Heating August 2008

International Market Strategy

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Czech Republic: CEZ succeeded in Tureky

CEZ Power company in consortium with a local Turkish partner has succeeded in auction of the distribution company Seadas.

It represents important progress of CEZ's foreign expansion and it is positive new for their clients who will surely appreciate connection to a strong local partner.

Owing to the success in the tender, the company Akenerji Elektrik Uretim A. S., its parent company Akkok Sanayi Yatirim in Gelistrime A. S. and CEZ will establish a joint venture called ' AkCez OGG'. CEZ the Czech power company should account for 50% of the authorised capital , Akenerji for 45% and its parent company, Akkok, for 5%.

Annually, the region of Sakarya (Sedas) supplies 1.3 million customers with nearly 8TWh of electricity, while 50% of the customers are industrial customers. Turkey, with its 70 million inhabitants, is comparable to entire central Europe. In 2006 the country consumed roughly 170 TWh of electrical energy. The Turkish economy, and consequently its electricity consumption, has been growing at a very fast pace. A yearly increase in electricity consumption reaches approximately 8 -9%, while the increases in European countries are usually about 2-3%.

Moreover, experts anticipate further growth in electricity consumption due to very low consumption per capita at present, which represents a quarter of the EU average. Other factors of the anticipated dynamic growth in consumption are, among others, fast urbanization, growing population, with a significantly higher number of young people, when the average age of Turkish population is 27.3 compared to 38.5 in EU countries, and apparently the economic growth. According to experts, by 2020 the country needs to build power plants with the installed capacity of approximately 50,000 MW to cover the rising demand for electricity.

Source: www.cez.cz

Europe: European Parliament backs liberalisation of EU gas market

The European Parliament (EP) voted in the second week of July in support of the full liberalisation of the European gas markets through "full ownership unbundling" (the separation of gas suppliers from gas transmission networks). This will be of interest to stakeholders in the EU's gas sectors.

The EP rejected the previously proposed "independent system operator" ('ISO') option (which preserved integrated supply and transmission companies, provided that an independent system operator operated the transmission network) but endorsed the "independent transmission operator" ('ITO') model (which would allow companies to retain the ownership of pipelines but compel them to abide by rules and a structure designed to ensure the TSO's operational independence) as the sole alternative option to ownership unbundling, which had been endorsed earlier at a Council meeting held on 6 June.

Source: www.law-now.com

Europe: Death of the old standby mode? – Eco-design directive kicks In

On 8 July 2008, the European Commission proposed the first implementing measure of the Eco-design Directive (Directive 2005/32/EC). This covers standby in electrical and electronic household and office equipment (which is defined by reference to an Annex and includes a non-exhaustive list of devices, such as washing machines, electric ovens, toasters, hair dryers, televisions, audio equipment, sports equipment, toys, computers and printers). Under the Eco-design Directive, energy consumption and environment impacts of energy-using products are to be reviewed and reduced where appropriate through implementing measures. It is not surprising that standby mode was under close scrutiny. This first Regulation follows a series of studies and consultations. If accepted by the European Parliament, the Regulation will set standards that, in turn, will fix maximum power consumption for standby mode across a range of products – from large household goods to computer equipment and consumer electronics. The proposed Regulation will only apply to new products which are sold in the EU for the first time after the implementation of the proposed Regulation, including such equipment manufactured outside the EU and imported into the EU after the implementation date.

Source: www.law-now.com

Europe: Microgeneration: Power to the people?

Households and neighbourhoods feeding small-scale electricity and heat into a decentralised European energy grid: this is the vision developed by proponents of microgeneration. Yet at present, the EU's energy system remains centralised and dominated by large power plants.

The term 'microgeneration' refers to an array of small and medium-sized generators of electricity, including solar, wind, hydro, biomass and waste. Also included in the scope of microgeneration are combined heat and power (CHP) or cogeneration facilities, which feed the heat produced during electricity generation either directly into homes or into a local district heat and power network.

Proponents of microgeneration (also known as distributed or decentralised generation) argue that a decentralised energy market is a prerequisite for achieving the EU's renewable energy and energy efficiency goals. But they lament that significant obstacles block their ability to compete with larger power producers. In October 2008, Parliament has to decide about plenary and possible adoption of renewables proposals by agreement at first reading.

In addition, EU member states have different rules in place governing grid access for smaller producers, which the microgeneration industry says acts as a barrier to the development of an EU-wide market for small-scale power generation. At the moment, the EU's microgeneration market remains rather small.

There is no European strategy for microgeneration as such, nor are there specific Commission proposals on the issue.

Rather, microgeneration is bundled together with a number of measures related to the creation of a European energy policy, including a directive on cogeneration and recent proposals on renewable energies and energy market liberalisation.

Combined, these proposals are designed to make the EU's energy system more flexible, meaning better able to integrate power inputs both from large facilities and small producers like households, while making the energy market more competitive and fair.

The Commission's proposals on renewable energies particularly seek to facilitate grid access for small power generators. Welcomed by the renewable energy industry, these provisions could be reinforced by Luxembourg's Green MEP Claude Turmes, Parliament's rapporteur on the renewables dossier, who is introducing amendments to strengthen grid access even further

Source: www.euractiv.com

Europe: Strong growth abroad

Kingfisher announces a sales increase of 8% for the full 2007/08 business year, which is driven by the group's international operations.

Kingfisher meanwhile achieves more than half of its sales outside the United Kingdom, which resulted in a sales increase of 8% in constant currency to £ 9.364 bn (€ 13.552 bn) for the 2007/08 financial year, while like-for-like growth came to 2.6% on the previous year.

In the United Kingdom B&Q achieved a like-for-like sales increase (+0.6%) for the first time in three years. Sales came to £ 3.9 bn (€ 5.644 bn) overall, which amounts to growth of 2.7%.

The DIY retailers in France experienced positive development. The group announces sales growth at Castorama of 4.1% to £ 1.7 bn (€ 2.460 bn), or 3.7% like-for-like. Brico Dépôt's sales of £ 1.5 bn (€ 2.171 bn) put it 11.4% ahead of the previous year. Like-for-like growth was just 1.4%, which the group explains by its decision to open new stores in catchment areas that are already occupied. Eight new stores were opened altogether, including three converted Castorama outlets.

In the rest of Europe Kingfisher opened 17 new stores in six countries: seven in Poland, five in Turkey, two each in Russia and Italy, and one in Spain.

The DIY retail business developed extremely positively for the group in Poland: the Castorama stores grew sales by 31.1 per cent to £ 703 mio (€ 1.017 bn), and recorded an increase of 22.5% like-for-like. Among the seven newly opened stores there is a Brico Dépôt, the second in this format, which is geared for commercial customers.

Sales in Italy tended downward. They came to £ 314 mio (€ 454 mio), which amounts to a decline of 1.2%, or 2.4% like-for-like. The number of stores went up to 28 after one new opening.

Kingfisher announces the opening of one new B&Q in Ireland in the first six months, as well as sales growth of 6.8%. Expansion continued in Spain with the opening of a new Brico Dépôt store, and in Russia as well, where two Castorama stores were launched. Kingfisher reports a doubling of sales for the five stores in Russia over the previous year, and like-for-like growth of 25.6%.

The group announces the continuing strong growth of sales and profits for Koçtas in Turkey, in which Kingfisher has a 50% stake. The number of stores there rose from five to 15.

Operations in Asia underwent restructuring. Kingfisher sold its 50% stake in B&Q in Taiwan to its joint venture partner Test Rite at the beginning of January 2008, and the two trial stores in Korea were closed down at the end of 2007.

Source: www.diyglobal.com

France: Brussels unperturbed by new national energy giant

The merger of French energy companies Gaz de France and Suez has created a new national 'champion', triggering accusations of protectionism from some of the country's neighbours. But the Commission expects the new giant to respect its obligations under EU competition law.

On 22 July, GDF Suez appeared as a listed company on global stock markets as the new third largest gas and power provider in the world.

The French government, with an 80% share in GDF, will remain a majority shareholder in the new company, which many consider to be essential for the country's energy security.

But the merger has raised concerns in France about impending job losses and higher energy prices. It also comes at a potentially awkward moment for Brussels, where plans to further liberalise the EU's energy market were put forward in September 2007. Currently the subject of a heated debate between Council and Parliament, the so-called 'third energy liberalisation package' is designed to increase cross-border competition in the Union's electricity and gas sectors while lowering prices for consumers. But the Commission is downplaying fears that the merger will lead to anti-competitive behaviour.

The merger was the subject of an in-depth investigation by the Commission's competition authorities which, in November 2006, approved the deal under the condition that the companies sign up to stipulations to prevent market abuse.

Despite the EU executive's stamp of approval, the swift conclusion of the merger agreement by former French Prime Minister Dominique de Villepin earlier in 2006 led to accusations of French "economic patriotism" by Rome, after the Italian energy giant Enel's bid for Suez was countered by state-backed GDF.

Source: www.euractive.com

Germany: Germany plans 30 new offshore wind projects

Germany's Parliament and Federal Council recently passed a new Renewable Energy Act (Erneuerbare-Energien-Gesetz – "EEG"), which aims to increase the amount of power generated by renewable energy sources to at least 30% by 2020 from the current 14%. This is in line with the German government's overall commitment to reduce CO_2 emissions to 40% below 1990 levels, by 2020. The new EEG will come into force by 1st January 2009. This will be of interest to energy companies, investors and developers both in Germany and abroad.

Pursuant to an announcement made on 6th July, the German transport minister unveiled plans to build 30 new offshore wind farms to meet the country's renewable energy targets, with a total of 2,000 wind turbines being built in the North Sea and the Baltic Sea. This would provide 11,000 MW of electricity, with the first wind farm to be erected off Borkum Island in the North Sea.

Earlier this year, we reported on the key measures set out in the new EEG. The current tariffs for offshore wind stand at 3.5 Euro cents per kWh for 20 years plus the remainder of the year of commissioning. Pursuant to the EEG, the increased tariff for the first 12 years is 13 Euro cents per kWh respectively 15 Euro cents per kWh for wind turbines commissioned prior to 31 December 2015. If the distance of the project to shore is in excess of 12 nautical miles and the water depth exceeds 20 metres, the 12 –year period will be extended by 0.5 months for each additional nautical mile and by 1.7 months for each full metre exceeding 20 metres.

As reported previously, following the expiry of the 12-year period (as may be extended), electricity generated from offshore wind farms would continue to attract a guaranteed feed-in tariff of 3.5 Euro cents per kWh for a further 8-year period but developers will be authorised to profit from higher market tariffs by opting out of the EEG-tariffs and selling the electricity on the market. The right to exercise such option is subject to certain conditions and can only be exercised for full months.

The passing of the EEG coincides with various EU-wide initiatives aiming to boost investment into offshore wind, not least the UK government's announcement of intending to spend £100 billion (US $200 billion) on renewables projects in the forthcoming 12 years, with offshore wind expected to take the central role in this. The UK government, via the Crown Estate, also launched Round 3 of its offshore wind-licensing programme on 4 June 2008, which aims to deliver up to 25GW of additional offshore wind energy generation capacity in the UK by 2020.

Source: www.law-now.com

Hungary: Hungarian oil group MOL MOLB.BU has bought all the shares of I&C ENERGO

Hungarian oil group MOL MOLB. BU has bought all the shares of Czech engineering and system integration company I&C ENERGO a.s. from Czech utility CEZ. Purchasing a full control in I&C ENERGO will enable MOL to acquire an excellent technological knowledge base in the field of power generation and transmission. This will enable MOL to accelerate building up power business and provide MOL with internal engineering know how capabilities.

MOL did not disclose financial details of the deal. It said I&C ENERGO had revenues of €58.1 million last year and its earnings before tax and depreciation (EBITDA) exceeded €4.8 million.

Last month a MOL-CEZ joint venture to invest in gas-fired power plants received competition clearance. CEZ has supported MOL in a fight with Austria's OMV which last year made an unsolicited bid for MOL. MOL's board rejected the proposal.

MOL shares closed at 20,060 forints ($ 131.7), down by forints.

Source: www.idnes.cz

Poland: PGNiG plans gas pipeline from Germany by 2010

Polish gas monopoly PGNiG PGNI.WA may build a gas pipeline from Germany to boost its position in supply talks with Gazprom GAZP.RTS.

The pipeline would be ready by 2010 and be capable of receiving 1.5 billion cubic meters of natural gas annually.

Poland's current supply contract with RosUkrEnergo, the gas trading company owned by Gazprom, runs out in 2010. TPGNiG do not want to give up deliveries from RosUkrEnergo but there are no guarantees that they will be extended.

In 2006 PGNiG signed a last-minute deal with RosUkrEnergo which extended natural gas supplies to Poland until 2010, but it had to agree to a 10% hike in prices.

Poland used 13.6 billion cubic meters of gas in 2007, out of which 6.2 billion was imported from Russia.

Source: www.zoznam.sk

Poland: Poland witnesses a rapid growth in solar panels production

Poland witnesses a rapid growth in solar panels production. Not only companies but also individual customers are interested in installing solar panels on the roof of their houses.

In the face of the fast growing interest, solar panel manufacturers are expanding production of these environment-friendly devices and developing distribution systems all over the country. The growth in solar panel interest is to a large extent determined by the rising prices of electricity. “Rzeczpospolita” informs that even despite the fact that the cost of the simplest installation of a solar collector ranges from PLN 6,000 to 10,000, the investment pays off in the form of saving on electricity spending.

The three biggest manufacturers of solar panels in Poland (Watt, Hewalex and Aparel-Ergom), plan to expand production for domestic market by at least 30%. Production destined for export to Western Europe, Estonian and Latvia is also to be maintained. The producers count on orders from institutions, offices and schools which are expected to decide to invest in thermo-modernisation using EU funds.

Source: Polish Information and Foreign Investment Agency.

Russia: E.ON building world's biggest power plant in Russia

Germany's E.ON began building two 400 megawatt turbines at a power station in Russia's oil heartland which, when completed, would make it the largest station in the world. The construction is part of a 76 billion rouble ($3.29 billion) investment programme that Germany's E.ON plans to carry out at its newly acquired Russian company, OGK-4 .

The construction of two combined cycle gas turbines (CCGT) will cost 19 billion roubles ($821.8 million) and is being carried out by General Electric in partnership with Turkish engineering firm Gama.

When the construction of the two turbines is finished, Surgut Power Station No. 2 will have a total capacity of 5.6 gigawatts, OGK-4 said. The power station is located in the oil-rich region of Khanty-Mansiisk, and the city of Surgut is home to Surgutneftegas, Russia's fourth-largest oil company.

Russian power generation and grid firms plan to invest over $100 billion in new infrastructure in the next few years, an important part of Russia's overall plan to spend up to $1 trillion on all infrastructure projects in the next decade.

Source: www.reuters.com

Russia: Gazprom sends Ukraine new warning over gas price

Russian gas export monopoly Gazprom informed that its gas import bill for gas purchases from Central Asia may more than double next year, sending yet another price warning to Ukraine.

Gazprom, the world's largest gas producer, imports gas from ex-Soviet republics of Turkmenistan, Kazakhstan and Uzbekistan to meet growing demand at home and abroad. Ukraine heavily relies on purchases of Central Asian gas from Gazprom.

The European Union gets about a quarter of its gas from Russia, and 80% of that is shipped across Ukraine. In 2006, a pricing dispute between Ukraine and Gazprom led to brief supply cuts to the European Union, sparking a barrage of political complaints.

"As far as gas prices are concerned, the situation for end users is becoming quite dramatic," Russian agencies and state television channels quoted Gazprom's Chief Executive Alexei Miller as telling Prime Minister Vladimir Putin.

Miller has repeated his view that Gazprom's export prices in Europe will reach $500 per 1,000 cubic metres compared with $400 now as they follow record high oil prices with a lag of six to nine months.

Miller has said that if oil prices were to hit $250 per barrel, gas prices would hit $1,000.

Many analysts and oil executives have already described Miller's predictions as apocalyptic and warned against attempts to talk oil and gas prices up.

Russia holds the key to Central Asian gas shipments as the countries have no pipeline alternatives.

Source: www.idnes.cz

South Africa: ArcelorMittal SA to increase production at plant

ArcelorMittal South Africa, a unit of steel giant ArcelorMittal, is aiming to increase production at its Newcastle plant by the fourth quarter of 2008.

Recent refurbishment to the plant, which cost around 300 million rand ($38.55 million), is expected to increase production.

"ArcelorMittal South Africa aims to produce 5,132 tonnes per day by the fourth quarter of 2008, up from the pre-reline current 4,660 tons per day," the company said in a statement.

The steel firm added that it expects production to increase by a further 5,440 tonnes per day by the end of 2008.

ArcelorMittal said the repairs will extend operations at the plant until 2011, when it will begin a 20 billion rand expansion project at the sinter plant.

Source: www.thomsonreuters.com

Spain: Repsol in talks with Rosneft on Sakhalin stake

Spanish oil company Repsol is in talks with Russian oil major Rosneft ROSNM.MM about taking a 24% stake in the Sakhalin-III oil and gas fields.

In a regulatory filing, the company said the stake would be worth $64 million, based on estimated investments in exploration in 2008 in the field.

The size of the stake would be linked to exploration work that was due to begin shortly in Sakhalin Island off Russia, which is majority controlled by Rosneft and about a quarter owned by China's Sinopec.

"No deal has yet been reached, so a successful outcome to the talks may not arise," Repsol said.

Almost all global oil majors have set up large scale operations in Russia, the world's second-largest oil exporter.

While some enjoy Kremlin and state-owned companies' support; others face problems, including BP's oil venture TNK-BP.

Repsol bought a 10% stake in West Siberian Resources for $90 million in 2006 and in the same year signed a preliminary deal with state gas export monopoly Gazprom.

Source: www.reuters.com

United Kingdom: UK's Wolseley sees markets getting worse

British building materials group Wolseley Plc posted a sharp drop in profits and cancelled its final dividend as it strives to stay within its borrowing limits, sending its shares to an eight-year low.

The world's biggest distributor of plumbing and heating materials said that trading profit fell 28% in the 11 months ended July 30, as the U.S. housing downturn was joined by a rapid deterioration in Britain since May.

Its shares, which had already plunged almost two-thirds in value since the start of the year, were down by 19.5% their lowest since September 2000.

Wolseley, which did not give any profit numbers beyond the percentage change, said it had achieved some debt reduction but expected trading conditions to deteriorate further.

Wolseley is the latest construction-related group to warn of dire trading, led by problems in the UK and U.S. housing markets which have been hit by falling prices and a lock-down on new loans as banks try to cope with the global credit crunch.

Source: www.bloomberg.com

United Kingdom: Central heating services still strong despite British Gas profit slump

Operating profits at the British Gas parent company, Centrica, have slumped by 20%, due to soaring gas prices, but profits have continued to grow significantly within the installation and services division.

The company made its interim results announcement for the first six months of the year just a day after unveiling a record price hike for gas prices of 35%.

While overall profits fell, Centrica's British Gas Services division saw operating profits rise by 35% in the first half of 2008.

The interim results for the first half of 2008 showed group revenue was up £1.4 billion to £10 billion, but operating profit fell from £1.2 billion to £992 million.

However, the statutory results which featured certain re-measurements on unrealised net gains on energy procurement and sale contracts showed a slightly different picture. With these figures included operating profit increased from £1.6 billion to £2.965 billion and earnings went up from £1 billion to £1.8 billion.

Despite the problems facing the group, British Gas Services – which covers installations and central heating service contracts – reported a strong performance for the first half of the year with a 35% increase in operating profit to £85 million.

The results report said: “Operating profit increased by 35 per cent reflecting the strong growth in higher margin care products outside the original central heating range, combined with the continued focus on cost control.”

Revenue was up 8% to £664mill as ‘customer product relationships’ rose to £7.8mill.
There was “particularly strong growth” of 9% for Plumbing and Drain Care products while Home Electrical Care products rose by 16 per cent.

Source: www.hvnplus.co.uk

Monthly Special: **BRG CONSULT Canadian HVAC Report 2008: Now Available!**

BRG CONSULT is pleased to announce the completion of its annual report on the Canadian market for heating and cooling products. This 309-page detailed report on the Canadian market is immediately available.

Products covered in this report include:

- Boilers (gas, oil, electric, solid fuel; wall-hung & floor-standing; condensing & non-condensing)
- Furnaces (gas, oil, electric, other; condensing & non-condensing)
- Water Heaters (gas, oil, electric; tank/storage & tankless/instantaneous; condensing & non-condensing; indirect cylinders, solar storage tanks)
- Air Conditioners (Room AC, Central AC units including air-to-air heat pumps, PTACs)

This report analyzes the following:

- Market Trends and Forecasts
- 2007 Market
- Average Prices and Values
- Product Segmentation
- Distribution Analysis
- End Use Segment
- Manufacturers Market Shares

as well as covers:

- Background Information on Canada
- Distribution Section
- Canadian Manufacturers Profiles
- Canadian Distributors Profiles

For more information please contact Marie Vermeulen at BRG CONSULT NORTH AMERICA (mvermeulen@brgconsult.com)

Source: BRG CONSULT NORTH AMERICA