



DAILY REPORT

Natural Gas & Electricity Sector

May 26th 2008

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In the news – Romania – Natural Gas Sector

Producers are willing to sell natural gas on the new platform from the BRM

Romgaz is willing to sell natural gas on the new platform for trade which will be set up in the Romanian Commodities Exchange (BRM) and it estimates that the big consumers of natural gas will be interested in this type of transactions, stated the deputy general manager of Romgaz, Lucian Stancu. “We had two discussions with the representatives of the Romanian Regulatory Energy Authority (ANRE), with those of BRM and Petrom and we all agreed that we should see how the market reacts to this type of transactions. Even if there will not be big amounts of natural gas at first, any market needs such a platform” considers Stancu. He mentioned that he doesn’t currently have concrete signals from industrial consumers of natural gas, which will be the destination of the quantities of natural gas put on sale by the producers on the BRM. “I am convinced that the big consumers which need natural gas on the short term will prefer to purchase it from a spot market” said the official from Romgaz. Stancu also said that Romgaz is waiting for the set up of the platform in order to decide the amount of natural gas they will put on sale in a first stage. “The amount of natural gas available differs from one day to another, according to production capacities” explained Stancu. Two days ago, the communication manager of the BRM, Mariana Stancu, stated that the platform for the trade of natural gas from this institution will function by the end of May. According to it, the companies active on this platform, respectively the producers of natural gas and the big industrial consumers, are interested to operate such transactions within the BRM. “We have positive signs from them, for this reason we want to have the new platform functioning as soon as possible” sustains the official of the exchange. In March 2007, BRM officials concluded an agreement with the former ANRGN, which referred to the set up of a stock exchange ring for the trading of natural gas. This is the first step for the set up of such a platform in Romania. (Bursa)

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The Nabucco project, issue on the agenda of the Romanian-Hungarian consultations

The project of the Nabucco gas duct was discussed on May 23rd, during bilateral consultations which took place at the headquarters of the Ministry of Foreign Affairs, between secretary of state Raduta Matache and her Hungarian counterpart, Gilyan Gyorgy. The Hungarian official mentioned that energy security and access to energy resources are

very important aspects for the government from Budapest, which searches for several possible alternative of access to such resources. According to Rompres, Gilyan Gyorgy said that, for now, Hungary is counting of three such projects: Nabucco, South Stream and a third which is to bring liquefied natural gas from the south of Hungary. “We want to participate in all these three projects and insist that they be set up as soon as possible. The more transportation routes Hungary has, the more entrance points there will be and the situation will be better and better” he says. The Hungarian official pointed out that Nabucco occupies the first position among the priorities of Hungary, which appreciates the increase of the number of companies which want to get involved in this project. Raduta Matache pointed out to the importance of this subject in the agenda of the consultations from May 23rd, as the Nabucco issue was second on the list of discussions. “The project of the Nabucco gas duct is a priority for Romania. In the context of the intentions to diversity energy resources, we are conducting sustained efforts for the materialization of this project” stated the Romanian official. These consultations with the Hungarian party regarding the Nabucco gas duct will continue during the visit of Ambassador Mihaly Bayer, special delegate of the Hungarian authorities for this project from June 4th, from Bucharest. (Bursa)

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The tricks of Petrom are under political protection

The institutions with competences to penalize the operations through which Petrom records profits from the extraction of natural gas at the expense of the consumers are full of party people. An example is the cohabitation relation of PRM-UDMR-PNL from the management of ANRE. The monitoring of the energy resources of Romania is supported by political parties whose people occupy key positions in control governmental institutions. It is the same with the bad manner in which the supervision of their transaction is conducted. The absolute criterion of promotion for officials is not as much competence as being part of one party or another. The Romanian Regulatory Energy Authority (ANRE) has all the qualities of a school case. The management of the institution is interested in directors with connections in all political parties. In a previous article we disclosed the huge maneuver used by the Petrom-OMV group to record additional illegal profits, through which they cause artificial price increase for the population of at least 10%. Petrom uses gas from the national “basket” to transfer to the Doljchim plant, which transformed the gas into chemical fertilizers for the best production price. According to the documents which are also in the hands of the district attorneys, this method used by Petrom is already known by the management of ANRE. Who tolerated huge disorders. Today we will present the political colors of ANRE. An institution which should have taken notice and penalized the operations between the Austrian owned company and the Doljchim plant.

UNIVERSAL RECIPEE

Political connections at the top of the ANRE pyramid

Gergely Olosz – ANRE president. At the end of May 2007, Prime Minister Calin Popescu-Tariceanu appointed as president of ANRE the former director of the National Agency of

Uranium, Gergely Olosz – proposed and supported by UDMR. His father used to be deputy prefect of Covasna. UDMR is also the party of the brother of the president of ANRE, Szabolcs Olosz. He is the counselor of the president of the party, Marko Bela. Horia-Marius Caliminte – vice-president in the field of natural gas, ANRE. His becoming a part of this agency took place recently through another political arrangement: at the end of 2007 and through the “door” of PRM. Corneliu Vadim Tudor was the one to recommend him and facilitate access to this position for him. But the political involvement of Horia Caliminte continues to be as up to date as possible. When he became vice-president he decided to continue to keep the position of local counselor in Constanta. Carmen Filipescu – vice president in the field of control, cooperation and logistics for ANRE. She occupies a top position in the agency with the support of the liberal party. Her husband, Raducu Filipescu, is the president of the County Council in Calarasi and he is also the president of the local organization of PNL. Carmen Filipescu approved a contract concluded by the agency and the company controlled by the political consultant of PNL, Dan Andronic together with another vice-president of the institution, Nicolae Opris. The object of this contract: the supply of “public relation consultancy services”. Nicolae Opris – vice-president in the field of electricity, ANRE. Opris was also the president of the governmental agency, but his activity in the field of energy continues to be controversial. He is investigated by the Prosecutors office in the „Hidroelectrica“, file, for the undermining of national economy. Another person involved in this investigation is the former minister of economy, Codrut Seres, PC senator.

No comment from state institutions

Contacted for reactions regarding the disclosure of the operations of Petrom-Doljchim, the state institutions had a “strategic no comment” position. Until the end of the edition neither the president nor the prime minister had any comments on this issue if the artificial increase of the price of natural gas with at least 10% and the increasing dependency of Romania on the Gazprom group. The minister of Finances, Varujan Vosganian, was not to be found on May 23rd. Reason: he is occupied with an electoral action of the PNL.

CONFIRMATION

Petrom consumers more than Romgaz

In 2007, Petrom reported a consumption eight times higher than the one of Romgaz, for a similar production. This is the answer of the National Agency for Mineral Resources, Laurentiu Bogatu: „SNGN Romgaz SA – Medias has a lease for a lower number of deposits and they are only natural gas deposits. Thus, the technological consumption specific to them, as certified by ANRM, refer to those consumptions which include this type of deposits. In conclusion, the value of the consumptions is a lot lower than for Petrom SA OMV Group”. (Evenimentul Zilei, May 24th)

<http://evz.ro/articole/detalii-articol/804807/Scamatoria-Petrom-protejata-politic/>

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In the news – International – Natural Gas Sector

Russia, Ukraine ready for strategic gas supply contract talks

Russia and Ukraine are ready to start talks on signing a strategic contract on natural gas supplies, the two countries' prime ministers said at a meeting in Minsk on Friday.

The price of natural gas Russia sells to Ukraine, and the transit cost levied by Ukraine on Russian gas pumped to the European Union, have proved a major source of contention since Russian energy giant Gazprom began hiking prices to the country in 2005 after years of subsidized supplies. "We expect talks on signing a strategic contract on gas supplies to start. We are aware that we have to gradually reach market prices," Ukrainian premier Yulia Tymoshenko said. Her Russian counterpart Vladimir Putin said: "My colleagues and I are ready to start this work." Putin thanked Tymoshenko for prompt measures to repay Ukraine's debt for Russian natural gas supplies. The last installment of the debt was paid last month. Ukraine, which transits about 80% of Russia's Europe-bound gas, threatened to start tapping fuel after Russia halved shipments to the country amid a dispute over Kiev's gas debt and supply scheme earlier this year. European consumers did not report any shortfalls in supplies, however, unlike at the start of 2006, when a bitter pricing row led Moscow to briefly cut off deliveries to its ex-Soviet neighbor. Moscow and Kiev resolved their latest gas dispute in mid-March, agreeing on the size of the debt and a supply scheme. Under a contract signed with Gazprom in March, the Russian energy giant committed itself to supplying Ukraine with at least 49.8 billion cu m of Central Asian gas at \$179.5 per 1,000 cu m from March until December 2008. However, the price is set to rise considerably next year, as Uzbekistan, Turkmenistan and Kazakhstan announced they would begin exporting their natural gas at European-level prices from 2009. Russia has been gradually raising prices for natural gas shipped to the former Soviet republics, and is already using market pricing for gas supplies to the three ex-Soviet Baltic States, which are now EU members. (Business Standard, May 25th, Wall-Street, Bursa, Curierul National)

http://www.standard.ro/articol_45336/putin_rusia_ar_putea_renunta_la_intermediari_in_livr_arile_de_gaze_naturale_catre_ucraina.html

<http://www.wall-street.ro/articol/International/42480/Rusia-ar-putea-mentine-pretul-mic-al-gazelor-naturale-vandute-Belarusului.html>

<http://www.curierulnational.ro/Economie%20mondiala/2008-05-26/Ucraina+ar+putea+cumpara+gaz+rusesc+fara+intermediari&hl=gaze&tip=toate>

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German economy minister Glos wants utilities to disclose gas procurement costs

German economy minister Michael Glos plans to force utilities to disclose their procurement costs for heating gas and tighten antitrust controls amid an impending surge in gas prices, Bild am Sonntag reported, citing the minister. 'We will analyse the energy companies' procurement prices for gas very closely in view of the announced price increases,' the Sunday

newspaper quoted Glos as saying. 'The companies will have to explain to the Federal Cartel Office every single cent of a price increase,' he said. The newspaper also reported that 67 German utilities plan to hike gas prices by up to 19 percent on June 1 or July 1, citing unspecified sources. German economic research institute DIW expects a 'price shock' in the entire heating-gas market, Bild am Sonntag said, citing DIW energy expert Claudia Kempfert. Municipal utilities will follow suit if larger utilities such as E.ON AG. raise their prices, she said. Der Spiegel reported in an excerpt of an article to be published on Monday that E.ON plans to raise gas prices by as much as 25 percent this year to reflect the surge in crude oil prices, citing company sources. (Business Standard, May 25th)

http://www.standard.ro/articol_45401/ministrul_german_al_economiei_vrea_ca_firmele_sa_justifice_scumpirea_gazelor_naturale.html

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Moscow's energy policy does not threaten West: Russian diplomat

A senior Russian diplomat on Sunday rejected as lies speculation that Moscow's energy policy threatened the West. "It is not serious to talk of seeking to contain us because we are supposedly imposing our will through our energy policy," Russia's envoy to NATO Dmitri Rogozin told the news agency ITAR-TASS. "I would even say this is untruthful talk, empty talk," he said, speaking in Berlin during a session of NATO's North Atlantic Assembly. "There is no problem regarding energy supplies from Russia to the West. Those who don't pay have problems but the Western countries pay in the normal fashion." The European Union wants to diversify its energy supplies, reducing its dependence on Russian gas imports because of perceptions that Moscow could use them to pressure the bloc. The EU is particularly concerned about disputes between Russia and its neighbour Ukraine over gas export prices. Gas pipelines to Western Europe go through Ukraine. Energy supplies will feature in negotiations between the EU and Russia due to start next month on a new partnership accord. These talks have been suspended for two years. EU External Relations Commissioner Benita Ferrero-Waldner said this month it was "of high strategic interest and importance that we keep to our strategic goal of diversification." "Russia will always be an important supplier but we also have big countries around that have potentially very big reserves and they need to develop their reserves," she said. (EU Business)

<http://www.eubusiness.com/news-eu/1211732223.2/>

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Leading gas transmission companies' meeting in Serbia marks further progress on NETS

Following the plenary meeting held in Bucharest in March 2008, where seven leading gas transmission companies came together to kick-off the process, the New European Transmission System (NETS) - a Central and Southeast European gas network initiative to connect the gas transmission systems of the region creating a regional market -, has marked

another major milestone on its progress this week, holding a working round table in Novi Sad, Serbia. High level executives and senior experts of the region's gas transmission companies met over the last two days, in order to exchange views on previously defined project workstreams and assign representatives responsible for taking the NETS initiative to the operational level. Representatives have worked on Business Strategy and Vision, Energy Policy and Public Affairs, Regulatory and Financial and Structural workstreams. During the working sessions, participants have identified the key points within the workstreams, which need to be addressed further during the upcoming scheduled workstream meetings among the parties. It was also agreed to set up a Steering Committee to supervise the activities of the workstreams. This together with the establishment of a Study Company will be the main topics of the upcoming meeting in June, in Budapest, Hungary. The round table event was hosted by Srbijagas of Serbia. Also participating were BH-Gas (Bosnia Herzegovina), FGSZ Natural Gas Transmission Ltd., Mol Group (Hungary), Plinacro (Croatia) and Transgaz (Romania). (Rompres, May 24th)

[http://www.stirilocale.ro/Transportatorii de gaze din regiune vor infiinta o companie pe ntru realizarea retelei NETS IDN486305.html](http://www.stirilocale.ro/Transportatorii_de_gaze_din_regiune_vor_infintiina_o_companie_pe_ntru_realizarea_retelei_NETS_IDN486305.html)

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Azerbaijani leader and Bryza discuss energy projects and upcoming meeting of Azerbaijani and Armenian presidents

Deputy Assistant of US Secretary of State Matthew Bryza has met with President of Azerbaijan Ilham Aliyev and Foreign Minister Elmar Mammadyarov within the framework of the energy summit in Kiev, Bryza told APA. They have discussed energy issues in particular. "We have discussed Azerbaijan's participation in NABUCCO project and gas transportation via Turkey-Greece-Italy pipeline, as well as Odessa-Brodi-Plotsk-Gdansk oil pipeline". The sides have exchanged opinions on the upcoming meeting of Azerbaijani and Armenian presidents. Regarding the possible meeting of foreign ministers before the presidents' meeting, Bryza said there was no decision yet on this meeting. (Azeri Press Agency)

<http://en.apa.az/news.php?id=49403>

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Gazprom to develop four new sites in Vietnam

Gazprom has reached an agreement with Vietnam's state oil and gas company Petrovietnam to develop four new deposits on the Vietnamese shelf, the state-controlled Russian natural gas giant said Friday. "The agreement envisions prospecting work and further development of four new blocks on the Vietnamese shelf. Vietgazprom will be the project operator," the company said. The agreement also envisions the establishment of a new joint venture, Gazpromviet, to ensure the companies' participation in oil and gas projects in Russia and abroad. A Gazprom delegation led by CEO Alexei Miller arrived in Vietnam on Friday.

Miller met with the Vietnamese president and prime minister, and with Petrovietnam officials to discuss further cooperation and the implementation of Gazprom's projects in Vietnam. Vietgazprom, a joint venture set up by Gazprom and Petrovietnam, is conducting prospecting work on the country's continental shelf in line with a 2000 contract envisioning the exploration, production and sale of hydrocarbons. Gazprom and Petrovietnam signed a cooperation agreement in November 2006, in line with which the companies cooperate in prospecting and development of oil and gas fields, as well as transportation and sales, and construction and maintenance of oil and gas pipelines and other infrastructure. The document also foresees the companies' interaction in projects in third countries. (RIA Novosti)

<http://en.rian.ru/business/20080523/108226639.html>

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Putin says Ukraine must repay debt to receive gas directly

Ukraine must repay its debt from previous years for direct Russian natural gas supplies to be launched without intermediaries, the Russian prime minister said on Friday. "We are ready to work directly. There are no problems, but the debt from previous years must be settled," Vladimir Putin told reporters after a meeting in Minsk with his Ukrainian counterpart, Yulia Tymoshenko. Putin did not specify the size of the outstanding debt. Ukraine's premier said in late April that Kiev had paid off all its debts to Russia for its gas imports. It was earlier reported that Ukraine's debt was estimated at around \$600 million. In late February, Ukraine paid over \$1 billion to Russian energy giant Gazprom to clear its debt for 2007 supplies. Tymoshenko had repeatedly criticized the convoluted scheme of Russian natural gas supplies to Ukraine, saying it was corrupt and non-transparent. Until recently, the scheme involved monopoly exporter RosUkrEnergo, 50% owned by Russian energy giant Gazprom, and UkrGazEnergo, owned by Ukrainian oil and gas company Naftogaz and Gazprom. The countries agreed in March to simplify the system by getting rid of trader UkrGazEnergo, but Russia insisted that RosUkrEnergo continue to be involved in the gas supply chain. Naftogaz and Gazprom signed a contract in March setting the price for Central Asian gas supplies to Ukraine for 2008 at \$179.5 per 1,000 cu m for volumes of 49.8 billion cu m. The price of natural gas Russia sells to Ukraine, and the transit cost levied by Ukraine on Russian gas pumped to the European Union, have proved a major source of contention since Russian energy giant Gazprom began hiking prices to the country in 2005 after years of subsidized supplies. Ukraine, which transits about 80% of Russia's Europe-bound gas, threatened to start tapping fuel after Russia halved shipments to the country amid a dispute over Kiev's gas debt and supply scheme earlier this year. (RIA Novosti)

<http://en.rian.ru/russia/20080523/108232234.html>

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Unions hold key to Suez and GdF merger

French unions are due to meet on Monday to decide the fate of one of the most drawn-out merger sagas in European corporate history, the 28-month-old deal between state-controlled Gaz de France and private utility Suez to create a European energy champion with sales of more than €70bn (\$110bn). Jean-François Cirelli and Gérard Mestrallet, the chief executives of GdF and Suez, will address the GdF works council amid optimism that the unions will give the non-binding opinion that is required under French law before a shareholder vote can take place to approve the deal. There was more progress as GdF and Suez announced preferred buyers for the Belgian power businesses that they must sell to win EU approval for their merger. Eni, the Italian power utility, is in exclusive negotiations with Suez to acquire its 57.25 per cent stake in Distrigaz, the sales and supply business that controls 85 per cent of Belgium's gas market. GdF, meanwhile, has announced French state-controlled power group EDF is the preferred candidate to take its stake in the joint venture with Centrica of the UK that controls 51 per cent of SPE, Belgium's second-largest power generator. Neither deal will take effect before the merger is concluded, which could happen in July if, barring hitches, unions render their opinion on Monday or Tuesday. The disposals have been the subject of months of politics, with many fearing an all-French stitch-up that would favour state-controlled monopoly EDF. The electricity group was unhappy with the government's decision to allow the Suez-GdF merger to go ahead as it will create a substantial rival in its home market able to offer electricity and gas to more than 14m customers. The government has made clear to Suez and GdF that it preferred a solution involving EDF. Eni led a vigorous lobbying campaign with both the Belgian government and the European Commission to ensure a fair bidding process and in the end the value of its offer trumped that of EDF, according to Suez. Neither company would comment on the price, but analysts have said Distrigaz could be worth up to €5bn, which would value Suez's stake at about €2.8bn. GdF advisers said price also determined the winner of the SPE stake, with EDF outbidding its sole rival, Nuon of the Netherlands. But EDF's victory could still be challenged by Centrica, which has pre-emption rights over any deal. For Eni, the deal marks a significant strategic step forwards. It will transform the Italian company into the market leader in the European gas sector with about a 25 per cent market share. Paolo Scaroni, Eni chief executive, told the Financial Times at the weekend that it would give Eni greater bargaining power with suppliers. He said: "If you miss this train, the next one will not come along for 10 years. This is strategically very important." (Financial Times)

<http://www.ft.com/cms/s/0/a4108b02-2a82-11dd-b40b-000077b07658.html>

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EU's Kroes to settle gas cartel cases soon – paper

European Union Competition Commissioner Neelie Kroes wants to settle two cartel cases affecting the European natural gas market in the coming weeks, Germany's Der Spiegel reported this weekend without citing sources. The magazine said, she aimed to prove that E.ON and its partner in the MEGAL pipeline project, Gaz de France, had made an illegal

agreement not to supply gas in each other's markets. Meanwhile, RWE intentionally reduced investments in its gases business to hinder competition, the magazine reported. E.ON and RWE declined to comment on the ongoing antitrust proceedings. (Budapest Business Journal) http://www.bbj.hu/latestnews/news_39794_eu%25E2%2580%2599s%2Bkroes%2Bto%2Bsettle%2Bgas%2Bcartel%2Bcases%2Bsoon%2B%25E2%2580%2593%2Bpaper.html

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NORD STREAM PROJECT FACING MORE UNCERTAINTIES AND DELAYS

Nord Stream, the Russo-German gas pipeline project on the Baltic seabed, seems to be receding into the distance. According to Chairman of the Russian Gas Society and Vice-Chairman of the Duma Valery Yazev, the project's first trunk line is to become operational by 2012 and its second line by 2013 (rather than 2010 and 2011 as initially envisaged). The main delaying factors include cost overruns on construction on the pipeline's overland portion in Russia as well as the rapidly rising price of steel pipes. Speaking at a Russian-German gas conference on May 20 in Berlin, however, Yazev attempted to shift part of the blame onto Baltic riparian countries, most of which are questioning the pipeline's construction through their respective exclusive economic zones or opposing it outright. Yazev criticized European Union authorities in Brussels for "doing too little to remove the objections of riparian countries. ... We expect more in this regard from our European partners". Such wording reflects Moscow's wedge-driving tactics toward the EU. It implies that some of the EU's new member countries, such as the three Baltic states and Poland, are nuisances that need to be reined in by Brussels or Berlin. In the Nord Stream case, however, the objecting countries include the "old" EU member countries Sweden and Finland. The Russo-German consortium had announced at its foundation in 2005 that the Baltic seabed pipeline's first trunk line would become operational in 2010 and the second one in 2011. In 2007, however, the consortium changed those dates to 2011 and 2012, respectively. Yazev's announcement brings the second postponement. Finland and Estonia were the first to be asked by the Nord Stream consortium in 2007 to conduct preparatory activities in their territorial waters and economic zones. More recently, Sweden received a similar request for activities preparatory to construction. The three countries exercised the legal right to turn down some elements in those applications and to request clarification on some other elements. None of the objections were political. They focused on the project's impact on the Baltic environment, navigational safety, fisheries and other marine resources, and legal rights of riparian countries in the respective territorial and economic zones. With Gazprom the driving force in this Russo-German consortium, its applications to those three countries seem to have failed to meet European standards. The Swedish government complained, for example, that major environmental aspects were simply omitted from the application. Estonia had made similar observations last year in its reply to the application. Insufficient gas resources is the major delaying factor that Moscow would not acknowledge publicly. The West Siberian gas field Yuzhno-Russkoye, with estimated reserves of 800 billion cubic meters, was initially earmarked as the main source for Nord Stream. That resource, however, would clearly not

suffice for a project of Nord Stream's declared capacity and time frame. Since 2006-2007 the Russian government has held out the prospect of gas from the Barents Sea offshore Shtokman field feeding Nord Stream. Development of Shtokman, however, has fallen behind schedule by several years. It can hardly be expected to materialize before 2015, and then at such high costs as to push the overall costs of Nord Stream even higher. The project's initial cost estimate of 5 billion Euros is now acknowledged to have been substantially understated, with new estimates approaching 10 billion Euros. As a net result of these factors, Nord Stream has not lined up the financing for the project. In its present state the project does not seem bankable. Nord Stream's Baltic seabed portion is projected to consist of two trunk lines with an annual throughput capacity of 27.5 billion cubic meters each. The combined capacity of 55 billion cubic meters is roughly equivalent to one half of Germany's annual gas consumption. At present, of the gas used in Germany 18 percent comes from internal production, another 18 percent from the Netherlands, 26 percent from Norway, 34 percent from Russia, and small volumes from other areas. With production tending to decline in the Netherlands and Norway, many in Germany seem reconciled to growing dependence on Russia, and some circles seem even euphoric about it at times. Some areas in northern Germany offer favorable geological conditions for building underground large-capacity storage sites. Preparations are under way for constructing at least two such sites. At Hinrichshagen near Greifswald (in Mecklenburg-Vorpommern), terminus of the Baltic seabed pipeline, the joint venture Gazprom Germania plans to build a storage site for 2 billion cubic meters by 2011. The joint venture Gazprom Export-Verbundnetz Gas plans to build one site and enlarge another, both near Bernburg (in Sachsen-Anhalt), with a combined capacity of 1.7 billion cubic meters also by 2011. Given the mounting uncertainties about the Nord Stream project's viability, let alone time table, plans to use gas from that source in Germany may have to be put on hold. (Jamestown)

http://www.jamestown.org/edm/article.php?article_id=2373086

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Analysis: Russian-Armenian gas talks inconclusive

The Armenian government and Russia's Gazprom energy giant have failed to reach a final agreement on the price of Russian natural gas for Armenia, which is due to rise significantly next year. The issue dominated talks in Yerevan on May 19 between President Serzh Sarkisian and Prime Minister Tigran Sarkisian (no relation to Serzh), and visiting Gazprom CEO Aleksei Miller. Both Tigran Sarkisian and Energy Minister Armen Movsisian refused to comment on the talks when approached by RFE/RL on May 20. In January 2006, Gazprom nearly doubled the price of the gas it supplied Armenia, from \$54 to \$110 per thousand cubic meters. However, the cost for Armenian corporate and individual consumers remained virtually unchanged until this month due to a controversial April 2006 agreement that left more Armenian energy assets under Russian ownership. In particular, Gazprom consolidated its controlling stake in Armenia's gas-distribution network and paid \$249 million for an incomplete but modern thermal power plant located in the central town of Hrazdan. By

contrast, Gazprom raised the gas price for Georgia and Azerbaijan from \$60 to \$110 in early 2006, and again in November of that year to \$230 per thousand cubic meters as of January 2007. The Armenian government has since used the money from the sale of the Hrazdan facility to subsidize gas prices, but admitted last month that those funds are almost exhausted and that subsidies would end as of May 1. This resulted in a 50 percent increase in the retail price of gas supplied to Armenian households and business entities. With another Gazprom price hike planned for January 2009, they will likely go up further. Karen Karapetian, chairman of the board of the Armenian natural-gas distribution company ArmRosGazprom, was quoted by Noyan Tapan on April 16 as downplaying the impact of the price hike on consumers. He said the 89,000 households that currently use up to 300 cubic meters per month will only pay an additional 700 drams (\$2.20), while those consuming between 300-500 cubic meters will pay an additional 1,000-1,100 drams. The tariff for commercial consumers will remain unchanged at \$159 per thousand cubic meters (compared with \$257-\$283 in neighboring Georgia.) Gazprom said last week that by 2011, Armenia will have to pay for Russian gas at world prices that are currently above \$200 per thousand cubic meters. According to the press offices of the Armenian president and prime minister, Miller reaffirmed this during his meetings in Yerevan. President Sarkisian's office said the two sides have agreed that the gas price will be raised to that level "step by step." In doing that, it said, they will take into account the fact that Gazprom now owns 72 percent of ArmRosGazprom. A separate statement by the Armenian government said the first increase will come into effect on January 1, 2009. It said Miller and Prime Minister Sarkisian agreed that the extent of that price rise will be determined by Gazprom and the Armenian side through further negotiations that will be held within the "shortest possible period." "The parties expressed confidence that a final decision on the issue under discussion will be taken soon," the statement added. The increased cost of natural gas has added to inflationary pressures on the Armenian economy mainly resulting from rising international prices of fuel, wheat, and other imported foodstuffs. Russian gas has become the No. 1 source of winter heating for the population. It is also widely used, in liquefied and pressurized forms, by public transport and private cars. (Radio Free Europe)

<http://www.rferl.org/featuresarticle/2008/05/D3AEE9D8-9708-4573-A13A-16A59F724D55.html>

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Turkish government demands share in gas shipped through Nabucco pipeline

The Turkish government will only give approval for the planned 5 billion euro gas pipeline Nabucco, connecting the Caspian Sea to Europe, if it can market some of the gas on its own, Financial Times Deutschland reported, citing energy minister Hilmi Guler. The paper also reported Guler as saying the government wants a distribution hub in Ankara. The demands have been rejected by the other consortium partners, according to the report. The group wants to ship all the gas to Western Europe. The consortium includes Botas of Turkey, Austria's OMV AG., Hungary's MOL Nyrt, Transgas of Romania, Bulgaria's Bulgargaz and Germany's

RWE AG. Turkey joined the project in 2005 only as a transit country for the pipeline, which will be 3,300 km and have a planned maximum capacity of 31 billion cubic meters per year. The pipeline will cross Turkey, Bulgaria, Romania, Hungary and will end in Baumgarten an der March, a major natural gas hub in Austria. Work is expected to begin in 2009 and should be completed in 2012. (Hemscott)

<http://www.hemscott.com/news/latest-news/item.do?newsId=64497524012872>

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Eni is likely to gain majority stake in natural gas supplier Distrigas

Eni SpA is likely to clinch the majority stake in Belgium natural gas supplier Distrigas SA in the coming week, which would allow the Italian energy company to boost its negotiation power with state-owned companies, such as OAO Gazprom. According to a company official, Eni Chief Executive Paolo Scaroni believes the expected acquisition of Distrigas will give Eni more clout in dealing with Gazprom, strengthen its presence in Europe's gas market and allow it to gain an important link to the United Kingdom market. Eni is already the largest single gas player in Western Europe with about 18% of the market. Suez SA said Saturday it picked Eni to hold exclusive talks to purchase its 57.3% stake in Distrigas, after the Italian offer beat that of top rivals E.ON AG and Electricite de France SA. Eni said it offered a combination of cash and assets for the Distrigas stake. The two are expected to sign a definitive agreement on the sale by Thursday, Suez said in a statement, without disclosing terms. Western oil companies are finding themselves with less bargaining power when negotiating with large state-owned energy companies for access to vast gas fields or supplies of fossil fuel, as crude oil prices soar on the back of dwindling supplies and growing demand. One of Distrigas' key assets is its cross-border activity, especially the pipeline connecting Continental Europe and the U.K. -- a country set to boost gas imports following declines in its North Sea fields. Distrigas' transmission network creates a physical link between gas sources and key European markets. Distrigas, with a market value of about €4.4 billion (\$6.9 billion) based on Friday's share price, reported 2007 revenue of €4.3 billion and gas sales totaling 15.2 cubic meters, according to its Web site. The Brussels-based company, founded in 1929, operates in seven European countries, including the U.K., France and Germany. Suez is selling the majority stake in the Belgium company after the European Commission set it as a condition to approve the merger with Gaz de France SA. Eni's CEO had said in the past the Rome-based company was committed to making the best offer for Distrigas. Eni is offering a mix of cash and assets. Last week, he said one of the assets Eni would offer is gas grid in Rome. The Rome grid, which Scaroni said was worth around €1 billion, was intended to lure the seller by playing on the successful venture Suez has with Rome's municipal utility Acea SpA. (Wall Street Journal)

http://online.wsj.com/article/SB121171925249220175.html?mod=googlenews_wsj

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In the news – Romania – Electricity Sector

RATB bought energy from Transenergo

State-controlled transportation company Regia Autonoma de Transport Bucuresti (RATB) purchased 19,160MWh of electricity from Transenergo Com for a price of RON 5.04mln, following an auction organized on the Romanian Commodities Exchange (BRM). RATB chose to buy electricity from Transenergo Com for a price of RON 263/MWh. Other two companies submitted bids, respectively CEZ Vanzare and Electrica. (Business Standard)

http://www.standard.ro/articol_45434/ratb_ia_energie_de_la_transenergo.html

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PSD deputy Iulian Iancu accused Vosgian of covering suspect energy transactions

On May 23rd, Social Democratic Party (PSD) deputy Iulian Iancu accused Economy and Finances Minister and also ANRE management of facilitating energy transactions between the State-controlled companies and intermediaries, to the detriment of the population. This month, the National Regulatory Authority in the Energy Field (ANRE) issued a decision which allows the energy sales from one State-controlled company to another to be done through intermediaries, the citizen being the disadvantaged one. According to the PSD deputy, minister Vosgian is aware of this situation. In his opinion, it is not normal for private intermediaries to interfere in transactions unrolled between the State-controlled companies. Thus, private companies record profit to the detriment of the State, but also of the citizen, which pays for more expensive energy. “Only 15% of the cheap energy produced by Turceni and Rovinari energy complexes goes to the population,” added the chief of Industries’ Commission within the Deputies Chamber. In reply, Vosgian said that this is the only way through which the State companies can amortize losses. “You can’t force the citizen to pay for these losses,” added Iancu. (Bursa)

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ArcelorMittal Galati to produce electricity

Besides the partnership with units 3 and 4 of Cernavoda power plant and also the construction of own power plant on the platform of the steel plant, ArcelorMittal Galati representatives also announced that they intends to involve in other projects concerning the electricity generation and decreasing consumption. There are 10 such projects and some of them will be concluded this year, according to ArcelorMittal Galati CEO Augustine Kochuparampil. “The energy is an extremely important field. The projects concerning the decrease of the energy consumption are some of the objectives we focus on,” said Augustine Kochuparampil. Recently, the management of the Galati-based steel plant announced that will sign a partnership with units 3 and 4 of Cernavoda power plant, which will allow them to enter the market of electricity producers. A few months ago, ArcelorMittal Galati announced that this

year could start the construction of its own power plant right on the platform of the steel plant. The produced electricity will cover the plant's needs and the rest will be distributed. "The pre-feasibility study was finalized and, if approved, they will go to the next stage," said Galati mayor Dumitru Nicolae, who attended the discussions on this project. The construction of such an objective could last five years and the investment could reach EUR 400mln. (Bursa)

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In the news – International – Electricity Sector

Suez ceases British Energy talks

French utility company Suez has ended talks with nuclear power plant owner British Energy about a potential offer for the company. The French company said it needed to concentrate on its merger with energy firm Gaz de France. Suez is one of a number of energy companies that have been linked to a possible offer for British Energy. UK energy firm Centrica, France's EDF, Germany's RWE and Spain's Iberdrola are all reported to be interested. "Suez confirms that, in its discussions regarding the future development of the nuclear energy sector in the UK, those relating to a potential offer for British Energy have now ceased," the company said in a statement. Further discussions once its merger with Gaz de France has been completed were not ruled out. The French firm noted that UK takeover rules prevent it from resuming talks until the deal is finished. Earlier this month, British Energy said it had received proposals from, "several parties wishing to make a full offer". It said talks would continue with all suitors over a "number of weeks". British Energy produces around one-sixth of the UK's electricity from its eight nuclear power stations and one coal-fired power station. (Bursa)

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Russia's Medvedev wants greater energy ties through SCO

New spheres of cooperation should be developed through the Shanghai Cooperation Organization (SCO), particularly the sphere of energy, Russian President Dmitry Medvedev told Chinese students on Saturday. The president, on the second day of his official visit to Beijing, told students at Peking University: "Within the framework of this organization we are able to agree on new directions of cooperation, including on the energy issue." The SCO, a regional bloc comprising Russia, China, Kazakhstan, Tajikistan, Kyrgyzstan, and Uzbekistan, primarily addresses security issues, but has recently moved to embrace various economic and social projects. The Russian president said the economies of both Russia and China are growing rapidly, raising the importance of energy ties. "We understand that in the future we will need additional sources of energy," he said. "We must develop both our own

energy projects and projects connected with processing of various energy sources, including oil and gas." Peking University, known as Beida, is China's second oldest university and one of the country's most selective. In English, the university retains the old name for Beijing. Medvedev began the second day of his visit to China by visiting a monument on Tiananmen Square, and later met with the chairman of the National People's Congress. On Friday, he met with Chinese President Hu Jintao. The sides signed a joint declaration on a range of issues, in particular U.S. plans to establish a global missile defense system, which the leaders said threaten the global strategic balance. (RIA Novosti)

<http://en.rian.ru/world/20080524/108260278.html>

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Moscow energy investment doubled

Investment into the Moscow energy distribution system will be almost doubled through 2010, Unified Energy System chief executive Anatoly Chubais said Saturday at the opening of a new power unit. Chubais and Mayor Yury Luzhkov, a longtime political adversary, signed an amended version of the power grid's investment plan, under which 898 billion rubles (\$39 billion) will be spent in the capital through 2010, up from the 2006 agreement between City Hall and UES to spend 430 billion rubles on upgrades and new infrastructure. The signing took place at the opening of a 500-kilowatt Siemens-produced power unit at the Beskudnikovo transformer station on the northern outskirts of Moscow. "The money will first of all come from the budgets of the companies controlling the networks," Chubais said. "Another part of the investment will be funded by tariffs and the fee for connection to the grid." Fourteen major elements of the Moscow electricity distribution network will be financed by state-run VTB, the country's second-largest bank, Luzhkov said Saturday without elaborating. VTB subsidiary VTB-Kapital Stolitsa said in July 2007 that it was planning to invest 30 billion rubles in Moscow electricity distribution through 2010. The country's electricity network companies, united under the Federal Grid Company, will remain under state control after UES ceases to exist on July 1. The agreement signed Saturday said transformer capacities would increase from 17,700 megawatts to 32,900 megawatts by 2010. It will also help provide for the capital's energy security, creating a reserve capacity of 1.5 megawatts to 2 megawatts by 2012, Luzhkov said. The standoff between UES and City Hall first surfaced in 2001, when Luzhkov publicly attacked the power-sector reform undertaken by Chubais and resisted the ouster of then-Mosenergo chief Alexander Remezov, a Luzhkov ally. Tensions hit a low during a major blackout in May 2005, which Luzhkov and then-President Vladimir Putin blamed on Chubais. After a fire at a substation, a rolling blackout saw as many as 2 million people in the capital plunged into darkness for several hours. It also closed metro lines and disrupted everything from the stock market to water supplies. Luzhkov and Chubais were ultimately forced to work out their differences in January 2006, when bitterly cold weather threatened to send temperatures to minus 30 degrees Celsius. Despite better relations lately, Luzhkov and Chubais couldn't help but using the seemingly neutral event Saturday to stir up old disputes. "It is a great pity that, despite all common sense, the

Moscow power stations have to supply the region," Luzhkov said, glaring at Chubais. The distribution network for the capital and the Moscow region was designed in the Soviet era. Chubais fired back that it would be "unjust if it were not heat," adding that Moscow is the stations' primary heat consumer. The dispute ended moments later, however, when a loud boom thundered through the station. Several reporters cried out in fright, but a smiling Chubais seemed at ease. "Don't worry," a mechanic said, reassuring startled visitors. "That just means the transformer has been activated." (The Moscow Times)

<http://www.themoscowtimes.com/article/600/42/367709.htm>

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UES wants buyer for OGK-1 by early June

Former electricity monopoly Unified Energy System will ask the potential buyer of power producer OGK-1 to make a final decision on the acquisition in early June, a source close to the sale said Friday. Also Friday, UES chief executive Anatoly Chubais told reporters that a deadline for the negotiations over the sale of OGK-1 had been set, although he declined to say what it was. "I will not tell you [the deadline] because that would influence the course of negotiations," Chubais said. The source, however, said that in the first 10 days of June the buyers will have to take the firm or leave it. The only bidder for OGK-1, whose sale was to raise up to \$7 billion, is a consortium of Russian investors led by billionaire Viktor Vekselberg's investment vehicle, Integrated Energy System. The company has emerged as a major player in the country's liberalized energy sector, buying up billions of dollars in assets from UES. IES has argued that OGK-1's \$4 billion development program through 2010, which the buyer would be obligated to fulfill, justified a discount to the market price. UES, however, has insisted on selling at a premium. The Soviet-era monopoly is in the process of selling off its assets, including 20 major power producers, as part of an industry-wide reform that will see UES dismantled and mostly privatized by July 1. After that date, its "shell," including all of its assets and liabilities, will be transferred to the two largest UES subsidiaries that will remain under state control — the Federal Grid Company and hydroelectric giant Hydro-OGK. OGK-1 chief executive Vladimir Kolesnikov said last week that if his firm is not sold by July 1, two-thirds of its shares will be transferred to the grid company and one-third to Hydro-OGK. "They will then sell these assets as they see fit," Kolesnikov said at a news briefing this month. He added that this could take place as late as 2010, but most likely it would happen sooner. Chubais said UES still had the option of buying up a new share issue of OGK-1 to fund the firm's investment program in the near term, until it can be sold at an appropriate price. In Germany's RWE is late in paying for power firm TGK-2, which it acquired in March, UES said Friday, threatening to void the deal if delays continue. "The board of directors of UES decided to unilaterally cancel the sales contract of TGK-2 ... if it is not paid for by May 31, 2008," UES said in a statement. RWE had no comment. The utility paid \$800 million for effective control of TGK-2, a Yaroslavl-based regional producer of electricity and heat. This is the first time UES has threatened to void a sales deal in response to late payment. UES sold a 21.3 percent stake in regional utility Bashkirenergy to investment

firm Unitrade for 11 billion rubles (\$466 million) on Friday. A source close to the deal said Unitrade was linked to Vekselberg's IES. Bashkirenergo, which generates, distributes and retails energy in the republic of Bashkortostan, is one of the few vertically integrated companies UES is selling. (The Moscow Times)

<http://www.themoscowtimes.com/article/600/42/367708.htm>

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EVN to invest 22 mln levs in coastal electric grid

EVN Bulgaria, which operates regional power distribution companies, said it will invest 22.5 mln levs this year to repair the transmission grid along Bulgaria's southern Black Sea coast and extend its reach to new customers. The company has received requests to be plugged in its transmission network from 641 potential customers. The investment push will aim to solve the problem with frequent power outages caused by network overload in rapidly developing areas like the Sunny Beach and Sveti Vlas resorts. (Dnevnik)

<http://news.dnevnik.bg/>

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Iberdrola ties knot with UAE's Taqa

Iberdrola is primed to take advantage of investment opportunities in the Middle East after the Spanish energy group signed a contract with utility and petroleum producer Abu Dhabi National Energy (Taqa). Under the deal, both companies will invest in electricity generation, renewable energy and oil exploration and production in the Middle East, North Africa, Europe and North America, Iberdrola said in a statement. "This new partnership to analyse investment projects in the international energy sector will benefit both companies, and give Iberdrola the opportunity to grow in new markets like North Africa or the Middle East," said Iberdrola Chairman Ignacio Galan. The renewable energy credentials of the world's largest operator of wind farms are of interest to Taqa, 75% owned by the Abu Dhabi government which controls over 90% of the oil reserves in the United Arab Emirates. The UAE is the world's fifth largest oil exporter and Taqa is looking to expand as part of the Gulf Arab state's drive to diversify asset holdings and the country's economy in a bid to lessen its reliance on oil revenues. An Iberdrola spokesman declined to say how much either company hoped to invest in the joint venture. The contract was signed during a trip by Spanish dignitaries, including King Juan Carlos, to the Gulf region to promote Spanish business interests, reported Reuters. (Upstream Online)

<http://www.upstreamonline.com/live/article155616.ece>

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RWE and Scottish & Southern discuss British Energy bid

Scottish and Southern Energy is in talks with Germany's RWE AG about mounting a joint bid for British Energy PLC, U.K. newspaper The Daily Telegraph reported Friday, citing sources close to the situation. Iberdrola is also in talks with RWE about British Energy, but people involved are skeptical about how motivated the Spanish utility is to do a deal, the paper reported. Centrica PLC has reached an agreement with Electricite de France SA to buy nuclear power on a long-term contract, should the French firm's bid for British Energy be successful, the paper reported. (Energia)

http://www.energia.gr/article_en.asp?art_id=17922

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Czech and Slovakia to unite electricity markets as of 2009

The Czech Republic and Slovakia will combine their electricity markets into one single market as of 2009 to reduce cross-border hurdles and fees while improving power distribution at times of peak usage, the Czech ministry of industry said Friday. The industry ministers of the two countries signed a memorandum of understanding on the topic Thursday, and the two sides are assembling expert teams to agree details on how the common power market will function. Each country's electricity transmission operator will remain independent but they will enhance cooperation and better allocate transmission capacities, the Czech ministry said. The Czech Republic and Slovakia already have a very closely integrated power grid as it was built when the two countries were the single Czechoslovak federation. The Czech Republic, dominated by Prague-based utility CEZ AS, is the only country in the region to have a surplus of electricity and is a net-exporter of power, while Slovakia has recently become a net-power importer due to the decommissioning of some nuclear generation capacity. (Energia)

http://www.energia.gr/article_en.asp?art_id=17920

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