peak power for cheaper base load supply from Germany – the standard Union for Coordination of Transmission of Electricity (UCTE) "mix" which includes about a 30% nuclear-generated component.

Tiwag general director Bruno Wallnofer says he will not abandon the highly favorable contract, while Upper Austria, which is known for being against nuclear power, insists that the side paper between the provincial governors be honored.

The Tiwag buy-in to Energie AG is at best delicate and disagreement could upset the whole scheme which brought bankers, industry and Austrian power major Verbund as new and monied shareholders for Energie AG. No other acceptable potential investors are currently in sight.

APG renews grid capacity warning

Austrian electricity transmission system operator, Austrian Power Grid has renewed warnings that the country is lacking sufficient transmission capacity, particularly on the 380 kV national grid.

Lack of grid capacity to carry output from wind farms mainly in the north of the country to meet demand in the south, more dependent on thermal and major hydro generation, threaten to cap further development of renewables projects, APG said in August.

By 2015 some 700 MW of new wind generation is expected to be added to the present 1,000 MW, most of which is concentrated in the northeastern part of Austria. This raises a further question over where the required conventional generation backup for wind capacity should be located.

APG board director Heinz Kaupa has called for a national law which would establish and give priority to energy rights-of-way.

Currently each regional mayor sets land use codes for their area of jurisdiction, meaning that negotiations for power lines are lengthy and costly. While a gap in the Styrian 380 kV grid (dubbed the "missing link") is finally under construction, work on bridging another gap in Salzburg continues to face determined opposition.

Belgium

Netting failures lose Elia €1.55 million

'Wealth' gains of an estimated €1.55 million ($2.28 million) were lost to the interconnection market between Belgium and its southern and northern neighbors between January 2007 and May 2008 according to the Belgian regulator, CREG. It blamed the losses on a failure to maximize netting opportunities, resulting in higher prices than necessary. The losses were more significant on the border with the Netherlands (€1.2 million of the total) than on the border with France.

Elia has not complied with its legal obligations on efficient operations, CREG said in a note to the Belgian minister of energy, the TSO (Elia), the Dutch regulator (Energiekamer, the former DTe), and the European Commission's Transport and Energy and Competition units.

A spokesperson for Elia told Platts that "improvements are introduced progressively and in response to market reaction," and that it was therefore reasonable in this context not to have introduced netting sooner.

Netting has been in place with France since July 1, 2008. It had been intended to introduce the change at the Dutch border on the same date, but TenneT was unable to make changes to its IT systems in time to introduce netting in September, as originally planned. The current target date is October.

France

RTE plans €1 billion/year power investment

RTE, the French grid operator, has committed to making electricity investments of around €1 billion/year ($1.5 billion/year) from 2009, the company said August 27.

Between 40 and 50% of that total will be dedicated to improving electricity transmission systems, including the building of 114 new systems.

Between 2009 and 2011, at least five new transmission systems will be built in Northern France, at various locations including Ponteau, Montagny and Oudalle, the grid operator said.

Alongside the new infrastructure, a number of existing transmission systems will also be modernized. At Biancon, the current transmission system will be increased to a level of 400,000 volts in order to reduce an existing supply problem in the Cannes-Grasse-Antibes region in the south of the country.

RTE's electricity investment in 2007 totaled €773 million, up 22% on the year before. In 2008, investment will reach around €852 million, which is 7% higher than in 2007.

Socatri C-14 work stopped after exceeding limits

France's nuclear safety authority, ASN, has suspended all activities of Socatri, the Areva subsidiary, that generates carbon-14 until the end of 2008, after analysis showed that the company had exceeded its annual limit for such releases by 5%.

Carbon-14 is a radionuclide. If radionuclides are released into the environment, through accident, poor disposal, or other means, they can potentially cause harmful effects of radioactive contamination.

ASN said in a note August 6 that the C-14 releases had originated in treatment by Socatri of solid nuclear waste on behalf of Andra, France's radwaste management agency in June. ASN said Socatri had reported the problem when it found out about the excess C-14 releases on July 4 and had immediately stopped work at the waste treatment facility, but that the releases had continued.

Preliminary estimates indicate that the release had a "very slight" impact on the environment and the public, only a few microSieverts, or less than a few thousandths of the annual dose limit of one milliSievert, ASN said.

ASN said it had asked the Institute of Radiological Protection and Nuclear Safety to evaluate the event's impact and take environmental radioactivity measurements.

Socatri has a contract covering storage, sorting and conditioning of very low-level wastes coming from so-called small producers, in particular pharmaceutical laboratories and hospital nuclear medicine departments.

ASN classified the event at Level 1, the lowest of seven severity levels, on the International Nuclear Event Scale. Another workshop at Socatri was responsible for a leak of uranium effluents July 7 that grabbed headlines for almost two weeks, in particular because measurements showed that some local groundwater had unusually high uranium content.

Socatri is under a special regulatory regime of continuous environmental monitoring, and Areva has said it will compensate local residents for the inconvenience of temporary bans on using some local water suspected to have been contaminated.

Germany

Court orders Vattenfall Europe to cut grid charges

Germany's Vattenfall Europe must pay back €50 million ($75 million) to its competitors because it overcharged for the use of its electricity network, Germany's highest court BGH found August 14. The money has to be paid back in the next regulatory period by lower grid charges.

The verdict confirms an order from the federal regulator of June 2006 when the agency ordered Berlin-based Vattenfall Europe, a subsidiary of Swedish state-owned major Vattenfall, to reduce its grid access charges by 18%.

German Economics Minister Michael Glos welcomed the verdict, saying the decision showed that regulation of grid access charges was working. It also confirmed Germany's way of pushing forward competition through an effective regulator.

The decision from the BGH could also lead to lower power prices for consumers because grid access charges make up as much as 40% of the enduser price.

Green power supplier Greenpeace Energy said though it did not expect prices to fall.

However, the lower grid access charges could partially balance out the higher cost for primary energy resources.

Vattenfall is mainly active in the east and the north of Germany.

Ministry outlines new standards for nuclear waste storage

Germany's environment ministry has outlined new standards for the final storage of highly-radioactive

nuclear waste, it said August 12. An updated safety standard had to be in line with the latest developments in science and technology which had to be adhered to for the operation and enclosure of a nuclear storage site, the ministry said in a draft proposal.

Current standards, established in 1983, were outdated, the draft said.

The new safety demands state that the reliable enclosure of radioactive waste had to be guaranteed for a million years. It also said waste containers had to be stable enough to keep hold of the waste for at least 500 years.

Constant improvements of nuclear storage sites and their operation was also a demand of the International Atomic Energy Agency.

So far, the only site investigated for waste – primarily spent fuel rods and the remains from the reprocessing of such fuel rods – has been the old salt mine Gorleben in the state of Lower Saxony. The environment ministry also wants other locations to be investigated.

Hungary

Government to sell off TSO Mavir by March 2010

The Hungarian government is to sell a 50-75% stake in the country's transmission system operator Mavir by March 31, 2010, government spokeswoman Bernadett Budai said on August 22 in an online briefing.

Budai said that in the first step of the privatization process, the justice ministry will draw up new regulations to ensure that no market player is able to obtain "a level of influence in Mavir that would threaten market competition."

The ministry must complete this by December 8, 2008. "No single market player should be able to acquire decisive influence in Mavir," Budai said.

"Today the system operator is owned by MVM, and the result is excessive market influence and the endangerment and weakening of market competition. In the end, the population feels this effect through unjustifiably high power prices."

The government had decided that MVM's ownership in Mavir must fall to less than 50% plus one vote, but remain above 25% plus one vote, she said. The shares will be sold at least in part through the government's earlier announced "New Ownership Program," which will increase privatization through public listings, with significant discounts for shares offered to Hungarian citizens. The sales will be carried out by the National Asset Management Company.

After a long battle, Hungary finally gave in to the European Commission's demands in June that MVM's role in the national power sector be reduced, above all through the renegotiation and, where necessary, cancellation of long-term power purchase agreements that tied up most generating capacity in MVM's hands.

As part of their investigation into the Hungarian power sector, officials from the commission and Hungary's own competition watchdog raided the offices of MVM and Mavir in May 2006. At the time, the commission said MVM probably controlled over 70% of the total power market.

The Netherlands

Dutch set to become net power exporters in 2009: TenneT

The Netherlands is set to become a net power exporter in 2009 due to the development of large-scale wind power installations and new conventional power plants, grid operator TenneT said on September 1 in a statement.

TenneT said its study, which is presented in its Security of Supply Monitoring Report 2007-2023, was based on a wide range of data, including information supplied by energy producers, and provides insight into the expected development of the demand for and supply of electricity in the Netherlands.

The report said "there is no need for further measures by the government to safeguard the security of supply in the Netherlands [as] the Netherlands in the next few years is becoming less dependent on electricity imports."

The country is so far a net power importer, bringing in electricity through its interconnectors with Germany, Norway and Belgium.

TenneT said the reversal to net power exporter status was expected due to such factors as lower-than-expected growth in electricity consumption, an increase in decentralized capacity and the continued growth of large-scale production capacity.

"As all these trends seem set to continue, the Netherlands will develop an electricity export potential in the near future. This turnaround is expected to occur as early as 2009," TenneT said.

TenneT said that while "extreme situations could endanger the security of supply in the past, this issue seems [set] to resolve itself in the coming years."

For instance, during very hot weather, rivers cannot be used for cooling water at power plants. However, TenneT said, new power plants are increasingly being built at coastal sites, where cooling-water problems would not arise.

"In addition, some of the reported new production plants will no longer be gas-fired," TenneT said, adding that instead more renewable resources would become available.

"This diversification has a favorable effect on the security of supply," TenneT said.

The Dutch TSO said it was also conducting joint, cross-border analyses with other European grid operators to get a long-term picture of European developments in the area of security of power supply and that the results of these studies were expected toward the end of this year.

TenneT said market coupling with Luxembourg and Germany was expected to be completed by early 2009. In a market-coupling system, electricity and transmission capacity are traded simultaneously, in order to improve cross-border infrastructure.

Also part of a European grid expansion are construction of new power connections with the UK and Germany, TenneT said.

Public funds for energy research soar

Dutch public sector subsidies for energy research were €208 million ($307 million) in 2007 according to a report by PWC (PriceWaterhouseCoopers) for the Dutch ministry of economics. This was an increase of around half from €138 million in 2006.

The increase came largely as the result of a new scheme to speed the transition to market of promising sustainable energy technologies. The scheme, known as the EOS Unieke Kansen Regeling, was also the primary reason for an increase from 28% to 50% of the amount going into demonstration projects.

The single largest topics were sustainable energy (31% of the total) and energy savings (29%). Increased spending on carbon capture and storage in 2007 led to a significant increase in the amount of research into fossil fuels. This segment accounted fro only 9% of the total in 2006, but this rose to 21% in 2007.

Last year was the first time that business got the lion's share of the funding – just over 50% of the budget. In previous years research institutions were the largest beneficiaries. Universities' share was stable at around 15%.

Most of the money is channeled through intermediary organizations. This was the case of €144 million in 2007. Of this latter amount, 70% was handled by SenterNovem.

Poland

Enea to build new supercritical 1,000 MW unit

Polish state power group Enea said August 11 it had established a new company to build a 1,000 MW supercritical unit at its Elektrownia Kozienice plant in eastern Poland.

"On August 8, Elektrownia Kozienice and Enea set up a special company called Elektrownia 'Kozienice II' whose task will be to build a new supercritical 1,000 MW energy block in Swierze Gorne," Enea said in a statement.

The new unit will be built on the site of the country's largest hard coal-fired plant, Enea's 2,880 MW Kozienice plant in Swierze Gorne, 75 km south of Warsaw.

It will cost an estimated Zloty 4.8 billion (€138 billion, $2.2 billion), the statement said.

Elektrownia Kozienice has taken a 70% interest in the company and Enea the remaining 30%.

In April, Enea's CEO Pawel Mortas said he hoped to finalize a tender for a constructor for the new unit by the end of the year. He said the investment would take between five to seven years to complete.

The investment will be partly funded by Enea's IPO scheduled later this year. The company hopes to raise between Zloty 3 billion-4 billion through its stock market debut.

Enea, one of Poland's four vertically integrated power groups based in Poznan, western Poland, wants to increase its generating capacity to match its sales.

At the moment, between 60%-70% of the group's sales are covered by its own generation at Kozienice. It also plans to invest in other generators. It has said it is planning to purchase private company Elektrim's 45.93% stake in one of the country's biggest power producers, ZE PAK.

In February the Treasury Ministry gave Enea the green light to pursue a possible takeover of the lignite-fired 2,338 MW ZE PAK, which produces around 12% of the country's electricity.

Enea supplies around 2.3 million customers in western and northwestern Poland. It has around 14% of the national sales market and produces around 11% of the country's electricity.

Romania

Government to invest €1.02 billion in Cernavoda nuke

The Romanian government has restructured a project to build two new Candu reactors at Cernavoda and intends to invest or underwrite €1.02 billion ($1.5 billion) worth of government funds into the project.

State-owned nuclear power operator Societatea Nationala Nuclearelectrica (SNN) has been in negotiations with six potential investors to build Cernavoda-3 and -4 (two new Atomic Energy of Canada Ltd, 720-MW, Candu-6 reactors) in a company structure that foresaw SNN taking only a 20% share of the project with little to no state financing.

The government's original strategy was to have as many investors as possible, not only to provide financing, but to avoid the possibility of any one investor outside Romania having a controlling interest in the project.

But in a government decree published in the Romanian Official Gazette on August 7 the project has been restructured such that SNN will now take a majority 51% stake in the project and the government will fund SNN's share through direct subsidies and government backed loans in the amount of €1.02 billion.

The total cost for the two-unit reactor project is estimated by the government to be €4 billion and SNN's participation would come to €2.04 billion.

Of this amount, the decree stipulates that the government will provide €800 million in funding from the

National Development Fund, starting with €20 million in 2009, and the remainder staggered over the years up to 2016. The government will provide loan guarantees for another €220 million.

Additionally, €350 million would come from “in-kind contribution of existing assets” including preparatory works and services such as studies, documentation, authorizations, and licenses; €150 million from SNN’s own cash and depreciation expenses; and €100 million from a partial stock exchange listing of SNN in 2011. Another €450 million of “budgeted” funds would cover heavy water production.

The heavy state subsidies for the project are likely to create problems with the EC,since competition rules governing energy markets discourages government subsidies.

Greenpeace’s EU Energy Expert Jan Haverkamp said on August 11 that Greenpeace would ask the European Commission to review the project for violating competition rules for energy markets.

SNN Chief Executive Officer Teodor Minodor Chirica said August 12 that Romania has already launched “informal” discussions with the EC and that “we are building a case” for the government investment.

Chirica would not comment on the Romanian government’s reasoning for the about-face on the project, but other sources said the government’s main motivation is security of supply and controlling energy supplies. The project is “strategic” for the country, said a source.

Prior to the government’s change of heart on Cernavoda-3 and -4, SNN was in negotiations with Enel, Suez/Electrabel, RWE, CEZ, Iberdrola, and steelmaker Arcelor-Mittal. The steelmaker and Iberdrola were negotiating to take 10% of the project, while the others were to take 15% each.

A spokeswoman for CEZ said August 12 that the future participation of the other investors is now “unclear. We are awaiting negotiations,” said CEZ spokeswoman Eva Novakova. “The project is under the control of the state and we support that,” she said.

An RWE Power spokesman said August 12 the company remained interested in the project.

Chirica said official letters have been sent to investors explaining the government decree and inviting them to begin negotiations for shares of the remaining 49% of the project. “We expect quite soon to meet and discuss this project,” he said in an interview on August 12.

The project has a target completion date of 2015 for both units, but Chirica said on August 12 the project will be delayed by six to nine months, commensurate with the time it took the government to evaluate and change the project structure.

He said the government has established a 120-day period, starting from the date of the decree, to set up a new investor agreement.

Two sources said that all six potential investors remain interested in the project, but whether that continues to be the case as negotiations get under way remains to be seen.

Spain

Regulator readies for third tariff deficit auction

Spain’s energy regulator, Comision Nacional de Energia has announced details of plans to auction the country’s electricity “tariff deficit” liability on September 30. The tariff deficit is the difference between regulated power prices, which some customers could opt to remain on until July 2008, and market prices, for which utilities must be compensated.

It includes €1.4 billion held over from the last auction and €2.425 billion that built up during the first three months of 2008.

This is the third time that the regulator has held auctions for the liability since November 2007, but at that time there were no takers. The rules changed in 2008 so that successful bidders earn interest at the Euribor annual interest rate.

The latest auction is expected to draw fire because of the mounting costs of the deficit both in terms of the high cost of power generation technologies and high market power prices.

Utilities recoup the tariff deficit from a levy on grid fees, but this has not been nearly enough to clear the deficit, which prompted the government to auction the liability instead.

Until 2006, the utilities had to negotiate their own debt with the banks, when the total deficit amounted to €3.2 billion less €1.2 billion that was struck off to account for European emissions trading scheme allowances that the utilities had received for free. Nevertheless, the utilities still passed on the costs of emissions allowances to consumers, so were able to cut the deficit.

But since July the government has banned utilities from passing on any costs for allowances they receive for free. Meanwhile production costs have risen by 45% since 2007 and income has only risen by 6.5%, so the tariff deficit in the first half of 2008 is now nine times higher than during the first half of 2007, standing at €2.325 billion rather than €267 million according to the CNE’s latest monthly report.

By year-end, CNE predicts that the total deficit for 2008 will be €4.750 billion, 3.8 times more than the €1.233 billion accumulated in 2007.

High oil prices offer ray of hope for domestic coal

Spanish coal for power generation has been back in vogue in the last few weeks as high oil prices, rising transport costs and demand from emerging economies make coal more attractive as a feedstock. In fact, Spanish coal is currently more competitive than both imported coal and natural gas, according to figures from the main miners union, the SOMA-FIA-UGT .

The union points out that the cost of imported coal has doubled since 2007 to reach $200/metric tonne , taking power production costs to €77MWh with imported coal compared with €64/MWh with gas, or just €59/MWh with domestically produced coal. This scenario offers Spanish coal producers, who had been sinking, a lifeline.

Power produced from coal currently accounts for 24% of all electricity, according to SOMA figures, but only 8% of coal-fired production comes from domestic coal, which until now had been more expensive than imports.

Now domestic coal producers see themselves as part of the solution to energy dependence, alongside renewable energy – Spain depends on imports for 83% of its energy, according to the Spanish energy association Club Espanol de la Energia.

“By 2050 twice as much power will be produced from coal than today, and even in the most developed countries it will be very hard to drop coal, because unlike other fossil fuels, there’s no shortage of coal reserves,” the association said.

“Nobody with an ounce of common sense could venture to say that coal isn’t necessary,” said Juan Garcia Secades, chairman of Spanish coal producers association Unesa at a July seminar on coal in Spain’s coal-mining heartland, Asturias.

Producers are unlikely to sink any new mines, but the current scenario means prospects for existing mines are a little brighter. And over the longer term, coal’s future is tied to successful deployment of carbon capture and storage technologies, as advocated by the European Commission in its third energy package.

Spain’s strategic coal reserves plan for 2006-12 commits the country to build new clean coal-fired plants and gradually shut down existing plants so that by 2012, only clean plants are left.

But equipping Spain’s coal-fired power plants with CCS would cost €6 billion, while building a new coal-fired plant with CCS would cost €14 billion, according to official estimates.

“At least [this new price scenario] will help as we negotiate the 2013-2020 coal program, on which our future depends, said Secades,”because so far we have no guarantees at all beyond 2012.”

Endesa could face €90 million fine over Asco nuclear plant

Spanish power major Endesa could face a fine of more than €90 million ($132 million) after Spain’s nuclear watchdog CSN August 18 filed proposed sanctions against it with the government over a radiation release at Endesa’s Asco-1 nuclear plant in November 2007.

CSN proposed the sanctions to the Ministry of Industry, Tourism and Commerce after its commissioners unanimously concluded there were violations of procedures and regulations at the plant related to the 2007 incident that were not reported to the CSN until April 2008.

CSN found four serious violations, one of which, if corroborated by the ministry could lead to penalties of up €30 million; while three other serious violations carry penalties of up to €20 million each. Two other lesser violations carry penalties of up to €15,000 each.

Asco-1 is operated by Asociacion Nuclear Asco-Vandellos II, or ANAV, which is a joint venture of Endesa and Spanish utility major Iberdrola.

In a statement August 18, ANAV said it would review the charges in detail and respond in the course of the administrative proceedings.

The incident involved Spain’s first known release of radioactive contamination from a nuclear power plant.

CSN has previously said the release would likely never have happened if Asco-1 plant staff had not taken certain actions during the unit’s refueling in November 2007. CSN said in May that plant staff reset radiation monitors in the spent fuel pool building to stop them from sounding an alarm. That action allowed a switch from the emergency ventilation system, which has filters, to the normal ventilation system, which does not, thus providing a pathway for the release.

Radioactive particles were found offsite. Thousands of workers and plant visitors have been screened for contamination but no one has been contaminated in the incident.

Vandellos 2 reactor down for weeks: CSN

On August 25 Spain’s nuclear safety agency CSN 25 reported the 1,087 MW Vandellos 2 nuclear power plant in Spain’s northeast Tarragona province was expected to be shut for several weeks, after the reactor went into automatic shut down on August 24 following a fire.

The fire, in the electrical generator in the turbine building was completely on the non-nuclear side of the plant and there were no injuries from it and no radiological risk, according to a statement from plant operator Asociacion Nuclear Asco-Vandellos II, ANAV. ANAV is a joint venture between the plant’s majority-owner Endesa and minority owner, Iberdrola.

ANAV said the cause of the fire was still unknown and it was still assessing the extent of the damage from the fire, which burned for an hour and ten minutes, before being fully extinguished by plant’s own fire brigade.

Switzerland

Utilities warn of 15-30% prices hikes

Swiss energy consumers can expect to experience a 15-30% increase in their electricity bills next year – averaging CHF0.025-0.045/kWh (€0.015/kWh-0.028/kWh; $0.023-0.04/kWh) – power producers warned in August ahead of formally notifying the Swiss energy regulator of their 2009 tariffs.

The increase comes at a time when the country is facing the first stage of electricity market opening, giving consumers using more than 100 MWh/year the freedom to switch supplier.

Swiss electricity utilities cited increased costs of preparing for liberalization and increases in grid access fees among their reasons for needing to raise prices. They also blamed national power transmission system operator Swissgrid has announced its operating fees for overseeing and managing the national grid will be around CHF1.2 billion (€0.74 billion; $1.10 billion) next year.

Swiss energy regulator ElCom, said it would launch an investigation into the power prices hikes, which spokesman, Frank Rutschmann, said lacked sufficient transparency. However the results will not be available before the middle of next year, ElCom said.

Swissgrid CEO Hans Peter Aebi meanwhile rejected criticism from the utilities that the TSO was "cashing in." "For years the [Swiss] overland utilities failed to soundly prove their real transmission costs. Nobody knew how they calculated [their prices] – we do now," he told Platts.

The Swiss government in August opened an investigation into the rising electricity prices, promising to bring the issue to the federal parliament's attention. Swissgrid is also subject to an ElCom probe.

UK

Power companies back Scottish plan to bulk-buy power

Scotland's largest energy suppliers August 18 backed a plan by the Scottish government to buy electricity in bulk for the country's public sector.

Scottish ministers have launched a tender to supply electricity on a national basis to all public bodies, replacing hundreds of individual contracts worth £200 million (€248 million, $373 million) a year.

The centrally negotiated deal would secure the best possible prices for power, potentially saving Scottish taxpayers more than £15 million over three years.

Spanish-owned Scottish Power, Scotland's largest energy supplier, said August 18 it would be keen to open discussions about a potential deal. "We'd certainly be interested in talking to [the Scottish government], and plan to do so in the forthcoming weeks and months," Scottish Power spokesman Simon McMillan said.

Perth-based Scottish and Southern Energy was similarly enthusiastic about the scheme, with spokeswoman Sharon Miller-McKenzie saying that the "contract would certainly be a prestigious one to get."

The contract is due to be awarded within the next few months. The initial supply period will run for three years from October 2009, with options to extend it a further year.

"The national procurement of electricity will be important in minimizing the impact of spiraling prices on the public sector," finance secretary John Swinney said.

Meanwhile, newspaper Scotland on Sunday reported on August 17 that the Scottish government has been banned by the UK government from talking to Norwegian officials about constructing a possible £2 billion electricity connector between Norway and Scotland. Scotland's energy minister Jim Mather is due to visit Oslo in October, but the UK department for business, enterprise and regulatory reform has told Norway that it, not Edinburgh, has responsibility for national energy matters, the newspaper said.

A source close to First Minister Alex Salmond responded by telling the paper that "BERR is proving to be the single biggest obstacle to Scotland fulfilling our renewable energy potential."

Ex nuclear waste committee head calls for clearer policy

The UK government needs to establish a clear policy on radioactive waste, according to one of the UK's top nuclear experts, the former chairman of the independent body that advises the UK government on long-term radioactive waste management.

Professor Gordon MacKerron, who chaired the Committee on Radioactive Waste Management between December 2003 and 2007, said the government is tending to muddle up policies for dealing with waste from existing plant and those from any new reactors.

"The problem is that government has tended to conflate the issue of managing legacy waste with the disposal of waste from new-build," said MacKerron, who is currently director of the Sussex Energy Group at the University of Sussex. "I think the issues should be kept separate but at the moment government seems intent on trying to merge them together and there is no doubt that the prospect of new-build is making the solution, even of the legacy waste, politically somewhat more complex than it looked likely to be maybe only two or three years ago."

MacKerron also dismissed claims that that new nuclear power plant build will address security of supply threats in the short term.

"Nuclear can address some questions reasonably well over a long time frame. I think everyone now pretty much agrees that, despite much optimism from one or two of the companies, we won't get another kilowatt hour out of a new nuclear power plant before about 2020," said MacKerron. "Most of the security-of-supply debate is about what is happening now and in the next five and 10 years so it doesn't really address security very directly. It might address climate change issues in the long term but I think it is mostly a red herring in relation to current concerns about security."

An edited version of the interview is available to download as a webcast from www.webcast.platts.com

Agency suggests using waste plutonium in new reactors

The UK Nuclear Decommissioning Authority said August 14 that reusing waste plutonium as fuel for future

nuclear reactors is one of the "credible options" it will put to the UK government at the end of the year.

In its plutonium options paper released August 14 for public comment, the NDA said the other options for the UK's store of civil nuclear waste plutonium are either continued long-term storage or direct disposal via burial in a geological repository after immobilization in some kind of medium, such as concrete or glass.

The majority of the 100 tonnes of civil plutonium came as waste product from the operation of the UK's fleet, now mostly closed, of 26 magnox reactors.

The NDA is seeking comments on the options by October 8 and expects to make its recommendations to the government, via the Department for Business, Enterprise and Regulatory Affairs, in December.

EirGrid buys Northern Ireland TSO

The Republic of Ireland's national grid operator EirGrid said on August 22 it is to acquire SONI, the transmission system operator for Northern Ireland, in a deal believed to be worth £30 million (€37.6 million). SONI is a subsidiary of Northern Ireland Electricity, which in turn is owned by energy utility Viridian.

NIE will continue to own and maintain the transmission network in the North.

The sale of SONI is in line with an agreement reached with the authorities in Northern Ireland to enhance the independence of the transmission system operator. The deal is scheduled to complete by October 2008 and further enhances the role of the all-island Single Electricity Market Operator, which operates the wholesale electricity market for the North and the Republic combined.

EMISSIONS

EU

EU, UN agree October date for emissions registries link-up

The European Union and the United Nations have agreed an October timeframe for a link-up between their respective greenhouse gas emissions registries, the European Commission said August 7.

"The United Nations Framework Convention on Climate Change secretariat, in close cooperation with the European Commission, has completed successfully a major round of extensive technical tests relating to the linking of UNFCCC's International Transaction Log (ITL) and the Community Independent Transaction Log (CITL)," the EC said in a statement.

"These tests took place from July 18 to August 4. The UNFCCC secretariat confirms that the preparations are on schedule and, following satisfactory completion of the remaining preparatory work, the linking of EU's registries and CITL to UNFCCC's ITL can start in the first half of October this year.

The EC is prepared to meet this timetable," the EC added. The successful linking of these emissions registry systems will allow full trading of emissions credits between EU member states and non-European signatory countries to the Kyoto Protocol.

Germany

Ministry rejects emission auctions as excuse for price hikes

Germany's environment ministry has rejected media claims that stricter emission trade with full auctioning from 2013 will add "billions" to consumers' bills.

In a statement on August 19, the ministry said full auctioning of emission rights, as planned by the European Commission from 2013, would not lead to more profits for the utilities because they had "priced in" the cost already.

Energy suppliers currently have to buy 10% of their rights and receive the remaining 90% for free from the state. "Nevertheless they have already alleged that they had to pay for all rights.

The 'virtual' costs for 100% of emission rights are therefore already included," the ministry said. "This means: electricity consumers already pay for them – which of course leads to significant profits on the generators' side. Those profits will from 2013 be skimmed off because from then on the suppliers have to buy all their rights. There is no reason to use stricter emission trade as an explanation for possible rises of power prices from 2013," said the ministry.

The financial means the state receives from auctioning of emission rights are used for the national initiative for climate protection. It finances for example the use of energy efficient and climate- friendly technologies in private households and businesses.

But the lobby group for energy-intensive power users in Germany, VIK, August 21 slammed the environment ministry's claim that electricity prices will not rise with the introduction of full auctioning of emission rights from 2013.

In a statement on August 21, VIK said it expected prices to rise by "at least 50%" if full auctioning of emission certificates was implemented, as planned by the European Commission.

"Claims of the opposite are a pure con," said Alfred Richmann, chairman of the lobby group. "Those claims are uttered to conceal the fact that auctioning from 2013 – in addition to emission trade – will effectively introduce a new CO_2 tax."

The group said additional costs would amount to at least €15 billion ($22 billion) annually from full auctioning. If the CO_2 price hits €70/mt, the "tax" could raise €20-25 billion annually, according to VIK's calculations.

VIK criticized the fact that power prices would rise

dramatically at a time when the environment ministry is calling for social tariffs for the poor and there is talk of lower tax rates for energy.

VIK said the environment ministry would benefit from the full auctioning and accuses the ministry of therefore wanting to hide the truth. "No one should be fooled: this new tax, disguised as an auction, does make no ecological sense, drives power prices upwards and burdens industry, businesses and households," it said.

The lobby group noted that energy suppliers will have had eight years to get used to the high profits through the pricing in of emission certificates which they currently get for free from the government. "It is more than naive to believe that the suppliers will waive their very high profits through auctioning," VIK said.

VIK represents energy-intensive users from the chemicals, glass, paper, steel and cement industries.

Poland

New law threatens to harm Polish emissions trading

The Polish government's attempt to "move the goal posts" in the way its industry trades in emissions allowances is a cause for concern, market participants and observers have told Platts.

Poland's environment ministry told Platts in July that the government had drafted a new emissions trading law to cut back on market speculation in the second period of the European Union's emissions trading scheme in 2008-12. The law must still be approved by parliament, which will likely vote on it in the autumn.

During the first period of the ETS, 2005-07, many Polish companies received much higher CO_2 emission allowances than they needed. The new bill allows the government to claim back unused allowances and sell part of them under a newly created auctioning system.

Any company that reduces its CO_2 emissions by more than 30% compared with the previous year will have its allocation cut by the same amount during the following year. The bill stipulates this will not apply to companies that reduce their emissions through modernization, installing environmental technologies or by using different fuel.

Ludek Horn, head of front office at Czech utility CEZ, has seen the draft law and says Poland is trying to limit emission trading within the second national allocation plan. Quoting from the draft, Horn said: "'In case of a substantial decrease in emissions in the installation covered by the system, which was not caused by emission reduction [through improvements in technology] the national administrator of the system will change the allocation of emissions for the following year in the allocation period, proportionally to the decrease in emissions," he said. "A substantial decrease in emissions takes place when based on the verified report submitted by the owner of the installation [and] emissions from the previous year of the allocation period were lower than 70% of the average allocation given under the system."

"Allowances which were not credited to the account of the owner of the installation...will be moved to the auction pool.'"

According to Horn, the government's intention is not consistent with the spirit of the EU ETS. "It looks even odder in the light of the interest of the same government to participate in the CCS [carbon capture and storage] pilot projects funded at least partly by the EU," Horn told Platts. "The law will block market forces...and Polish power plants will be indirectly forced to generate even at times when it would be more efficient not to," he said.

"Power plant operators would be strongly recommended under the law not to arbitrage power/CO_2 and instead generate even if it is more economical not to in order to sell their EUA allowances."

Traders want to know whether Poland's plan is in line with EU law on emissions trading. Zbigniew Olszewski, managing director of EGL Polska, told Platts: "I thought those ministerial ideas died some time ago, but it seems that they are still alive." "In my opinion the ministry, as in the past, wants to get everything under its control," he said. "But is it possible to make such a law under the EU ETS?"

According to the EC, the Polish plan would go against the principles of "banking" unused EU emissions allowances. EC environment spokeswoman Barbara Helfferich said: "We can't comment on individual member states' proposals without seeing them, but any legislation would have to comply with the directive on emissions."

"Member states have to specify how much they are going to auction and normally they reserve that to auction allowances not used because an installation is no longer trading," she said. "For installations that are still trading, they are allowed to bank any surplus allowances from year to year...Taking back the surplus, to auction it, would defeat the whole idea of giving them incentives to cut their emissions," Helfferich said.

A lawyer, who did not wish to be named as his company is advising one of the Polish utilities currently challenging the NAP, said EC rules were "silent" on whether member states could do this.

"The way that allowances are auctioned is entirely up to member states," he told Platts. "The main issue is whether the EC would approve the total cap proposed by Poland as the first draft NAP for state 2 was sent back for being too high," he said. "Poland might be trying to hedge its bets in case it loses a court case in the European Court of Justice and gets told to revise its NAP downward," he said. "Being able to claw back unused allowances from installations would help it to do this."

Open to abuse

According to Jan Pravda, managing partner of Pravda Capital, the draft law may have a "noble cause at its core" in encouraging technological improvement, but in reality it is unreasonable at several levels. Pravda Capital is a Prague-based investment banking company active in emissions trading and corporate finance.

Firstly, the draft law creates uncertainty and may be open to abuse. For example, “a company might cut emissions by 29.9% and not more, meaning the law would not change a company’s behavior towards emissions reduction beyond the 30%,” Pravda said. Secondly, it would be unreasonable to take the excess EUAs of companies that have shut down part of their energy-intensive business. Thirdly, it is unreasonable to implement something that is subject to bureaucratic interpretation of technological or efficiency improvements, he said.

“For example, a brickmaker might reduce its energy consumption, not necessarily by buying a more efficient boiler, but by using a less energy-intensive production line or adapting a more efficient operating schedule,” Pravda said. “In other words, there are operational methods that can improve energy efficiency but which are not necessarily energy technological improvements.”

Fourthly it would encroach on a company’s decision-making, and finally it would indicate that the government is “making changes as it goes along.”

At the end of the day, if the government gives allowances to companies that don’t use most of them at all, then that’s the government’s problem, Pravda said. “The government should manage this risk up front and allocate allowances more precisely and prudently,” he said. “EU law says that emissions should be reduced, not just through technological improvements…Some of our industrial clients, with high energy use, are already reducing emissions in Poland by means other than technology improvements, such as by reducing production or moving their plant elsewhere,” Pravda added.

“The problem is that by setting the seemingly arbitrary benchmark of 30%, the government is effectively saying that you can’t move your production, shut it down or reduce production by improvement of operating efficiency to cut emissions and keep all the EUAs you were allocated,” Pravda said.

GAS

Austria

Regulator to probe shippers’ new TAG capacity use

Austrian energy regulator E-Control said on August 25 that it is to check that the successful bidders in July’s second step auction for new long term capacity in the Trans-Austria Gas pipeline offer to sell any unused capacity to third parties as required by Austrian law.

The TAG pipeline is a trunk pipeline that takes Russian gas from the Slovak border at Baumgarten in the northeast, to the Italian border in the south.

The specific legal provision entered into force on January 1, 2007 and applies to all capacity bought since then through central trading platforms – such as that used to auction new capacity in the TAG gas pipeline running from gas hub Baumgarten in Austria to Tarvisio on the Italian border.

“Some shippers who received capacity in the [first step auction for allocating new TAG capacity] did not follow this provision and we will be informing them that their contracts are invalid,” said E-Control’s managing director, Walter Boltz.

“In practice this means that the contracting parties [and] also any third party can invoke the fact that the contracts are void under civil and competition law.”

Boltz added that “the large number of applicants at the [second step] TAG allocation now requires us to monitor capacity transactions on the secondary market closely. I cannot exclude the possibility that collusive behavior between applicants took place and we will look into this carefully.”

Pipeline operator TAG is creating extra capacity by building a new compressor station at Weitendorf in Austria. It offered in the second step auction an extra 410,000 cubic meters/hour offtake at the Austrian/Italian border and an extra 186,000 cubic meters/hour offtake at Weitendorf.

TAG offered 90% of this capacity on 20-year contracts starting October 1, 2009. The remaining 10% is to be auctioned each year from spring 2009 as annual contracts for the following gas year, starting October 1, 2009.

TAG plans to publish the aggregate results of the second step allocation for the long term contracts by October 15, 2008 at www.taggmbh.at.

EU

Dutch-UK gas pipeline expansion given final go-ahead

The proposed 3.2 billion cubic meter/year expansion of the Netherlands-UK Balgzand Bacton Line gas pipeline has been given final approval by the operator’s shareholders, the BBL Company said August 19.

The move involves adding a fourth compressor to the pipeline at the compressor station at Anna Paulowna in the Netherlands, the company said. This would boost flow capacity by 3.6 GWh/hour, the company added, to a total of 20.6 GWh/h, or 46.7 million cu m/day.

The pipeline ends at the Bacton terminal in the UK.

BBL said it had received confirmation that Dutch grid operator Gas Transport Services would proceed with the expansion of the Dutch grid necessary to accommodate the expansion project. “This means that all conditions for a positive investment decision have now been fulfilled,” it added.

The company said its shareholders had taken a “positive final investment decision.”

Company partners include Gasunie, E.ON Ruhrgas and Fluxys.

Earlier in August, BBL said the additional capacity would be available from December 2010. Not all of the

firm capacity had so far been contracted, BBL said. Long- and short-term capacity was being offered to the market on a first come, first served basis, the company added.

The firm forward flow capacity would be available on a yearly, monthly and daily basis. As of September 1, BBL would also be offering interruptible forward flow and non-physical reverse flow capacity on the pipeline, it said. These would be offered on a monthly and a daily basis, with a maximum duration of a year, and again on a first come, first served basis.

At the moment, BBL has three compressors to push gas to the UK, but one is out of action following damage earlier this year. The pipe can work to its contracted flow levels with the two remaining compressors, but has nothing left spare if something else goes wrong. The company said earlier this year the third compressor was expected back by winter. Winter gas contracts normally start in October.

Turkey calls for Caucasus stability platform

Turkey, eager to restore confidence in the region as a transit route for Caspian energy supplies, has proposed formation of a Caucasus Stability Platform uniting Armenia, Azerbaijan, Georgia, Russia and Turkey. Turkish Premier Recep Tayyip Erdogan visited Moscow, Tbilisi and Baku in the wake of the Georgian conflict (*see page 1*) to promote the proposed platform.

But he did not visit the Yeravan, the capital of Armenia, with which Turkey does not have diplomatic relations.

This, say observers, is one reason why the proposed platform will be difficult to implement.

Other reasons include enmity between Baku (Azerbaijan) and Yeravan over Armenia's occupation of Nagorno-Karabakh in Azerbaijan, and the refusal of the present Georgian leadership to talk to the Kremlin in the wake of the recent conflict where Russian troops occupied Georgian territory in and around the breakaway South Osettia region.

In an initial reaction, however, Armenia, Azerbaijan, Georgia and Russia welcomed the Turkish initiative, on which further high level talks are scheduled.

Meanwhile Turkish officials are reviewing security for East-West oil and gas pipelines transiting Turkey following an explosion and fire – simultaneous but unrelated to the Georgian conflict – that halted for ten days the flow of Caspian Sea oil to Turkey's Ceyhan Mediterranean energy terminal.

Responsibility for the blast, in Turkey's northeast Erzincan province, was claimed by the PKK Kurdish independence organization, and although this now seems unlikely, the PKK brutally demonstrated its ability to launch attacks in the pipeline's vicinity by killing nine Turkish soldiers with a roadside bomb in Erzincan days after the pipeline explosion.

France

203,000 residential users switch gas suppliers

The total number of French residential gas users opting to switch away from the former incumbent, Gaz de France, reached 203,000 in the last quarter, up from 128,000 in the previous quarter, energy regulator CRE said on September 1.

A total of 288,000 households chose alternative electricity providers in the same quarter, increasing from 112,000 in the first quarter of 2008, the regulator said in a statement.

In France, more than 29 million residential homes use electricity while 11 million are supplied with gas.

Non-residential gas and electricity usage remained more stable than residential usage in the second quarter. The number of non-residential users choosing an alternative gas provider in the second quarter was 84,000, a slight increase to the first quarter figure of 80,000. A total of 344,000 non-residential sites switched electricity provider in the last quarter, compared with a slightly lower 342,000 in the previous quarter.

The final liberalization of the residential gas and electricity markets in France, giving households more choice of supplier, took place around a year ago, according to the CRE. The opening up of the industrial and commercial sectors was completed just over four years ago.

Italy

AEEG approves 2008-09 LNG terminal use tariffs

Italian energy regulator the AEEG has finalized tariffs for use of LNG terminals during the gas year 2008-09, terminal operator Snam Rete Gas said in a statement August 8.

Snam is operator of Italy's only operational LNG terminal, at Panigaglia on the Mediterranean coast. A second, at Porto Levante on the Adriatic coast being built by Qatar Petroleum, ExxonMobil and Edison, is scheduled to begin operations in October.

In its latest resolution (118/08) the regulator said that Snam's LNG terminal tariffs for the thermal year 2008-09 had been determined on the basis of reference revenue of €25 million ($38 million).

Actual revenue for the thermal year 2008-09 will take into account the regasified volumes, Snam said.

The regulated asset base (RAB) on which tariffs for LNG terminal use were calculated was set by the regulator at €101 million as at the end of 2007. The RAB for Snam's transport, dispatching and regasification activities has been set as €12.3 billion.

The regulator had earlier set the criteria for the tariffs in its regulation 92/08, published by Snam on

July 10. It did not specify at that time how much the RAB or the reference revenue would be.

The earlier regulation set out that: the RAB would be calculated using a "re-valuated historical cost" methodology; the allowed rate of return would be 7.6% in real terms pre-tax; new investments would attract a premium up to 3% maximum; and an efficiency factor would be applied to operational costs of 0.5% a year in real terms.

Carlo Malacarne, CEO of Snam Rete Gas, said: "The regulation for the next period guarantees a substantial stability, leveraging on principles of continuity and coherence, with the objective of providing incentives for development capex."

Germany

Regulator takes legal action on L grid mergers

The Bundesnetzagentur, Germany's network regulator has started a market abuse case against five gas network operators because of their failure to merge their low calorie gas grid areas, the agency said on August 25.

The companies concerned are RWE Transportnetz Gas, E.ON Gastransport, EWE Netz, Erdgas Munster Transport and Gasunie Deutschland Transport Services.

The Bonn-based government agency said the five network operators had withdrawn their agreements to merge their five L-gas areas into two by the start of the new gas year on October 1, 2008.

However, a reduction of grid areas was "urgently necessary to push onwards the still insufficient competition in the gas market and with that create better conditions for consumers to switch supplier," said the regulator.

"There is reason to suspect that the companies do not comply with the law which states they have to keep the partial grids and balancing zones as low as possible," said Matthias Kurth, president of the regulatory agency, in a statement.

Kurth slammed the companies for disobeying the fact that the merger of networks should be carried out according to possible bottlenecks and the technical options of the grids and not the borders of network ownership.

A merger of market areas would simplify market access for new suppliers, make transport of gas easier as well as increase liquidity in the gas network. L-gas is gas with a low calorific value.

Dutch Gasunie denies any plan to take over German RWE gas

Dutch gas transporter Gasunie denied August 13 it had plans to take over German RWE's gas network in Germany. Earlier that week media reports suggested Gasunie was planning to take over the RWE gas network, following an interview in German newspaper Handelsblatt with Gasunie CEO Marcel Kramer.

"We absolutely did not mention any intention to buy the RWE gas network whatsoever," a spokesman for Gasunie told Platts on August 13.

He said that in the interview Gasunie had "stated only and explicitly" that it was the company's job to closely monitor developments in the European gas and infrastructure market.

He added that logically this meant that Gasunie would pay attention to RWE's sale plans, but only in the same way as it would pay attention to any major gas development in Europe.

In June RWE said it would sell its gas network within the next two years. This would help to address European Union competition concerns regarding major gas suppliers that also control gas pipeline networks.

In November 2007, Gasunie bought the German gas network of German gas company BEB, from BEB owners Shell and ExxonMobil.

Poland

Polish, German gas interconnectors could be ready in 2011

State-owned Polish natural gas company PGNiG on August 13 said planned interconnectors between Poland and Germany would not come onstream until 2011 at the earliest.

PGNiG plans to raise its imports from Germany by up to 3 billion cubic meters/year by building or expanding pipeline interconnectors.

Currently PGNiG imports around 900,000 Mcm/year of gas from Germany through its interconnector at Lasow in Lower Silesia, southwestern Poland.

"On the Polish side the path is already established, we even have the construction permits for some of them," PGNiG's deputy CEO, Radoslaw Dudzinski, told the state news agency PAP.

"There's more work to do on the German side because there the company does not yet have the rights to the gas pipeline routes yet. There, they will have to start the work from scratch," he said.

Dudzinski said it takes 24 months on average to obtain the building permits in Germany, meaning the interconnectors could start construction in 2011. "The construction itself will not take long, however, around eight months," he added.

PGNiG is analyzing plans to connect or boost supplies from the German system in two places, near Szczecin in northwest Poland and at Lasow. It is planning to increase supplies through Lasow by between 1 and 1.5 Bcm/yr and to import a similar amount through a new pipeline to Szczecin.

The interconnector to Szczecin, on Poland's Baltic Sea coast, would require investment from both PGNiG

and Germany's VNG and would be carried out by InterTransGas, a joint venture set up by the Polish and German firms.

Poland has planned similar interconnectors in the past but the plans were shelved because successive administrations decided the investments would not lessen the country's dependence on Russian gas because much of the gas in the German system comes from Russia.

Instead, PGNiG is planning two major projects: a €450 million liquefied natural gas terminal at Swinoujscie near Szczecin to import up to 5 Bcm/yr; and a 230 kilometer-long pipeline under the Baltic Sea between Redwig in Denmark and Niechorze in Poland in order to import 2 Bcm/yr from Scandinavia.

Currently Poland imports 9.3 Bcm/yr of gas, 70% of the country's needs, mainly from Russia and central Asia.

Dudzinski said the LNG terminal would come onstream in 2014 at the earliest. PGNiG sees the German interconnectors as a way of securing supplies in the meantime.

Portugal

Iberdrola obtains license to sell natural gas in Portugal

Spanish energy group Iberdrola has been granted a license to sell natural gas in Portugal's liberalized market. The license, awarded by the Portuguese Department for Energy and Geology, will enable Iberdrola to import, export and sell natural and liquefied natural gas in the country. It also will allow the company to buy and sell natural gas wholesale and sell it to retail clients.

Iberdrola already generates and sells electricity and renewable energy in Portugal – it sold 11 GWh and had 134 fixed electricity contracts there in the first six months of 2008.

Iberdrola is in the early planning stages of an 850-MW combined heat and power plant in Figueira da Foz, located in central Portugal. It also is waiting for permission to build a hydroelectric complex in the Northern region of Alto Tamega. The company currently has 56 MW of wind energy in Portugal.

Slovakia

SPP disappointed it can't raise prices

Slovak gas company SPP is disappointed that it has not been allowed to raise its gas prices by 15.9% this October as it requested, the company, which is the country's dominant, former monopoly gas utility, said in a statement.

On July 25 SPP submitted the proposal for the price hike to the country's Regulatory Office for Network Industries (URSO), arguing that a major increase in crude oil prices had pushed up costs.

Gas prices in European contracts are often linked to oil prices or to oil product prices, usually with a six-month timelag.

But URSO told SPP it was declining the proposal, arguing that the documents were insufficient and it did not see a major increase in costs.

SPP said it was "greatly surprised by this decision." It said it had enclosed all the documents it had thought necessary.

"Moreover, this time the company also provided the regulatory authority with a statement of an independent auditor which confirmed the accuracy of SPP's calculations."

In addition, SPP said that crude oil had recently been seen heading for $150/barrel, whereas the regulator had anticipated prices of $78/b when setting the 2008 household gas prices for Slovak customers.

"SPP does not understand the behavior of URSO, as nobody can overlook the current global growth in energy prices," the company said. "Postponing the inevitable increase of gas prices is only amplifying the problem in the future."

SPP said it was considering its next moves. Most other countries have seen gas prices increase. In the UK for example the main household gas supplier Centrica raised prices by 35% in July.

Spain

Gas grid operator gets go-ahead for more LNG storage

Spanish natural gas transmission grid owner-operator Enagas has received environment ministry clearance to install a seventh LNG storage tank at its Barcelona import terminal in the northeast of Spain.

The authorization, disclosed August 18 in Spain's official state gazette, would raise overall storage capacity at the regasification plant to 690,000 cu meters from 540,000 cu m.

The installation is expected to be operational in October 2010, while a proposal to add an eighth storage tank, also of 150,000 cu m and tentatively scheduled to be completed in mid-2011, is going through the permitting process.

Also at Barcelona, Enagas received industry ministry authorization in November to increase hourly throughput capacity to 1.8 million cu m from 1.65 million cu m.

The capacity expansion is slated to be completed in April 2009, about four months behind schedule.

A further capacity expansion, to 1.95 million cu m/hour and originally scheduled to be completed in June 2009, is still awaiting administrative approval. The company is also upgrading its Huelva and Cartagena LNG import terminals and expanding its domestic pipeline network to help meet projected natural gas demand growth in Spain.

UK

Safety watchdog worried over offshore hydrocarbon releases

The UK's Health and Safety Executive said August 13 it was concerned about the continuing number of major and significant hydrocarbon releases in the offshore oil and gas industry. The government watchdog said that releases of hydrocarbons are often a sign that there could be a major accident in the future.

Figures released by the HSE revealed there had been no improvement in the number of this kind of incident during fiscal 2007-2008 (April-March). During the fiscal year, 517 dangerous incidents were reported, 40% of which were hydrocarbon releases.

"The statistics we have released today underline that we are far from being in a position where we can feel comfortable," said HSE chairwoman Judith Hackitt.

"Although there are instances where improvements have been sustained, the control of potential major incident risks seems to have taken a back seat." "We continue to be concerned at the failure to reduce the number of hydrocarbon releases, together with an increase in the number of major injuries. This suggests that basic safety systems are not being followed," she said.

The HSE is currently carrying out a review of offshore safety for the UK government. HSE's report on offshore statistics is available at: http://www.hse.gov.uk/offshore/statistics/stat0708.htm

Meanwhile, Oil & Gas UK, the trade body for North Sea producers, said in a statement on August 12 that the industry's "Step Change in Safety" initiative was working on new minimum safety training standards for the offshore industry. The new standards cover nine basic safety elements, including the core topics of risk assessment and permit to work, but also introduce new key safety awareness elements focused on mechanical lifting and platform integrity, the group said.

RENEWABLES

Belgium

VREG rules out burden sharing to cover renewables subsidies

Burden-sharing will not solve the highly variable relative costs paid by Flemish distribution network operators to subsidize new renewable producers and connections for decentralized producers, according to the Flemish energy regulator, VREG.

VREG said it was important to capture potential efficiency gains from new investment, so any solution the problem – which it has acknowledged – lies in modifying incentives for investors. The Flemish government has not yet indicated how or whether it plans to act on VREG's advice.

In the case of renewables, the cost of buying in green certificates has been rising sharply and is likely in future to have an impact on tariffs, according to VREG. This is the cost of buying in certificates from solar power production since the guaranteed rate for other types of renewable is currently below the market rate.

VREG estimates that this cost will average 0.9% of turnover in 2008 across the 12 distribution operators, but falls very unevenly on each operator – with Inter-Energa (headquartered in the northeastern city of Hasselt) being the worst hit.

VREG says it is much more difficult to quantify differences in relation to the cost of connecting decentralized producers to the grid, but it has no doubt that the problem exists.

France

Ministry prepares new feed-in tariff law

France will "shortly" publish a new decree on power utility Electricite de France's guaranteed feed-in tariffs for wind power, the energy ministry said August 21. This will replace an earlier decree struck down by the Council of State (the judicial review body) earlier in the month.

Neither action has a substantive impact. The original decree was struck down on an issue of form not substance; the wrong advisory body was consulted on the contents of the original decree, and ministry says this will not affect current contracts or those under negotiation. In theory, the advisory body to be consulted this time could suggest changes; in practice, the ministry is not expecting this to happen

Norway

Two northerly wind power projects win licenses

Norway's Oil and Energy department on August 20 awarded a concession to Nordkraft Vind to build and operate a wind power project at Nygardsfjellet in the municipality of Narvik, north Norway. At the same time, state power company Statkraft has been given a discount on its application for a concession for the Skallhalsen windpower project in Vadso municipality, the energy ministry said.

Annual output from the Nygardsfjellet wind farm is estimated at 120 GWh, or sufficient to meet the annual consumption of around 6,000 households, the ministry said.

The project will be eligible for a grant from government sustainable energy agency Enova as from September 15.

The Norwegian environment ministry has with the energy ministry jointly approved the Narvik municipality's area development plan for wind power.

"I am very busy at the moment bringing about the development of renewable energy. [A total of] 3TWh of wind power will be brought into operation by 2010," energy minister Terje Riis-Johansen said in the statement.

Spain

EU's photovoltaic lobby urges govt to rethink subsidy reforms

The Spanish photovoltaic industry needs sustainable state support until it becomes competitive with conventional retail power – expected by 2015 at the latest, the European Photovoltaic Industry Association said on August 29.

And the lobby group urged the Spanish government to rethink draft reforms which would see state support for total new photovoltaic capacity in 2009 limited to 200 MW for roof-top systems and 100 MW for ground mounted installations, as well as premium feed-in tariffs cut by up to 35%.

These caps and cuts "are strongly worrying the sector as they would not encourage the further development of the market," EPIA said in a statement.

Spain has one of the world's fastest growing photovoltaic sectors, with 512 MW installed in 2007 and more than 1 GW expected by end-2008 – an explosion which the government feels is unsustainable and too costly for the treasury.

In a report published end-July by Spain's national energy regulator CNE said that the state would expect to save around €415 ($647) million/year from the draft reforms. If support were maintained at current levels, the cost to the state would be €1.33 billion in 2009, compared with €915 million under the draft reforms.

EPIA president Ernesto Macias, general manager of Spanish photovoltaic producer Isofoton, agrees that sustainable support should be the aim. "The current level of feed-in tariffs in Spain has led to the explosion that we are experiencing today," he said in EPIA's statement. "However revised to more sustainable levels, it could ensure a continuous development of installations."

State support for both large and small photovoltaic installations was still needed until photovoltaic power becomes competitive with conventional power, said EPIA. It expects this to happen by 2015 when the cost of photovoltaic production will have dropped and energy prices risen enough.

The law governing Spain's support scheme for grid-connected photovoltaics expires on September 29, and the government is working on a new law to come into force from January 2009.

Iberdrola announces major investment in renewables

Iberdrola Ingenieria, the engineering arm of the Spanish power major, is developing renewable energy projects worth more than €700 million (around $1 billion), the company said August 19.

Plans include wind, solar and thermosolar energy, which will provide around 1,250 MW of energy in total, Iberdrola said in a statement.

Wind energy is the main focus of the initiative: wind farms with total capacity of 1,000 MW are to be built at an investment cost of €170 million. A total of 40 wind farms will be located in Spain, with an additional two in Poland. Construction of some of the Spanish wind farms began in 2007.

In Andalusia, in the south of Spain, there is Bolanos (24 MW) and Dona Benita (32 MW). In the northern region there is O Vieiro (19.6 MW). The center of Spain has the most wind farms so far, with six projects underway including the largest at Valdeperondo (46 MW) and at Layna (50 MW) in Castilla y Leon.

The solar energy unit of Iberdrola Ingenieria will provide 50 MW of energy at an estimated total cost of almost €350 million. This will come from two new solar energy plants in western Spain at Abertura and Talayuela. The former will provide the equivalent of 22,500 homes with energy over a space of 200 hectares and the latter 10 MW over 60 hectares.

The Iberdrola Ingenieria project will also focus on solar heating, with the construction of Europe's largest thermosolar plant at Puertollano in the central region of Ciudad Real. With a capacity of 5 0MW, it will produce 120 million kWh/year, enough to provide energy for 50,000 people, Iberdrola said.

Sweden

Vattenfall, Vestas sign deal to ease bottleneck for wind power

Vattenfall has signed a general agreement with wind power supplier Vestas, for the delivery of wind turbines with a capacity of 100 MW in 2010, the state-owned Swedish utility said August 28.

The contract value is "in the billions" of euros and includes service, Vattenfall said.

"This contract eases the supplier bottleneck for wind power. It will enable us to implement the initiative to increase the share of renewable energy sources by expanding wind power," said Anders Dahl, head of Vattenfall Vindkraft.

Vattenfall aims at increasing the share of renewable

energy by 10 TWh within a 10-year period.

Wind power will be responsible for 8 TWh. That corresponds to 1,500 wind turbines and household electricity supplied to 1.6 million homes.

Vattenfall is investigating suitable areas to establish wind power both on land and at sea in the Nordic region.

Electricity production recently began at the Lillgrund wind power farm, the largest such facility in Sweden to date and the third largest such facility at sea in the world. The company has between 20 and 30 large wind power projects under way.

Switzerland

Federal energy ministry sets 2009 renewables charge

The Swiss energy ministry will raise the charge paid by electricity consumers to support domestic renewable energy projects to CHF0.45/kWh (€0.28/kWh; $0.41/kWh) in 2009, it said on August 28. The government estimates the increase will raise some CHF258 million (€160 million; $235 million) to support the renewable energy sector.

The energy ministry said the levy would support a CHF170 million feed-in tariff subsidy for renewable energy.

The Swiss energy market law assumes that power generation from green sources will rise by at least 5.4 TWh by the year 2030. This is about a 10% increase from present demand, which in 2007 came to 57.4 TWh. To back the shift, the law contains a package that supports green power and includes efforts to increase efficiency in the power sector.

Parliament offers hydro boost

The environment and energy committee of the lower house of the Swiss parliament (UREK-NR) on August 19 approved by 18 to 5 votes a motion to increase subsidies for hydropower projects.

The motion was proposed by the parliament's upper house energy committee on June 23 after years of effort by Swiss regional authorities to persuade the federal government to increase subsidies for hydropower generation from CHF80/kWh to CHF100/kWh (€49.5-61.9/kWh; $72.9-91.2/kWh).

The Swiss regions (cantons) are especially eager to see the subsidy raised because pumped storage sites are currently moderately taxed in comparison to regular hydro plants.

Additionally, the federal parliament is still mulling over a national initiative on hydro protection designed to achieve major reductions in water use. The initiative is enjoying broad public support, but the parliament is also trying to win the support of the crucial state authorities, who oppose a referendum on the plan.

UK

Domestic wind turbines benefit rural areas only: report

Small-scale wind turbines benefit the environment only in rural locations and may actually be pointless in urban environments, a report by the Carbon Trust, the Met Office and engineering consultancy Entec said August 7.

Due to windier rural speed conditions, the study showed that four times as much electricity and carbon can be saved in rural locations compared with city locations, and that turbine installations in parts of the countryside could provide electricity that was competitive in terms of cost with grid power.

In urban areas, roof-mounted turbines may not even pay back the carbon emitted during their production, installation and operation, the report said.

The study found that, after taking into account current electricity prices and the cost of small wind turbines, domestic wind power could provide just 0.4% of total UK electricity consumption and save 600,000 mt of carbon emissions a year.

"Relative to total UK electricity consumption and emissions from power generation, these figures are fairly low," the report's authors admitted. The report said grant schemes should assess whether the likely emissions savings of small-scale wind turbines are "reasonable" to ensure that only turbines installed in appropriate locations are supported.

The report also advocated a relaxing of planning rules that would allow turbines that are more than 11 meters tall to be installed without planning permission.

Central government puts islands green projects at risk, say Scots

The Scottish government criticized the UK national government on August 22 for shelving plans to subsidize green energy projects in the Scottish islands, saying the decision placed the development of renewable projects on the islands at risk.

The UK government said it no longer planned to cap electricity transmission charges for Shetland, Orkney and the Western Islands, declaring there was little or no basis for the scheme.

The plan would have cost around £13 million a year in subsidies. As the charging system favors schemes that are close to heavily populated areas, producers are generally charged to transmit electricity in Scotland but paid in most of England.

Speaking on BBC Radio on August 22, Scottish Energy Minister Jim Mather said the move to scrap the subsidies was "deeply disappointing."

"We need a level playing field and this is utterly the wrong signal," Mather said.

The UK government had been planning to cap the charges at about £25/kw, (€31/kw, $46/kw) for the islands, before changing its mind, saying it would cap charges only if renewable development in a particular area would be likely to be "hindered."

"Our evidence base suggests the current level of transmission charges would not prevent otherwise economically viable renewable projects being built – even in the extremities of Scotland – as shown by the significant capacity awaiting connection," a spokeswoman for the UK government's department for business, enterprise & regulatory reform said.

According to estimates in *The Scotsman* newspaper on August 22, companies setting up renewable projects in the islands could end up paying up to 40% of their annual turnover on transmission charges. An average-sized 100 MW wind farm in Shetland will be hit with an estimated £8 million charge each year if the subsidy is scrapped, the paper said.

Projects under threat include Viking Energy's plans for a 600 MW wind farm in Shetland and the Norwegian firm Fairwind and Statkraft's proposals for a 126 MW wind farm in Orkney.

The UK system is the only European regime that varies transmission charges on the basis of location rather than applying a flat rate. A final decision on the Western Isles has yet to be made, with the UK government saying it was now keen to hear from interested parties.

Government approves 400 MW of new wind capacity

The UK government gave consent August 8 to two new wind farms that will jointly generate nearly 400 MW of renewable capacity, and provide enough electricity to power over 200,000 homes.

The department for business, enterprise and regulatory reform said in a statement it had approved both Scira Offshore Energy's 315 MW wind farm off the coast of Norfolk, eastern England, and RWE-Npower's 75 MW onshore wind park at Middlemoor in northeast England.

The 315 MW, 108-turbine offshore wind farm Sheringham Shoal will be the UK's fourth largest offshore wind farm and will provide electricity for around 178,000 homes.

UK business secretary John Hutton said in a BERR statement that Sheringham Shoal would provide a significant contribution towards UK renewable energy targets, and said Britain was leading the way in offshore wind.

"By the end of 2009, a further 626 MW of offshore wind power will be plugged in to the grid, making us world leaders," Hutton said.

Scira is a joint venture between Norwegian oil and energy company StatoilHydro (50%) and European sustainable energy project developer Evelop (50%), expressly for the purpose of developing Sheringham.

Evelop develops projects in biomass, solar energy and other renewable sources in Europe and Latin America.

The government has also given approval for RWE-Npower, the British subsidiary of German giant RWE AG, to construct an 18-turbine, 75 MW onshore wind park at Middlemoor, near Alnwick in northeast England. Once operational, Middlemoor will generate enough power to supply electricity to more than 27,600 homes, RWE-Npower said in a statement August 8.

The British Wind Energy Association said the approvals represented a "major step forward for the [UK] wind industry."

"These decisions show that with patience, determination and co-operation it is possible to overcome difficult technical issues and win planning permission," said BWEA chief executive Maria McCaffery.

In both cases, the approval is subject to finding technical solutions to the impact on radar at local RAF bases, BERR said. In 2007, generation from wind (27%) exceeded generation from hydro (26%) and became the largest renewable energy generation source in the UK, government data released at the beginning of August showed.

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Electricity directive

<table>
<tr><th></th><th>Eligible customers & Declared market opening (%)</th><th>Ownership unbundling of TSO</th><th>Production: type of system</th><th>Transmission: type of system</th><th>Distribution: type of system</th></tr>
<tr><td>Austria</td><td>10/01: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">The Energy Market Liberalization Act (12/00) provided for marked opening from 10/01 and required grid operators to source 8% of delivered electricity from small hydro (<10MW) and to increase the percentage of energy from other renewables to 4% by 2008. The Green Energy Act (08/02) shifted administration for this obligation to the transmission grid operators and increased the target for production from small hydro to 9% by 2008. Legislation introduced in 2006 increased the target for other renwables to 10% by 2010.</td></tr>
<tr><td>Belgium</td><td>01/03: >10GWh
07/04: Walloon Region, Brussels-Capital Region: all professional customers connected to the distribution network
07/03: (Flanders only) all
01/07: Walloon region all household customers
01/07: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Regulator for gas and electricity is CREG. Regional regulator for <=70kV grid. Elia formally designated as TSO. Bottlenecks at borders, especially northbound at French border.</td></tr>
<tr><td>Bulgaria</td><td>07/04: 40GWh (22%)
07/07: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Bilateral contracts; power exchange generation market design. Seven significant competitors in the generation market, including Kozlodui NPP and Maritsa Istok III. The latter has a 15 year PPA with NEK up to 2020. Distribution tariffs are published.</td></tr>
<tr><td>Czech Rep</td><td>01/02: >40 GWh
01/03: >9 GWh
01/05: All non residential customers
01/06: All (100%)</td><td>Yes</td><td>Authorization required for plants >30 MW</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Bilateral and power exchange generation market. 66.7% state-owned CEZ dominates the Czech Republic's power market.</td></tr>
<tr><td>Denmark</td><td>01/03: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Feed-in tarriffs have developed wind energy industry.</td></tr>
<tr><td>Estonia</td><td>2005: 40GWh (12%)
2009: 35%
2013: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">State utility Eesti Energia dominates the Estonian power market. TSO and DSO are legally separated.</td></tr>
<tr><td>Finland</td><td>All (100%)</td><td>Yes</td><td>Authorization for environmental, not market, purposes</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Transmission grid is an independent company. Since 01/05 transmission and distribution companies have needed the Electricity Market Authority's approval for changes to their methodologies for calculating tariffs.</td></tr>
<tr><td>France</td><td>02/03: 7GWh (34.5%)
07/04: All non-residential customers (>66%)
07/07: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">EDF holds auctions to sell capacity (virtual power plants) but EDF still enjoys near total monopoly. Grid operator RTE is legally separated from EDF.</td></tr>
<tr><td>Germany</td><td>All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Reg TPA provided for by the Energy Act of 13/07/05 and enforced since energy regulator (Bundesnetzagentur) was established in July 2005.</td></tr>
<tr><td>Greece</td><td>07/04: All non-residential customers (70%)
01/07: All</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Greece has requested a derogation from EU rules for micro-systems on all non-interconnected islands (excluding Crete and Rhodes), those customers remain captive to the incumbent supplier and generator PPC (RES, CHP and autoproducers are exempt). PPC owned 95.3% of installed generation capacity in 2006. RES, CHP and autoproducers supported through a regulated feed-in tariff. The electricity volume traded outside PPC was approx. 0.84% of the total electricity volume consumed in 2006, including electricity produced by autoproducers and RES and imports.</td></tr>
<tr><td>Hungary</td><td>07/04: All non-residential customers
07/07: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">State-owned MVM plays a dominant role in the wholesale market due to its long term PPAs. There are three significant players in the Hungarian retail market. The Hungarian Parliament has passed the new Act on Electricity.</td></tr>
<tr><td>Ireland</td><td>2002: >1GWh
02/04: >0.1GWh/yr (56%)
02/05: All (100%)</td><td>Yes (ISO)</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">All Ireland single electricity market from 11/07. This is hoped to assist in resolving any problems which may have existed with market entrants securing finance. New build process speeded up through Strategic Infrastructure Bill.</td></tr>
<tr><td>Italy</td><td>2001: 20GWh/yr
2002: 9GWh/yr
05/03: 0.1GWh/yr
07/04: All non residential (80%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">All consumers have been free to switch supplier since 07/07. AEEG continues to set prices for residential consumers and small businesses who have not yet switched supplier. No single entitity allowed more than 50% of generation and imports. Problems persist with limited import capacity. Wholesale power pool IPEX introduced 03/04.</td></tr>
</table>

Electricity directive (continued)

<table>
<tr><th></th><th>Eligible customers & Declared market opening (%)</th><th>Ownership unbundling of TSO</th><th>Production: type of system</th><th>Transmission: type of system</th><th>Distribution: type of system</th></tr>
<tr><td>Latvia</td><td>07/04: All non residential customers (76%)
07/07: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">No customers have exercised their rights to switch energy supplier yet due to the small size of the generation market (5.6TWh in 2004) and the vertically integrated state monopoly Latvenergo holding a 95% share in domestic production. TSO “Augstsprieguma tikls” started operating as a legally separate company from 09/05. Latvenergo holds 99% of the electricity distribution market.</td></tr>
<tr><td>Lithuania</td><td>07/04: All non residential customers
07/07: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Generation capacity significantly exceeds demand. No direct transmission lines with Central and Western Europe. There is one dominant generator; one TSO; two significant DSO’s/Public Suppliers and 18 licensed independent suppliers in the Lithuanian electricity market.</td></tr>
<tr><td>Luxembourg</td><td>07/04: All non residential customers
07/07: All (100%)</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td>Netherlands</td><td>2000: >2MW
2002:>3*80A
07/04: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Independent regulator for gas and electricity (DTe). Reciprocity clause invoked. All consumers free to buy green power since 1/1/01. Import capacity bottlenecks. Full ownership unbundling of distribution networks mooted July 2009. Introduction of trilateral market coupling with Be, Fr (11/06).</td></tr>
<tr><td>Poland</td><td>07/04: All non residential customers
07/07: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Generation market design: long-term PPAs still exist (60%), however an Act discharging them was passed on 29/07/07 and came into force 04/08/07. Long term PPAs will be gradually discharged through a compensation scheme. Bilateral contracts; limited significance of power exchange (1%). Poland has nine significant competitors in the power sector.</td></tr>
<tr><td>Portugal</td><td>01/04: All businesses
07/04: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">A government Decree (240/2004) on 07/12/04 scrapped long term power purchase agreements and created compensation measures to replace them. TSO REN is 31% state owned; 20% Caixa Geral de Depósitos; 5% Gestmin; 5% Logoenergia; 5% OLIREN, 5% Red Electrica de España; 5% EDP; and 24% freefloat.</td></tr>
<tr><td>Romania</td><td>07/07: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Bilateral and power exchange generation market design. There are eight significant competitors in the power generation sector. Two distribution companies. Five distribution companies had been privatized by 08/07. By 05/07 some 49% of consumers had changed their supplier. In 04/07 the electricity and gas regulators merged to become the independent Romanian Energy Regulatory Authority (ANRE).</td></tr>
<tr><td>Slovakia</td><td>01/04: 20GWh (40%)
01/05: All non-residential customers (79%)
07/07: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Bilateral generation market without power exchange. Slovenské Electrárne (SE) dominates the Slovakian power market. Three new Energy Acts came into force on 01/01/05, bringing market opening fully into compliance with the EU Directives. Roughly 1% of consumers had switched supplier as of 09/05.</td></tr>
<tr><td>Slovenia</td><td>07/04: All non-residential customers
2005: 77%
07/07: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Bilateral and power exchange generation market design. There are two main wholesale competitors and 12 suppliers in the Slovenian power sector.</td></tr>
<tr><td>Spain</td><td>2003: All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Regulator considered to be toothless by new entrants. New entrants also frustrated by lack of electricity export capacity with France. Customers were able to choose to stay on regulated tariffs until July 2008. Many residential and small business users could still remain on legacy contracts into 2009.</td></tr>
<tr><td>Sweden</td><td>07/07: All (100%)</td><td>Yes</td><td>Authorization for environmental, not market, purposes.</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Regulator sets guidelines for access prices. Consumers file complaints to the regulator.</td></tr>
<tr><td>Turkey</td><td>01/07 3 GWh (38.6%)
Regulator authorized to lower limit</td><td>No</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">Bilateral contracts market design with residual balancing pool. Electricity market activities are unbundled along the path envisaged by the EC Second Directive, except for legal unbundling of DSOs. The TSO has a separate corporate identity. Turkey’s wholly stae-owned Electricity Trading and Contracting company (TETAS) and Electricity Generation Company (EUAS) are the dominant market players.</td></tr>
<tr><td>UK</td><td>All (100%)</td><td>Yes</td><td>Authorization</td><td>Reg TPA</td><td>Reg TPA</td></tr>
<tr><td colspan="6">British electricity trading arrangements (Betta) extended ‘NETA’ to Scotland on April 1, 2005.</td></tr>
</table>

Source: EU Energy

Gas directive

<table>
<tr><th></th><th>Eligible customers & Declared market opening (%)</th><th>Ownership unbundling of TSO</th><th>Grid/Storage access</th><th>Publication of access conditions</th><th>Regulator</th></tr>
<tr><td>Austria</td><td>2001: 49%
10/02: All (100%)</td><td>No</td><td>Reg TPA (Grid)
Neg TPA (Storage)</td><td>Yes</td><td>E-Control (gas and electrcity)</td></tr>
<tr><td colspan="6">OMV remains the principal importer of gas and a major player in supply through its jv with Energie Allianz, Econgas.</td></tr>
<tr><td>Belgium</td><td>2001: 59%
07/03: Flanders: all customers connected to the distribution network
01/04: Wallonia >1m cu m
07/04: federal level: all final customers connected to the transmission network
07/04: Walloon Region and Brussels-Capital Region: all professional customers connected to the distribution network (91.5%)
01/07: Brussels: all; Walloon Region: all household customers (100%)</td><td>No</td><td>Reg TPA</td><td>Code of good conduct and principal conditions</td><td>CREG (gas and electricity)</td></tr>
<tr><td colspan="6">Regulators both regional and national. Legal unbundling for TSO and DSO.</td></tr>
<tr><td>Bulgaria</td><td>20 million cu m (83%)
07/07: All (100%)</td><td>No</td><td>Reg TPA</td><td>Accounts published. Tariffs approved ex-ante</td><td>Energy and wa -ter regulatory Commission</td></tr>
<tr><td colspan="6">Part of the definition of eligibility is that customers must pay their bills on time – many large customers do not. Another requirement is that they should buy gas to satisfy their own demand, so GDSs are not defined as eligible. Legal, dunctional and account unbundling of TSOs. No unbundling for DSO (the number of customers of gas distribution companies is well below 100,000). The dominant gas company is Bulgargaz.</td></tr>
<tr><td>Czech Rep</td><td>2005: >15 million cu m (28%)
2007: All (100%)</td><td>No</td><td>Reg TPA (Grid)
Neg TPA (Storage)</td><td>Yes</td><td>ERO</td></tr>
<tr><td colspan="6">Unbundling for TSO and DSO by account. Legal unbundling for TSO (2006) and DSO (2007). Gas market dominated by RWE Transgas A.S. An amendment to the Energy Act adopting the EU Second Gas Directive came into force from 30/12/04.</td></tr>
<tr><td>Denmark</td><td>2000: 30%
2004: All (100%)</td><td>Yes</td><td>Reg TPA (Grid)
Neg TPA (Storage)</td><td>Yes</td><td>DERA</td></tr>
<tr><td colspan="6">Gas incumbent Dong Naturgas unbundled its grid in 2003, Dong Transmission, onrenamed Gastra, which in 01/05 became part of state-owned system operator Energinet.dk. Neg TPA for storage. DERA regulates for gas, electricity and district heating.</td></tr>
<tr><td>Estonia</td><td>200,000 cu m (95%)
01/07: All (100%)</td><td>No</td><td>Reg TPA</td><td>No publication of accounts Tariffs approved ex-ante</td><td>Estonian Competition Authority</td></tr>
<tr><td colspan="6">Legal unbundling for transmission system operator and distribution system operator. Eesti Gas is the dominant player in the Estonian gas market.</td></tr>
<tr><td>Finland</td><td>2000 >5 million cu m (90%)</td><td>No</td><td>Reg TPA</td><td>Yes</td><td>EMA</td></tr>
<tr><td colspan="6">On paper, the market is open for energy consumers, but in reality only about 1% of the market is open. Due to single supply source (Russia), no competition at wholesale level envisaged. Competition exists for the “after market”, but there is no legal unbundling between the distribution system operator and supply in the wholesale market. Energy Markets Authority regulates for electricity, gas and emissions trading.</td></tr>
<tr><td>France</td><td>2000 >22 million cu m
2001: 20%
2003 >7.5 million cu m
2004: All non residential customers
7/07: All (100%)</td><td>No</td><td>Reg TPA (Grid)
Neg TPA (Storage)</td><td>Publication of standard conditions and tariffs</td><td>CRE (gas and electricity)</td></tr>
<tr><td colspan="6">Over 66% of the market open from July, 2004 (for industrial energy consumers). The transmission network is managed by two independent TSOs, Total Infrastructure Gaz France (TIGF) and GRTgaz, unbundled from January 2005.</td></tr>
<tr><td>Germany</td><td>1998: All (100%)</td><td>No</td><td>Reg TPA (Grid)
Neg TPA (Storage)</td><td>Yes</td><td>Bundesnetz-agentur</td></tr>
<tr><td colspan="6">Market fully open since 1998. Reg TPA for grids provided for by the Energy Act of 13/07/05 and enforced since the energy regulator (Bundesnetzagentur) was established in July 2005. Storage facility operators are obliged to publish the location of storage facilities and information on available capacity, terms and conditions for access to storage including: procedures for requests to access storage; characteristics of the gas to be stored; nominal working gas capacity and feed-in and output storage periods; and minimal volumes for feed-in and output.</td></tr>
<tr><td>Greece</td><td>07/05: Generators & Cogenerators >25 million cu m
Derogation awarded until 2009 (0%)</td><td>No</td><td>Reg TPA</td><td>Yes</td><td>RAE (gas and electricity)</td></tr>
<tr><td colspan="6">New Gas Law in place since 12/05 implementing Directive 2003/55/EC. 03/07 legally unbundled TSO (DESFA SA) established. DESFA owns and operates the transmission network and is responsible for its developments. Terms and conditions for TPA access to the network established through a Standard Transportation Agreement and the corresponding Tariff Decree. Three regional gas distribution companies operate in the urban areas of Attiki, Thessaloniki and Thessaly (Larissa/Volos). Each has a 30-year license to exclusively develop and operate the gas distribution system and supply all consumers with demand <10 million cu m/yr. The Law on deregulating the Greek gas market also renders gas exempt from the country’s special consumer tax until October 31, 2013 and until December 31, 2020 for gas used in cogeneration, agriculture, vehicles and the home.</td></tr>
<tr><td>Hungary</td><td>01/04: all non-residential (67%)
07/07: All (100%)</td><td>No</td><td>Reg TPA, Neg TPA (for free market)</td><td>Yes: Tariffs, terms & conditions</td><td>HEO (district heating, gas & electricity)</td></tr>
<tr><td colspan="6">Legal unbundling for TSOs and DSOs with >100,000 customers Smaller DSOs still unbundled by account. E.ON is the dominant player in Hungary’s gas market. Effective market opening reached 25% in 2007. Act XLII of 2003 on Natural Gas Supply effective until 30/6/09, when it will be replaced by Act XL of 2008, adopted by the Hungarian Parliament 9/6/08.</td></tr>
<tr><td>Ireland</td><td>04/02>2 million cu m (80%)
20/07/04: All non residential (85%)
07/07: All (100%)</td><td>No</td><td>Reg TPA for transmission & distribution</td><td>Yes</td><td>CER (gas and electricity)</td></tr>
<tr><td colspan="6">Significant investment in gas network infrastructure in recent years and to 2012. Arrangements and access conditions for storage published in 2006. Transmission and distribution system access conditions, price methodology and levels published.</td></tr>
</table>

Gas directive (continued)

<table>
<tr><th></th><th>Eligible customers & Declared market opening (%)</th><th>Ownership unbundling of TSO</th><th>Grid/Storage access</th><th>Publication of access conditions</th><th>Regulator</th></tr>
<tr><td>Italy</td><td>01/03: all consumers (100%)</td><td>No</td><td>Reg TPA</td><td>Yes</td><td>AEEG (gas & electricity)</td></tr>
<tr><td colspan="6">From 2002 suppliers restricted to selling <75% of national consumption into the grid, reducing 2%/year to reach a 2009 target of 61%. Since 2003 no entity has been permitted to sell to final clients >50% of national consumption. Exploitation of gas reservoirs is licensed by the Ministry for Economic Development. Neg TPA for upstream gas slots. Reg TPA to pipeline network for imports and national production.</td></tr>
<tr><td>Latvia</td><td>0%</td><td>No</td><td>Neg TPA</td><td>No publication of accounts. Tariffs approved ex-ante</td><td>Public Utilities Commission</td></tr>
<tr><td colspan="6">Latvia has a derogation until 2010 to implement the EU's Second gas Directive. Unbundling for transmission system operator and distribution system operator by account. Publicly available accounts required from 01/06. The dominant player in the gas market is Latvijas Gaze.</td></tr>
<tr><td>Lithuania</td><td>> 1m cu m (90%)
07/07: All (100%)</td><td>No</td><td>Reg TPA</td><td>Accounts published. Tariffs approved ex-ante</td><td>NCC (gas & electricity)</td></tr>
<tr><td colspan="6">Unbundling for transmission system operator and distribution system operator by account. The dominant player in transmission and distribution is Lietuvos Dujos. Lietuvos Dujos and Dujotekana UAGas supply Lithuanian consumers. All gas imported to Lithuania is sourced from Gazprom.</td></tr>
<tr><td>Luxembourg</td><td>07/04: All non residential customers
2005 > 80%
08/07: All (100%)</td><td>No</td><td>Reg TPA</td><td>Published for high pressure grid</td><td>ILR (electricity, gas, telecoms and postal services)</td></tr>
<tr><td colspan="6">One 350 MW gas-fired power station.</td></tr>
<tr><td>Netherlands</td><td>2002 > 1 million cu m
2000: 45%
2002: 51%
07/04: All (100%)</td><td>Yes</td><td>Reg TPA (Grid)
Neg TPA (Storage)</td><td>Publication of terms for tariffs, transport & services</td><td>DTe (gas & electricity)</td></tr>
<tr><td colspan="6">Reciprocity clause in place. Access to gas storage controversial. Flexibility services offered by GTS with help of GasTerra (2006).</td></tr>
<tr><td>Poland</td><td>07/00: 25 million cu m
01/06: 71.2%
07/07: All (100%)</td><td>Yes</td><td>Reg TPA</td><td>Tariffs approved ex-ante</td><td>Energy Regulatory Office (gas & electricity)</td></tr>
<tr><td colspan="6">Legal and ownership unbundling for TSO (Gaz-System). Legal unbundling for DSO (six distribution companies within the frame of the PGNiG Capital Group). The dominant gas market player is PGNiG.</td></tr>
<tr><td>Portugal</td><td>01/07: All power generators (45%)</td><td>Yes</td><td>Reg TPA</td><td>Conditions published by regulator</td><td>ERSE</td></tr>
<tr><td colspan="6">Portugal has a derogation until 2010 to implement the EU's Second gas Directive. ERSE regulates the gas and electricity sectors.</td></tr>
<tr><td>Romania</td><td>01/02: 25%
01/05: 50%
01/06: 75%
01/07: all non-residential
07/07: All (100%)</td><td>Yes</td><td>Reg TPA</td><td>Accounts published. Tariffs approved ex-ante</td><td>ANRE</td></tr>
<tr><td colspan="6">Legal unbundling between TSO and DSO. 04/07 the electricity and gas regulators merged to become the independent Romanian Energy Regulatory Authority (ANRE).</td></tr>
<tr><td>Slovakia</td><td>01/04: >5 million cu m (33%)
01/05: All non residential customers. (72%)
07/07: All (100%)</td><td>No</td><td>Neg TPA
Reg TPA for transit</td><td>No publication of accounts. Tariffs approved ex-ante</td><td>Regulatory office for network industries</td></tr>
<tr><td colspan="6">Unbundling for transmission system operator and distribution system operator by account. SPP dominates the market and is the gas market operator. The Energy Act allows SPP to refuse TPA to other gas suppliers on the basis of 'take-or-pay' contracts in line with Directive 2003/55/EC.</td></tr>
<tr><td>Slovenia</td><td>07/04: All non residential customers
07/07: 100% (All)</td><td>No</td><td>Reg TPA</td><td>Indicative terms for tariffs, transport & services are published</td><td>Energy Agency (gas & electricity)</td></tr>
<tr><td colspan="6">Legal unbundling for transmission system operator and account unbundling for distribution system operator. Incumbent Geoplin dominates the gas market. From July 1, 2004, Slovenia opened its gas market to all non-household customers in compliance with the EU's Second Gas Directive.</td></tr>
<tr><td>Spain</td><td>01/03: All (100%)</td><td>Yes</td><td>Reg TPA</td><td>Publication of maximum tariffs</td><td>CNE (gas, oil & electricity)</td></tr>
<tr><td colspan="6">Security of supply rules to keep dependency on one gas source to below 60%. Gas Natural has cap on proportion of imports. Six LNG terminals in operation, more under construction. 35 days of firm consumption as strategic reserves. Customers can choose to stay on regulated tariffs until end 2007, after that they will have supplier of last resort tariffs.</td></tr>
<tr><td>Sweden</td><td>2000: 47%
07/05: All non residential users (95%)
07/07: All (100%)</td><td>No</td><td>Reg TPA</td><td>Tariffs approved ex-post
Tarif fmethod ex-ante</td><td>Energy market Inspectorate (gas & electricity)</td></tr>
<tr><td colspan="6">Svenska Kraftnat is the system operating authority (ISO).</td></tr>
<tr><td>Turkey</td><td>1 million cu m (80%)</td><td>No</td><td>Reg TPA</td><td>No publication of accounts. Tariffs approved ex-ante</td><td>EMRA (gas, electricity, LPG & petroleum)</td></tr>
<tr><td colspan="6">Unbundling for transmission system operator and distribution system operator by account. Botas is the dominant company in the gas market.</td></tr>
<tr><td>UK</td><td>1998: All except N. Ireland (100%)</td><td>Yes</td><td>Reg TPA</td><td>Published tariffs</td><td>Ofgem (gas & electricity)</td></tr>
<tr><td colspan="6">Ongoing reform of gas grid entry and exit arrangements. Storage capacity auctions introduced. Interconnector with Belgium introduced hedging with mainland European market. Upstream there is a TPA with voluntary code (Petroleum Act 1998). The UK Offshore operators Association launched a new Infrastructure Code of Practice in September 2004 as a voluntary agreement on how to share upstream pipes. N Ireland: I&C customers >75,000 therms/year in the Greater Belfast area are already open to competition.</td></tr>
</table>

Source: EU Energy

BRUSSELS WATCH

French presidency of the EU
Draft agenda (selected dates)
July 1 – December 31, 2008

September
12-13 Informal Eurogroup, Ecofin meeting (Nice)
21-23 Informal agricultural ministerial meeting (Annecy)
25-26 Competitiveness Council
29-30 Agriculture and Fisheries Council

October
6 Eurogroup (Luxembourg)
7 Ecofin Council (Luxembourg)
9 Transport Council (Luxembourg)
10 Energy Council (Luxembourg)
15-16 European Council
20-21 Environment Council (Luxembourg)
27-28 Agriculture and Fisheries Council (Luxembourg)

November
3 Eurogroup
4 Ecofin Council
6 Competitiveness Council (poss)
14 EU-Russia Summit (Nice)
17-18 Agriculture and Fisheries Council
21 Econfin Budget Council
27 Telecommunications Council
28 Agricultural and Fisheries Council (poss)

December
1 Eurogroup
1-2 Competitiveness Council
2 Ecofin Council
4-5 Environment Council
6 Energy Council dinner (poss)
8 Energy Council
9 Transport Council
11-12 European Council
17 French president addresses EP (Strasbourg)
17-19 Agriculture and Fisheries Council

European Parliament meetings:

Plenary sessions
September 22-25 (Strasbourg)
October 8-9 (Brussels)
October 20-23 (Strasbourg)
November 17-20 (Strasbourg)
December 3-4 (Brussels)
December 15-18 (Strasbourg)

Committee on Industry, Research and Energy
September 10-11 (Brussels)
September 18 (Brussels)
October 7 (Brussels)
October 16 (Brussels)
November 3-5 (Brussels)
November 13 (Brussels)
December 2 (Brussels)
December 11 (Brussels)

Committee on the Environment, Public Health and Food Safety
September 8-10 (Brussels)
October 6-7 (Brussels)
October 13 (Brussels)
November 4-6 (Brussels)
December 1-2 (Brussels)
December 8 (Brussels)

Temporary Committee on Climate Change
September 15 (Brussels)
September 18 (Brussels)
October 8 (Brussels)
October 13 (Brussels)
November 4 (Brussels)
December 2 (Brussels)

EVENTS

Energy Solutions Expo
October 8-9, 2008
London
http://www.energy-expo.info/

Energy from Gas
October 14-16, 2008
Szczyrk, Poland
www.itc.polsl.pl

Biofuels Expo & Conference
October 15-16, 2008
Nottinghamshire
www.biofuels-expo.co.uk.

Emart Energy
29-30 October, 2008
Geneva, Switzerland
www.emart-energy.com

Wood Pellets Industry Forum
October 29-31, 2008
Stuttgart, Germany
www.pelletsforum.de

Next generation nuclear new build
November 17-18, 2008
Sofia, Bulgaria
www.cityandfinancial.com/nuc3.