

# Centrica Mulls Gas Price Hike

Centrica Plc, Britain's biggest energy supplier, may raise household natural gas and power prices for a second time this year after saying "stubbornly high" fuel costs will result in lower first-half earnings.

"A further retail price increase across the industry looks inevitable" unless wholesale rates drop, Chief Executive Officer Sam Laidlaw said in an analyst conference call on May 12. He expects "continued upward pressure" on commodity prices, Bloomberg said.

Centrica, the owner of British Gas, doesn't have enough gas production wells and power plants to supply its customers and has to buy extra fuel and electricity. To maintain a profit from its retail unit, it needs to increase prices for consumers when costs rise. It lifted rates by 15 percent in January as wholesale prices soared. UK winter gas reached a record on May 12.

"The key issue for investors is whether over time the UK energy supply industry will be able to pass through rising wholesale prices to customers," Edmund Reid, a London-based analyst at JPMorgan Cazenove Ltd., said in a note to investors. The answer is "almost certainly yes," he said.

Centrica gained as much as 3 percent to 296 pence and was at 294 pence as of 11:30 a.m. in London. The stock is down 18 percent this year.

Higher wholesale gas prices mean profit from Centrica's production business will be "well ahead" of last year, Laidlaw said. He forecast an increase in output of about



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10 percent compared with 2007 and said that may boost pretax earnings above analyst forecasts of 1.7 billion pounds (\$3.3 billion).

Higher gas production will also increase the tax rate. Analysts may lower estimates for earnings-per-share to less than current consensus levels of 26 pence for 2008 because of the higher tax charge, according to Laidlaw.

The contract for supplies in the six months starting October, added 1.3 percent to a record 86.5 pence a therm as of 9 a.m. in London, accord-

ing to prices from the broker Spectron Group Ltd. The price is equivalent to \$16.86 a million British thermal units. A therm is 100,000 Btus.

Higher wholesale prices indicate losses on sales to industrial and commercial gas customers will be "materially higher" than previous guidance, according to Centrica.

The number of household customer accounts fell to 15.9 million as of April 30, from 16 million at the end of last year. Centrica doesn't mind losing customer accounts that are "loss-making" for

the company, according to Laidlaw.

"The current outlook for gas prices does create a challenging environment for energy suppliers," Centrica said today in the statement. Price increases by Centrica in 2006 prompted customers to switch to rival companies, including Scottish & Southern Energy Plc, the UK's second-biggest supplier.

The UK is relying on imports of gas as North Sea production declines, boosting wholesale costs for the fuel. The country also needs to replace ag-

ing power plants to cut greenhouse-gas emissions, which raises power prices.

Norwegian gas exports to Britain are lower than expected, boosting prices, according to Laidlaw. European buyers are securing Norwegian supplies, helped by a decline in the value of sterling compared with the euro, the chief executive said. The country's energy regulator is investigating the gas and electricity markets, to check that competition is working after companies, including British Gas, raised their prices this year.

## In the News

### Nuclear Power on Horizon

Electricity demand in Vietnam is expected to double in ten years, making electricity shortages many times more serious than nowadays. In this circumstance, nuclear power proves to be a good alternative energy.

According to Deputy Minister of Industry and Trade Do Huu Hao, Vietnam needs 12-13,000MW this year, while operational power plants just can provide 12,000 MW at maximum, English.vietnamnet reported.

The electricity shortage will become more serious in 10 or 20 years--if the energy structure does not see basic changes. It is expected that by 2015, the gap between the power demand and the capacity will be 46.3bil kwh (low scenario), and 102.4bil kwh (high scenario). The figures would be much higher by 2020: 159.8 bil kwh in low scenario and 270.8bil kwh in high scenario.

What are the alternatives? Let's talk about hydropower. A lot of hydropower plants have been built in Vietnam, but regrettably, the 'white and clean' natural resource is not inexhaustible.

After the Son La Hydropower Plant, Vietnam will have no other big capacity hydropower plant (1,000 MW or even 600 MW). From now, Vietnam can only build small plants with the capacities of 350MW and lower. Total electric power generated is expected to reach 4,500-5,000 MW at maximum, or 40-45bil kwh a year.

The figure proves to be far from reaching the demanded 270bil kwh a year by 2020 in the high scenario: thus hydropower cannot be the best choice for the country within the next few decades.

Gas reserves prove to be limited, while oil is forecast to be exhausted in tens of years. As oil has become the precious material for many industries, it would be wasteful to use it to generate electricity. Therefore, thermopower plants would rely on coal.

### Big Challenges

Meanwhile, big challenges can be envisioned for coal-run power. Vietnam would have to import huge volumes of coal, tens of millions of tons every year. This would certainly lead to the heavy pollution of large port areas.

And the biggest concerns of burning coal are exhaust fumes and the greenhouse effect, which affect the global climate.

Windy, solar and biological energies prove to be clean energies, which can be the choices of humankind in the distant future, in the mid or late 21st century.

However, these kinds of energy still show shortcomings in the near future, especially in terms of technologies and production cost.

It is estimated that all these kinds of energy can bring 2,800 MW of electricity by 2020, equal to the capacity of two nuclear reactors, and are far from meeting the electricity demand.

Vietnam is importing electricity from neighboring countries, including Laos, China, Cambodia, and importing coal from Australia. It is estimated by 2015, Vietnam will import 13bil kwh and 35mil tons of coal in the high scenario.

### Common Solution

By 2020, energy imports will certainly be higher, and may account for 38-53 percent of total energy needed. If so, a problem will have arisen--national power security. It would be very adventurous to build up a power development strategy that relies on imports. Saving energy? It is the common solution of all countries in the world. However, this only can help ease the shortage, while it cannot settle the imbalance between supply and demand to the roots.

Nuclear power is a good choice for settling the electricity shortage problems thanks to the advantages in terms of investment and technology.

The safe operation of a lot of nuclear power plants in the world in the last 20 years after the Chernobyl catastrophe has restored the public's confidence in nuclear power.

In the last many years, the state has released decisions showing its determination to develop nuclear power. In 1991-95, studies on using nuclear power in Vietnam kicked off under the state's science and technology program KC-09.

After many years of preparation, in 2007, the Vietnamese prime minister promulgated a strategy on utilizing nuclear energy for peace purposes by 2020.

The government has assigned the Electricity of Vietnam to draw up a project on building two nuclear power plants with the total capacity of 4,000 MW. It is expected that by 2025, the national power grid will have 11,000MW of nuclear power, or 5.5 times more than the capacity of the current Hoa Binh hydropower plant. By that time, nuclear power will account for 20-30 percent of total electricity output.

The bill on atomic energy is being compiled, which will provide the very important legal framework for developing nuclear power in Vietnam.

As such, Vietnam has 12 years ahead to prepare for putting its first nuclear power plant into operation. Vietnam will be one of the first countries in Southeast Asia to have nuclear power.

## Eni May Delay Kashagan Oil Production

Eni SpA and partners developing the Kashagan field, the biggest oil discovery in three decades, may delay production at the Kazakh deposit by as much as two years, the fourth postponement for the \$136 billion project.

The start of commercial output may not occur until 2012 or 2013, said Dinaara Shaimardanova, an aide to Kazakh Energy Minister Sauat Mynbayev, confirming remarks he made earlier in the capital, Astana. Eni in January said production was expected to start in 2011, Bloomberg reported.

Eni and partners, including Exxon Mobil Corp., Royal Dutch Shell Plc and Total SA, were forced to cede stakes in the venture to Kazakhstan in January to make up for delays and cost overruns. Oil companies are tapping harder-to-reach fields to compensate for dwindling output in areas such as the North Sea and Alaska.

"This is not good news," said Matteo Brancolini, who owns Eni stock among the \$1.85 billion in assets he helps manage at Meliorbanca Private SpA in Milan. "There's been a flow of news about delays and no one believes the dates are reliable."

An Eni spokeswoman declined to comment on the matter, while Ilya Pustogachev, a spokesman for Astana-based KazMunaiGaz National Co., the state oil company, also declined to immediately comment.

Kashagan's output, which has already been delayed three times, will reach about 370,000 barrels a day about a year after production starts and rise to a peak of approximately 1.5 million barrels a day.

The originally planned start date of 2005 was pushed back to 2008 and Eni later said output would begin in 2010.

Companies are seeking to bring new crude sources online as oil prices rise to records. Oil traded in New York closed near \$126 a barrel last week, nearly double the average price in 2006.

"Another delay is not good news," Pio De Gregorio, head of equities at Centrobanca in Milan, said in an interview with Bloomberg Television.

The Italian company is still in talks with Kazakhstan over the timing and amount of investment needed for development of the field, Eni Chief Executive Officer Paolo Scaroni said April 29.

Eni, which hasn't confirmed the Kazakh government's estimate that developing and running Kashagan will cost \$136 billion over the life of the field, said in February it would submit a proposal for spending on the first stage of production to the state by the end of March. That plan is still under discussion.

The partners are also set to agree by the end of May on contract changes that would double KazMunaiGaz's stake in the project to about 16.8 percent, on par with Eni, Exxon, Total and Shell. The agreement will be retroactive to Jan. 1.

Rising costs and extreme environmental conditions forced delays at Kashagan, Eni said. Industry-wide demand for equipment and skilled labor is pushing costs for oil projects higher by about 10 percent a year, Stefano Cao, Eni's head of exploration and production, said during a conference call April 24.