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Energy in East Europe

Poland unveils privatization plans

In a bid to reduce its bulging budget deficit the Polish government approved August 11 an ambitious privatization plan to raise Zloty 36.7 billion ($12.6 billion) by the end of next year largely through the sale or partial sale of its main power companies. Of the 54 companies up for sale, Poland's Prime Minister, Donald Tusk, said that four strategic firms – Europe's second largest copper miner, KGHM, Poland's number two refiner, Grupa Lotos, and the country's two largest vertically-integrated power groups, Polska Grupa Energetyczna and Tauron Polska Energia – would remain under state control.

The decision to keep Tauron under state control was the biggest surprise. Last month, when the Treasury Minister, Aleksander Grad, presented the 2008-2011 privatization plan, a substantial chunk of the funds were to be raised through the sale of the state's controlling stake in Tauron directly to a strategic investor. Such a sale was valued at between Zloty 15-16 billion.

Grad said Tauron would now debut on the Warsaw Stock Exchange between the end of April and mid-June next year. "We will raise the company's capital and the funds will go towards its investments. Apart from that we will sell shares belonging to the state Treasury at a level which will allow us to maintain control," he said during a news conference to present the new privatization programme. Such a sale would raise significantly less than Zloty 16 billion and has raised questions about how realistic the privatization target is.

The decision to treat Tauron as a strategically important company was a victory, however, for the Economy Minister, Waldemar Pawlak, who had opposed Grad's plans to sell off Tauron to a foreign investor. Pawlak is the leader of the junior coalition partner, the People's Party, which is much less economically liberal than Tusk and Grad's Civic Platform party. He favours privatization through worker-management buy outs. "The state Treasury will retain control in these companies because it's difficult to call it privatization, if those companies are bought by state-owned companies from other countries," Pawlak said in an interview with public radio August 12. Pawlak said the four strategic companies would be more transparent, efficient and be able to lower costs if they are floated on the market.

Like the company's directors and labour union leaders, Pawlak believes Tauron can be a viable concern and carry out its ambitious program to invest Zloty 30 billion, chiefly in new generation capacity, by 2020, without a strategic

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Bulgaria reviews Belene plans

Bulgaria's may cancel construction of its planned 2-GW nuclear power project at Belene following a review of a number of big-ticket energy projects, including its participation in the South Stream gas pipeline, by the new centre-right government, which took power late last month.

The new government led by Prime Minister Boiko Borissov, which ousted a Socialist-led coalition in elections held July 5, announced plans late July to review the Belene project as well as to part privatize the state-controlled energy holding company, Bulgaria Energy Holding, in a bid to plug a widening budget deficit and pull the EU's poorest nation out of recession.

"The new government is looking urgently to raise revenues and that means stopping questionable

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The next issue of *Energy in East Europe* will be published on September 11, 2009.

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investment projects and squeezing more dividends out of state-owned companies but also looking at opportunities to privatize," Ken Lefkowitz, director of New Europe Corporate Advisory, a Sofia-based consultancy, told Platts August 10.

The new government's pressing need to bridge a Lev 2.5 billion ((€1.28 billion, $1.8 billion) budget gap by the end of this year through assets sales and spending cuts has raised speculation that Sofia may cancel plans to develop the country's single largest investment project in northern Bulgaria. The likelihood of this was confirmed by comments made July 31 by deputy Prime Minister and finance minister, Simeon Djankov. "There is an 80% chance that the Belene project will be stopped," Djankov said. "The state has no funds to spare for its construction, and it has been difficult to raise private funds because of the global crisis." There is no economic assessment of its profitability, and legal analysis showed there would be no penalties if it was cancelled, he said.

The country's new economy and energy minister Traicho Traikov said the same day, however, that no decision had been taken on the future of the multi-billion Belene nuclear power plant. "We have never said that we would give up on the Belene project," Traikov told reporters. In his words the new government is carrying out a detailed analysis of the agreements signed and future opportunities for the project.

Construction of the project's two 1-GW pressurised water reactors is being carried out by Russia's Atomstroyexport under a €4 billion ($6.2 billion) engineering, procurement and construction contract, signed in January 2008. France's Areva and Germany's Siemens will be among the subcontractors for the project. Last September Bulgaria's state power company, NEK, selected RWE Power as its strategic partner in the joint venture to build, own and operate the power plant. Under the agreement RWE Power is take a 49% stake in Belene Power Company, with NEK retaining 51%. According to NEK, RWE is to invest an equity stake of €1.275 billion ($1.74 billion) in the project, as well as providing a corporate credit of €300 million ($409 million), which could be made available for the ordering of long lead-time plant components in advance of the financial closure of the project.

However, RWE Power's involvement in the project remains in doubt. A report by Financial Times Deutschland in early August said that RWE's involvement is on the brink of collapse because financing for the project couldn't be obtained. RWE spokesman Martin Pack told Platts August 11 that as far as RWE is aware the project is still ongoing, although he acknowledged cancellation of the project was one possible outcome of the government review. Pack would not comment on RWE's financing for its own 49% share saying that was part of the project development work that is not scheduled to be completed until mid-2010. RWE plans to hedge its risks by splitting its stake with another strategic investor and Pack said talks are ongoing with potential partners. In February, GDF Suez pulled out of planned participation in the project to focus its efforts elsewhere.

"The Bulgarian Energy Holding has hit the wall in terms of trying to raise financing for the project, particularly debt financing and even RWE's commitment to the project has never really been firm and subject principally

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to securing the rest of the financing," said Lefkowitz. "In the current environment it is not bankable as a project without a full state guarantee which is not on offer; it is not bankable with the western banks and even the Russian banks – where there is underlying Russian state interest in selling the equipment – were only good for €4 billion, while the total project cost is around €7-9 billion. In that regard the market is saying that the project is of questionable viability and that the previous government supported the project for non-market reasons. The new government wants to look at things a little more objectively and so it is natural for them to stop and question its viability. It has been looming as something of a white elephant," he said.

"I think a postponement is highly likely but it is a tough call about full cancellation because there is a big sunk cost. More importantly there is an enormous vested interest both local and on the Russian side, but also from Siemens and Areva," he added. The new prime minister is particularly responsive to the Germans so the interests of Siemens and RWE will be taken into account".

Export case for Belene weakens

Completion of Belene, construction of which was started in the 1980s but suspended in 1991 due to cost overruns with some 40% of the work worth $1 billion already finished, was approved by the Bulgarian government in April 2005, to offset the closure of the four oldest 440-MW reactors at the Kozlodui nuclear power plant in 2006 as demanded by the European Commission under the terms of its accession to the EU. The closure of the Kozlodui units marked the end of Bulgaria's position as a major regional electricity exporter and the plans to complete Belene were predicated on being able to meet future domestic demand as much as regaining its status as a regional powerhouse. However, government studies indicate that by 2015, when Belene was expected to be fully operational, the Balkan region will not face the same supply shortages that it has to date, weakening the case for Bulgaria to build new capacity to serve export markets.

Significant coal-fired thermal power capacity in Bulgaria is scheduled to come offline over the next few years at the Bobov Dol, Varna and Rousse plants as well as some older units at Maritza Iztok-2, but the loss of this capacity will be offset by the recently modernized and repowered 908-MW Maritza East 3, majority controlled by Enel, and 670-MW of new lignite-fired capacity being developed at Maritza Iztok 1 by AES, which is due to come on line in May 2010. CEZ, the owner of Varna, is also advancing with plans to build an 880-MW combined cycle gas turbine plant to replace the three oldest 210-MW units at the 1,260-MW plant on the Black Sea coast.

"There is a case to be made to a degree that Belene could be replacement capacity, also taking into account the decommissioning of Kozlodui 1-4. Before the decommissioning of Kozlodui 1-4, Bulgaria was an exporter so if you want to maintain the full capacity that Bulgaria has had then you have to look at the regional market and see the export demand," said Lefkowitz. "There is some discussion of resuming exports to Turkey but in the western Balkans where there has been a lot of demand previously there are various plans for new capacity most notably the Kolubara B project in Serbia which seem to be more advanced than some of the others. The Romanians are building their own nuclear plant in Cernavoda and renovating Turceni and Turkey also has its nuclear ambitions so it is not a simple picture and will require some study," he added. "Both the deputy prime minister and energy minister have made noises about preparing a new power sector study but nothing concrete has been announced as yet".

Privatization plans

In addition to cutting spending on big ticket energy projects, the government intends also to raise funds from the sale of sector assets. It has yet to announce concrete privatization plans for the energy sector but Djankov, a former chief economist at the World Bank, said late last month that the government would proceed with the listing of a 10-15% stake in the Bulgaria Energy Holding on the local stock exchange. The sector holding company, which comprises the national power company NEK, the natural gas monopoly Bulgargaz, the Kozlodui nuclear power plant, the Maritza Iztok coal mines and one of its main customers, the Maritza Iztok 2 thermal power plant, has a book value of roughly €4 billion. A sale of a 10-15% stake would not take place before next year but could be expected to fill the state coffers as well as help boost the domestic stock market. A listing will force the company "to comply with the rules of the stock exchange for more transparency and disclosure of financial information, which would help us, the government, to clarify some of the inefficiencies that now exist in the sector," Djankov said. The company's annual revenue amounted to Lev 5 billion, while its pre-tax income was Lev 105 million, well below the 20% average profit margin for similar energy companies in Europe, Djankov said.

The new energy minister also announced plans to privatize Sofia Toplifikacija, the capital's district heating company, but Lefkowitz said that Traikov "may have jumped the gun on that because there is a whole lot of work to be done to normalize the regulatory framework to make that a saleable asset." "I'd say it would require at least six-to-twelve months to make a viable business case for the company, and generate some results before selling it," he said.

South Stream under review

The government is also reviewing its support for the South Stream gas pipeline and Burgas-Alexandroupolis oil pipeline projects, the cancellation of which along with Belene would have implications for Russia and its relations with Moscow. South

Steam, which is being developed by Gazprom and Italy's Eni, will involve the construction of a 900 km, 63 billion cubic meters per year capacity pipeline from Russia under the Black Sea to Bulgaria and then onwards to the heart of Europe at an estimated cost of €8.6 billion ($11.6 billion). The Burgas-Alexandroupolis project, which Russian pipeline operator Transneft is developing with Bulgaria and Greece, would involve the construction of a 35 million mt/year (700,000 b/d) pipeline to Alexandroupolis, on the Aegean Sea to be filled with oil shipped from the Russian port of Novorossiisk across the Black Sea to Burgas.

Analysts believe that Bulgaria's new government is either adopting a more pro-European stance in its energy policies or is seeking to win concessions from the Russians over its participation in South Steam In the full knowledge that South Stream would cost more if it does not cross Bulgaria and that Russia and Gazprom want South Steam to be launched ahead of the rival EU-backed gas pipeline project, Nabucco.

"On the one hand, it fits the policy of the European Union, which has been trying to break away from the [energy] domination of Moscow and Gazprom," said Mikhail Krutikhin, a partner at the RusEnergy consultancy in Moscow. "On the other hand, this could be Bulgaria's attempt to get privileges at the talks. The previous Bulgarian government made concessions to Russia, but the new authorities could demand a review of the clauses they think are unprofitable to Bulgaria," he said, adding that they may even eventually abandon Russian-backed projects, at least the oil and gas pipelines.

In principle, a gas pipeline could bypass Bulgaria, going instead via Turkish waters to Romania, Krutikhin said. "But this would at least double the cost of the project's underwater part, from €5 billion to €10 billion," he said. "Furthermore, we don't know what the Romanians think on this score, since they want to prove their loyalty to the EU, whose Nabucco project is a direct rival of South Stream."

Vladimir Bruter, an expert at the Moscow-based International Institute for Humanitarian and Political Sciences, said in a report on EurActiv.com Borissov has always adopted pro-Western positions, sharing the EU's energy security objective of reducing dependence on Russian gas. Bruter said Borissov's position should not come as a surprise to Russia and that Moscow should better get used to the idea that the new Bulgarian leader will keep his distance from Moscow.

Lefkowitz said that while the prime minister and other members of the government have not made it clear of their leanings towards Brussels or Moscow, deeds speak as loud as words. "They rushed to sign up to the political agreement for Nabucco in Ankara whereas they have delayed a bit on South Stream to the point where the Bulgarian president raised this concern that South Stream might be re-routed to avoid Bulgaria," he said.

January's gas supply crisis, which underlined the Balkan state's overdependence on Russian gas and its vulnerability to supply interruptions may also have an impact on Bulgaria's thinking with respect to South Stream, he said. Bulgaria has since then made significant progress on diversifying its gas supply, securing EU funding for two new two-way interconnectors with Romania (Ruse-Giurgiu) and Greece (Dimitrovgrad-Komotini) as well as the signing of a framework agreement between BEH, Greece's DEPA and Italy's Edison international this July (*EiEE 169/1*). The link to Greece would also provide a tie-in to the Interconnector Turkey-Greece-Italy or ITGI that will carry gas from the Caspian and Middle East to Europe. In addition, Bulgaria has also moved ahead with plans to increase underground gas storage capacity at Chiren (*EiEE 165/9*).

"Whether South Stream runs through Bulgaria or not is probably not so critical and the existing gas import agreements are enough to cover consumption," said Lefkowitz. "Growth in consumption is not an issue at present so it is really diversification rather than additional supply that is important and therefore the benefit of South Stream would have been to avoid the Ukrainian route for Russian gas but the interconnectors achieve that result as well with the additional benefit of some diversity of supply," he added. Asked whether the Russians might try to link financing for Belene and other energy sector projects not to mention gas imports to Bulgaria committing to South Stream, Lefkowitz said it would hardly be surprising.

Alexander Shtok of 2K Audit Business Consulting, said, however, he believed that Russia still held the aces. "Bulgaria has so far not announced its withdrawal from the joint projects with Russia, he said. "If it does, Bulgaria will lose oil and gas transit revenues, and also a nuclear power plant. Getting a nearly €4 billion loan in the current situation would be extremely difficult. Likewise, Bulgaria should not forget the jobs these projects will create".

While the government is expected to abide by previous commitments made on South Stream, the future of the Burgas-Alexandroupolis oil pipeline project appears less certain. Minister for Regional Development, Rosen Plevneliev said shortly before assuming his ministerial post in late July that the construction of the Russian-sponsored pipeline was not economically justified. Last week Plevneliev announced that responsibility for the project would be transferred from his ministry to the Bulgarian Energy Holding. Lefkowitz was not sure of the impact that this would have on the project but said that he expected the government to take a harder look at the oil terminal at Burgas as this had raised some environmental objections. "I think there have also been some discussions of the commercial viability of the project," he said.

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investor. It's not a view shared by many industry analysts who believe that the already heavily indebted Tauron will find it extremely difficult to raise such capital through debt or an initial public offering.

Foreign strategic investors including E.ON, EDF, CEZ and Vattenfall have all reportedly expressed interest in the privatization of Tauron, which has the country's highest retail sales worth Zloty 9 billion ($3 billion) per annum. Tauron was formed in December 2006 through the merger of generator – Poludniowy Koncern Energetyczyny (PKE), sales companies Enion and EnergiaPro, the Elektrownia Stalowa Wola power plant in southeastern Poland and the Tychy and Katowice CHP plants. In total, the group has power production capacity of close to 5,500 MW and capital assets valued at Zloty 14 billion.

"A minority stake is obviously not as attractive as the controlling stake but international utilities may still be drawn by the opportunity to participate directly in Tauron's projects such as the development of new power plants; this could be a way to raise additional equity necessary to finance new investment," Rafal Hajduk, a partner for Norton Rose told Platts August 11.

The government u-turn on Tauron follows trade union opposition to the Treasury Ministry's plan to sell the company directly to a sector investor. "Neglecting the labour unions and violating the worker's interests in the privatization of Tauron can lead to unparalleled social tension within the group and irreversible damage to Poland's energy security," the unions representing the group's 28,000 employees said in a statement August 4. "The unions are determined and will not shy away from using their legal rights," they added.

Perhaps the government's strategy was also designed to boost interest in and the price of its third largest vertically-integrated power company, Enea, which is scheduled to be sold off directly to an investor in September or October this year. Last month, the Treasury Ministry, which owns a 76.48% stake in the utility, invited investors to submit preliminary offers by August 14 for a 67.05% stake in the company (*EiEE 170/1*). The utility is currently valued at Zloty 5.8 billion ($2 billion) though the government is hoping to raise Zloty 8 billion from the sale of its 67.05% stake. The sale is the second stage of Enea's privatization. Last November, Vattenfall purchased an 18.67% stake in an initial public offering for $602 million. The European Bank for Reconstruction and Development also paid €47.8 million for a 2.5% stake. The remaining 9.43% is held by employees.

Enea, which is not deemed to be of strategic interest, now represents the surest opportunity in the Polish power sector for foreign investors. In addition to Vattenfall, GDF Suez, CEZ and RWE are all reported to be interested in the sale. For many it appears an attractive option. Its biggest draw is its retail market share. Based in Poznan, west Poland, the company sold 17.5 TWh last year giving it an almost 15% share of the country's sales market. But it's the composition of its 2.3 million customer base that is particularly attractive because 2 million of those clients are retail end users with a relatively strong brand loyalty. In Poland very few households have switched suppliers. In contrast, Tauron has many large industrial clients which are more inclined to switch supplier.

Enea also operates Poland's largest hard coal-fired plant, Kozienice, which has installed capacity of 2,880 MW, representing 8% of the domestic generation market. Kozienice is located in Swierze Gorne, 75 kms southeast of Warsaw where there are few existing power plants. The company has also advanced plans to increase its capacity. Work is underway on two new 1,000-MW units at Kozienice by 2015 and it is planning 300-500 MW of wind power capacity in a region renowned for having Poland's best wind conditions. Last year Enea posted net profit of Zloty 204 million on revenues of Zloty 6.2 billion. Enea employs 10,000 workers and has assets valued at Zloty 12 billion.

There were no surprises about Polska Grupa Energetyczna, PGE. Grad said the state planned to sell between 10-15% of the country's dominant power company. Such a sale could raise Zloty 4.8 billion.

Under the program the country's smallest vertically-integrated group, the Gdansk-based Energa, which has minimal generation capacity, will be sold off to an investor in 2010. The government is also seeking a strategic investor to buy its 46% stake in Zespol Elektrowni Patnow-Adamow-Konin together with its 100% stake in the plant's two lignite feeder mines. ZEPAK, located in central Poland has a generating capacity of 2,388 MW and produces 12% of the country's electricity. The Treasury is also selling its 85% stake in WPEC Legnica CHP plant in south west Poland, which is valued at Zloty 200 million and three other CHP plants in Upper Silesia, southern Poland.

In the oil sector, the government is to sell off a 13% stake, valued at Zloty 381 million, in its second largest refiner, Grupa Lotos. The company operates the 6 million mt/year capacity refinery in Gdansk, northern Poland, which is undergoing a major modernization program to increase its throughput by 75% to 10.5 million mt per year by 2012. Lotos also operates three smaller refineries in the south of the country, which will also be privatized by 2011, the government said.

The government announced it would sell off a 55.97% stake in one of the country's largest hard coal miners – Lubelski Wegiel Bogdanka in southeast Poland. In June, Bogdanka, which supplies around half of the feedstock to Elektrownia Kozienice, raised Zloty 528 million during its IPO. The sale is valued at an estimated Zloty 1.6 billion. Grad said the government hopes to raise Zloty 11 billion this year and Zloty 25 billion by the end of 2010. He said Zloty 3.2 billion or 27% of this year's target had already been achieved.

Budgetary needs force Ukraine disco sales

Ukraine intends to offer for sale from this autumn majority stakes in fourteen of the country's 27 regional electricity distributors, or oblenergos, after the government issued July 29 a resolution for the transfer of the stakes from the state power sector holding company, the Energy Company of Ukraine, to the State Property Fund.

The list of oblenergos to be privatized includes majority (60% + 1 share) stakes in Chernivtsioblenergo, Dniproblenergo, Donetskoblenergo, Kharkivoblenergo, Khmelnitskoblenergo, Krymenergo, Mykolaivoblenergo, Vinnytsiaoblenergo, Volynoblenergo, Zakarpattiaoblenergo and Zaporizhzhiaoblenergo, as well as 51% in Ternopiloblenergo, a 50% + 1 share in Kyivenergo and 46% in Cherkasyoblenergo. Energy Company of Ukraine will retain minority stakes of no more than 15% in some of the mentioned oblenergos. According to the State Property Fund, the oblenergos will be sold in several groups, with tenders or auctions for the sale of first group of companies to be announced by September 10, with the sales expected to continue through to 2010.

The sale would represent the biggest sell-off of Ukraine's power distribution assets since April 2001, when majority stakes in six distributors were sold to foreign investors at an open auction. US power company AES paid $46 million for 75%+1 share of Kyivoblenergo, and $24 million for 75% +1 share of Rivneoblenergo. VS Energy International, a Slovak-based company controlled by Russian interests, purchased controlling stakes in four distributors, paying $20.7 million for a 65% stake in Khersonoblenergo, $18.6 million for 70% of Sevastopolenergo, $35.1 million for 75.5% in Zhytomiroblenergo and $16.3 million for a 51% stake in Kirovogradoblenergo.

Attempts at further privatization of the distributors and four thermal power producers by the current government of Yulia Tymoshenko have been repeatedly thwarted by President Viktor Yushchenko, as a result of the political battle between the prime minister and her erstwhile Orange Revolution ally for control of domestic policies. The sale of blocking stakes in six oblenergos and majority stakes in the four thermal power producers was cancelled in May 2008 by the then head of the SPF, an ally of Yushchenko.

Earlier this year the government put up for sale stakes in five oblenergos. Chernigovoblenergo and Lvivoblenergo were sold at the first attempt, while numerous auctions for the sale of 25% stakes in Poltavaoblenergo and Sumyoblenergo failed due to a lack of bidders. Industry sources expect the sales to proceed as planned this time as there is political consensus on the need to raise funds to bolster the state budget during these difficult economic times. In addition, it would offer various politically well connected, local business groups the perfect chance to buy control of oblenergos at low prices this year. Moreover, domestic investors are unlikely to face competition from major international investors, given that strategic investors may be unwilling to invest in Ukraine in the middle of the current crisis and before the presidential elections in January 2010.

Analysts believe instead that local business groups, such as DTEK, Energy Standard, Privat Group and VS Energy, which already hold stakes of more than 20% in most of the distributors, are likely to be the main bidders for the assets. It is also expected that Russian companies, in particular Inter RAO UES, may join the bidding.

Yuri Kubrushko, director of Kiev-based consultants Imepower told Platts that there would be no sales advisor involved and as a result the sale may be rather "unprepared", but that he expected it to be fairly transparent. "At the same time, there will be various social and investment commitments attached to the deal that may complicate the situation for outside investors, especially if such commitments are not mirrored with some sensible state guarantees ensuring a stable market environment for oblenergo operations," he added. Dennis Sakva, utilities analyst at Kiev-based brokerage Dragon Capital, added that the privatization of the distributors may help accelerate liberalization and reform of the energy sector, paving the way in turn for the privatization of the power generating companies.

Power distribution and supply companies under majority private ownership – April 2009

AES Corporation	
AES-Kyivoblenergo CJSC	AES-Rivneenergo CSJC
VS Energy International	
Kirovogradoblenergo CJSC	Khersonoblenergo CJSC
Odessaoblenergo CJSC	Sevastopolenergo CSJC
Zhytomyroblenergo CJSC	
DTEK	
Service Invest LLC	PES Energougol CJSC
Svarog Asset Management	
Lugansk Energy Union LLC	
Group of Offshore Companies*	
Lvivoblenergo OJSC	Poltavaoblenergo OJSC
Prykarpattyaoblenergo OJSC	Sumyoblenergo OJSC
Chernigovoblenergo OJSC	

*Controlled by Surkis, Grigorishin and Kolomoyskiy
Source: Imepower Consulting

ECU's distribution sector interests (%)

Vinnytsiaoblenergo	75.00	Zaporizhyaoblenergo	60.25
Volynoblenergo	75.00	Luganskoblenergo	60.06
Dniproblenergo	75.00	Ternopiloblenergo	51.00
Zakarpattiaoblenergo	75.00	Kyivenergo	50.00
Khmelnitskoblenergo	70.01	Cherkassyoblenergo	46.00
Chernivtsioblenergo	70.00	Odessaoblenergo	25.01
Krymenergo	70.00	Poltavaoblenergo	25.00
Mykolaivoblenergo	70.00	Prykarpattyaoblenergo	25.00
Donetskoblenergo	65.06	Sumyoblenergo	25.00
Kharkivoblenergo	65.00		

Source: ECU

Tender launched for Temelin expansion

Czech power company CEZ took a major step towards achieving long-held plans to increase capacity at its Temelin nuclear power plant with the announcement August 3 of a public tender for a contractor to build two further units at the site in southern Bohemia. Bidders will be required to include offers for the potential construction of up to three more reactors at sites elsewhere in Europe on behalf of CEZ.

The tender underlines the company's stated aim to produce cleaner electricity by investing in new nuclear and gas-fired production. "Completion of Temelin NPP will contribute to the future reduction in dependence on energy imports from abroad and it will help to maintain energy security of the state and to fulfil obligations and goals concerning climate protection," CEZ said in a statement.

The announcement of the tender suggests that CEZ is confident that the next Czech government will support its nuclear plans. The company's plans to build a further two 1,000-MW units at Temelin have until now been blocked by the former centre-right coalition government, as a result of an agreement to freeze all new nuclear development with its junior coalition partner, the Green Party. However the previous government led by Mirek Topolanek collapsed this March after it lost a vote of no confidence and was replaced by an interim government in May. Early elections are to be held in October.

Both of the country's leading political parties – the Social Democrats or CSSD, led by Jiri Paroubek, and the right-wing Civic Democrats or ODS, led by Topolanek, support the further development of nuclear energy. During a visit August 11 to the Dukovany nuclear power plant in south Moravia, Paroubek reiterated his belief that nuclear energy should play the main role in the Czech power sector. "Nuclear energy is cheap and it does not produce any greenhouse gas emissions," Paroubek said. He said it was necessary to build more units at Temelin as soon as possible and to modernize the Dukovany plant in order to extend its service life. Moreover, these two projects would provide "a big impulse for the Czech economy".

The Social Democrats say the energy policy of the country needs to be updated. Ministry of Industry and Trade spokesman Tomas Bartovsky said experts started to prepare an update of the Czech energy policy last autumn after an analysis by a government commission. He said the updated policy was completed in January but it was decided that it would be redrafted again following the January gas supply crisis and would be submitted to the new government after elections in October. Former industry and trade minister Martin Riman said in February the draft energy concept counts on an increase in the share of nuclear energy in power generation from the current 30% to 50% by 2030.

CEZ said that the launch of the tender represents the next step in a lengthy administrative procedure for the building of two further reactors at Temelin as originally planned. In July 2008, the company applied to the Ministry of the Environment for an environment impact assessment of the project. It said that it expects the entire administrative process to take some seven or eight years and that construction of Temelin 3 and 4 could be completed in some 15 years.

CEZ management concluded that Temelin units 3 and 4 should be constructed following a comprehensive analysis, which took two years to complete. The company said that the analysis considered all options – ranging from importing black coal to the development of renewable resources: "Completion of the nuclear units in Temelin is the best variant of a new source of electric energy as far as economic, logistic and technical criteria are concerned."

CEZ said that the exact type of reactors and their capacity would be determined during the tender process, but the units would be third-generation pressurised water reactors. Westinghouse Electric, a unit of Japan's Toshiba, confirmed August 4 its intention to participate in the tender as has Russia's Atomstroyexport. France's Areva is expected also to offer its services. Westinghouse was the main supplier on the completion of Temelin's existing two units, based on a Russian design but upgraded later during construction. The Temelin plant was originally intended to house four Russian-designed PWRs, but plans were scaled back to the current two units following the collapse of the Soviet Union in 1989. This means that certain infrastructure is already in place for the two new units, CEZ said.

In a statement, CEZ said that in addition to the two new units at Temelin, "the public tender includes a requirement for unilateral options for the benefit of CEZ regarding construction of up to three more units in other potential locations within Europe". The company did not disclose when or where these further units would be built.

One such unit could be for a new nuclear power plant to be built at the Bohunice site in Slovakia. In May, a shareholder agreement for a joint venture to construct the new plant was signed by CEZ and Slovakian state-owned nuclear decommissioning company Javys. Under the agreement, Javys will hold a 51% stake in the joint venture, with CEZ holding the remaining 49%. The joint venture will conduct a feasibility study into the construction of a 1,000-1,600-MWe reactor to replace the shutdown Bohunice (V1) units 1 and 2, both Russian-designed VVER-440 units. This study is scheduled to be completed in 2010 and construction of the new unit, referred to as Bohunice V3, is scheduled to start in 2013 for commissioning around 2020.

Russia wins Turkish backing for South Stream

Russia and Turkey strengthened their energy ties with the signing August 6 of a total of 16 different agreements that will see them cooperate on a slate of projects including Russia's planned South Stream gas pipeline across the Black Sea, a planned expansion of the existing Russia-Turkey Blue Stream gas line across Turkey to Ceyhan, and Turkey's planned Samsun-Ceyhan oil pipeline and nuclear power.

The protocols were signed in Ankara at a live televised ceremony by Turkish Prime Minister Tayip Erdogan and his Russian counterpart Vladimir Putin, in the presence of Italian Prime Minister Silvio Berlusconi, who attended three-way talks with his Turkish and Russian counterparts immediately prior to the signing ceremony.

"We have agreed on all the issues [on the agenda]," Putin said at a news briefing. "The talks were difficult but we have reached compromises on all the issues." Details of the agreements are still vague, though Erdogan confirmed that Turkey had agreed to allow the planned South Stream gas link to go through its territorial waters. "We have granted the necessary approval," he said at the briefing.

Gazprom and Italy's Eni are working to build the pipeline with a capacity of up to 63 billion cubic meters per year across the Black Sea to bring Russian gas to Europe with a landing point in Bulgaria. The pipeline, which is estimated to cost €8.6 billion ($11.6 billion) for both the subsea and overland segments, is scheduled to start operation in December 2015. Russia expects to start construction of South Stream no later than November 2010, Russia's Energy Minister Sergei Shmatko said in Ankara. The study on the pipeline route via Turkish waters will start this year, he said. Shmatko also said that the parties had been discussing possible participation of Turkish companies in South Stream, but did not elaborate.

Erdogan said that giving support to South Stream did not mean that Turkey had changed its position on the EU-backed Nabucco pipeline, which is often viewed as a rival to South Stream. Turkey's Botas is a stakeholder in Nabucco. "We don't view Nabucco and South Stream as either-or projects," said Erdogan. "Both are necessary for Europe's energy security."

In return for Turkey's support for South Stream, Russia appears to have given its backing to Turkey's planned Bosphorus Straits bypass oil pipeline, the TransAnatolian Pipeline, also referred to as the Samsun-Ceyhan link, by agreeing to supply crude for the route. "We can support it and work jointly [on it]," Putin said.

The project involves the construction of a 1.5 million b/d line from Turkey's Black Sea coast to its Mediterranean oil hub at Ceyhan. Sponsored by Turkey's Calik Enerji and Eni, the project has been on hold since a groundbreaking ceremony in 2007 due to insufficient commitments of crude. Calik and Eni had been in talks with a number of companies that own volumes of crude arriving in the Black Sea from the Caspian but had been unable to secure firm commitments.

Future output from the Caspian Sea will provide enough oil to fill both the Samsun-Ceyhan and Burgas-Alexandroupolis oil pipelines, Putin said August 6, adding that there is less competition between the two oil pipeline projects than there is between South Stream and Nabucco gas pipeline projects. The Burgas-Alexandroupolis project, which Russian pipeline operator Transneft is developing with Bulgaria and Greece, will ship oil from the Russian port of Novorossiisk across the Black Sea to Burgas to the planned 35 million mt/year (700,000 b/d) pipeline to Alexandroupolis, on the Aegean Sea.

Regarding the protocol on extending the Blue Stream pipeline to Ceyhan, both Erdogan and Putin commented that the extended line could be used to supply gas to other Eastern Mediterranean countries such as Cyprus, Syria, Lebanon and Israel, and that the construction could be conducted together with the Samsun-Ceyhan oil line, which follows roughly the same route. However, neither leader gave any details, including whether it was planned just as an extension of the existing line as had been discussed previously, or as a new parallel line from Russia to Turkey and on to Ceyhan as has recently been suggested.

Russia and Turkey also agreed to extend the existing agreement on supplies of Russian gas to Turkey, which expires in 2012, with gas deliveries to be increased, Putin said. In 2008, Russia delivered 23.9 Bcm of gas to Turkey, including some 10 Bcm via the Blue Stream gas pipeline. This year, Russian gas deliveries to Turkey are planned at 25.5 Bcm. Other agreement signed, according to Erdogan, also provide for the construction of "major" underground gas storage facilities and the first nuclear power station in Turkey. RIA Novosti cited Putin as saying that the two sides would soon begin implementing the project.

Last year, a consortium of Russia's Atomstroyexport, Inter RAO UES and Turkey's Park Teknik was the sole bidder in a tender to build the project on the Mediterranean coast near Akkuyu. In May, Turkish nuclear authorities ruled the bid which included the construction of four 1,200-MW units was in line with all technological criteria. However, final approval of its offer is subject to agreement on the electricity offtake price. Taner Yildiz, Turkey's Energy Minister, said prior to the visit of Putin that the government expects the Russians to lower its offtake price. "We have an expectation that the price from the Russian consortium will be lowered," he said. The consortium has already dropped its price demand by 27% after a slump in demand due to the economic slowdown. The revised price of $0.1535/kWh is still, however, about double present rates.

– David O'Byrne, with Nadia Rodova in Moscow

Hungary to offer new wind capacity

Balazs Szladek, Budapest

The Hungarian Energy Office, MEH, has announced it will tender new wind power licenses totaling 410 MW at an auction later this year, lifting a moratorium on new wind power development. The decision will more than double Hungary's wind capacity but will still fall short of investor demand.

"There is a possibility to integrate new wind capacities into the system, but the technical possibilities of the system are not unlimited, therefore the realization of all projects currently identified or under preparation is impossible even in the medium term," the MEH stated. "The Office is therefore setting the amount of new wind capacity to be licensed at this year's tender at 410 MW, of which 280 MW is to be allocated on the territory of [regional distribution companies] E.ON Edasz and Emasz, and a total of 130 MW on the territories of Demasz, Elmu and E.ON Titasz."

Hungary had installed wind power capacity of 175 MW at the end of June this year, which is expected to reach 190 MW by the end of 2009, or around 2% of the country's total installed capacity. The development of wind capacity has been held back in recent years by a 2006 ruling that limited total operational capacity at 330 MW, citing difficulties in balancing the grid in the case of uneven wind power production. The 410 MW in planned new licenses, which slightly exceeds the 250–400 MW predicted by market players, could raise Hungary's total wind capacity to 740 MW in the coming years, and closer to its 2020 target of 920 MW in total wind power.

In a study accompanying its decision – based on a July 1 decree by the Ministry of Transport, Telecommunication and Energy – the MEH noted that investor interest in had not abated despite the capacity ceiling, as wind projects totaling 1,062 MW were in various phases of permitting at the end of 2008, while a further 941 MW worth of projects were in some phase of preparation or preliminary interest.

The MEH acknowledged in its study that current conditions in Hungary's power system, especially the availability and affordability of balancing power, continue to place limits on wind power production. Based on a recent report by Hungary's grid operator Mavir, the MEH pointed out that in the case of under-production by wind turbines, current secondary reserves can accommodate total wind capacity of up to 740 MW with little additional cost or technical problems. In the case of over-production, however, Mavir said that balancing costs would already start increasing visibly if total wind capacity exceeded the current limit of 330 MW, therefore the grid operator advised against awarding any new wind licenses for the time being.

In justifying the decision to nonetheless hand out 410 MW in new wind licenses, the MEH said a number of Mavir's concerns have already been addressed, or could at least be successfully regulated by 2011–2012, when most of the planned projects will come online. Among others, prices of balancing energy have become more symmetrical in recent months, allowing local grids and producers to provide more accurate schedules and compensate for the fluctuations in wind power production. Some technical restrictions on gas turbine reserve capacity have also been lifted, allowing for longer periods of balancing in the case of wind power irregularities.

The MEH and Mavir also emphasize the need to involve more power plants in system balancing. In particular, the MEH is calling for a review of Hungary's mandatory green electricity offtake regime, which the regulator said relies too heavily on fossil-fuel cogen plants that have so far mostly avoided balancing tasks on account of their heating responsibilities. New regulations should either entice CHP plants to take part in system balancing, or skew the system – where 70% of price subsidies now go to CHP plants – more in favor of renewable energy such as wind power.

The MEH noted that based on past experience – such as the fact that barely more than half the allowed 330-MW of wind capacity has been built out in the three years since the ban took effect – it is likely that newly licensed wind capacity would not be fully realized until 2011–2012. This is also reflected in the ministry decree, which allows investors 33–35 months to bring their projects to completion or else forfeit their license. "Since there is an apparently significant time lag between the licensing and operational readiness of a [wind] project, we believe that there is sufficient time to enact a regulatory framework able to accommodate all the extra wind capacity," the MEH stressed. "Accordingly, when setting the amount of capacity to be licensed, we aimed to maximize it, and therefore opted for the 740 MW ceiling where reserve costs still do not increase considerably."

The MEH said that a more regionally diversified distribution of wind turbines as opposed to their current concentration in northwest Hungary, served by E.ON Edasz – would provide better balance across the grid. However, as strong wind conditions generally result in more efficient and stable production, it would be desirable that future investments remain focused on the regions served by E.ON Edasz as well as Emasz, a unit of RWE-EnBW supplying the industrialized north. The MEH added that it will conduct a similar study every year, and will tender extra wind capacity if grid conditions allow. The MEH also called on the government to help secure EU funds for a weather forecasting system more attuned to the needs of producers.

Montenegro sticks to EPCG tender rules

Vladimir Pekic, Podgorica

Montenegro's decision to give precedence to the €8.40 per share bid submitted by Italy's A2A for an 18.6% stake of EPCG, the national power company, over a rival €11.10 bid by Greek consortium PPC and Golden Energy has sparked controversy. The surprise announcement led to a series of accusations of rigged decision-making in the tender that were levied against the Montenegrin authorities by opposition politicians and EPCG minority shareholders. Nevertheless, in a country that has rarely had a privatization not marred by disputes, the EPCG sale to a lower-priced bidder, is paradoxically one of the most transparent and exemplary sales conducted in the country.

The approval of A2A's bid took many by surprise as the government did what few believed they would do: they refused to compromise the process by allowing a higher, yet conditional bid by the rival Greek consortium to mar the sale of the country's crown jewel. At a time when the government is hungry for cash, the decision to stick to the rules of the tender is all the more surprising but according to local industry commentators may, in the long-run, spell an even greater bonanza with massive investment inflows from across the Adriatic.

The choice to favour the lower and only fully compliant bid, was made unanimously by the EPCG tender commission and then by the state Council for Privatization, both led by Deputy Prime Minister Vujica Lazovic. "When we opened the bids with the financial components we made a detailed analysis and came to the conclusion that only A2A submitted a bid in accordance with the instructions and tender rules and without attached conditions," Lazovic said August 4.

According to the deputy prime minister, the Greek consortium's offer was conditional on being able to build and operate a 650-MW thermal power plant in Pljevlja as well as the right to exploit lignite reserves in Maoce to fuel the new plant. "Maoce simply was not part of this tender. This request was not only outside the framework of the tender, but it was also contrary to our law. Furthermore, the Greek offer was also based on their request for the freezing of municipal taxes, but taxes in Montenegro are not set based on individual requests," Lazovic said. Other conditions that were deemed unacceptable included a demand for the elimination of the shootout option, a request for the government to increase power prices in Montenegro in certain conditions, greater executive privileges for EPCG's CEO in relation to the signing of contracts and a new profit distribution model for shareholders, said Lazovic. Given the extra conditions, the final selection was ultimately an easy one to make.

The tender commission for EPCG's privatization announced August 11 that the Greek consortium will not file a complaint against its decisions with regard to the privatization, "which once again confirms the transparency, professionalism and immaculate nature of the sale process". The privatization council had earlier rejected bid from Russia's Inter RAO and Norway's Nord-Trøndelag Elektrisitetsverk for failing to submit all required prequalifying documentation. The deadline for submitting complaints against the decision expires eight days after the formal decision of the council made on August 4.

The announcement means that A2A can now launch a compulsory buyback offer to the utility's minority shareholders, which in the case of full take-up could see the Italian utility hold up to 45% of EPCG's capital. In addition to winning the tender for an 18.3% stake to be acquired through a simultaneous equity sale and capital increase, A2A has already built up a 17.4% stake in EPCG through the acquisition of shares on the market over the past three months. The tender commission announced that A2A will not be able to set any conditions during upcoming talks on the finalization of the sale, which it expects should take place before the end of August. "This means that only the sale, shareholders' and management contracts will be signed. There will be no negotiations on the [envisaged] 'shoot out' options, investment cycle, social programs for employees, the price of shares that are needed to achieve majority ownership, [performance] indicators that must be achieved in a five-year period and the required profit of €240-300 million," Lazovic said August 7.

EPCG minority shareholders, who were rooting for the Greek consortium in order to sell their shares at the higher price, were left shell-shocked by the government's decision. "The government of Montenegro and its privatization council have short-changed the state, EPCG and its shareholders for more than €100 million," stated the Association of EPCG's Minority Shareholders. "We challenge Lazovic to a debate on the national public broadcaster RTCG or any other channel so that we can demonstrate the damage caused by his decision to select A2A as a strategic partner for EPCG," Vasilije Milickovic, association president, told Podgorica daily *Pobjeda* on July 5.

In response, in a statement issued on the government's web portal on August 10, the commission warned that all those guilty of libel against the tender commission in statements given to the media will have to prove their claims in court. "The entire privatization process was conducted in line with the law and tender rules," it said. "Some EPCG shareholders, in order to see their shares gain in value, would be ready to give away the Maoce coal basin, to accept mass layoffs in EPCG and many other conditions. Instead of inviting us to a TV debate, it would be more interesting for the public to see these shareholders explain to the whole of Montenegro how in fact they obtained their EPCG shares and their mini fortunes".

ELECTRICITY NEWS

Albania

Tirana to simplify licensing

Albania's government is to establish a National Energy Centre, with the aim of streamlining procedures for investment in the country's energy sector, Deputy Minister of Economy, Trade and Energy, Enno Bozdo, was reported as saying August 5 by local media.

Until now, the process of obtaining the 16 different permits required to secure energy sector concessions has needed up to two years.

The creation of NEC will aim to simplify and shorten the procedures needed to invest in Albania's energy sector, he said. Bozdo likened the planned agency to the country's "one stop shop" agency for issuing business licenses and permits, established in 2008.

The NEC is expected to be split in two units, covering non-concessionary investments, including energy parks and some renewable energy projects, and concessionary investments, such as hydro power projects. The government has not announced a specific date for the establishment of the agency, but is understood to be aiming for a launch in early 2010.

Bulgaria

Balmoral Capital unveils PV plans

Balmoral Capital Holdings, the financing arm of Balmoral Bulgaria SPV, an integrated solar power plant development company, announced late July the signing of a 25-year agreement with local engineering company Apex Solar for the development of 18 photovoltaic power plants in Bulgaria.

Apex Solar will be responsible for arranging permits for the projects, which will range in size from 1-5 MW, with a total projected installed capacity of 144 MW. The solar farms are currently in the early stages of the development process, and panel delivery is currently scheduled for early 2010, Balmoral said in a statement.

"We are looking for competitive bids on state-of-the-art high performance photovoltaic panels and the results of the winning bid will be announced in the next 30 days," said Rodney Kincaid, managing partner of Balmoral Capital and chief executive officer of Balmoral Financial. "There are so many high technically performing panels with great financial returns. It is hard to settle on one manufacturer".

The company is planning to construct 130-144 photovoltaic plants in Bulgaria and move to other European markets by 2011. Different income funds are discussing buying the income streams from the projects, according to Balmoral.

Croatia

Price rises boost HEP

Croatia's state power company Hrvatska Elektroprivreda posted a net profit of Kuna 242.7 million (€33.2 million, $47.1 million) in the first half of 2009, according to unaudited consolidated results released August 4. The result is a major improvement on the same period last year when HEP reported a net loss of Kuna 110.3 million.

Operating revenue rose by 18% year on year to Kuna 6.253 billion (€857.3 million), which HEP attributed primarily to increased sales of electricity, natural gas and heating energy, which jointly accounted for Kuna 925.1 million (€126.8 million).

The increased revenue from electricity sales was primarily the result of an electricity price increase on July 1, 2008. "The revenue increase [from sale of electricity] could have been greater were it not for the economic downturn in Croatia that had an immediate impact on electricity consumption," HEP said in a statement. Revenues from the sale of heat and gas were also boosted by increases in the price of the two commodities that came into effect on January 1, 2009.

Operating expenses rose to Kuna 5.8 billion (€797.3 million), up by Kuna 486.1 million (€66.5 million) from the first six months in 2008. As a result of the fall in electricity demand and very favourable hydrological trends in 2009, thermal power production dropped by around 30% in the first half of this year and electricity imports were also reduced by 7.6% year on year. Fuel costs for electricity generation were also reduced in 2009, while the cost of heat production went up as a result of rising natural gas costs.

HEP also revealed that it incurred a loss from its non-core financial activities totaling Kuna 179 million (€24.42 million), which mostly refers to interest on short and long-term loans.

Czech Republic

Czech Coal challenges asset sale

Czech Coal Group has filed objections with the Czech anti-monopoly office, UOHS, to the proposed takeover of International Power's Czech portfolio of assets by the Czech-Slovak financial holding, J&T Group, the company said in a statement issued August 3.

The complaint focuses on a separate agreement between J&T and the country's dominant power producer CEZ, under which J&T agreed to sell IP's 48.67% interest in Prazska Teplarenska, Prague's major heat producer and supplier, to CEZ. Dalkia of France is also involved in the deal, Czech Coal said, making the European Commission the competent authority to assess the merger. "It is no longer possible to ignore the tide of oligopoly power sweeping over the Czech energy market, which, moreover, is backed by the state as the majority owner of CEZ," said Czech Coal's chief executive Petr Pudil. "The above groups' jointly taken steps are capable of deepening the imbalance on the power generation and brown coal markets even further."

J&T announced July 1 that it had agreed to acquire International Power's Czech business in a deal valued at $1.2 billion comprising the 363-MWe, 967-MWth coal-fired CHP plant Opatovice and 49% of Prazska Teplarenska, which in turn owns 100% of Energotrans, operator of the 352-MWe, 650-MWth Melnik 1 CHP plant (*EiEE 168/1*). CEZ said at the time that its dominant position in the country's power generation market had prevented it from directly bidding for International Power's assets, but that it was able to negotiate the purchase of the minority stake in Prazska Teplarenska with J&T. Czech Coal wanted to bid for the assets itself, but International Power announced the J&T deal ahead of the bid deadline, the company said.

UOHS probes Lumius-CEZ deal

The Czech competition watchdog, the Office for the Protection of Economic Competition, announced August 6 that it had started to examine an agreement between Czech-based electricity and gas trader Lumius and the country's biggest electricity supplier, CEZ.

Under the terms of the deal, Lumius has put 100% of the company up as a guarantee for the risks incurred by CEZ for electricity supply contracts signed for 2010, 2011 and 2012. "We do not want to sell Lumius to CEZ. This is a guarantee of 100% of the company. There is only a potential risk that the guarantee would be exercised," Lumius spokesman Milon Vojnar told Platts, August 11, adding that the company is convinced it can pay for its long-term power deliveries and that offering the company as security was normal. Vojnar did not wish to divulge details of the contracts signed with CEZ.

Lumius became the fourth biggest energy trader on the Czech market in June with the acquisition of an 89% stake in bankrupt energy trader Ceskomoravska Energetika, which raised its client base by some 10%.

Lumius reported August 5 a 20% fall in gross profit for the first of the year to Koruna 5.82 million (€227,877, $323,692) despite growth of around 60% in electricity and gas sales to customers in its three core markets of the Czech Republic, Slovakia and Poland.

The company, which was founded in 2002 by Moravian businessman Pavel Miklas, its sole shareholder, said its electricity sales had increased by 36% year on year and its gas sales had risen fivefold compared to the first six months of 2008. Lumius supplied its clients with some 900 GWh of electricity and 730.6 GWh of gas worth a total of nearly Koruna 3 billion or around €117 million. Lumius' clients include the Czech competition watchdog, Saint-Gobain Vertex, Iveco Czech Republic, Hyundai Nosovice, Hella Autotechnik, Korado, Ontex CZ, the Prague Castle, the National Theatre and the health ministry.

Czech Coal invests in wind

REN Power CZ, the renewable energy arm of the Czech Coal Group, said late July that it had bought a 100% equity interest in SVEP, which owns and operates two wind power plants in the village of Petrovice near the northwestern city of Usti nad Labem. The acquisition of the two 2-MW projects, each comprising two Enercon E-70 E40 turbines, and average annual production of 10 GWh, represents the company's first wind power assets. The two wind parks, which were commissioned in 2005 and 2007, were acquired through REN Power Wind I, it said.

The company, which was formed in July 2007, has hitherto focused on solar power projects, but intends also to invest in other forms of renewable energy, Vladimir Sistek, REN Power CZ chairman, said in a July 31 statement announcing the acquisition. "We have uncommitted capital and our own production programme of renewable technologies. We do not want to focus only on photovoltaic; our objective is to operate power plants that use other renewable resource, particularly wind power plants and small hydroelectric stations," he said.

REN Power CZ currently operates one of the largest Czech photovoltaic power projects in Ceske Velenice with installed capacity of 1.1 MW. It is commissioning a further 4-MW plant and plans to complete five other PV projects with a total capacity of about 9 MW this year.

The company also holds a majority interest in FitCraft Production, a leading Czech manufacturer and supplier of large-scale PV systems.

CEZ to upgrade Vltava cascade

CEZ has announced plans to overhaul all nine hydropower plants comprising the Vltava River cascade. Based on successful upgrading of the 450-MW Dalesice plant on the Jihlava River, which resulted in plant efficiency being increased from 90% to 94%, CEZ wants to fine tune and adapt the turbine blades at all of the stations from the start of 2011. It says that the upgrades will result in an extra 33 GWh of capacity by the time the work is competed in 2024. The plants, which have a combined installed capacity of 539.78 MW, currently produce average annual output of 800 GWh. The cascade's nine plants include the 2 x 91-MW Orlik, 3 x 48-MW Slapy, 2 x 60-MW Lipno 1, 4 x 10-MW Kamyk, 2 x 11.25-MW Stechovice, 2 x 6.94-MW Vrane, 2 x 4.8-MW Hnevkovice, 2 x 1.9-MW Korensko and 1.5-MW Lipno II.

Greece

Endesa Hellas makes headway

Full operation of Endesa Hellas' 334-MW gas-fired cogeneration plant at Agios Nikolaos, Viotia, Greece, is expected this summer, part-owner Mytilineos said August 5. The CHP plant has been in trial operation since April

2009, “contributing significant volumes of electrical power to the country’s national system,” Mytilineos said.

Endesa Hellas is 49.99% owned by Mytilineos and 50.01% by Endesa of Spain. The companies announced a €1.2 billion ($1.73 billion) generation joint venture in March 2007.

Mytilineos said construction of a second, 444 MW combined-cycle power plant at Agios Nikolaos is at an advanced stage. This is also an Endesa Hellas joint venture project. In a separate joint venture with Motor Oil at Agioi Theodoroi, in Korinthia, Mytilineos said construction is about to start on a third combined cycle gas-fired power station with capacity of 437 MW. Mytilineos is also “strongly active” in the renewables sector, with 45 MW installed and another 800 MW in various licensing stages, it said.

“All the above help make feasible the group’s goal of an installed operational capacity of more than 1,800 MW by the year 2013, thus making a significant contribution to the efforts to address the deficit in the country’s supply of power, while at the same time realizing the group’s vision of creating the largest independent producer of electrical power in Greece,” it said.

Mytilineos’ consolidated turnover for the first half of 2009 fell by €162 million to €328 million compared to the first half of 2008, it said. The drop was the result of delays in power project implementation by engineering subsidiary Metka (€81.2 million), and of the suspension of Mytilineos’ Romanian subsidiary Sometra (€65.1 million). Earnings before tax, interest, depreciation and amortization stood at €47.7 million, down from €56 million.

Coal mines opened to new entrants

The European Commission said August 5 that it accepted commitments by Greece to give new power entrants access to rights to exploit four lignite mines for power generation through public tenders. Greece was forced to make the commitments after the EC ruled in March 2008 that Greece’s policy of giving state-owned power incumbent PPC privileged access to almost all the exploitation rights for Greek lignite mines for power generation broke EU antitrust rules. Under these rules, EU member governments are not allowed to grant state-owned companies any special rights which may distort competition.

Lignite is the cheapest available power generation fuel in Greece, making it “virtually impossible” for new entrants without access to it to compete effectively with PPC, the EC said in March 2008. It said then that PPC competitors “would probably need to have access to a minimum of 40% of exploitable lignite resources in order to create a level playing field in the electricity market.”

Greece plans to achieve this by excluding PPC from the public tenders for exploiting the lignite mines for use in power generation.

The EC said August 6 that it was satisfied that Greece’s commitments would resolve the antitrust issues it identified in March 2008.

The EC’s decision to accept Greece’s commitments makes them legally binding and requires Greece to start the tender procedures for the lignite mines within six months, and to grant the rights to the winning bidders within a year. Greece’s commitments include ensuring that the winning bidders do not sell the lignite extracted to PPC.

Hungary

MVM to offer 1.66 TWh for Q4

MVM Trade, the wholesale trading arm of state-held Hungarian power group MVM, announced August 6 that it is planning to sell a total 1.66 TWh for Q4 2009 delivery at a September 9 auction.

On offer will be 16 different products involving of varying capacity and delivery periods during Q4. Among others, MVM will offer 240 MW of baseload capacity for delivery throughout the fourth quarter of 2009, totaling 530.16 GWh, as well as 60 MW of baseload capacity available on weekdays throughout Q4, totaling 92.16 GWh.

For October delivery only, MVM Trade will offer 110.92 GWh of electricity under four different products, involving capacities of 40–100 MW under various daytime or off-peak delivery windows.

In November, MVM Trade is to sell 560 MW of baseload, totaling 403.2 GWh, and 40 MW of baseload available on weekdays only, totaling 20.16 GWh. Two different daytime products involving 70–100 MW capacity will also be on offer for November delivery, totaling 54.6 GWh.

For December, MVM Trade will put 510 MW of baseload capacity on the block, totaling 379.44 GWh, as well as 40 MW of baseload capacity available on weekdays only, totaling 21.12 GWh. Four different daytime and offpeak products involving capacities of 60–120 MW will also be sold for December delivery, totaling a further 49.28 GWh.

According to an earlier ruling by the Hungarian Energy Office, MVM Trade – identified as a significant market player – must auction off excess capacity in its portfolio at public auctions every year. In October 2008, MVM Trade auctioned 5.625 TWh of electricity for 2009 delivery, while two other auctions earlier this year sold a further 1.33 GWh of electricity for delivery in Q2 and Q3 this year.

MVM Trade has also already started auctions involving electricity for 2010 delivery. The company sold 2 TWh in July, while two other auctions for available 2010 capacities are planned this year, to take place in the second half of September and the first half of November.

MVM Trade holds more than 20 TWh of power in its annual wholesale portfolio, accounting for more than half of Hungary’s total consumption. Of this, more than 12 TWh is sold to “universal providers” – regional utilities serving mainly households and public institutions – while the rest is sold at public auctions.

The September 9 auction will take place on PowerForum, an electronic power and gas-trading platform owned jointly by MVM and E.ON.

Vertesi invites bids for Banhida

Hungary's state-owned Vertesi Power Plant has announced a one-round public tender to sell the site of its now-defunct Banhida coal-fire plant, with bids for the facility due August 24.

The 240-MW Banhida facility was decommissioned at the end of 2004, when tighter environmental regulations imposed on Hungary as a result of its accession to the EU made the operation of the lignite-fired facility unfeasible. A previous attempt to sell Banhida in 2005 fell through when plans by Vertes Energia – controlled by former industry minister Laszlo Kapolyi – to build a new \$80 million, 230-MW gas-fired plant failed to receive the necessary permits from the Hungarian Energy Office. Kapolyi offered the equivalent of \$11.5 million for the power plant site at the time.

The new tender announcement notes that Vertesi is selling the Banhida site to be operated for "energy generation purposes". Tenders will be evaluated based on the offered purchase price, which must be fully backed by a bank guarantee. Bidders must also make a deposit of Forint 50 million (\$269,000). Vertesi said it reserves the right to annul the tender even if it receives valid bids.

Vertesi's flagship power plant in Oroszlany, also a 240-MW lignite-fired unit, escaped a similar closure at the end of 2004 when the plant was retrofitted and its license extended until 2020. However, the Oroszlany plant may still face premature closure or downsizing if the state is unwilling or unable to finance the plant's mounting losses, according to recent reports.

DBM completes biomass plant

DBM, a Hungarian project company formed by local investors Liget Bioenergia, Hungarian energy contractor EGI-Contract Engineering and Japan's Tohuko Electric Power Company, has completed a 19.8-MW biomass power plant in the eastern Hungarian town of Szakoly, and plans to bring the plant online in September after trial runs are concluded at the end of August, Hungary's Ministry of Transport, Telecommunications and Energy announced August 6.

The South Nyirseg project is Hungary's first greenfield biomass plant and was built a total cost of Forint 14 billion (€52 million, \$74 million). The power plant will operate for 8,500 hours each year, producing 150 GWh of electricity per year. Its output will be bought by grid operator Mavir until 2023 under mandatory offtake rules, resulting in projected annual revenues in excess of Forint 4 billion. Heat output will be supplied to the local bio-horticulture sector.

The power plant will use 170,000–180,000 tons of firewood and other agricultural waste every year. It will employ 50 workers at the plant itself and a further 100-150 in fuel supply activities. As a result, the power plant received a Forint 200 million grant from the then-Economy and Transport Ministry upon the project's launch in 2007.

The project will generate about 507,000 emission reduction units for Tohuko under the Kyoto Protocol's Joint Implementation mechanism.

ELMIB completes biogas plant

Hungarian privately-owned energy group ELMIB has completed Hungary's third largest biogas power plant in Domsod in central Hungary. The company announced early this month that the Forint 1.9 billion (\$10 million) project will produce 11 GWh of electricity every year.

The power plant will be fuelled by 60,000 tons per annum of mostly agricultural waste as well as waste left over by the food processing and catering industries. In turn, by-products from the biogas plant's fermenting unit will be used by local agriculture, ELMIB said.

The Domsod project is part of ELMIB's plans to expand on the Hungarian power and heat generation market, the company said. In March, ELMIB teamed up with the northern municipality of Tatabanya to buy the local gas-fired heating plant, which serves 22,000 households, from state power holding MVM in a reported Forint 3.6 billion deal. It followed this up in April with the signing of a memorandum of understanding to build a 35-MW, 10-MWe biomass power and heating plant in Kaposvar in southwest Hungary in 2010–2012 at a projected cost of Forint 8 billion. ELMIB said it is planning a number of other similar projects across Hungary.

Lithuania

Bids invited to build Siauliu cogen

Siauliu Energija, a district heating company serving the city of Siauliai in northern Lithuania, has invited bids by September 10 for the design and construction of a biomass-fired combined heat and power plant.

According to the tender, the plant is expected to have a minimum installed capacity of 11 MWe and 24 MWth and to fire on wood waste, with the possibility of using gas or peat for up to 30% of the total feedstock and straw for 5% of the project's fuel consumption. The new plant will complement an existing 3-MWe gas-fired power plant. Minimum heat output of the plant should be 15 MW/h and nominal heat output must not be less than 24 MW/h, it said.

The engineering, procurement and construction contract on offer is to be part financed to the tune of Litas 18 million (€5.2 million) from the European Commission's programme for renewable energy with the balance to be funded from bank loans. The project is expected to be completed within 26 months from contract signing.

Tender documents may be obtained from the office at the address below upon payment of a non-refundable fee of Litas 200 (€58) by September 3, to the account no.: LT357180000003467599 held at AB Siauliu Bankas, Siauliai, Lithuania. Bids must be submitted in Lithuanian.

Prospective tenderers may obtain further information from, and inspect and acquire the tender documents at: AB Siauliu Energija, Pramones g. 10, LT-78502 Siauliai, Lithuania; Tel.: 00 370 41 591206; Fax: 00 370 41 540307; Email: gintautas.s@siaulenerg.lt

Linking Klaipeda to 330-kV grid

Lietuvos Energija, Lithuania's state transmission system operator, has submitted an environmental impact assessment to the Ministry of Environment for construction of a 90 km-long, 330-kV power line between the port of Klaipeda and Telsiai. According to the EIA, which was submitted in late July, the line will cost an estimated Litas 117 million (€33.9 million) to be funded by the company and bank loans. Construction is to start in 2010 and be completed by the end of 2013.

The line will connect Lithuania's only seaport to the national 330-kV network as well as strengthen the grid in western Lithuania ahead of the planned construction of a subsea interconnector to Sweden. The region of Klaipeda is currently connected with the national grid by 300-kV lines running through Latvia and Kaliningrad only.

"Construction of this line is directly related to plans to build a power transmission link between Lithuania and Sweden," Vidmantas Grusas, head of the transmission grid department at Lietuvos Energija, told Platts August 5. "In order to connect properly to the Swedish grid, it is necessary to extend the transmission capacity in western Lithuania, in this way guaranteeing reliable power supply in the region and stability of the whole national power system. It will also enable us to integrate into the European electricity market."

LE posts H1 loss

Lietuvos Energija, Lithuania's state-controlled transmission system operator, posted a net loss of Litas 26.4 million (€7.65 million) for the first half of 2009, despite a 22% year on year increase in revenues to Litas 827.4 million, in unaudited financial results released July 31. By comparison, the company registered a net profit of Litas 50.7 million (€14.7 million) in the first half of 2008 on group revenues of Litas 677 million (€196.23 million).

"The growth in revenue was positively impacted by the increased prices of public interest services in 2009 and by the growth of electricity sales due to repairs of the Ignalina nuclear power plant in June and was negatively impacted by the decrease in consumption," Aldona Jakutiene, company finance director, said in a statement. "Impairment of book value of non-current tangible and intangible assets was the most important factor in the profit reduction," she said, adding that the book value of non-current tangible and intangible assets was reduced by Litas 55.4 million on the basis of "a 7.4% drop in the price index for the construction of engineering structures since the beginning of the year". Profit was also affected by an 8.6% decrease in electricity consumption in the first six months of 2009 and the growth in depreciation and amortisation costs.

As a transmission system operator, Lietuvos Energija delivered 4.63 TWh of electricity in the first six months of this year to domestic consumers, compared with 5.1 TWh in the same period of last year. It also transmitted 1.64 TWh of electricity for export this year versus 1.5 TWh in the first six months of 2008.

Montenegro

Montenegro queries Ashta project

The Montenegrin government has denied any knowledge of preparations for the construction of a new hydropower plant in northern Albania. Sinisa Stankovic, Montenegro's deputy environment minister said August 3 that he would ask the foreign ministry to contact the Albanians for information about the proposed construction of the 48-MW Ashta hydropower plant on the Drin River. A consortium of Austria's Verbund and EVN launched construction in May 2009 of the run-of-river plant, south of Shkoder, after being granted environmental clearance by Albania's Ministry of Environment in April 2009 (*EiEE 167/8*). The Austrian partners signed a 35-year concession agreement with Albania's Minister of Economy, Trade and Energy in September 2008 to build and operate the plant.

Montenegro is concerned about the potential impact of the project on Lake Skadar, the largest lake in the Balkans and one that is shared between the two countries. Skadar, which is two-thirds inside Montenegrin borders and one-third inside Albanian territory, is part of one of four national parks in Montenegro. "As soon as we obtain an official response, we will be in a position to comment on the possible effects and consequences of the project on the Skadar National Park and Bojana River," Stankovic said in a statement. Drin River has two distributaries, one going directly into the Adriatic Sea, the other one into the Bojana River [that feeds the lake].

The ministry explains that Albania has ratified the ESPOO Convention on Environmental Impact Assessment

Advisor sought for sector reforms

Montenegro's Ministry of Economy invites prequalification applications from consultants by August 24 for advisory services in support of implementation of energy sector reforms. The contract is being financed by KfW Entwicklungsbank on behalf of the Federal Republic of Germany in the framework of German financial cooperation.

The consultant will be required to assist with the implementation of an energy development strategy and of the action plan; assist in promoting and implementing energy sector reforms and in institutional strengthening of the Ministry of Economy; provide assistance to the Ministry of Economy in preparation of a tender dossier for a concession in the Maoce Basin; provide support in Coordinated Auction Office related issues; and provide ad-hoc advice to the Minister of Economy based on the current needs and demand.

The prequalification of experienced consultants will follow the latest version of the "Guidelines for the Assignment of Consultants in Financial Co-operation with Developing Countries" on KfW Development Bank's homepage (http://www.kfw-entwicklungsbank.de/EN_Home/Service/Online_Library/Gudlines.jsp).

It is foreseen to award the services to an independent consultant experienced in the energy sector and the region with a minimum annual turnover of €100,000. Invitations for expression of interest are available on the ministry's website – www.minekon.gov.me – as well as further information via e-mail to: anton.ljucovic@gov.me.

in a Transboundary Context that obliges countries to involve experts from neighbouring states in the process of environmental impact assessment for projects that could influence the environment in neighbouring countries.

Montenegro, which is a self-proclaimed ecological state, pulled out of a project in 2007 to build the 450-MW Buk Bijela HPP with Bosnia and Herzegovina after it emerged that the project would submerge part of the Tara river canyon in Montenegro's Tara National Park.

Poland

Household rates to be liberalized

Poland is planning to liberalize household electricity tariffs next year, the country's Minister of Economy, Waldemar Pawlak, said August 3. Retail rates are still regulated in Poland but Pawlak said the economy ministry would likely submit a bill to parliament in October granting support for socially disadvantaged end users. If the bill is approved it will pave the way for the liberalisation of the retail market, Pawlak said. "The freeing of energy prices should be expected next year if the right political and legal conditions exist," Pawlak said in an interview with the state news agency PAP.

In February this year both power generators and the government announced they were considering proposals to partially liberalize retail tariffs in exchange for the introduction of a new social tariff to protect some customers. To qualify for the new tariff, end users would have to meet consumption and income requirements.

Pawlak said that scheme had been abandoned because it did not comply with European Union regulations. He said the ministry is working on a new solution which will be submitted to parliament after the summer.

"The idea is that so-called sensitive energy users, who have a difficult financial situation and qualify for social benefits, will have the chance to get cheaper electricity directly from the energy companies," he said. "Energy companies will be compensated in the settling of their tax accounts," he added. To receive compensation suppliers will have to prove that such end users have indeed used cheaper energy by providing a paid bill corresponding to that energy consumption, Pawlak said.

At the beginning of this year, the sector watchdog, URE, restricted this year's rise in individual end user tariffs to an average 10% to the chagrin of the country's 14 power sales companies, which have complained such a rise does not cover their costs.

Poland approves nuclear schedule

The Polish government approved August 11 a timetable to build the first of two 3,000-MW nuclear reactors by the end of 2020. A contract to construct the first of the reactors should be signed by the end of 2013 at the latest, with construction starting in January 2016, the prime minister's office said in a statement. The schedule was drawn up Hanna Trojanowska, the government's adviser on nuclear energy. The reactors will be designed between January 2014 and the end of 2015.

Poland's largest power group, Polska Grupa Energetyczna, PGE, will create a consortium of companies to construct the reactors by the end of 2010, Tomasz Zadroga, the company's chief executive, said August 5. PGE will take a 51% stake in the consortium and has until the end of 2013 to choose the locations for the reactors. The company is currently scouting possible sites in northern and eastern Poland.

"We want to choose the consortium of companies in the middle of next year. No decisions have been taken yet and we haven't chosen the company with which we will cooperate. I want to set the record straight. We will be taking a purely business decision," Zadroga told the daily *Rzeczpospolita*. PGE had previously said it plans to create a consortium to build the plants with one or more foreign investors.

"Working groups will be set up this year to analyse the technologies that are available for our investments. We have new American-Japanese, Korean, French and Russian technology on the market – none of which has yet been fully tested, as well as Canadian technology but that is heavy water technology. The technology which we will use must be above all tried and tested. The choice is limited," Zadroga said. We have not decided about any of the technology suppliers. We want to analyze different possibilities to choose the best, the safest and the cheapest. We will check all the elements," he said, adding that the treasury ministry, would give the final approval.

The company estimates each reactor would cost around €3 billion per 1,000 MW of capacity. The government wants the first reactor to be commissioned in 2020 with the second scheduled to be ready by 2023.

Poland currently produces around 95% of its power from coal-fired capacity but plans to meet 15% of its energy needs from nuclear power by 2030, reducing coal's share in the energy mix to between 50-60%.

KHW denies bankruptcy claims

Poland's second largest hard coal miner, the state-owned Katowicki Holding Weglowy has denied reports that it is facing bankruptcy.

"We don't have any problems. We have relatively good results," Stanislaw Gajos, KHW chief executive, told the portal wnp.pl on August 4. "Which coal company doesn't delay its payments? It's only talk; as if the rest (of the coal companies) have paid everything. We're controlling the situation, we want to improve it," he said.

The daily *Rzeczpospolita* reported August 4 that KHW has been unable to repay debts of Zloty 600 million ($211 million) in recent months. Deputy economy minister, Joanna Strzelec-Lobodzinska, told the daily that KHW did indeed have "liquidity problems" and to improve the situation coal bonds worth Zloty 900 million would shortly be issued.

The economy ministry issued a statement August 4 stating that KHW's financial position remains good and its production and supplies to power generators in the first half of 2009 was the same as last year.

Rzeczpospolita wrote that one of the company's creditor banks is considering filing a motion for the bankruptcy of KHW. "Practically everyone can submit an application for bankruptcy. To do this however, substantial conditions must be fulfilled. In the case of KHW they do not exist," Gajos said. He added that the matter had been put in the hands of the company's lawyers. Later in a company statement, Gajos said: "It is not true that KHW has financial difficulties threatening the continued activity of the company". "The information that one of the banks considered filing a motion for bankruptcy is, in our opinion, an attempt to weaken the negotiating position of KHW in a dispute about the settlement of currency options," Gajos said.

Katowicki Weglowy Holding operates six mines in Upper Silesia in southern Poland with average annual production of around 15 million tonnes.

Poland needs 2,000 km of new lines

Poland needs to build 2,000 km of new power lines by 2020 to secure the country's power supplies and prevent future shortages, Stefania Kasprzyk, the chief executive of the country's state-owned transmission system operator, PSE Operator, said August 5.

"We estimate that we must build around 2,000 km of lines to ensure the energy security of our large cities, connect 8,000 MW of wind farms – which I think is realistic by 2020 – and the planned new conventional plants with a total capacity of around 8,000 MW. Distributors must also build thousands of kilometers," Kasprzyk said in an interview with the business daily, *Gazeta Prawna*.

Kasprzyk said the risk of blackouts in large Polish cities this year is less severe due to falling power consumption, which has declined by almost 6% in the first half of this year compared to 2008. That has boosted the country's power surplus, which at times has reached 10%, she said. However major urban centres still face the threat of blackouts, she said, because the grid can still be overloaded during summer. "When temperatures rise above 20 degrees Celsius, electricity consumption in large cities is similar to what it was a year ago. That's why there is still a risk of outages in electricity supplies in Warsaw, Poznan, Wroclaw and Gdansk," she said. "The reason is a lack of sufficient electricity supply to large cities. Security of supply requires that cities are supplied from different sides. For example, Poznan will have a secure supply only when we build a network providing electricity from the Opole and Belchatow power plants. To maintain the correct voltage in the network and the security of supply in Warsaw, Wroclaw and in Poznan, we have signed agreements with local combined heat and power plants for emergency electricity supplies," she said.

Kasprzyk said the two main difficulties the grid operator faces in developing city networks are high costs and acquiring construction permits in residential areas. PSE Operator has built 144 km of new lines to improve supplies around Poznan in western Poland since 2001, she said. Just 7 km of lines need to be built to finish the investment but local residents are blocking the project, she said.

As an example, she said that Zloty 60 million ($21 million) was invested in building 8 km of lines to allow for the connection of the new 460-MW Lagisza III unit in Bedzin, last month. Half of those costs were due to acquiring the necessary building permits, she said.

ZEPAK orders Foster Wheeler boiler

Zespol Elektrowni Patnow-Adamow-Konin, ZEPAK, Poland's second largest lignite-fired power plant, said August 3 that it had signed a contract with Foster Wheeler Energia Polska for the supply and installation of a boiler to burn forest and agricultural biomass at the plant complex in central Poland. Work will start this month and end in March 2012, it said. ZEPAK said the investment was part of its strategy to produce 55 MW of power from renewable sources.

ZEPAK's three lignite-fired plants have a combined installed capacity of 2,512 MW and produce 8.5% of the country's total power.

Mostostal Zabrze wins boiler order

A consortium led by Polish engineering company Mostostal Zabrze said July 31 it had been awarded a contract to install a biomass boiler at Zespol Elektrowni Dolna Odra in northwestern Poland. The consortium, which also includes Finland's BMH Technology and Poland's Gliwickie Przedsiebiorstwo Budownictwa Przemyslowego, will design and install the boiler at the company's Szczecin plant by October 2011. The contract is worth €10.9 million net, Mostostal Zabrze said in a statement. Elektrownia Szczecin, which dates from 1911, has installed capacity of 88 MWe and 220 MWth and is one of the main suppliers of heat to the city of Szczecin. It is part of the ZEDO complex located in Gryfin near Szczecin, of which Elektrownia Dolna Odra, with installed capacity of 1,772 MWe and 117 MWth, is the largest plant. ZEDO is owned and operated by Poland's largest state-controlled power utility, Polska Grupa Energetyczna.

Bogdanka renews Kozienice deal

Polish hard coal producer, Lubelski Wegiel Bogdanka, said August 3 it had signed a new deal to supply fuel to the country's largest hard coal-fired power plant, Elektrownia Kozienice, in 2010.

Bogdanka said the deal is worth Zloty 643.3 million ($223.4 million) net. Elektrownia Kozienice, which is owned by the Poznan-based utility Enea, burns around five million tonnes of coal annually.

In 2008, Bogdanka, which is located about 100 km from Kozienice, supplied 54% of the plant's fuel.

Bogdanka's coal has high sulfur content so Kozienice sources the rest of its coal from other suppliers in Upper Silesia, southern Poland, such as Kompania Weglowa, to prevent it from exceeding its SO2 emission levels.

Kozienice is located southeast of Warsaw and has installed capacity of 2,880 MW. In 2008, Kozienice produced gross output of 11.8 TWh.

Excise rebate for gencos

Poland's Ministry of Finance estimates that the cost to the state budget of a rebate on excise duties paid by the country's power generators since January 2006 will total Zloty 984 million ($341 million). "The forecasted budgetary costs caused by the excise tax rebate on energy in the years 2006-2009 is around Zloty 984 million including interest," the ministry said August 4 in a new parliamentary bill drawn up to facilitate the rebate.

Polish power generators applied for the rebate following a ruling by the European Court of Justice on February 12 that Poland had failed to meet its obligations under the Energy Tax Directive which states that electricity excise duties are chargeable at the time of supply by distribution companies making them liable to pay the tax.

Hard coal output, sales drop in H1

Poland's hard coal production in the first half of 2009 fell 7.7% while sales dropped 20.7% causing losses of Zloty 153 million ($53 million) for the sector, according to a ministry of economy report published August 10. Hard coal production in the first six months of the year was 36.1 million mt, down from 39.1 million mt in 2008, the report said. Steam coal production dipped only 0.8% year-on-year to 32.4 million mt but coking coal production plunged 43.1% to 3.6 million mt from 6.4 million mt in first half 2008.

Hard coal production for the month of June was down 9.8% on-year to 5.8 million mt from 6.4 million mt, while steam coal production fell 2.5% to 5.3 million mt. The amount of coal stockpiled at Polish collieries at the end of June was 5.9 million mt, up 4.5 million mt year on year. Steam coal stockpiles increased by 3.7 million mt.

Hard coal sales fell by 8.1 million mt or 20.7% to 31.2 million mt despite an average 16.4% growth in coal prices during the period.

Domestic hard coal sales fell by 7.7 million mt or 22% to 27.2 million mt, and exports fell by 434,600 mt or 9.9%, to 3.4 million mt, the ministry said. Polish coal exporter Weglokoks purchased 3.9 million mt for export, leaving 574,200 mt stockpiled by the end of June. The fall in domestic sales was accounted for by a 58.6% drop in sales to coking plants, a 57.6% reduction in sales to industrial users and an 18.6% fall in sales to power generators. Of the exports, 3.1 million mt, including 2.4 million mt of steam coal and 634,100 mt of coking coal, went to EU countries. Germany was again the biggest importer of Polish coal, taking 1.1 million mt, or 35.3% of all exports. Steam coal sales in the period reached 27.9 million mt, down 15.1% from 32.9 million mt in first half 2008.

The Zloty 153 million in losses for the industry compares with a net profit of Zloty 298 million in the corresponding period of 2008.

"The deterioration of net profit was a result of deepening losses in core operating activities and financial activities caused by the reduced profit from hard coal sales," the report said. Basic operating losses in the first half of 2009 swelled to Zloty 466 million from Zloty 264 million in H1 2008. Sales of Polish hard coal fell to Zloty 538 million from Zloty 859 million a year earlier.

Russia

Russia to seek nuclear partners

Russia plans to invite Germany, Poland and Lithuania to take minority stakes in a project to build a nuclear reactor in Kaliningrad, according to an August 8 report published in Poland. "We want companies from countries to which the plant's electricity will be exported, ie. Poland, Lithuania and Germany, to take part in the project," Siergiej Bojarkin, deputy chief executive of Russia's state-owned nuclear power holding company Energoatom, was quoted as saying by the Polish daily *Gazeta Wyborcza*.

The daily said Russia planned to build a 2,300-MW plant in Nieman, 15 km from the Lithuanian border and close to Poland's northeastern region. The project would cost €5 billion ($7 billion) with the first reactor to be commissioned in 2015. Bojarkin said Poland, Lithuania and Germany could take up to a 49% stake in the project. One-third of the plant's production would be destined for Kaliningrad and the rest would be exported. Experts from all four countries are scheduled to discuss the plan in 10 days' time, the daily said.

The invitation could be interesting for Poland because the location is close to a region that suffers the most from a lack of both power plants and grid infrastructure. Alternative plans to take power from a proposed new nuclear reactor in Lithuania and a project to build the country's own nuclear reactors are still some way off.

Poland has been in talks for several years to take a minority interest in a project to build a new reactor in Ignalina, Lithuania, but that country's new president, Dalia Grybauskaite, said recently the project should be reviewed in light of the economic crisis.

Poland is also planning to build two nuclear reactors of its own, the first of which is scheduled to be commissioned in 2020.

Demand recovers in July

Russia's electricity consumption is showing the first signs of recovery since the onset of the economic crisis last autumn, according to the latest monthly figures released August 6 by the system operator, SO UES. National demand for the first seven months of the year fell 6.6% to 551 TWh but July consumption rose 4.2% month-on-month to 67.1 TWh from 65.1 TWh and was down 6.9% year on year compared to the 7% year on year decline recorded in June 2009.

"We think the July increase in consumption may be a sign of economic recovery in Russia given the increasing capacity utilization being observed in some industries, particularly the metals sector," said analysts at Alfa Bank in a daily briefing published August 7.

Consumption in the Southern Russian, Mid-Volga and industrialized Urals Integrated Power Systems rose, respectively, 10.7%, 7.2% and 4.8% month on month while electricity demand in the northwestern region stayed flat after falling 7.6% month on month in June.

Electricity consumption in the Moscow region, meanwhile, increased by 2.2% year on year in the first half of the year, despite a 10.4% fall in industrial demand, according to data released late last month by regional supply company Mosenergosbyt. The rise in demand in the Russian capital and the surrounding region this year in contrast to the sharp declines elsewhere reflects the region's diversified customer base and a lower proportion of industry, analysts said.

Power generation for the period January-July 2009 fell in line with demand, dropping 6.4% to 560 TWh, with production from thermal power plants down 11.6% to 327.5 TWh from January-July 2008. Output from the country's hydropower plants rose 11.2% to 101.2 TWh, while production from its nuclear plants fell by 4% to 91 TWh.

En+ consolidates power assets

En+ Group, the energy and metals arm of Oleg Deripaska's diversified industrial holding company, Basic Element, announced August 6 that it had transferred its power assets to EuroSibEnergo, a power sector investment subsidiary within the En+ Group. Vyacheslav Solomin, chief executive of EuroSibEnergo, said August 6 that the company had opted to consolidate its power assets in order to better manage its diverse portfolio of assets and increase its ability to raise capital on the market. Solomin also said that by merging EuroSibEnergo's power generation assets with the coal production assets owned by En+ would allow the company to extract greater synergies for EuroSibEnergo.

"We are now converting our short-term debt into long-term loans," Solomin told The Moscow Times in an interview. "And if our structure is transparent, it is easier for banks to understand us, and our subsidiaries will have less difficulty in attracting capital."

A source at En+ was quoted August 6 by Reuters as saying that the next step – subject to a recovery in financial markets – is a possible part-sale or public placement of shares. Analysts at Renaissance Capital, however, said the decision to sell part of EvroSibEnergo is likely to have been driven by a need to raise cash for Deripaska's other businesses. "It is more difficult to understand what value a buyer would get from the sales," RenCap said August 7. "On the publicly available evidence, we judge that most, if not all, of the economic value of the company's hydro generation plants has been transferred to Deripaska's privately owned aluminium production businesses in the form of low-cost electricity. Unless Deripaska and his associates are prepared to relinquish control of the electricity assets, we see no prospect of this imbalance changing," it concluded.

After the consolidation, EuroSibEnergo will have an overall installed generating capacity of 19.5 GW, making it the biggest private power producer in Russia, with a market share of roughly 9%. The company will comprise 70% of Russia's second largest hydropower plant, the 6,000-MW Krasnoyarskaya, and 50% of Irkutskenergo – a vertically-integrated power producer and supplier in Siberia, which comprises a three-plant hydropower cascade on the Angara River (Irkutsk, Bratsk and Ust-Ilimsk) with a total installed capacity of over 9,000 MW and thirteen thermal plants with a total capacity of more than 3,000 MW.

The new entity will also include Novgorod-based VolgaEnergo, whose main asset is the 580-MWe, 1,650 Gcal/hr Avtozavodskaya thermal power plant in Nizhny Novgorod, and also comprises local power and heating distribution grids and the Volgaenergosbyt sales company; Marem+, which supplies wholesale market consumers, EuroSibEnergo-Engineering and Vostsibugol, the main steam coal producer in the Irkutsk region.

EuroSibEnergo is, however, not planning to invest in new generating capacity until 2011 at the earliest, Solomin said. "However, our investment program is very dynamic," he said. "And we can change it if we see significant changes on the market." There were some signs of that already, Solomin said. "We see significant improvements on the electricity market in comparison with the beginning of the year, and we believe the market will stabilize by the end of the year and will slightly grow in 2010," Solomin said. "There is currently a drop in consumption, but the fall allows us to use only our most efficient capacity and raise our net interest margin," he said.

In late July, En+ Group said it had secured an extension until the end of 2013 on repayment of $1 billion in debt to a group of 40 foreign and Russian banks. En+, whose assets include a majority stake in aluminium producer United Company RusAl, said it expected to sign the debt-restructuring agreement within the next two months. UC RusAl is in separate negotiations over how to restructure its total $16.8 billion debt, including $7.3 billion to foreign banks. En+ controls more than 60% of Deripaska's business interests, including a share in Kombinat Aluminijuma Podgorica, the aluminium producer in Montenegro.

Reactors ready for floating plant

Russia's United Industrial Corporation, OPK, announced in early August that the assembly of the second reactor for the country's first floating nuclear power plant, which is currently under construction in St Petersburg, had been completed and approved after testing. The first reactor was delivered to site earlier this year.

OPK said August 6 that a committee comprising representatives from NN-AEP, OKBM, the state nuclear power plant operator Energoatom, the Russian Maritime Register of Shipping and Rostekhnadzor, the Federal Service for Ecological, Technological and Nuclear Supervision, confirmed that the second reactor is to the required standard.

The two 35-MW KLT-40S nuclear reactors, similar to those used in Russia's nuclear-powered ice breakers, will be installed on the Akademik Lomonosov, which will be deployed at Vilyuchinsk, in the Kamchatka region in Russia's Far East. The two reactors were designed and supplied by Afrikantov OKBM, and assembled by Nizhniy Novgorod AtomEnergoProekt, NN-AEP, which also manufactured parts for the reactors. The reactor vessels were manufactured by Izhorskiye Zavod while Kaluga Turbine Plant will supply the turbo-generators.

Responsibility for the construction, testing and commissioning of the project lies with OPK under a Rb 6 billion (€227 million) contract signed with Energoatom in February 2009. The two reactors will be housed on a ship, which will be 144 meters (472 feet) in length and 30 meters (98 feet) wide. The project was originally to have been built at the Sevmash shipyard in Severodvinsk but the government approved last August a decision by state nuclear holding company Rosatom to cancel a general contract with Sevmash and to move production to Baltiysky Zavod on the grounds that Sevmash is inundated with orders and must concentrate on fulfilling federal military contracts. It was originally destined to be deployed at the Archangelsk industrial shipyard, which is near to Severodvinsk in northwestern Russia, but the vessel is now destined for Vilyuchinsk.

Construction of the project by OPK's shipbuilding unit, Baltiysky Zavod, officially began this May, with the plant to be completed in 2011 and to be handed over to Energoatom in late 2012. The plant is expected to be capable of supplying a city of 200,000 people.

OPK said in a statement in early July that the global economic crisis favours the development of floating nuclear power plants as the cost of electricity generation per kWh is equivalent to that of a hydropower station, therefore the exploitation of such plants will be much in demand both in industrial and developing regions. The ability to physically move these plants is of great value, as they can be towed to different remote regions or sites of energy-intensive industry where demand for electricity cannot easily otherwise be met.

Indeed, Rosatom is planning to construct seven further floating nuclear power plants in addition to the one now under construction, with several remote areas in the Far East under consideration for their deployment. One is planned for commissioning in 2012 at Pevek on the Chukotka peninsula, according to Sergey Obozov, director general of Energoatom, who said in July that construction of the second floating plant may start in the autumn of 2010. Another such plant is expected to be sited in the Kamchatka region. Further Far East sites being considered are Yakutia and Taimyr. In 2007 an agreement was signed with the Sakha Republic in Yakutia to build a floating plant for its northern parts, using smaller ABV reactors. Gazprom is expected to use a number of the floating units in order to exploit oil and gas fields near the Kola and Yamal Peninsulas.

TGK-10 posts 700% profit rise

TGK-10, the western Siberian territorial generation company, majority owned by Fortum of Finland, posted a 722% year on year rise in net income to Rb 2,848.6 million for the first half of this year, in financial results audited to Russian accounting standards released in early August. The company posted a net loss of Rb 458.1 million in the same period last year. TGK-10 attributed the growth in net income in the period in part to a 17.5% increase in tariffs, despite a fall in both electricity and heat production over the period. During the first half of 2009, TGK-10's plants generated net output of 8.3 TWh of electricity compared to 9.7 TWh in H1 2008 while net heat production fell to 10.3 billion Gcal from 10.5 billion Gcal.

TGK-10's short-term liabilities contracted 0.8% in January-June 2009 and totalled Rb14.5 billion as of June 30, 2009, while long-term liabilities remained unchanged at Rb 482.2 million.

Fortum holds a 93.4% equity stake in TGK-10, which operates eight plants with a combined capacity of 2,773 MWe and more than 13,600 Gcal/h in the oil producing region of the Urals and Western Siberia.

Mosenergo looks to place bonds

Mosenergo, the Moscow-based heat and power producer, plans to launch August 27 the placement of Rb2 billion ($63 million) exchange-traded bonds to raise funds to complete the construction of a new 420-MW combined cycle gas turbine unit at its TETz-26 plant this year.

The company said early August that it is aiming for a 12-13% coupon rate range for the one-year bonds, which is lower than current market levels, and which analysts said underlines the state's support for the company, as well as gradually improving financing conditions.

Mosenergo, which is controlled by Gazprom, reported last month markedly improved profitability in the first quarter of 2009, with operating margin increasing by almost 7% year on year to 16.7%, while EBITDA margin surged by 9.5% year on year to more than 24%. Higher margins are attributable to the fact that natural gas tariffs were hiked by only 5% in January, thus reducing the company's fuel costs, while regulated electricity tariffs in 2009 rose 13% year on year. In addition, the share of electricity traded on the liberalized wholesale electricity market rose from 24% to 30% in the quarter.

The first quarter is seasonally the strongest for generation companies in general and with natural gas tariffs set to be hiked by 5-7% increments on a quarterly basis this year, analysts expect Mosenergo's profitability to deteriorate over the course of this year. Moscow-based brokerage Otkritie said it forecast Mosenergo's full-year EBITDA margin would come in at be slightly less than 15%, while operating margin for the year should come in at 8.6%.

Chistyakov leaves FGC

The prospect of RAB-based tariffs being introduced in 2010 for Russia's Federal Grid Company diminished with the surprise announcement August 6 that Alexander Chistyakov, the company's deputy chief executive, has resigned. His resignation, reported by Vedomosti follows that of the chief executive Andrei Rappaport earlier this year. Rappaport has been replaced by Oleg Budargin.

Chistyakov had been one of the major forces lobbying for the switch to rate-of-return tariffs for the state-controlled grid operator and Russian electricity networks in general. Analysts said he would be missed as he had been an astute manager and had sought to introduce the latest business practices into Russian power transmission.

"We believe his resignation poses the risk of delaying the introduction of RAB-based tariffs for FGC, which had been expected at the beginning of 2010," said Alexander Kornilov of Alfa Bank.

Serbia

EPS calls for power exchange

A new electricity exchange in Serbia could be established soon to facilitate trading in the country and the region, according to Dragan Vlaisavljevic, director of the electricity trading directorate at Serbia's power company Elektroprivreda Srbije. The new power exchange is needed to prevent the establishment of cartels that could dictate electricity prices in the country, he said in an interview with Belgrade daily *Politika* on August 1. The proposed exchange already has a name but needs a European strategic partner, he said. "The name of the new electricity exchange in Serbia would be SERPEX and it needs to have a European strategic partner, because it is important to link up with someone who is much stronger, larger and with a recognized presence in order to inspire confidence in traders and partners," said Vlaisavljevic. The most desired foreign partner for the new exchange is the new merged entity consisting of the Leipzig and Paris electricity markets [European Energy Exchange], he said.

According to Vlaisavljevic, it would take at least 12 to 15 months for the new power exchange to become operational after it is formally established and the full liberalization of Serbia's electricity market is a necessary precondition for the project to be successful.

Nikola Rajakovic, state secretary in Serbia's ministry of energy, added that the campaign for a new electricity exchange is "well founded" and that EPS would reap the greatest benefit from the project. He added that Serbia's existing energy law is not a hurdle in the process to found the new electricity exchange, although upcoming changes to the energy law "would define the legal framework for the exchange's market operations in a more explicit manner".

"Of course, the government will have full overview over the electricity market's operations through the national electricity transmission company Elektromreza Srbije. The rules for its operations and the required software for operations will be prepared beforehand. The advantage of introducing a power exchange is not limited only to an open system of electricity trading, but also to the development of market and technological know-how that stems from the operations of such a specific electricity market, because electricity is a commodity with unique traits," Rajakovic stated.

Falling demand allows exports

Elektroprivreda Srbije exported 1 TWh of electricity worth €40.5 million in the first half of 2009, nearly four times what it had originally planned, the Serbian power company said late July.

The increased exports are the direct consequence of a drop in domestic power demand, which is 720 GWh lower than expected. "The fall in domestic consumption is mainly due to the economic crisis and the related fall in industrial electricity consumption. Favourable weather conditions in 2009 have also contributed to lower electricity consumption this year," Zoran Manasijevic, EPS' assistant director general for technical issues, said at a July 16 press conference.

Manasijevic also attributed the rise in Serbia's power exports to increased generation at its hydropower and thermal power plants. Currently, the company's coal storage sites have a 580,000 tonne coal surplus compared to the planned total for this time of the year.

"We have the fuel, our facilities are operating well, repairs are ongoing and EPS will enter this winter season completely ready," said Manasijevic. The EPS official added that his company has enough electricity to continue exports until at least this September.

Record unpaid bills

EPS is owed a record Dinar 51 billion (€547.88 million) in unpaid electricity debts by its consumers, according to a July 16 report by Belgrade daily *Vecernje Novosti*. The money owed to Serbia's state power utility would suffice to finance the construction of two-thirds of the planned 700-MW Kolubara B thermal power plant, EPS said.

Households are the greatest offenders as their cumulative debts to EPS total Dinar 29 billion (€311.51 million). Total consumer debts have risen by Dinar 7.5 billion (€80.56 million) this year. EPS' distributor Elektroistok, which serves central Serbia, is the worst performer with a total consumer debt of Dinar 15 billion followed by Elektrodistribucija Beograd that is owed Dinar 12 billion.

TEPCO advises on energy efficiency

Tokyo Electric Power Company, TEPCO, Japan's largest power utility, said August 3 that it has been awarded a contract to advise Serbia's government on measures to improve the Balkan country's demand side energy efficiency. Under the contract, which is being financed by the Japan International Cooperation Agency, TEPCO will design an energy management system, make recommendations for the establishment of a new energy efficiency law with accompanying regulations, and assist with capacity-building for organizations in the planning and implementation stages of their energy efficiency policy measures. The study, which started this July, is to be completed in January 2011. According to reports, TEPCO will receive consultancy fees worth Yen 98 million for relevant services for the period to next March.

Slovakia

SE targets sales to SMEs

Slovenske Elektrarne, Slovakia's dominant power producer, controlled by Enel, has announced that it will create its own electricity sales unit – SE Predaj (SE Sales) – targeting small and medium-sized businesses – starting from 2010. The venture will seek to take business away from the country's three main distribution companies which are the main sellers to the segment as well as foreign electricity suppliers, such as Czech producer and distributor CEZ which is seeking a bigger foothold in its neighbour.

SE has set a target of 3% of the commercial market during its first year of operation, rising to 10% soon afterwards, the company's spokesman told Platts. The new unit will not target the still regulated household market which accounts for around a sixth of the country's annual consumption of about 30 TWh. CEZ is seeking to boost its share of end users in Slovakia to 114 this year and electricity sales to 986 GWh from 2008's 45 customers and sales of 471 GWh.

Turkey

Recession spurs grid investments

Turkey's state grid operator TEIAS is stepping up its investment programme to meet an expected boom in the construction of new power plant. A boom caused, ironically, by the global economic crisis.

In an interview published August 3 in the business daily *Dunya*, the head of TEIAS, Halil Alis, said that the average cost of constructing new power generating capacity in Turkey has dropped 40% since the start of the crisis, from $1.6 million per MW to $1 million.

Although Turkish demand has fallen by around 5% since the beginning of 2008, Alis believes that the drop in the cost of building new plant coupled with the need to increase Turkey's installed capacity to meet annual demand that prior to the crisis was increasing at 7-8% per year and threatening a supply shortfall, will accelerate the construction of new plant. An eventuality which Alis says TEIAS is ready for, having invested $2 billion in upgrading Turkey's transmission grid between 2003 and 2008 and with spending this year set to reach $650 million.

Currently underway are projects for the construction of six new 380-kV lines. Three of these are being constructed in Turkey's mountainous north east to accommodate planned new hydro plants. Another is being built between the eastern city of Van and Baskale on the Iranian border, being built to accommodate imports from Iran and the last running between Ankara and the southwestern cities of Afyon and Denizli where currently there is a periodic shortage of capacity.

New licensing procedures

Turkey's energy regulator, the EPDK, announced August 4 that it is tightening up procedures for the issuing of new plant licenses. Previously some developers had begun construction work on new plant while license applications were proceeding and before any necessary environmental impact studies had been completed. From now on, the EPDK said it will implement a six-stage procedure before any work may be carried out. This involves:

1. Application for and approval of a license application;
2. The delivery of a complete project file to the Ministry for the Environment within five working days of a license application being approved;
3. The supplying of any further information requested by the Ministry of Environment;
4. The project file to be processed and checked by the Ministry of Environment within 15 working days of submission;
5. A decision by the environment ministry on whether an environmental impact assessment is required to be taken within a further five days and both the project developer and the local governorate in the region where the plant is to be located to be informed;
6. Work on development of the project in line with the recommendations of any environmental impact assessment should commence within five years of the report being completed.

EPDK licenses 700 MW of new plant

Turkey's energy regulator has issued 49-year generating licenses for 29 new projects totalling 737 MW including most notably a 244-MW gas-fired project being developed by Cengiz Enerji at Samsun on Turkey's Black Sea coast. Licenses have also been awarded to 18 developers of small hydropower plant with capacity of less than 20 MW and two licenses for gas-fired cogeneration plants also of less than 20 MW.

Cengiz confirmed to Platts that construction of the plant was almost completed and it is expected to begin generating next February. A company spokesman also said that Cengiz' previously announced plans for a 600-MW plant at Samsun to burn imported coal had been postponed and that the company may be looking to relocate the project.

A 49-year license has also been awarded to Modern Enerji, a unit of Turkey's Eren Holding, which plans to expand its existing 87-MW gas fired plant at Corlu to 100 MW over the coming year. A spokesman for Eren also confirmed to Platts that the company plans to invest $1.6 billion in new projects over the next few years. To date the only other project confirmed is a 1,360-MW coal-fired plant which is being constructed in Turkey's main coal mining region of Zonguldag in north western Turkey, the first two units of which – totalling 160 MW – are expected to enter service by the end of the year, with two further 600-MW units to enter service in 2010 and 2011, respectively.

The recent increase in the number of new licenses issued is believed to reflect a new policy implemented by recently appointed energy minister Taner Yildiz of reducing to a minimum the processing period for new license applications. In particular Yildiz is believed to want to speed up the process for new wind power licenses. Turkey's energy regulator which processes license applications is currently sitting on applications for over 80,000 MW – the bulk of which were made in an open tender for new wind power projects held in 2007.

In a recent statement, Mustafa Kemal Buyukmihci, head of Turkey's state power research body, the General Directorate of Electrical Power Resources, said that a new round of wind power licenses are set to be issued within the next two months with the aim of boosting wind capacity from the current 453.5 MW to 11,600 MW by 2013.

Belen wind park nears completion

Belen Elektrik, a subsidiary of local construction company Guris Insaat ve Muhendislik, expects to commission a 30-MW wind park in the Hatay province in the southern part of Turkey in early September, project manager Necdet Yakin told Platts, August 7.

The Belen wind park will comprise ten V90-3.0 MW turbines supplied by Denmark's Vestas under a contract announced in June 2008. Yakin said that four of the turbines had already been installed and the remaining six would be erected over the course of this month. The project will cost approximately €50 million, he said.

Belen Elektrik has a 49-year generation license for the project, which was awarded by the sector regulator in 2007. With an estimated annual production of about 95 GWh, the Belen wind power plant will meet the annual electricity needs of more than 18,000 Turkish households and save more than 53,000 tons of CO_2.

Newly licensed generating capacity

Company	Plant name	Type	Installed capacity (MW)	License (years)
Kuzeykaya Elektrik	Guneykaya	Hydro	16	49
Lega Elektrik	Tac	Hydro	1.35	49
Ortur Elektrik	Duzhanlar	Hydro	9.7	49
Meral Elektrik	Esendurak	Hydro	9.5	46
Turhal Enerji	Osmancik	Hydro	13.8	49
Uhud Enerji	Gokgedik	Hydro	12.4	48
Unsa Madencilik	Kayabogazý	Hydro	1.3	49
Akar Enerji	Gecur	Hydro	1.18	49
Gufen Insaat	Gokbouyn	Hydro	5.5	49
Gun Enerji	Batlama	Hydro	2.12	49
Guzel Enerji	Kayabasi	Hydro	16.9	49
Degirmen Elektrik	Korkuteli	Hydro	3	49
Ersoy Enerji	Catalkaya	Hydro	18.18	49
Kayayýldýz Elektrik	Burma	Hydro	18.18	49
Melet Enerji	Ordu	Hydro	29.2	48
Timse Elektrik	Gunes	Hydro	4	49
Yade Elektrik	Poyraz	Hydro	14.2	49
Yade Elektrik	Umut	Hydro	11	49
Yamac Enerji	Yamac	Hydro	5.6	49
Sahinler Enerji	Corlu	Natural gas	26	49
Ege Birlesik Enerji	Ege Birlesik	Natural gas	13	49
Modern Enerji	Corlu	Natural gas	100	49
Bilenerji Bilkent Enerji	Ankara	Natural gas	36.5	49
Eskisehir Endustriyel Enerji	Eskisehir	Natural gas	58	49
Flokser Tekstil	Tekirdag	Natural gas	5.3	49
Ugur Enerji	Cerkezkoy	Natural gas	61	49
Cengiz Enerji	Samsun	Natural Gas	244	49

Source: EPDK

Ukraine

EIB weighs up Ukrenergo loan

The European Investment Bank said July 31 that it is considering a loan of up to €150 million to Ukraine's state grid operator, Ukrenergo, for the construction of a new 190 km-long, 750-kV AC transmission line from the Zaporizhska nuclear power plant to Novokakhovska in the southern part of Ukraine. The South Ukraine Power Transmission project, which will also comprise the installation of a new 750/330-kV substation at Kakhovska, two 330-kV double circuit diversion lines (Novokakhovska – Ostrovska and Novokakhovska – Kherson) of 28 and 17 km length, respectively, and rehabilitation of the existing 330/220-kV Novokakhovska substation, is expected to cost an estimated €350 million. The project is expected to also be part financed by the European Bank for Reconstruction and Development, pending final approval by its board of directors. A draft environmental and social impact assessment, which was prepared by Spain's Mercados – Energy Markets International together with RED Electrica de Espana, ERM Iberia and Energy Consulting Group, was released August 4 for a 120-day period of public consultation.

The project is part of a planned modernization of the country's entire transmission grid, aimed at increasing its reliability and stability, rebalancing the energy load and reducing technical losses.

The project, which will be compatible with European norms, will allow greater flexibility in optimizing regional electricity supply and demand and, enable the grid to exploit all the potential generating capacity, including both conventional and renewable sources.

The new line will more specifically also remove constraints on the operation of the 6,000-MW Zaporizka nuclear power plant, in turn resulting in reductions in fossil fuel consumption and CO2 emissions. Production from the Zaporizka nuclear power plant was designed to be delivered to central and southern parts of Ukraine through four 750-kV transmission lines but only three were built while construction of the fourth to Kakhovska was started at the end of the 1980s and halted in the early 1990s as a result of the political and economic changes and a lack of funding. At the time about 40% of the towers were built along the originally planned route and the foundations were laid for the Kakhovska substation. As a result, the maximum output of Zaporizka is currently restricted to 5,300 MW.

Tendering for the construction contract is anticipated to take place in the first half of 2010 with the overall construction period of the project scheduled to last about 30 months.

Gencos cut production by 20%

Ukraine's state power sector holding company, Energy Company of Ukraine, ECU, reported late July that the company's four thermal power producers – Centrenergo, Dniproenergo, Donbassenergo, and Zakhidenergo – had reduced their production by 19.8% to 25.2 TWh over the first seven months of this year. The four gencos cut their output in response to lower demand from industrial consumers. Consumption over the first seven months has fallen by 13.6% year on year.

The gencos received further bad news with the announcement last month by the sector regulator, NERC, that electricity prices for industrial and household consumers would remain unchanged in August. Industrial consumers currently pay between Hryvna 436-585/MWh ($57-77/MWh) while households pay an average of Hryvna 244/MWh ($32/MWh).

Industrial electricity rates have not been increased since November 2008 and the NERC recently announced it would keep tariffs for steel and mining companies unchanged in the third quarter as well. Given that electricity tariffs currently do not fully cover the gencos' production costs, and the dramatic fall in production over the first seven months of this year, the four state-controlled power producers can be expected to post losses for this year, analysts commented.

EBRD loan for gas CHP units

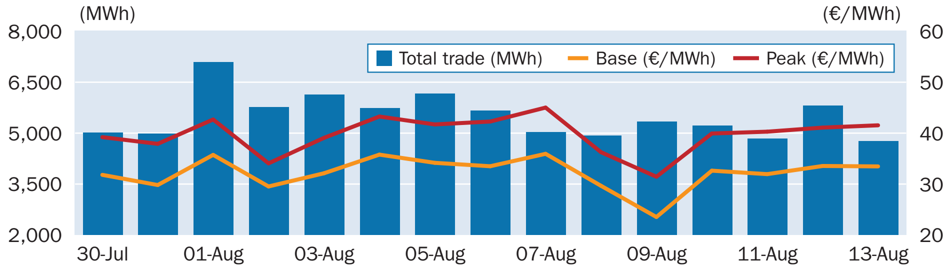
The European Bank for Reconstruction and Development, the EBRD, said August 5 that it is considering providing a €12 million loan to Miski Teplovi Merezhi, the municipal-owned district heating company serving the southern Ukrainian city of Zaporizhzhia, to co-finance the installation of new gas engine units for cogeneration of heat and electricity. The loan, which would be secured by a guarantee of the city's municipal authorities, has passed a concept review and is pending final approval of the bank's board of directors.

The project, which would cost up to €15 million, is designed to increase the overall efficiency of the city's district heating system and reduce fuel consumption. The London-based bank said that the project could set an example for other cities and utilities in Ukraine concerning ways to improve energy efficiency of district heating operations and reduce fuel consumption and would also increase the penetration of combined heat and power technologies for which there exists a substantial market potential in the country.

Through physical investments and the Financial and Operational Performance Improvement Programme, the project will also improve the company's financial and operational performance, it added. The Financial and Operational Performance Improvement Programme and other donors funded assistance will provide substantial training for the key staff of the company enabling substantial market skill transfer.

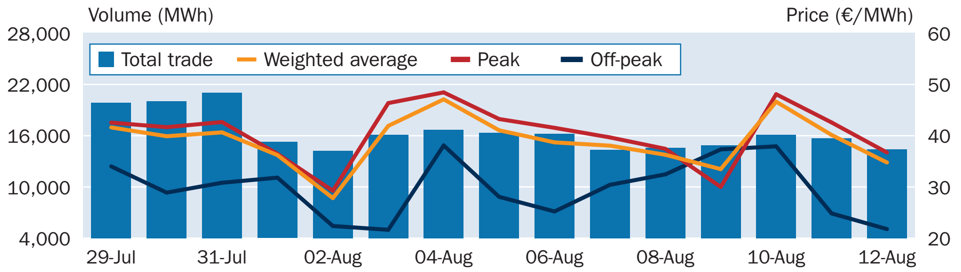
A total of €650,000 for technical assistance would be required to properly design and implement the project, including the updating of a feasibility study prepared by the company, financial due diligence of the company and restatement of accounts to IFRS, project implementation and management support as well as preparation of a carbon credits assessment to be prepared by a specialist carbon market consultancy on the potential for obtaining carbon credit under the Kyoto Protocol Joint Implementation mechanism. For further information, contact: Witek Szpak, Operation Leader: szpakw@ebrd.com

Day-ahead trade on the Czech Power Exchange, July 30 – August 13, 2009



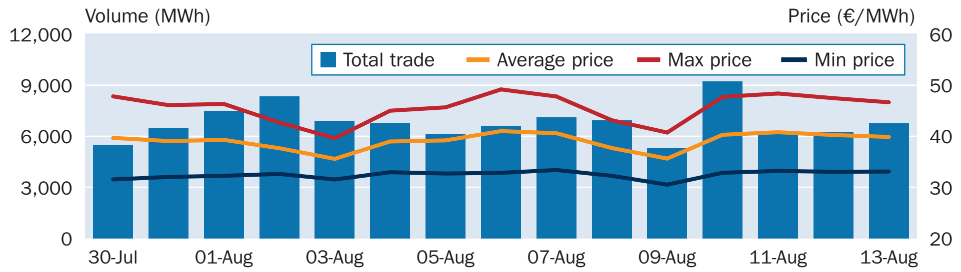
Source: OTE

Romanian day-ahead market, July 29 – August 12, 2009



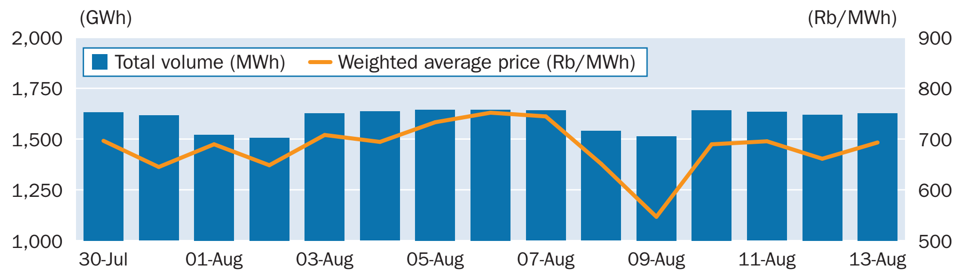
Source: OPCOM

Day-ahead trade on the Polish Power Exchange, July 30 – August 13, 2009



Source: Platts

Western Russian wholesale power market, July 30 – August 13, 2009



Source: Trading System Administrator

Few takers for cheap Polish power

Prompt power prices in the Polish market continued to fall through July and into August, but export opportunities were scarce as neighboring markets declined further and faster, traders told Platts August 10.

"The spot is depressed at Zloty 158/MWh, Q4 base at Zloty 166 and Cal 10 at Zloty 191-192 are also down, but Polish power remains above or in line, even in the peak products, with neighboring markets," one trader said. "There was a lot of cross border capacity available [for August] and it was bought up by participants, but I can't see it being used – there is not much money to be made."

On August 13 day ahead baseload stood at €35.50/MWh in the Czech and German markets, compared to Poland's €38/MWh. Q4 and Cal 10 base contracts were cheaper in Poland than in the Czech Republic, but the difference was less than a euro a MWh.

Nevertheless there has been plenty of domestic activity on the Cal 10 base product around the Zloty 191/MWh level. "The question is whether it will dip below this level. Currently it seems that Germany and CO2 are supporting the Polish Cal somewhat, but if we see another sell off in Germany I'd expect Polish Cal levels down in the Zloty 180s," one participant said.

While liquidity has picked up this year, with the focus moving beyond month ahead to year ahead, Polish traders still see scope for much greater volumes. "We have a few more active players, international players, bringing liquidity to the market, but still we are not as deep as the Czech market, even though they have a lower base and a more oligopolistic structure. It shows there is huge potential in Poland," a trader said.

Several noted with optimism the Polish government's proposed amendments to the energy law. "The current version is for an obligation on the vertically integrated companies to sell a proportion of their power either on the power exchange or through public tenders," a market participant said. "Currently the proportion is not very big, at 30% starting in 2011. But that would probably be a positive development in terms of liquidity and transparency."

Under the proposal it is likely that the vertical utilities will have a choice of whether to sell via the exchange or via public tender. "That is a reasonable demand given that it is not a high proportion of output; a very high exchange obligation would have been the worst option," the trader said.

Meanwhile the country's largest vertical utility, PGE, held a tender in early July, selling 300-MW at prices a little below market rates. Traders noted that strict financial guarantees required by PGE restricted participation. "The demands precluded a lot of people from taking part. PGE needed bank guarantees to be met just a few days after the tender. First, it is hard to turn those guarantees around so quickly, and second PGE wanted the guarantees to be available to February 2011. Most companies do not have a credit line in place for such a long period of time."

Offers were read out load, traders said. The average accepted offer was around Zloty 192/MWh. "The regulator claims that the maximum reasonable price is Zloty 185, so it is close," one trader said.

Statistics – July 2009

216 trades, of which:
August base 110 MW, peak 165 MW, offpeak 25 MW
September base 85 MW, peak 35 MW
Q4 09 base 140 MW, peak 10 MW
Q1 10 base 85 MW
Cal 10 base 594 MW, peak 40 MW
Cal 11 base 75 MW

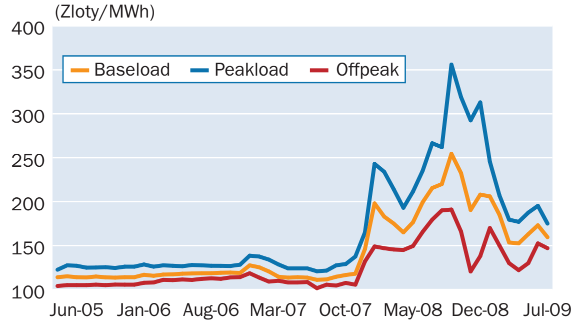
Source: Platts

Platts Polish assessments, July 2009

	Baseload	Peak	Off-peak
Polish Forward Prices (Zloty/MWh)			
August	159.00-160.00	174.50-175.50	146.00-148.00
September	173.00-175.00	194.00-197.00	NA-NA
October	172.00-176.00	190.00-205.00	NA-NA
Q4	169.30-170.30	194.00-196.00	NA-NA
Cal 10	190.30-191.30	230.00-230.50	NA-NA
Polish Forward Prices (€/MWh, Zloty 4.090=€1)			
August	38.88-39.12	42.67-42.91	35.70-36.19
September	42.30-42.79	47.44-48.17	NA-NA
October	42.06-43.04	46.46-50.13	NA-NA
Q4	41.40-41.64	47.44-47.93	NA-NA
Cal 10	46.53-46.78	56.24-56.36	NA-NA

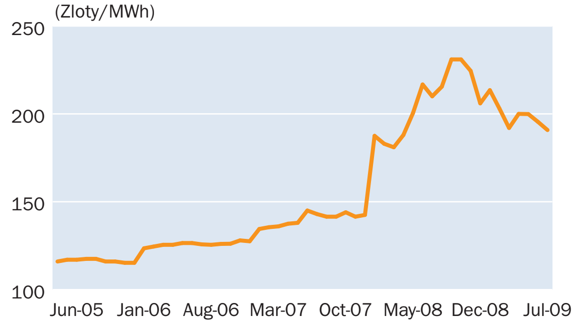
All prices are based on trades in the previous month and/or prevailing bids and offers in the last week of the month. Prices are for physical delivery to the Polish high voltage electricity grid.

Polish month-ahead power price evolution



Source: Platts

Polish year-ahead power price evolution



Source: Platts

OIL & GAS NEWS

Bosnia-Herzegovina

BH Gas advances new pipeline

Sarajevo-based natural gas company BH Gas is preparing to build a new 41.4 km-long natural gas pipeline between the towns of Zenica and Travnik, which will be instrumental in bringing gas to four central Bosnian cantons (Busovaca, Vitez, Travnik and Novi Travnik).

BH Gas commissioned an environmental impact study for the DN400 diameter pipeline from Sarajevo-based Bosna-S and a summary of the study was published on BH Gas' website on July 24. The new pipeline is expected to be completed in March 2011 and the project will be financed with a loan of €19 million from the EBRD.

Furthermore, Bosnia and Herzegovina could connect to the Nabucco pipeline if both entities in the country agree to build a new pipeline between Bosanski Brod (Srpska) and Zenica (FBiH), BH Gas director Almir Becarevic told the daily *Biznis* on July 27. He added that the FBiH government had asked the central government in Sarajevo to secure consent from the Bosnian Serb authorities for the project.

Becarevic said the pipeline would cost €55 million and "the European Investment Bank has already expressed interest in the project."

FBiH opposes Gaspromet sale

The government of the Bosnian Muslim and Croat Federation has approved a new report from the federal Ministry of Energy on the current situation in the national natural gas sector relating to an ongoing attempt by Serbia's natural gas operator Srbijagas to take over a 40% stake in its Bosnian Serb counterpart, Gaspromet Pale.

The FBiH government said that the Memorandum of Understanding signed by the energy ministers of Serbia and the Republika Srpska "is not in compliance with a Statement on the Organization of the Natural Gas Sector in Bosnia and Herzegovina and recommendations of Fabrizio Barbaso, deputy director general for energy in the Directorate General for Energy and Transport of the European Commission".

The FBiH government asked the Council of Ministers of Bosnia and Herzegovina to act immediately to stop all activities that would lead to a change in the ownership structure of Gaspromet, until a nationwide legislative and regulatory framework for the natural gas sector in Bosnia and Herzegovina is approved.

In a separate development, the FBiH parliament approved a law that introduces a new tax of $5 per 1,000 cubic metres of gas consumed that will be used to finance emergency purchases of the fuel in case of a gas supply crisis and to repay a decade old standing debt towards Russia for gas supplies effectuated in the early nineties.

Bulgaria

Melrose boosts gas reserves

UK-based Melrose Resources said August 11 its gas discovery in the Kaliakra block in the Black Sea has boosted the company's reserves in the area to around 100 Bcf. Melrose said the Kaliakra field likely holds 57 Bcf of reserves following the drilling of a successful appraisal well. Based on the results of the well, Melrose now believes the area it operates in the Black Sea, including the Kavarna, Kavarna East and Kaliakra fields, holds 100 Bcf of reserves.

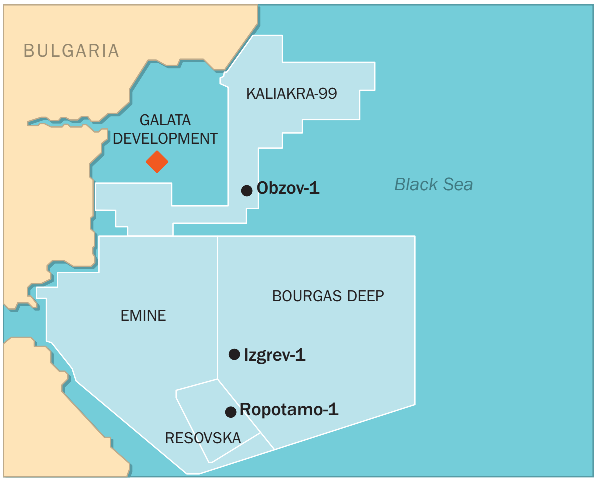
The Kaliakra 2 well was drilled 1.8 km to the west of the original Kaliakra 1 discovery well and encountered 67 feet of net gas pay, which is substantially thicker than the net pay of 31 feet found in the Kaliakra 1 well. "The results indicate that the Kaliakra field's most likely reserves are 57 Bcf, of which 16 Bcf were included in the company's 2008 year end reserves booking," it said in a statement.

Kaliakra is 15 km east of the Melrose-operated Galata gas field production platform. Galata has been the company's main source of revenue in the last few years, but is now mostly depleted and is to be turned into a gas storage facility.

Melrose is also developing the Kavarna gas field in the area. "The well results also have a positive impact on the other field discoveries and exploration prospects on the Galata/Kaliakra geologic trend," Melrose said. "In particular, they help to further confirm the Kavarna field reserves of 24 Bcf and effectively de-risk the undrilled Kavarna East structure which lies directly between Kavarna and Kaliakra and contains estimated reserves of 19 Bcf."

Melrose CEO David Thomas said the new area is bigger even than Galata. "We are very pleased with the results from the Kaliakra appraisal well which confirm our geologic model for the area and effectively increases the most likely combined reserves estimate

Bulgaria's Black Sea fields



Source: Platts

for Kavarna, Kavarna East and Kaliakra to 100 Bcf," Thomas said. "This is approximately one and a half times the size of the Galata field reserves produced between 2004 and 2009," he said.

Melrose is waiting for approval of its development plans at Kavarna, from Bulgaria's new center-right government, which came into power after elections this July. Earlier this month, the new government appointed a new cabinet, including the Minister for Economy, Energy and Transport and the Minister for Environment and Waters.

"It is therefore anticipated that the government will shortly be able to grant Melrose approval to complete the Kavarna field development as a subsea tie-back to the Galata platform," Melrose said. "A submission is also being prepared to solicit government consents for the Kaliakra field development which will be tailored to facilitate the future tie-in of the Kavarna East reserves," it said.

Melrose still has other prospects to appraise too. "Beyond these three structures we still have two other exploration prospects to drill on the same geologic trend and we plan to acquire further 3-D seismic data in early 2010 to the north of the trend where we believe the same Palaeocene exploration play may be present," Thomas said.

Central Asia

Tengizchevroil ups output

The Chevron-led Tengizchevroil joint venture in Kazakhstan increased oil output from the Tengiz and Korolev fields to an average 448,600 b/d in the first half of 2009, up 15.9% on the year.

Tengizchevroil said August 7 its sour gas injection project has helped to boost crude output. "The first sour gas injected was near year-end 2007 and since Q4 2007, production has risen from around 40,000 mt/d or 320,000 b/d to 72,000 mt/d (576,000 b/d) at present," a company spokeswoman told Platts. Tengizchevroil's gas production currently stands at 22 million cubic meters per day, it said.

In April, the company said it expected significant growth in production due to increased sour gas injections into the field's reservoir this summer from around 540,000 b/d at the time.

Chevron holds a 50% stake in Tengizchevroil, with ExxonMobil holding 25%, Kazakhstan's state-run KazMunaiGaz 20% and LukArco 5%.

Approximately one-third of the sour gas produced from the sour gas injection expansion is planned to be injected into the reservoir, the company said. The remaining volumes will be processed as commercial gas, propane, butane and sulfur, it said.

The company exported 7.5 million mt of crude via the CPC pipeline to Novorossiisk, which is the main export route for Tengiz crude, in the period. "The remainder was exported via rail to Odessa and Feodosia as well as to Aktau, then further to Batumi and the BTC pipeline.

A small volume was exported via the Atyrau-Samara pipeline," it said.

Poland

LNG terminal capacity to double

Poland has decided to double the capacity of its planned LNG terminal to five billion cubic metres per year. Under the original plan the terminal, which is to be built in the port of Swinoujscie, near Szczecin in northwest Poland by 2014, was to have an initial capacity of 2.5 Bcm/year. "After an analysis of the capabilities we are now planning to have a capacity of 5 Bcm/yr from the beginning," Malgorzata Polkowska, spokeswoman for Poland's state-owned gas transmission system operator, Gaz System, told Platts, August 4.

The terminal, which will be equipped with two standard-sized storage containers with a capacity of 160,000 cubic meters each, is being built by Polskie LNG, a wholly-owned subsidiary of Gaz System. A 315-meter dock will be able to berth Q Flex LNG tankers, she said.

Meanwhile, Polskie LNG launched a tender August 6 for a general contractor to construct the LNG terminal. Investors have until September 30 to confirm their interest, Zbigniew Rapciak, chief executive of Polskie LNG, told a news conference in Warsaw. A shortlist of four bidders will be chosen in November and they must submit offers by the end of December, Rapciak said. Negotiations with the bidders will take place until April next year and the winner is expected to sign a contract in the middle of next year, he said.

Polskie LNG received a building permit from the local authorities last month to allow it to start construction on the land-based site. Construction is expected to start after a general contractor is chosen in the middle of next year. The company has already received the environmental permits to allow it to start construction on both the land and sea-based sites. The project may cost more than €2 billion, according to Deputy Treasury Minister Mikolaj Budzanowski in an August 4 interview with the daily *Parkiet*. The terminal itself will cost between €600-700 million, with the remaining sum to include the cost of building an external port, a breakwater and a connecting pipeline. Gaz System will provide between 20-40% of the costs from its own funds, Jan Chadam, chief executive of Gaz System said. The rest will be raised from Polish banks, the European Bank for Reconstruction and Development and the European Investment Bank, he said. Up to €80 million will come from European Union funds.

The terminal is Poland's flagship energy diversification project. In January the Polish government fast-tracked the project following the gas pricing dispute between Russia and Ukraine.

Poland, which is dependent on Russian gas for 75% of its imports, suffered a five month 25% cut in its flows from the East following the elimination of the intermediary RosUkrEnergo as a result of the dispute. RosUkrEnergo, co-owned by Gazprom and two Ukrainian businessmen, supplied 2.3 Bcm/yr of gas to Poland. Poland is currently in talks with Russia to increase its imports from next year to compensate for the missing volumes. In June the two sides brokered a short-term contract to partially replace the volumes until September this year to enable Poland to replenish its storage.

In June, Poland's dominant gas company, PGNiG, signed a 20-year agreement with Qatargas for the supply of 1.5 Bcm/yr of LNG to the terminal, with shipments to start in the second half of 2014. The deal, which is the first long-term gas contract Poland has signed since one with Russia in 1993, is worth $550 million per year. PGNiG plans to buy an additional 1 Bcm/year from other suppliers and on the spot market. Polskie LNG says the terminal's capacity could be expanded to 7.5 Bcm/yr depending on future demand.

According to Peter Tordai of KBC Securities, the ambitious plans represent a risk for the country's monopoly gas supplier, PGNiG. "We see a rising chance that the government will force the company to make a higher contribution to the project. "If future gas tariffs are increased to fully cover the investment costs of PGNiG we consider the news as neutral," the analyst said. "There is a rising chance, however, that the government will try to slow down tariff hikes in order to ease the negative impact on the Polish economy," he added.

Romania

Petrom explores Black Sea block

Petrom, Romania's largest integrated oil and gas company, said August 10 it had started initial seismic studies at the Neptun block in the Black Sea. The initial work will include a 3D seismic acquisition program over an area of around 3,000 square km. This is the largest area surveyed in Romania using 3D seismic, the company said. The survey work will be performed on behalf of Petrom and its exploration partner ExxonMobil by one of the largest 3D seismic acquisition vessels in the world, the GeoCeltic, operated by Fugro-Geoteam. The ship arrived in Constanta harbour on August 4. The duration of the seismic acquisition work is expected to last approximately 90 days.

Petrom, which is majority owned by Austria's OMV, signed a deal with US major ExxonMobil in December last year to jointly explore the oil and gas potential of the deepwater portion of the Neptun block, which covers some 9,900 sq km in water depths ranging from 50 to 1,700 meters (*EiEE 153/33*). Petrom will oversee the initial exploration work including geologic and seismic studies in the deepwater. ExxonMobil will fund the majority of the work program and provide expertise in evaluating the deepwater seismic data. Petrom is inexperienced in deepwater exploration, with the company's upstream head Johann Pleininger calling it "technically challenging." ExxonMobil was brought in to offer its deepwater experience.

Rompetrol posts Q2 net loss

Romanian refiner Rompetrol Rafinare, which is wholly owned by Kazakh state-owned KazMunaiGaz, reported August 6 a net loss of $41 million in the second quarter. Although the loss continues the refiner's poor run of quarterly results, it was better than analysts had expected. "The actual loss was 24.9% lower than our forecast of $54.6 million thanks to better-than-expected result in petrochemicals and lower financial losses," said Lajos Meszaros of KBC Securities, August 7.

Rompetrol's sales amounted to $773.4 million, 18% up on the previous quarter of 2009, but 44% lower than the second quarter of 2008.

Rompetrol blamed its losses mainly on a 72% fall in its refining margin, currency effects and the "strong influence of the financial crisis." "Refining margins started 2009 at high levels, reaching seasonal highs of $8/barrel in January, but dropping below $2/b in mid-June," the company said.

Rompetrol operates the 90,000 b/d Petromidia refinery on the Black Sea coast and the 4,000 b/d Vega refinery. In the second quarter, the refineries processed 1.08 million mt of feedstock, and the company plans to process a total of 4.4 million mt for 2009 as a whole.

KazMunaiGaz bought the remaining 25% in Rompetrol in June for an estimated $1.2 billion, taking its ownership of the company to 100% having acquired a 75% stake in August 2007.

Russia

Gas exports, output pick up

Russia increased its exports of natural gas in July by 15.6% on the year to 15.112 billion cubic meters and by 20% on the previous month as European demand began to pick up on the back of lower prices. Russia's gas exports averaged 487.5 million cubic meters a day last month, compared with 406.8 million cu m in June, according to the latest figures released August 3 by the Ministry of Energy.

A significant rebound in exports was widely expected following a reduction in July in Gazprom's contracted gas prices, which are linked to the oil price with a lag of three-to-nine months.

Gazprom's sales to Europe fell about 32% to 60.4 Bcm in the first six months at an average price of $336 per 1,000 cu m, the gas giant said in a bond prospectus last month. The average price of gas at the German border was $250/1'000 cubic meters in July, Ilya Kochevrin, executive director of Gazprom's export unit, said August 3.

The rise in exports led to the first signs of recovery in Russia's gas production. Output in July fell 16.2% year on year to 41.4 Bcm in July, compared to the 29% year on year fall in the previous month, but rose 14% month-on-month. "This is the first positive monthly gas production report since January 2009, which we believe sets the beginning of a positive trend that will be seen in H2 2009," analysts at Renaissance Capital commented in a daily briefing August 4.

Gazprom's gas production (including Gazprom Neft) rose 16.8% month-on-month – the first monthly gain since the start of the year – although still down 18.5% year on year to 33 Bcm. Novatek increased its gas output 4.4% month-on-month to 2.6 Bcm, up 5.1% year on year. Oil companies showed higher month-on-month gas outputs, led by Rosneft (up 19.1% month-on-month and 9.3% year on year to 1 Bcm) and Tatneft (up 11.1% month-on-month to 0.7 Bcm). Lukoil and Surgutneftegaz's gas outputs were flat month-on-month, but down 19% year on year to 0.9 Bcm and down 2% to 1.1 Bcm, respectively. TNK-BP showed a 4.4% month-on-month rise to 0.9 Bcm, but still down 22.1% year on year. On a headline basis, over the first seven months of this year, Gazprom reduced its production 24% year on year to 252.4 Bcm, while Novatek increased its output 5% to 18.5 Bcm.

"The news confirms our suspicion that low gas export and production volumes in the previous months were simply due to artificially lowered gas purchases of European buyers," said Peter Csaszar, an analyst at KBC Securities. "As natural gas prices are linked to crude and oil products prices with a lag of six to nine months, customers waited for lower prices before buying to fill storage facilities. Despite export volumes of only 60.4 Bcm in the first six months, we maintain our forecast of Gazprom's sales to Europe at 141 Bcm in 2009. An important question mark, however, continues to hang over future natural gas prices. According to our estimates, natural gas price will average $286/1000 cu m versus $336 recorded in H1 2009."

First exploration success for Petrom

Petrom, Romania's largest integrated oil and gas company, which is majority owned by Austria's OMV, announced July 3 its first exploration success in Russia with a significant discovery of oil and gas in the Kamenski license in the southwestern region of Saratov.

The Lugovaya-1 exploration well was drilled to a depth of 3,882 metres and the first tests showed a combined rate of around 6,500 boe/d or over 2,500 bbl/d of light sweet oil in one zone; two gas-bearing formations which flowed a combined 550,000 cubic metres/d of sweet gas as well as 75 cum/d condensate (4,000 boe/d), Petrom said, though it did not reveal when commercial production would start.

The discovery represents the company's first exploration success in Russia since entering the market in 2006 through the acquisition of a 74.9% stake in Ring Oil Holding & Trading, which gave it the rights to explore eight blocks in the Saratov region, 1,000 km southeast of Moscow, as well as in the area of Komi, 1,200 km northeast of Moscow.

"This is a sizeable discovery, with the initial flow rate representing around 3.5% of Petrom's current hydrocarbon production," said Peter Tordai, an analyst at KBC Securities. "Thanks to the discovery, we see a good chance that Petrom reserve replacement ratio climbs above 100%, for the first time since its privatization".

This new discovery further increases the upstream exposure of Petrom, which launched oil production this June at the Komsomolskoe field in Kazakhstan. Initial production of approximately 1,000 bbl/d at the field located in the Mangistau region of western Kazakhstan is expected to plateau at 10,000 bbl/d in 2010. The field's proved and probable reserves are estimated at 34 million bbl. Petrom aims to raise production in the Caspian Region to about 20,000 boe/d.

MOL to meet ZMB license terms

Hungary's oil and gas company MOL and Russian oil producer Russneft have agreed to build gas-fired power generation capacity at the site of their jointly owned Zapadno-Malobalykskoye (ZMB) oil field in West Siberia to meet the terms of their operating license, the companies said in separate statements issued August 6. "The [ZMB] board has approved a work program for ZMB aiming for 95% of the produced associated gas in the field to be used," Russneft said. "ZMB will install gas-powered power generators, which in turn will power oil production at the field," it said. The 16-MWe project, which will cost around €21 million ($30 million), will enter into operation in the first quarter of next year, said MOL spokeswoman Dora Somlyai.

In early July, Russia's environmental watchdog Rosprirodnadzor said the joint venture was not meeting its obligations to use 95% of associated gas produced at the field during the extraction of crude oil and warned that its license would be revoked if the violation was not remedied. Russia's Federal Subsoil Agency, Rosnedra, subsequently gave the companies six months to remedy this situation, threatening to revoke their production license, which is valid until 2016.

In their statements, the joint partners said they had agreed to take "all necessary measures" to fulfill the license agreement of ZMB and that the development of the gas-fired plant would increase gas utilization at the field above 95%. ZMB currently produces 55 million cubic meters of associated gas per year and the project would take the gas utilization rate at the field to 100%, the partners said. ZMB also produces about 50,000 b/d of oil. The agreement ends a stand-off between the partners over how to fix its license term violations (*EiEE 170/5*). In late July, Russneft accused MOL of being "non-constructive" in efforts to remedy license violations at ZMB.

The statements also said that ZMB had decided to start drilling 12 additional production wells at the field. The venture will finance investments for the development plan from its own funds to be raised in the second half of the year. The agreement and the initiated additional production investments show the commitment of MOL and Russneft to keep the production license at the ZMB field, said Lajos Meszaros, oil and gas analyst at Budapest-based KBC Securities. "However, we cannot fully rule out that the Russian government will find another way to revoke the license from ZMB and thus punish MOL for not cooperating with Surgutneftegaz. Rosprirodnadzor's warning on the possible withdrawal of the license was seen by some analysts as a move by the Russian government to pressure Hungary to accept Russia's

Surgutneftegaz as a shareholder in MOL. In April, Russia's fourth-largest oil producer Surgutneftegaz bought a 21.2% stake in MOL from Austria's OMV for €1.4 billion, prompting speculation the Russian company was preparing for a more significant role in the Hungarian producer. However, despite legal action brought by Surgutneftegaz, the Hungarian authorities have yet to register the Russian company as a shareholder because of its oblique shareholder structure.

New production for Volga Gas

Volga Gas, a UK-listed independent oil and gas exploration and production company, announced July 31 that it is to start production this month from its Yu-Uz#9 development well on the Yuzhno-Uzenskaya field in Saratov in the Volga area of European Russia. The Yuzhno-Uzenskaya #9 well was spudded early in July 2009 and after drilling and logging productive oil pay, it will add to current production of more than 1,500 barrels of oil per day from the Uz#3, Uz#4 and Uz#5 wells. Volga Gas said that the Yu-Uz#8 development well, also spudded in July, is currently being drilled at a depth of about 900 meters.

The wells are located in the Karpenskiy license in the northwest part of the Caspian Petroleum Province, one of three 25-year exploration and production licenses held by Volga Gas through its 100% interest in Pre-Caspian Gas Company, PGK. PGK has negotiated a preliminary 20-year offtake agreement for its initial production.

The Karpenskiy licence area, which covers approximately 4,180 sq km, has two productive intervals – sub-salt and supra-salt – is well located. The Central Asian Centre or SAS pipeline, which runs through the centre of the licence area, connects the Turkmenistan and Kazakhstan gas fields with countries bordering Russia to the West, including Ukraine, and also provides PGK access to local consumers through branch pipelines to European Russia. Volga through PGK also acquired the Pre-Caspian and Urozhainoye-2 licenses at government auctions in October 2006 and September 2007, respectively. Both licenses areas are located close to the Karpenskiy license area.

Volga Gas also has a 100% interest in Gasnefteservice, which holds the 20-year Vostochny-Makarovskoye gas-condensate license covering 17.8 sq km in the Volgograd region in the Volga area of Russia.

Urals sells Dulisma to Sberbank

UK-based Urals Energy said August 3 that it had agreed the sale of its wholly owned Russian upstream subsidiary Dulisma to Russian state-controlled Sberbank to cover the whole of a $130 million loan and part of a $500 million loan from the bank.

Urals announced in June that it would sell Dulisma and its 35.3% stake in Taas-Yuriakh, which operates the large Srednebotuobinskoye oil field in western Siberia, after talks to restructure its outstanding loans of $630 million with the bank failed, and it had found no other way to raise financing to continue its Russian operations (*EiEE 168/33*).

Urals said it is still in talks with Sberbank over the sale of the Taas-Yuriakh stake to pay off the rest of its outstanding payments to the bank. "The company continues to progress its work with Sberbank over the settlement of the remaining portion of the $500 million loan in relation to the company's acquisition of the 35% stake in Taas-Yuriakh which is subject to regulatory clearances," Urals said.

Dulisma holds the license for the undeveloped Dulisma field in the Irkutsk region, which Urals bought in June 2006 for $148 million.

Dulisma has proven and probable oil reserves of 109 million barrels and possible reserves of 1.7 trillion cubic feet of gas and 87 million barrels of oil and condensate. Urals bought the stake in Taas-Yuriakh in late 2007 for $590 million. Taas Yuriakh also holds the exploration and production license for the adjacent Kurungsky block. In 2008, Urals' average production was 7,800 b/d, though it had been aiming to raise output to 55,000 b/d by 2012.

Gazprom starts Far East pipeline

Gazprom announced July 31 the start of construction of a natural gas pipeline in Russia's Far East to link its energy-rich Sakhalin Island with Khabarovsk and Vladivostok on the mainland.

The link is expected to become a part of an export route to the Pacific Rim. The first 1,350-km section of the pipeline, with a capacity to transport 6 billion cubic meters per year of gas, is to be commissioned in the third quarter of 2011, and to be later extended to 1,800 km and a capacity of 30 Bcm per year. The company has said capacity could eventually be expanded to 47 Bcm per year.

Gazprom expects to pump some 150 Bcm/year of gas in the region, Gazprom's deputy CEO Alexander Ananenkov said. "The figure is similar to Russia's annual gas exports to Europe," he said, adding that gas production should be backed by corresponding infrastructure.

The first phase of the pipeline will supply Vladivostok and new gas-fired power generation capacity in the Far East by 2012, when Vladivostok hosts the Asia Pacific Economic Cooperation summit.

Gazprom estimates that construction of the first stage will cost Rb210 billion ($6.6 billion), with 2009 investments in the project at Rb50 billion, Ananenkov said, as reported by Prime-Tass. In 2010, Gazprom plans to invest Rb100 billion in the pipeline.

Ananenkov reiterated that the pipeline's capacity could be expanded to 47.2 Bcm/year, with gas to come from fields in the Republic of Sakha (Yakutia) in East Siberia, Prime-Tass reported.

The giant Chayandinskoye gas field in Sakha (Yakutia), for example, can secure future gas volumes of 18.7 Bcm/year, he said. "Thus, there will be a possibility to export gas to the Pacific Rim," he said. Gazprom is also considering building an LNG plant in the Far East.

Gazprom expects the offshore Sakhalin 3 project to become the key resource base for gas supplies sent via the Sakhalin-Khabarovsk-Vladivostok pipeline and beyond, including for export. In July, it received licenses for three Sakhalin 3 blocks – Kirinsky, Ayashsky and East-Odoptu. Gazprom has already started exploration work in one field in the Kirinsky block and expects to commission it in 2014.

Gas production within the Sakhalin 3 project will amount to 23-24 Bcm/year by 2020 and 28-30 Bcm/year by 2030, Ananenkov said.

In addition, Gazprom will use the state's share in the Sakhalin 1 and Sakhalin 2 projects, which are being developed under production-sharing agreements, to fill the line. The state's combined share amounts to some 3.2 Bcm/year, Ananenkov was quoted as saying.

Gazprom also hopes to complete ongoing talks with the ExxonMobil-led consortium developing Sakhalin 1 to buy its 8 Bcm/year of gas with the aim of supplying it to the domestic market.

Talks have been held up for several years without success so far with price apparently the key stumbling block. The US major has said repeatedly that it is looking to sell Sakhalin 1 gas on commercially attractive terms. Market sources said last autumn that Gazprom was offering a price well below market levels.

At the same time, ExxonMobil has said that it is still in talks with China National Petroleum Corporation regarding possible exports of up to 8 Bcm/year, under a preliminary memorandum signed in 2006.

In June, however, Rosneft president Sergei Bogdanchikov said he expected all gas from Sakhalin 1 to go to the domestic market, rather than for export, in comments that seem to support Gazprom's plans. Rosneft holds a 20% stake in Sakhalin 1, alongside ExxonMobil (operator 30%), Japan's Sodeco (30%) and India's ONGC (20%).

At present, Sakhalin 1 supplies around 2 Bcm/year of gas to the neighboring Khabarovsk region under a contract which envisages supplies of up to 3 Bcm/year. ExxonMobil has said it will start drilling gas wells only after the contract on gas sales has been signed, with gas production expected to peak at 11 Bcm/year.

Gas reserves at the three Sakhalin 1 fields – Chayvo, Odoptu and Arkutun-Dagi – are estimated at 485 Bcm (17 Tcf), with the license setting no timeframe for full-scale production.

Gazprom to seek shelf partners

Gazprom plans to invite Russia's biggest oil producer Rosneft to conduct joint exploration work at the Koryakiya 1 and 2 offshore blocks, deputy CEO Alexander Ananenkov said July 31. Gazprom expects to receive the licenses for these blocks in the near future.

According to local reports, Gazprom has asked the Federal Agency for Mineral Resource Management (Rosnedra) to issue a license for the exploration of Koryakia-1 and Koryakia-2 to Rosshelf, in which Gazprom holds a 56.7% stake, and Rosneft holds 26.4%.

Koryakia-1 and Koryakia-2 are located on Russia's continental shelf under the Sea of Okhotsk and the Bering Sea on either side of Kamchatka. According to Gazprom, Koryakia-1 has geological reserves of 420 million metric tons of oil and 1 trillion cubic meters of gas, while Koryakia-2 holds reserves of 70 million tons of oil and 205 billion cubic meters of gas. However, the Ministry of Natural Resources estimates Koryakia-1's reserves at 330 million tons of oil and 1.2 trillion cubic meters and Koryakia-2's reserves at 650 million tons of oil and 1.4 trillion cubic meters.

Last year, both Rosneft and Gazprom laid claim to the two blocks, but amendments to laws gave the government the right to distribute shelf plots to state companies without competitive bidding. In May, the head of Rosnedra, Anatoly Ledovskikh, said a government resolution to hand these plots to Gazprom would be ready in three to four months.

Ananenkov also confirmed that Gazprom might invite foreign partners to develop the offshore West Kamchatka block, with resources estimated at 3.8 billion mt of hydrocarbons. But he said Gazprom would retain control over reserves, not sharing them with foreign partners. Asset swaps in such deals would be possible only after Russian reserves are re-evaluated, he said. "We believe that Russia's reserves are undervalued today," he said. "The cost of our reserves is some five- to sevenfold less than that abroad."

Ananenkov said the gas giant might invite foreign partners to cooperate in the production and infrastructure projects as well as mutual marketing of gas, rather than in exploration.

Separately, Ananenkov said his company was also interested in securing licenses for offshore blocks Magadan 1,2,3,4, with combined reserves currently estimated at 5.5 billion mt of oil equivalent.

Putin rejects Energy Charter Treaty

Russia confirmed August 6 it will not become a party to the Energy Charter Treaty or the protocol on energy efficiency and its environmental aspects. Russia's Prime Minister Vladimir Putin has signed an order accepting the Energy Ministry's recommendation not to ratify the treaty, the government said. Moscow has already signalled its intent to pursue its own alternative plan.

The Energy Charter Treaty, to which 51 states have either signed or acceded to, exists to provide a legal structure for resolving disputes between countries. Russia signed the 15-year-old treaty and protocol in Lisbon in 1994, but declined to ratify it, claiming it was biased toward consumers. Earlier this year at the World Economic Forum in Davos, Switzerland, Putin said the treaty was ineffective, noting it had not prevented Ukraine from taking natural gas destined for European customers from the transit pipelines when its own deliveries from Russia were suspended over a payment dispute.

But Andre Mernier, secretary-general of the Energy Charter Secretariat, said in February that "the treaty has never had as its aim to resolve immediate crisis situations." He said it was up to treaty members, not the Secretariat, to launch the dispute resolution mechanism in the treaty, and that none of the affected members had.

Russia launched its own alternative treaty in April, during a visit by President Dmitry Medvedev to Finland. He said then that Russia wanted a new agreement to protect the interests of energy producing, transiting and consuming countries. “We would like to start talks with our partners as soon as possible. I hope for constructive reception of our ideas,” he said. The document consists of three sections: the principles of international energy cooperation, an agreement for resolution of transit conflicts, and a list of energy products, including oil, gas, nuclear fuel, coal and electricity.

Summers to leave TNK-BP

Tim Summers, the most senior former BP manager at Anglo-Russian oil major TNK-BP, said August 4 that he would step down as chief operating officer in mid-October for personal reasons. He will be succeeded by the head of BP Azerbaijan, Bill Schrader, TNK-BP said.

Summers was a key figure for BP in the dispute that raged until last year between BP and its Russian shareholders, Alfa-Access-Renova, AAR, over management control and direction of Russia’s third largest oil producer, but he said his departure was for unrelated reasons.

TNK-BP accounts for about a quarter of BP’s global output, but following the shareholder dispute, the UK-based major ceded much of its influence at the company as a string of senior managers left, most notably Robert Dudley, the former chief executive, who was forced to step down last December as part of a peace pact.

Summers took over as acting chief executive for six months before the company board chairman Mikhail Fridman, one of the four co-owners, stepped in to replace him on an interim basis at the end of May.

TNK-BP’s shareholders have still not agreed on a permanent chief executive to replace Dudley. Under the joint venture agreement, BP has the right to nominate the CEO, but the choice must be approved by the oligarchs, who are insisting on a fluent Russian speaker.

IMF urges profit-based tax system

The International Monetary Fund urged Russia August 7 to switch to a profit-based oil taxation system, saying the current revenue-based system, which has resulted in high levels of taxation, could lead to further production declines. The IMF said Russia’s current oil taxation system had served the country well in that it had provided the government with large revenues. However, it said, noting that 2008 had seen the first oil production decline in 10 years, “the high tax burden may have contributed to low levels of investment.”

Russia needs to adapt its oil taxation system to the rising costs of production, the IMF said. “With the cost of producing oil in Russia likely to increase going forward – owing to maturing oil fields and the location of additional reserves in smaller, more remote, and more technically challenging fields – production may continue to decline since the current revenue-based system is particularly onerous on high cost fields,” it said.

The current tax system gives the government 90% of each additional dollar of export earnings when the price of Urals crude exceeds $25/b for a fee with oil depletion below 80%, the IMF noted. “This top marginal rate is high by international standards and is triggered by what is now considered a low oil price,” it said.

Switching to a profit-based regime could broadly maintain or even increase the government’s take from highly profitable projects and expand the range of oil fields that are viable by reducing the tax burden on marginal projects, the IMF said. “In addition, the flexibility of the regime to automatically respond to changing price and cost conditions will reduce the number of discretionary changes needed (the current system has had to be amended numerous times), and thus provide greater certainty for investors,” it said.

Russia’s government is already discussing a new tax regime that would be based on actual company results and provide incentives to use up-to-date technology. In February, Prime Minister Vladimir Putin called for a specific tax regime for new oil and gas fields in order to stimulate crude production. Last month, an energy ministry official said the country would introduce a zero rate export duty for crude from 13 major fields in East Siberia for a period of nine months in order to help finance development of the remote oil province.

The move, part of the government’s efforts to stimulate the sector, is expected to enable producers to invest funds into the remote, undeveloped region, which principally lacks infrastructure.

Russia has already introduced mineral extraction tax holidays for new fields in East Siberia, in the Caspian Sea and in the Arctic, which can be combined with other schemes including reduced export duties.

It has also approved the introduction of tax holidays for crude production at new fields in the Black Sea in the south of Russia and in the Sea of Okhotsk in Russia’s Far East.

In 2008, the government approved a package of tax incentives to help companies develop new fields as their existing resource bases are mostly depleted. In particular, it was decided to ease the overall tax burden on the oil sector by some $4 billion/ year, mainly via a cut in the oil extraction tax. The tax came into force in January.

July crude hits two-year high

Russia’s crude oil production rose for the fifth consecutive month to a two-year high in July, according to preliminary data released August 2 by the Central Dispatching Unit of the Ministry of Energy. Production last month increased by 1.3% year on year and 0.2% month on month to 41.917 million mt (9.87 million b/d), representing the country’s highest crude output since October 2007, when Russian oil producers pumped 9.89 million b/d. Over the first seven months of this year, Russia has produced a total of 284.516 million mt of crude, up 0.3% on the same period a year ago, the CDU data showed.

Russia's biggest oil producer Rosneft along with TNK-BP fared best among the oil majors, with year on year growth in barrels-per-day terms of 1.6% and 2.1%, respectively, in July.

Rosneft's output rose 1.2% month on month to 2.194 million b/d, helped by the start of initial production at its flagship Vankor field last month. Rosneft expects to launch commercial production at the field in the third quarter, possibly in August or September.

If Rosneft is to hit its output target of 3 million mt from the field in 2009, production will need to climb to over 170 million b/d on average throughout August-December, JP Morgan said. In July, Rosneft pumped 152,000 mt of crude at Vankor, according to the bank.

Following the launch of new fields, TNK-BP increased its production in July by 0.4% month on month to 1.421 million b/d. Lukoil, meanwhile, saw output rise 0.8% year on year and 0.7% month on month to 1.862 million b/d. Surgutneftegaz was the worst year on year performer again, with production down 3.2% to 1.197 million b/d, unchanged on June, followed by Gazprom Neft, whose production was down 1.5% year on year to 710,000 b/d, though up 0.8% month on month. Tatneft's production meanwhile rose 0.8% year on year to 524,000 b/d.

Over the first seven months, only Lukoil and TNK-BP have shown year on year growth of 2.9% and 1.2%, to 53.8 million mt and 40.4 million mt, respectively. All the other blue-chip oil companies showed cumulative declines. Gazprom Neft cut output 4.9% to 20.3 million mt, with Surgutneftegaz down 3.8% to 34.7 million mt, Tatneft down 1.8% to 15.1 million mt and Rosneft down 0.1% to 62.9 million mt.

Although the production decline has been reversed, the current run is unlikely to be sustainable as Russia's authorities seem to have little interest in increasing oil production while oil prices are low, Renaissance Capital said in a research note in late July.

The Moscow-based bank's analysts project a 1.1% fall for the full year, with declining production from mature areas and reduced capital expenditure levels to blame. Capex is set to decline across the oil industry by 15% in 2009, while it was up 29% in 2008 on the previous year, according to Renaissance Capital' estimates. Exploration and development drilling volumes declined 42% and 2%, respectively, the bank's analysts said, adding that average well-flow rates also continued to decline for the third consecutive year.

Russia's authorities have a more optimistic outlook, however, with energy minister Sergei Shmatko saying in June he expected the country's oil output in 2009 to be to equal to last year's level of about 488.1 million mt. Analysts with JP Morgan are even more optimistic, expecting that the upward trend seen in the first half of the year might result in an overall 1.2% rise in average oil output in 2009, the bank said in a research note August 3.

Despite the production rise last month, exports of Russian crude to countries outside the Commonwealth of Independent States fell 5.1% year on year to 16.369 million mt (3.85 million b/d). The country transported a total of 18.53 million mt of crude to non-CIS countries, down 4.2% on the year, including 2.016 million mt of transit crude from other countries, mainly Kazakhstan.

Oil exports to non-CIS countries through Transneft's national pipeline system stood at 16.989 million mt, down 4.4% on year. Crude exports to the CIS countries rose 2.4% to 2.804 million mt.

Crude deliveries to Russian refineries totalled 20.966 million mt in July compared with 20.648 million mt in July 2008.

Bashneft to refine for Lukoil, TNK-BP

Bashneft is to refine up to 600,000 mt per month (146,000 b/d) of Lukoil and TNK-BP's West Siberian crude in its Russian refining hub of Ufa in central Russia, in a move aimed at increasing the hub's business, Bashneft's owner, Sistema-Invest, said August 7.

Bashneft, the ninth-biggest oil producer in Russia, is a part of the so-called Bashkir Group, which also includes four refineries in Ufa.

Sistema-Invest said that it had signed one-year contracts with Lukoil and TNK-BP, though it did not provide figures for supplies by each of the two companies. The first supply of the West Siberian crude was made in August, it said.

The contracts allow Bashneft to bring the total volume of crude being refined in the Ufa hub up to around 1 million mt/month, including

Bashneft's own crude, Sistema-Invest said. Sistema-Invest is also in talks with other crude producers on possible supplies to its four refineries in Ufa to increase their throughput further, the company's general director Viktor Khoroshavtsev said. "It is likely that we will have new crude supplies in the near future," he said.

In March, Sistema president Leonid Melamed said the downstream facilities were running at 64% of total capacity, which provided additional opportunities for business growth.

Bashneft is ranked as the fifth-largest refiner in the country, handling a total of 21 million mt (420,000 b/d) last year, according to Sistema-Invest. Sistema-Invest is the management company of Russian holding company AFK Sistema, which owns the Bashkir assets.

Serbia

Srbijagas to the rescue

Serbia's natural gas operator Srbijagas is the new controlling shareholder of the country's fertilizer producer Azotara, after acquiring an 81.6% stake in exchange for unpaid debts for fuel supply, company director general Dusan Bajatovic said August 3.

"We held talks with the highest representatives of the executive branch in Serbia and we even received support from the Serbian president Boris Tadic for this [debt conversion] model," said Bajatovic. The head of Srbijagas said in a statement issued on its website that the Pancevo-based chemicals company had resumed production following the takeover.

Last month the Serbian gas operator also became the majority owner of glass manufacturer Srpska Fabrika Stakla from Paracin.

Srbijagas received a 63.62% stake in the financially crippled company in exchange for writing off the €34 million in unpaid gas bills. Srbijagas' management could soon discover it has more problems on its hands than it bargained for as the troubled glass producer has 1,700 employees and Srbijagas has agreed to keep all of them in employment.

Turkey

OMV set to raise Ofisi stake

Austria's OMV confirmed August 5 that it is in talks with Turkey's Dogan Holding to increase its shareholding in Turkey's largest fuel retailer Petrol Ofisi by acquiring all or part of its 54% stake.

OMV bought a 34% stake in Ofisi from Dogan for $1.054 billion in 2006 and assumed joint control of the company and since then has raised its stake to 42%. Dogan holds 54%, with the remaining shares traded publicly on the Istanbul Stock Exchange.

OMV has not concealed its interest in wanting to buy out the rest of Ofisi to increase its presence in Turkey, but it was reported that the Austrian company and Dogan had been unable to agree on a price. Dogan's stake is estimated to be worth around $1.2 billion.

OMV CEO Wolfgang Ruttenstorfer said August 5 that Turkey was a strategic priority for the company. "We will focus our activities on Turkey – we are in talks with our Turkish partners in Ofisi about increasing our stake, [but] the end is not quite clear, this is all we can say for the time being. Turkey is of major strategic importance to us," he said at a press conference.

In a statement earlier August 5, OMV said it wanted to "strengthen its presence in Turkey to optimize its position in markets with substantial mid- and long-term growth rates in Central and Southeastern Europe." The company stressed, though, that no deadline had been set to complete the talks: "There is no time pressure on any side; only the intention to optimize the respective portfolios".

Ofisi is the leading Turkish fuel retailer, with a market share of around 30%, comprising some 3,200 retail stations, 10 fuel terminals, 2 LPG terminals and 1 lubricant plant. In addition, Ofisi has a distribution subsidiary in Georgia and a refining subsidiary, Petrol Ofisi Akdeniz Refineri, through which it has applied for a license to construct a refinery at the Mediterranean oil hub of Ceyhan.

Ofisi also has some upstream assets, including a 27% stake in the Akcakoca gas field in Turkey's Black Sea that it purchased this year from Toreador, but a spokeswoman for Dogan said August 5 that it was unclear whether these would be part of a future deal. "It is too early to discuss details of the negotiations, but I can confirm that Dogan has no intention of selling any of its other upstream operations," she said, referring to the recently announced entry by Dogan subsidiary Dogan Enerji into two exploration and development joint ventures in northern Iraq.

Aksa to cooperate with Gazprom

Turkish energy group Aksa has signed an agreement with Gazprom to cooperate on a range of natural gas projects in Turkey. The agreement was initially announced by Turkish Prime Minister Tayip Erdogan during the August 6 visit to Ankara by Russian Prime Minister Vladimir Putin and was subsequently confirmed by Aksa chairman Cemil Kazanci in an interview with Turkey's state news agency Anatolian.

Kazanci confirmed that the agreement involved Aksa possibly importing gas directly from Gazprom rather than from Turkey's state gas importer Botas, as well as possible cooperation in the planned privatization of the gas distributors in Istanbul and Ankara and the possible establishment of an LNG export plant at Turkey's Mediterranean oil hub of Ceyhan. A gas liquefaction plant at Ceyhan would require the construction of an extension to the existing 16 billion cu m capacity Russian Blue Stream pipeline, which crosses the Black Sea and terminates close to Ankara.

Both the extension and the possible LNG plant were among the issues on which agreements were signed by Erdogan and Putin, as was the possible construction of a new gas line to be built parallel to Blue Stream, to terminate at Ceyhan.

Aksa holds a gas wholesaling license as well as distribution licenses for the regions of Balikesir, Bilecik-Bolu, Duzce-Eregli, Manisa, Canakkale, Malatya, Urfa, Ordu-Giresun, Trabzon-Rize and Van.

It also owns and operates three gas-fired power plants: the 70-MW Yalova, the 500-MW Antalya, which is currently being repowered to 757-MW with plans for a further 393-MW to be added, and the 105-MW Manisa plant, which is currently having a further 10.5 MW of capacity added. A fourth plant, the 270-MW Bolu, is currently under construction.

Ukraine

Ukraine pays for July imports

Ukraine's Prime Minister Yulia Tymoshenko said August 5 that the government had paid Gazprom in full and ahead of the payment deadline for 3.2 billion cubic metres of gas imported from Russia in July.

"Today, Ukraine has paid in full for Russia's natural gas pumped into our underground storage facilities. We have paid $605 million," Tymoshenko said at a news conference, according to a statement on the government web site. "We will continue to pay for gas on time".

Ukraine's progress with payments has been closely watched since the start of the year, as non-payment could lead to new dispute between Naftogaz and Gazprom and the further disruption of supply to the EU.

Naftogaz needs to make monthly payments within the first week of the next month to comply with a gas agreement that Tymoshenko brokered with her Russian counterpart Vladimir Putin in January.

Tymoshenko said the government paid for the July gas imports from the state budget. "This is money which the federal budget owed Naftogaz as a VAT refund," newswire RBC Ukraine quoted her as saying August 5.

Naftogaz Ukrainy, Ukraine's state gas company, tripled gas imports in July, in the process increasing the volume of gas in its storage facilities by the end of last month to 22.7 Bcm (up from 19.5 Bcm at end-May). Tymoshenko said Ukraine intends to have 27 Bcm in storage as of mid-October. Naftogaz plans to purchase 3 Bcm a month in the third quarter, Naftogaz spokesman Valentyn Zemlianskiy said July 28.

Dennis Sakva, utilities analyst at Kiev-based brokerage Dragon Capital said it was likely that the company may continue pumping gas into its 33 bcm storage facilities so as to "smoothen the impact of the expected gas price hike in Q1 2010 when the 20% price discount Ukraine negotiated for 2009 will no longer be applied".

Double boost for chemical producers

Ukraine's six major chemical producers have seen their gas prices cut by 10% with effect from August 1, and have also been granted the opportunity to buy natural gas directly from foreign suppliers, according to a government resolution signed July 30 by Prime Minister Yulia Timoshenko. As a result, Stirol, Azot Cherkasy, Odessa Portside Plant, Rivneazot, Dniproazot and Severodonetsk Azot, will henceforth pay $205 per 1,000 cubic metres on the Ukraine-Russia border.

Both decisions are aimed at improving the operating and financial performance of local nitrogen fertilizer producers which currently purchase natural gas from the state gas monopoly Naftogaz Ukrainy at $231/1'000 cu m. The price was averaged out in Q1 2009 to smooth its fluctuations from $360/1'000 cu m in Q1 2009 to $280/1'000 cu m in 2Q09, an estimated $219/1'000 cu m in Q3 2009 and $162 in Q4 2009.

The lower gas prices will also help render the chemical producers more competitive as Russian chemical producers pay $70 on average, as well as help bring down prices for the agricultural industry.

According to analysts at Dragon Capital, the lower gas prices will save the chemical producers around $26/1'000 cu m in August-September and an estimated $50-60/1'000 cu m in the fourth quarter.

Direct gas purchases from foreign suppliers will also enable the chemical companies to negotiate lower gas prices from Russian companies, Tamara Levchenko, an analyst at Dragon Capital said July 31. "Given the sharp decline in gas demand in CIS and Europe, Gazprom and other gas producers should be interested in increasing gas supplies to Ukraine even at lower gas price," she commented.

Naftogaz takes back discos

Naftogaz Ukrainy, Ukraine's state-controlled gas company, has decided to create a new subsidiary known as Naftogaz Merezhi that will operate Ukraine's gas distributing network currently rented by local gas companies. In late July, the government issued a resolution that ordered all regional gas distributors to transfer the gas distribution grids they currently operate back to Naftogaz.

Dennis Sakva, utilities analyst at Dragon Capital said the news is positive for Naftogaz as it will allow the company to manage cash flows more effectively and remove delays between payments to oblgazes by end-consumers and receipt of payments by Naftogaz as well as control investments into network modernization. He added, however, that the transfer of the gas distribution networks may be delayed due to opposition and possible legal actions by current oblgaz owners.

East European currencies, August 10, 2009

Country	Currency	$	£	€	Country	Currency	$	£	€
Albania	Lek	91.69	152.92	130.28	Macedonia	Denar	42.90	71.55	60.95
Belarus	Rouble	2823.00	4708.06	4010.92	Moldova	Leu	11.20	18.67	15.91
Bosnia Herzegovina	Marka	1.38	2.30	1.96	Poland	Zloty	2.90	4.84	4.12
Bulgaria	Lev	1.38	2.30	1.96	Romania	New Leu	2.96	4.94	4.21
Croatia	Kuna	5.16	8.61	7.34	Russia	Rouble	31.64	52.76	44.95
Czech Rep.	Koruna	18.20	30.36	25.86	Serbia	Dinar	65.73	109.61	93.38
Estonia	Kroon	11.01	18.37	15.65	Slovakia	Euro	0.70	1.17	1.00
Hungary	Forint	189.98	316.84	269.93	Slovenia	Euro	0.70	1.17	1.00
Latvia	Lats	0.49	0.82	0.70	Turkey	New Lira	1.47	2.45	2.09
Lithuania	Litas	2.43	4.05	3.45	Ukraine	Hryvnia	7.98	13.31	11.34

Source: Financial Times