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**Electricity Focus at Largest Russian Business Event of
the Year**

5th Annual Russian Economic Forum

Queen Elizabeth II Conference Centre, London
17th – 19th April 2002

Electricity and Power Generation will be placed under the spotlight at the 5th annual Russian Economic Forum, to be held in the prestigious Queen Elizabeth II Conference Centre in central London this April.

Speakers and participants include Alexei Kudrin, Russian Minister of Finance, German Gref, Minister for Economic Development & Trade and many of Russia's most prominent CEOs, Chairmen and senior executives.

The Forum is organised by Eventica, with support from the DTI, CBI and the Russian Ministry of Economic Development & Trade.

Book before 1st February for a 15% discount or by 1st March for a 10% discount on the £840 + VAT delegate fee

For further details, contact Eventica on tel: +44 (0)20 7510 2560 or email info@ru2uk.com

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Commentary

Temelin pushing Vienna, Prague further apart

By Zoe Koulouris

The Temelin plant, located just 60 km (about 38 miles) from the Czech-Austrian border, has provoked many claims, discord and speculation among environmentalists and citizens in both countries.

Debate has been particularly heated in Austria, the Czech Republic's traditionally anti-nuclear neighbor. Vienna has repeatedly said that Temelin, valued at US\$2.6 billion, is not safe and should be closed permanently.

The latest development in this front is the petition campaign by Austria's far-right Freedom Party -- and its leader, the ever-controversial Joerg Haider -- against the Soviet-designed plant. The petition, which is not legally binding, was launched on January 14 under the slogan: "No to Temelin. Yes to life." It calls for Vienna to veto Prague's bid for European Union membership if the nuclear power station is not taken off line permanently within the next two years.

This campaign is not just splitting the Austrians and Czechs; it has also sparked disagreement between the Freedom Party and Austria's conservative Chancellor Wolfgang Schuessel. The latter has said that the petition initiated by his coalition partners is futile and will lead to nothing. Schuessel argues that no autonomous government, including that of the Czech Republic, would ever change its plans for the nuclear power plant in response to the demands of another government or the results of any petition. Earlier this month, the chancellor called on members of his party not to sign the petition. He also sent a letter to 2,500 mayors who belong to his People's Party saying that the petition campaign would hurt the country, the Austrian paper *Kurier* reported.

Common ground on this problem can be found only through diplomatic talks, Schuessel stressed. Meanwhile, many of the environmentalists who have criticized Temelin have also indicated their disapproval of the petition campaign. They said they feared that the petition was no more than an hopeless attempt to win votes for Haider in the event that the government collapses over the Temelin issue. Haider has said, though, that he expects the coalition to stand.

Despite the political twists of the story, the Freedom Party's leader is hardly alone in his opinion on the Czech plant. *NEWS* magazine recently published the results of a new survey on Temelin, with majority of respondents -- 59% -- saying they wanted to see Temelin shut down for good. And on January 21, Austria's Interior Ministry reported that more than 915,000 people -- 15% of the country's 5.8 million voters -- had signed the petition.

The Freedom Party's campaign is not likely to derail the Czech bid for EU membership, but Prague could encounter some bumps along the road if Haider has his way. It should be noted, however, that Schuessel agreed to accept Prague's guarantees concerning the plant's safety last December, a development that helped the Czech Republic close the energy chapter of EU accession talks. Under that agreement, Vienna promised it would stop holding up Prague's EU membership bid while Prague promised to boost the safety of the Temelin plant.

The Czech government has not been silent on this issue, despite Schuessel's conciliatory warnings. Czech Prime Minister Milos Zeman has of late had sharp words for Austria in general and Haider in particular, saying he believes Vienna is making every effort to keep the Czechs out of the EU.

Zeman told the Czech business daily *Hospodarske Noviny* in an interview that if Austria carried out a referendum on Temelin, every political party would have the right to express its position. "But it is in fact a referendum on Czech entry to the European Union," the premier told the daily. "And Mr Haider keeps that secret from his voters." Zeman underlined that what Austria

must do is "get rid of its post-fascist" Freedom Party and Haider.

Austria's Deputy Chancellor Susanne Riess-Passer, a Freedom Party member, responded by declaring that Zeman's comments proved that the Czech Republic would have to gain more tact and democratic maturity before it was ready to enter the European Union.

Zeman's comments also met with the ire of Benita Ferrero-Waldner, Austria's foreign minister, who told Austria's ambassador in Prague that Vienna would object to any Czech attempts to meddle in Austria's internal affairs.

Ferrero-Waldner's Czech counterpart Jan Kavan responded by echoing Schuessel, saying that Austria's reputation on the global front would suffer if its voters actually blocked the Czech bid for EU membership over this issue. Every nation has the right to determine its own policies, even energy policy, he asserted.

Electricity investors: When will they come to Russia?

By Mayra Rodríguez Valladares

With United Energy Systems (UES) and Russia's entire electricity sector on the road towards restructuring, questions are being asked about whether foreign investors will exhibit strong interest in Russian power as they have in Russian oil.

As always, foreign investors will be seeking enticing financial returns and political guarantees that true reform in the sector is underway. Given uncertainty in the structural reforms and investor fear about corporate governance in Russia, however, direct investors are likely to be extremely cautious and to refrain from serious commitments to the power sector until 2003.

UES is attempting to improve the investment climate, at least in terms of potential financial returns. Specifically, UES expects that electricity tariffs should be at about US\$0.035-0.050 by

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2004, meaning that tariffs would -- finally -- cover costs and include a profit for electricity companies. According to Alexey Minaev, senior utility analyst at Rye, Man, Gor (RMG), until electricity tariffs supercede costs and necessary reform bills are passed in the Duma, foreigners will stay in the sidelines in 2002, with 2003 being the year that "foreigners may start coming to this market."

Troika Dialog's senior utility analyst Kaha Kiknavelidze, concurs. It is unlikely that observers will see "actual large-scale investments, at least in the coming 1-2 years," he says.

Most companies in the Russian electricity sector welcome foreign investment. Unsurprisingly, the hope of receiving cash is the major attraction. According to Minaev: "UES strongly supports the coming of foreign investors into the power sector. For [CEO Anatoly] Chubais this would be ideal, as it would solve the problem of ageing assets. Most energos are controlled by UES and will likely follow UES."

In addition to cash, however, energos would also like to gain from foreign expertise. Mikhail Seleznev, senior utilities analyst at United Financial Group (UFG), believes that energos could gain expertise "in metering, disconnection procedures, and commercial losses countermeasures."

Yet, the actions taken by energy managers will continue to keep foreign investors on guard. Cash is what is important for energos. Issues of corporate governance are not high on many energy managements' priorities. According to Seleznev, foreign investors are "looking for control, but as it appears right now, the Russian government is not very willing to yield control. Management's lack of openness is a major stumbling block for investors. According to Seleznev, this lack of openness is "why foreigners are looking for control - if you have control openness is not an issue any more."

Minaev also point out a typical problem with Russian utilities. "The interests of shareholders may differ -- for example, if a shareholder is a utilities customer at the same time."

Clearly, management openness depends on company management, which is elected by shareholders. As such, investors should look closely at the

management, ownership, and shareholder structure of Russian power companies.

Another serious question to consider, however, is that of how regional governments would react to foreign investors. Given Russia's political structure, local governors can wield inordinate influence on political and economic affairs of their regions. Succinctly put, RMG's Minaev explains, "Russia is a big country and governors vary significantly in their political views." Specifically, he said, some politicians like Moscow's Mayor Yuri Luzhkov would resist attempts by any other party to control Mosenergo, whereas "in the regions with democratic governments, [the] situation may be opposite."

Importantly, in most cases regional governments are not shareholders in energos or individual power stations and cannot fully thwart foreign investment. Yet the issue of raising tariffs would be a problem. According to Kiknavelidze, "foreign companies want higher tariffs, which would be met by regional governors' opposition."

Minaev agrees that there would be strong opposition if "newcomers began boosting tariffs," but he sees such a move as "unlikely because there will be competition and licensing, which won't allow arbitrary tariff growth."

Already, some foreign electricity companies have attempted to invest in Russia. As Minaev noted, "EdF, the France-based electricity utility, reportedly joined a project on the construction of a power station in Moscow." But negotiations between UES and foreign companies took place before the 1998 ruble crisis, which brought discussions to a jarring halt.

While it is difficult to ascertain exactly what companies would come in to Russia when reforms are more evident, those experienced in emerging markets are the likely prospects. Minaev believes that those with CIS experience such as "AES, Iberdrola, and RWE AG" are the most likely candidates. Troika's Kiknavelidze mentioned companies such as "AES, EdF, Preussen Elektra and Fortum" as potentially interested. "AES seems to be the most aggressive and willing to take business risks, while EdF seems to be trying to negotiate government guarantees for specific projects."

Some potential investors might have difficulties even in the early stages of exploring investments in Russia, though. According to Seleznev, "AES is most willing to come, but also most disliked by UES. They clashed over electricity supplies to Turkey from Georgia." Undeniably, he said companies with close relationships to UES, such as "EdF and E.ON (one of the principal shareholders in Lenenergo)" might have an easier time getting a foot in the door.

Details on Russia's genco plan

By Ben Aris

This week, Russia's United Energy Systems (UES) has revealed more details on the structure of the generating companies, also called gencos, that will be set up in the course of the company's reorganization.

At a press conference, UES' deputy CEO Mikhail Abyzov lifted the rug up from management's plans to transfer some of the regional power companies, or energos, to the gencos. He said UES favors a three-stage process before the gencos assume their final structure.

In the first stage, which is slated for the second and third quarters of this year, UES plans to create 100% company-owned subsidiaries, to be called the generating holdings. It will give these holdings UES' stand-alone stakes in federally controlled power stations. This won't involve stripping assets from energos as UES completely controls a number of power stations. Then by the end of this year, the transfer of power plants belonging to the regional energos to these holdings will begin. UES hopes to finish this process by the end of 2003.

Just how all this will be done remains shrouded in mist. At issue is how the energos (and hence minority shareholders) will be compensated. According to Abyzov, at the moment UES favors spinning generation assets off into separate companies first and then transferring them. In this way, shareholders in the energos will get a pro rata share in their assets, which can be calculated in a relatively transparent way.