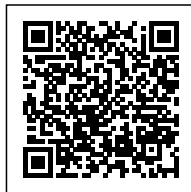


ENERGY MARKETS STILL IN UNREST - GARAYAR ASOCIADOS

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Despite efforts to liberalise Spain's energy markets since 1997, first through the enactment of the Electricity Act and a year later the Gas & Oil Bill, the situation nonetheless remains unsettled, says Emiliano Garayar at Garayar Asociados , Spain's leading energy law boutique.

A pesar de los esfuerzos para abrir los mercados del gas y de la electricidad, estas tentativas no han fructificado, afirma Emiliano Garayar, de Garayar Asociados. Hablar de la posibilidad de un peso pesado español en el sector energético quizás sea prematuro, pero ya se perciben señales en relación a la tan esperada integración de estos mercados.

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'For more than a decade, we have witnessed attempts to open the Spanish and Iberian electricity and gas markets to foreign competition, and to seek the creation of a national champion strong

enough to play a role in an enlarged European integrated energy market.'

Nonetheless a combination of physical, economic and regulatory factors has blocked any significant success, he says.

'Over this period we have seen at least five major domestic electricity and gas company mergers frustrated by restrictive national competition concerns, while conversely, approval by the European Commission of mergers with a community dimension has prompted the arrival of Portuguese, Italian and German utilities, and the surrender of Endesa's European ambitions.'

A significant factor continues to be the relative isolation of Iberia's energy markets. 'Despite developments such as the Oran(Algeria)-Almeria gas pipe, and high voltage interconnection with Morocco, integration will remain hindered as a result of a lack of interconnection with France.'

While some suggest that behind the scenes manoeuvring may yet see a national Spanish champion emerge, talk of a 'big bang', says Garayar, remains premature. 'Ten years on and every relevant actor in the Spanish energy market seems to share a clear diagnosis as to what does not work, but none has any idea of how best to fix it.'

But while physical and economic conditions may have hindered integration attempts, the increasingly common demands placed on electricity and gas operators may yet prevail. 'National regulations, in line with the EU, now focus on the principles of guaranteed supply and lowest cost, which the single energy market regulator (CNE) has sought to apply in equivalent terms. We are now seeing gas and electricity companies begin to integrate their activities in each sector as a consequence.'