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# Gas wins, CCS loses out as EC ups energy fund to €3.75 billion

The European Commission has revised its €3.5-billion ($4.44 billion) plan to support strategic energy projects (*EUE 201/12*) by upping the money available for natural gas interconnectors and cutting its funding for carbon capture and storage projects, EC energy spokesman Ferran Tarradellas said on February 19.

"The total has been increased to €3.75 billion, while the amount available for gas interconnectors has increased from €1.025 billion to €1.365 billion," said Tarradellas.

Meanwhile, the total available for carbon capture and storage projects has been cut from €1.25 billion to €1.15 billion, while the allocation for offshore wind projects remains €500 million.

The EC has cut the proposed allocation for the Nabucco gas pipeline from Turkey to the EU from €250 million to €200 million. But it has added four new gas interconnector projects: Slovakia-Poland (€20 million), Hungary-Croatia (€20 million), Bulgaria-Romania (€10 million), and the Algeria-Italy Galsi pipeline (€100 million).

There is also an extra €20 million for a Bulgaria-Greece gas interconnector (€40 million in total), an extra €10 million for expanding Czech gas storage (€35 million total), and an extra €60 million for enabling west to east gas flows (€80 million in total).

There is an extra €50 million to reinforce the French gas grid for taking gas from Africa through Spain (€200 million total), and an extra €100 million for a France-Belgium gas interconnector (€200 million total). There is €20 million for a new power interconnector project from Malta to Italy, while the allocation for small island projects has been cut

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# Sweden's Vattenfall snaps up Dutch Nuon for €8.5 billion

Swedish utility Vattenfall has made a €8.5 billion ($10.95 billion) all-cash offer for 100% of Dutch utility Nuon's shares, the companies said on February 23. The deal comes little over a month after Germany's RWE agreed to buy rival Dutch utility group Essent (*EUE 199/1*), and has been made possible by Dutch government requirements for utilities to unbundle their distribution grids. This has cleared the way for foreign takeover of the generation and supply businesses, as only the distribution grids must remain in local government hands.

Once concluded, this deal would mean the Netherlands' two biggest utilities, Nuon and Essent, have been taken over by foreign competitors.

The deal must still be approved by Nuon's shareholders and Dutch authorities. Under the deal, Vattenfall would initially acquire 49% of Nuon's shares, with the remaining 51% to be bought over the next six years under fixed terms.

"Following the initial acquisition of 49%, Vattenfall will have operational control over Nuon," a statement from the two companies said, adding that "a foundation will be set up to monitor and safeguard the public interests served by Nuon." It said the transaction is expected to close by the end of the second quarter of 2009.

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## Enel, Acciona agree terms of Endesa sale

Italy's Enel is poised to up its ownership of Spanish utility Endesa to 92% after reaching an agreement with Acciona, the Spanish construction group which currently owns 25% of the company. Enel currently owns 67% of the Spanish utility.

Acciona confirmed on February 20 that it would be selling its stake for €11.107 billion ($14.259 billion).

The deal, which works out at €41.95/share, entails a all-cash payment of €8.218 billion. Acciona, in turn will acquire 2,105 MW of Endesa-owned renewable energy installations in Spain and Portugal valued at €2.890 billion, said Acciona.

Enel is buying the stake under the terms of the option it took when it took joint control of the utility with Acciona in October 2007.

"We're in the final discussions" a senior source at Acciona told Platts on February 20.

But the deal has a number of conditions: one is that Enel has to pay in cash and renewable energy assets.

More specifically, Acciona is set to gain 42 wind farms in Spain totalling 1,154 MW, 17 wind farms in Portugal totalling 94 MW, 39 standard hydroelectric stations in Spain totalling 682 MW and 27 mini hydro units in Spain totalling 175 MW. The package includes 10 wind farms being built – eight totalling 192 MW in Spain and two totalling 6 MW in Portugal.

Enel has got credit in place to finance the cash element, according to investment bank JP Morgan.

But at the eleventh hour Acciona added a final condition: that the construction company would have a right to undertake civil engineering contracts for Endesa up to a value of €3 billion, the Acciona source told plats

"The deal is going ahead, but its going to be complicated", the source said.

The transaction remains subject to the approval of Spanish and Portuguese regulators.

But both the Spanish government and the regulator, Comision Nacional de Energia have said they "won't oppose" the deal, despite their earlier resistance to a hostile takeover of Endesa by Germany's E.ON in early 2007.

Aciona, through 100%-owned renewables affiliate Acciona Energia, has more than 3,590 MW of net capacity, with wind installations accounting for about 3,285 MW of which 2,495 MW is in Spain and 790 MW in other countries, including 148 MW in Germany, 71 MW in Italy, 37 MW in Greece, 26 MW in Portugal and 11 MW in Hungary. Solar units total 103 MW, mini-hydro stations 59 MW, biomass plants 33 MW and combined heat and power plants 100 MW.

It said that the 2,105 MW of renewable energy assets being acquired from Endesa would be rolled into Acciona Energia, resulting in the formation of the world's second- largest renewable company, with 6,516 MW of gross capacity. First-ranked Iberdrola Renovables has 8,487 MW and third-ranked Florida Power & Light has 5,884 MW.

## Spain clears Union Fenosa takeover by Gas Natural

Spain's National Competition Commission has cleared Gas Natural's proposed takeover of Spanish power producer Union Fenosa, the government watchdog disclosed late on February 12.

The agency said it based its decision on commitments made by the Barcelona-based gas utility to divest various gas sector and power sector assets and maintain an arm's length relation with certain Union Fenosa energy holdings.

More specifically, Gas Natural has agreed to sell various gas distribution networks with a total customer base of around 600,000 users, representing about 9% of domestic demand, and 2,000 MW of operational gas-fired, combined-cycle plants.

Additionally, Gas Natural is to sell its 5% stake in Spanish gas grid owner-operator Enagas; not participate in management decisions relating to Spanish petroleum Cepsa, 5%-owned by Union Fenosa; and guarantee the independence of Union Fenosa Gas, which is 50%-owned by the takeover target and 50%-owned by ENI of Italy.

Gas Natural said approval of the operation by the competition watchdog will allow it to proceed with the takeover more or less as scheduled, with finalization expected by the end of April.

As a step in the process, a special shareholders meeting has been set for March 10 to vote on a planned €3.5 billion ($4.45 billion) share capital expansion to help fund the transaction.

The proposed funding plan would be carried out in conjunction with the pending offer for all outstanding shares in the target company.

Gas Natural said the cash raised would be used to pay down a €18.260 billion bank loan that had been secured in July to cover the cost of the takeover.

The company acquired an initial 9.9% stake in Union Fenosa from Spanish construction company ACS in mid-2008 and made a commitment to buy the remaining 35.3% held by ACS.

Subsequently, Gas Natural struck deals to purchase various Fenosa stakes totaling 12.87% from three financial institutions.

For its part, ACS has repeatedly said it wanted to sell its Fenosa stake so that it could strengthen its presence in power producer Iberdrola, in which it holds around 13% directly and indirectly.

## EU antitrust commission focuses drive on 'key bottlenecks'

The European Commission's antitrust department has based its decisions on which cases to pursue on the difference that a solution would make to the market, a spokesman said on February 19. It focused its efforts on companies whose market behavior could be creating major bottlenecks, he added.

Frank Maier-Rigaud, of the European Commission's directorate-general for competition, told an IP Week natural gas session in London that the difficulty his team faced was deciding which competition cases were priorities, rather than in unearthing possible infringements.

The team decided that removing bottlenecks along the supply chain would make the biggest difference, he said.

Italian Eni, France's Gaz de France and Germany's RWE are among the companies being investigated for behavior that hindered market developments. This included strategic underinvestment; devising auctions that killed interest in capacity; and high balancing costs and inflated network costs.

These cases occur when a supplier also owns the network through which the gas or electricity must flow, and the European Commission has attempted, with two directives, and now its third package, to force through unbundling.

But to its frustration, the council of ministers and the European parliament have opposed this. He said it was regrettable, but clearly the council and parliament were in the "driving seat."

One company, RWE, has announced it is selling off its gas network while not admitting any anti-competitive behavior, to forestall lengthy litigation.

Sharing the platform was the head of Dutch gas transporter Gasunie – one of the very few European energy companies to unbundle. Marcel Kramer's view was that regulation had not done enough so far, and there was a risk that consumers could spend money on bureaucracy without getting any extra gas.

Regulation was needed, he said, but governments had to decide whether they wanted an EU energy policy or not. "We will have to see a few more cold winters before we get there," he said.

In the meantime, he said it was "for the market to act, and while some projects might need prodding along by governments, what was not wanted was for governments to fund projects of dubious value. Initiatives to subsidize projects without a commercial basis were a hazardous way of spending government money," he said.

## Financial crisis, construction woes may hurt nuke revival: study

The political climate and external conditions for new nuclear power plants may be more favorable now than at any time in the past several decades, but problems with a plant now under construction and the global financial crisis could deal the industry a setback, University of Greenwich Professor Stephen Thomas said on February 11.

The current nuclear renaissance has much greater government backing than previous prospective nuclear revivals and the external factors, such as volatile fossil fuel prices, the need to act on climate change and the geopolitical situation are as favorable as they are likely to get [for new nuclear], Thomas said on February 11 in a paper released at a conference in Washington.

But Thomas and co-author David Hall wrote that the Areva EPR reactor being built for Finland utility TVO remains "the marker for the industry."

The turnkey reactor project is three years behind schedule and 50% over budget. "At best, if there are no more delays and cost overruns, it will be a warning to potential investors, but if things keep going wrong and TVO fails financially, the ability to finance any nuclear project will be put in doubt," Thomas and Hall wrote.

The paper on the financial crisis and nuclear power was released at the "Costing Nuclear Power's Future" conference co-hosted by the Nonproliferation Policy Education Center and Carnegie Endowment for International Peace.

"Even before the scale of the impact of the financial crisis began to be appreciated the cracks in the nuclear renaissance were becoming clear," the authors said. "The [reactor] designs were unproven; costs were escalating sharply; obtaining finance was problematic; and [there were] skills shortages and component supply bottle-necks. The financial crisis has done nothing to lessen these concerns," the authors said.

## Prague to host Caspian gas summit May 7: diplomat

The EU's Czech presidency is inviting Kazakhstan and Turkmenistan to a conference in Prague on 7 May at which Caspian producers and transit countries will consider ways of developing natural gas transit through the southern Caucasus to the European Union.

Vaclav Bartuska, the Czech Foreign Ministry's ambassador-at-large for energy security, said in an interview that the focus would be on developing what the EU terms the 'Southern Corridor' both as a transit route for energy and as a commercial highway to link the Caspian with the EU.

A major theme will be the future of Caspian input into the planned €7.9 billion ($10.2 billion), 31 billion cu meters/year capacity Nabucco pipeline from Turkey to Austria by means of the existing South Caucasus Pipeline (SCP) from Azerbaijan to Turkey, and a possible trans-Caspian gas pipeline from Turkmenistan to the SCP terminal near Baku.

"Our prime minister has said we are very committed to getting consensus and full scale agreement on Nabucco. We are now trying to get initial funding. It would be nice if we could make an announcement at the Southern Corridor summit," Bartuska said.

The gathering in Prague will start in the morning as the regularly scheduled Eastern Partnership Summit in which the EU will discuss political ties and development programs with the six members of this program: Ukraine, Belarus, Moldova and the three Caucasus states of Georgia, Armenia and Azerbaijan.

In the afternoon, it becomes what Bartuska terms