

# Heating January 2010



International Market Strategy

## Topics

Czech Republic	European Concerns Over the Czech Energy Sector
Czech Republic	RWE Group Will Not Sell Czech Unit
Europe	Stainless Welded Tube Prices Still Decreasing
Germany	BOSCH to Acquire KÖHLER & ZIEGLER ANAGENTECHNIK
Germany	VISSMANN Binding Offer
Romania	TRANSGAZ's NABUCCO Guarantee
Russia	Steel Demand Forecast To Grow In 2010
Turkey	Investment opportunities in Turkish Renewables
United Kingdom	VAILLANT's ecoTEC Boiler Range
Vietnam	Government Promotes Solar Water Heaters

## Czech Republic: European Concerns Over the Czech Energy Sector

The division of the Czech energy market has caught the attention of Brussels. The exchange of electricity, coal and heating assets worth billions of Czech Crowns (CZK) between the state-owned energy giant ČEZ and Energetický a průmyslový holding (EPH), in which the financial groups J&T and PPF both have 40% stake, prompted inspectors from the European Commission to fly into Prague unannounced.

The interim government of Jan Fischer is considering raising or even abolishing coal mining quotas in northern Bohemia and announced that securing sufficient coal supplies for municipal heating units (suppliers of central heating to apartment blocks and public buildings) is a state priority. Despite amendments agreed on 24<sup>th</sup> November over delivery of Russian gas to Ukraine, concerns remain about the reliability of Russian gas supplies to the Czech Republic this winter.

Having gained a virtual monopoly on power generation and electricity distribution on the Czech market, ČEZ now has its sights set on taking control of the municipal heating sector.

ČEZ has decided to invest over CZK 20 billion (€775 million) into the sector, which is set to make it the dominant heating supplier in the country. The company took a major step in this direction through the purchase of a 15 percent stake in DALKIA Česká Republika for CZK 6.3 billion and 85% stake in the municipal heat supplier in Ústí nad Labem, North Bohemia, previously owned by DALKIA Česká republika, for CZK 6.3 billion. As a result, ČEZ now controls the coal power station and a smaller gas-powered steam turbine power plant in Trmice, near Ústí nad Labem and has taken over DALKIA as the largest single player on the heat supply market.

Elsewhere, ČEZ has agreed with the EPH to purchase 50% of its stake in the Prague heating supplier Pražská Teplárenská and Energotrans in Mělník, which J&T recently acquired from the British firm International Power Opatovice. According to Reuters, ČEZ lent J&T around CZK 15 billion to acquire these assets. The acquisition of the power stations must, however, be approved by the Czech anti-monopoly office (ÚOHS) and ČEZ is currently preparing its application.

Nevertheless, according to the Energy Regulation Office (ERÚ)—the state's energy market watchdog—following ČEZ's takeover of DALKIA assets, it will supply 18 million GJ of heat annually, which is more than any other supplier. This figure does not include the output of Pražská teplárenská, in which ČEZ is set to take a 50% stake.

European Commission's spokesman in the Czech Republic, Martin Stašek, gave a more detailed explanation for the EC inspection. "The commission has reason to believe actions carried out by ČEZ alone or together with other participants could have led to a significant violation of the Czech wholesale energy market and the strengthening of ČEZ's position on that market. Apparently illegal deals could imply the exclusion [from the market] of competition and a rise in prices on the wholesale market.

If it is found to have broken EU competition rules, ČEZ could face a fine of up to 10% of its turnover for 2009 around CZK 18 to 20 billion.

ČEZ shares fell by 2.5% on the day following the inspectors' raid, depreciating by around CZK12 billion. For its part, ČEZ claims that it views the inspection as a logical consequence of its impressive growth in recent years and says that it is convinced that all its dealings on the electricity market are in



line with the EU regulations.

Source: [www.cez.cz](http://www.cez.cz)

## Czech Republic: RWE Group Will Not Sell Czech Unit

The German gas group RWE will not sell its Czech subsidiary RWE TRANSGAS NET which owns the backbone gas pipeline network in the Czech Republic, but will have to fundamentally change its entrepreneurial structure in the country. RWE will have to make changes owing to the third energy legislative package which will take effect as of March 2011, which simplifies the separation of transmission and transport network operators from gas production and suppliers.

RWE can either sell RWE TRANSGAS NET to another owner or let the company be managed by an independent operator. The company does not think about the sale of RWE TRANSGAS NET. They consider the alternative of an independent operator as the most suitable, also regarding safeguards against potential energy security risks, for the Czech Republic.

The state is against the sale of RWE TRANSGAS NET, because of concerns that a Russian gas company could buy the firm, which would quite certainly increase the Czech Republic's energy dependence on Russia.

Nevertheless, if RWE intends to RWE TRANSGAS NET, the company will have to fulfil several tough conditions, including finding an independent operator to manage the company.

Companies operating backbone networks for energy transmission (gas as well as electricity companies), will have to submit ten-year plans for the development of energy infrastructure to the energy regulator (ERÚ) as of March 2011.

Source: [www.cbw.cz](http://www.cbw.cz)

## Europe: Stainless Welded Tube Prices Still Decreasing

Commodity welded stainless tube prices have been slipping over the past weeks in Europe, and are likely to decline further into early 2010. Tube size seems to make very little difference to the overall poor market sentiment.

Discounts on yardstick prices declined through November, with TIG-welded tube now available in southern Europe at a discount of 45% or more, and high frequency product are marked down by 48%. According to North European buyer discounts of more than 55% can also be achieved. Prices of higher quality tube are regarded to be more stable.

Source: [www.bbsteel.com](http://www.bbsteel.com)

## Germany: BOSCH to Acquire KÖHLER & ZIEGLER ANAGENTECHNIK

BOSCH THERMOTECHNIK has signed an agreement to acquire all shares of KÖHLER & ZIEGLER ANAGENTECHNIK GmbH, a manufacturer of combined heat and power (CHP) plants. Both companies are based in Germany. The transaction is subject to anti-trust approval, while the parties have agreed not to disclose the purchase price.

Employing roughly 130 people in Lollar, KÖHLER & ZIEGLER generated sales revenues of some €17 million in 2008. The company is a technology leader in combined heat and power plants that generate between 20 kW and 2 MW. These plants use combined heat and power to generate heat and electricity highly efficiently, achieving a gross efficiency of over 90%. These are mainly used to supply buildings with heat and power, to generate heat for industrial processes, as well as in district heating networks and can also be operated with renewable energy resources such as biogas.

KÖHLER & ZIEGLER has supplied the BOSCH THERMOTECHNOLOGY brand BUDERUS with small and medium-sized CHP plants since 2008. The acquisition will add larger plants as well as container construction, (especially for biogas plants), to BOSCH's product range.

Source: Financial Deals Tracker

## Germany: VIESSMANN Binding Offer

VIESSMANN submitted a binding, notarially certified offer for the purchase of SCHMACK BIOGAS from the interim insolvency administrator. The parties are in agreement that following the opening of insolvency proceedings, major assets from the SCHMACK BIOGAS GROUP's operational business will be transferred to the VIESSMANN GROUP as part of an asset deal. The committee of creditors has already agreed to the purchase with effect from 1<sup>st</sup> January 2010.

Source: [www.equitystoreys.com](http://www.equitystoreys.com)

## Romania: TRANSGAZ's NABUCCO Guarantee

The Romanian government has said that the state will guarantee the state-controlled gas pipeline operator TRANSGAZ MEDIAS (TGN.RO) contribution to the NABUCCO project, which requires an investment of €417 million.

Romania's government approved a draft law ratifying the agreement signed in July between Romania, Austria, Hungary, Turkey and Bulgaria regarding the construction of the NABUCCO pipeline. The draft law has been sent to parliament as a priority. The NABUCCO pipeline, (estimated to cost at around €8 billion), is scheduled to deliver approximately 31 billion m<sup>3</sup> of gas annually from the Caspian Sea to Central Europe via Turkey and Romania. About 70% of the investment is to be financed with loans from the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).

Source: [www.cbw.cz](http://www.cbw.cz)

## Russia: Steel Demand Forecast To Grow In 2010

Positive dynamics in both Russian domestic and export markets in Q3 2009 indicate that the steel demand will be up in 2010.

With Russia's Q3 2009 steel production at 6.3 million tonnes and an 80% capacity utilisation rate, Q4 capacity utilisation levels were even higher, at 90%. Russian commercial slab output increased by 42% quarter-on-quarter, prompted by rising production levels at ZapSib (EVRAZ) and Severstal, partly due to exports to the Middle East and the South.

Source: [www.steelbb.com](http://www.steelbb.com)

## Turkey: Investment opportunities in Turkish Renewables

The financial crunch has taken a toll on Turkey's blossoming renewable energy resource market in 2009, but experts say that next year will bring a clear revamp of the industry.

For a country with roughly 80 million inhabitants, a young population and an increasingly stable democratic regime, Turkey has naturally become a target for financial investors over the last decade. This has been reflected on the energy market as well. Official figures show that, with a per capita consumption of 2.72 GWh per year, which lags behind the European Union (EU)-25 average, the Turkish electricity market represents one of the most promising markets in Europe in terms of growth potential for the years to come.

Currently, some 35% of energy generation in Turkey comes from natural gas, followed by hydropower with 33%.

With its climate and topography, Turkey represents an attractive geography for wind energy investments. The Marmara, Aegean and Eastern Mediterranean regions have high economic potential for wind power generation. Given the grid infrastructure constraints, however, the highest feasible wind-power generation capacity is estimated at 20 GW, which has been also set as the target capacity to attain by 2023.

According to the solar energy potential atlas of Turkey, an area of 4,600 km<sup>2</sup> is feasible for investment in solar applications, with a technical power generation capacity of 380,000 GWh per annum, equivalent to an output of roughly c.56 GW natural-gas fired capacity. This potential out of a total insolation of 2,640 hours per annum puts Turkey second in Europe.

For the period 2009-2017, it is estimated that some €23.7 billion of investment is required for electricity generation activities in Turkey, depending on the increase in electricity demand. In parallel with the high increases in electricity demand—about 8% annually—the electricity sector has the capacity to attract more investment.

Source: Norton Rose

## United Kingdom: VAILLANT's ecoTEC Boiler Range

VAILLANT's commitment to reducing energy consumption and carbon emissions has been reinforced by an endorsement by the ENERGY SAVING TRUST (EST) across its entire ecoTEC boiler range. This applies to 20 natural gas and 13 LPG boilers, including the ecoTEC exclusive, ecoTEC plus, ecoTEC plus 937, ecoTEC pro and ecoTEC commercial range.

Source: [www.vaillant.co.uk](http://www.vaillant.co.uk)



## Vietnam: Government Promotes Solar Water Heaters

The Ministry of Industry and Trade (MoIT) and Electricity of Vietnam (EVN) have started a campaign to encourage the use of solar energy for water heating in central Vietnam and the Central Highlands. This follows the success of solar hot-water systems in southern Vietnam in recent years where more than 20,000 are reported to have been installed.

The new campaign, launched in the central city of Da Nang, is part of a national programme to conserve energy. It aims to reduce the total amount of energy produced by stations powered by water and oil by 5-8% within five or six years. If it is successful, the Government will promote solar heating in the north of the country, but normally cloudy weather will limit its usage in winter.

The introduction of solar water heaters is expected to help reduce the overloading on regional hydro-power plants.

A family solar water heating system cost around VND5-6 million (US\$280-330) and could lead to yearly savings of more than 800kWh of electricity, equivalent to \$50. For houses under construction, the cost of solar installation is much cheaper than installing electric water heaters.

The success of this programme depends on Government subsidies to lower the cost of heaters. About 20,000 new solar water heaters were installed last year in the country, mostly in the south. About 3,000 were partly subsidised by the Government.

Source: Asia Pulse Pty Ltd.