

Tuesday February 26, 09:00 a.m.

■ Power Purchase/Energy Service Agreements in NICARAGUA

- Mrs. Aura Monjarrez, Electrical Market Director - INE

1



INSTITUTO NICARAGUENSE DE ENERGIA

Power and Energy Purchase Oversight and Regulatory Incentives

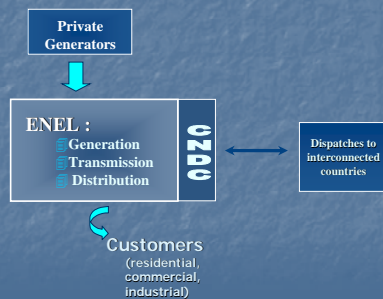
Power Purchase and Energy Supply in Nicaragua
26 February 2008

2



Pre-privatization

A vertically integrated utility



3



Regulatory Framework

- In 1995, ENEL was created through Decree 87, assuming all the functions of a private company. INE was given the regulatory functions of the electric sector.
- In 1998, the electric sector was segmented by:
 - Law 271, Reform to the Founding Law of the Nicaragua Energy Institute (INE)
 - Law 272, Electric Industry Law
 - Support for ENEL's Restructuring Unit (URE) and
 - Law 277, Hydrocarbon Supply Law

4



Regulatory Framework

The following rules are specified for each activity:

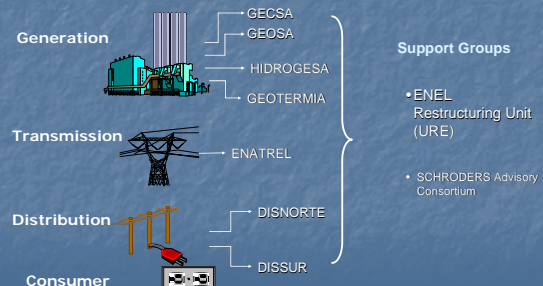
- Technical and Commercial Market Operations
- Transportation
- Tariffs
- Quality of Service by Concessionaires
- Provision of Electric Service
- Licensing and Concessions
- Fines and Penalties
- Other

5



Sector Restructuring

Segmentation of ENEL into 7 companies: (22 April 1999)



6



Regulatory Framework Wholesale Electric Market

Types of Market:

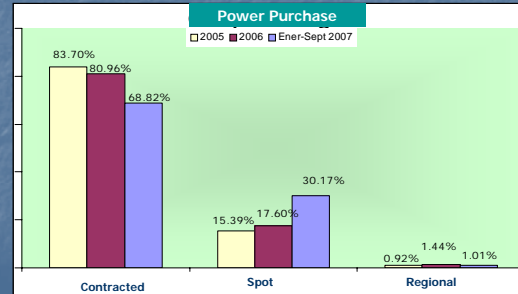
- Contracts Market
- Spot Market
- Regional Market

7



Regulatory Framework Wholesale Electric Market

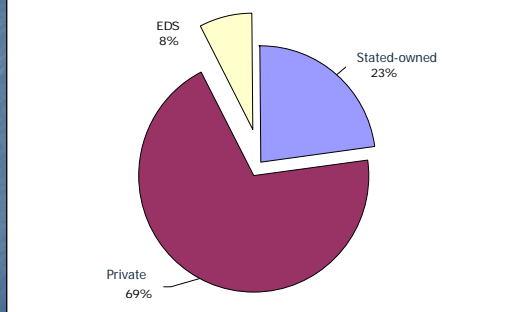
Market Behavior:



8



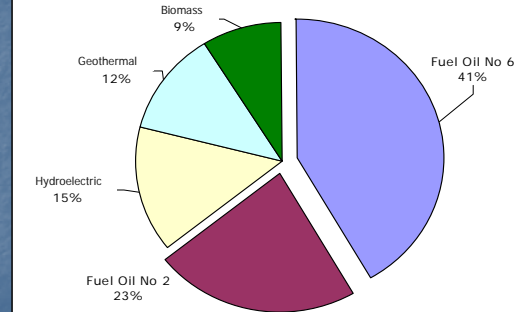
Demand Supply - 2007



9



Generation Matrix



10



Market Agents

- The following may be Market Agents:
 - Generators, distributors or large customers.
- Qualifying requirements:
 - Large consumers must obtain license or concession issued by INE, certifying they are authorized and have been granted a power supply contract.
 - New load facilities or generating plants or units connected to SIN must obtain authorization to connect its own generation facilities to the electric network.
 - A security deposit is required.
 - Legal representative must be duly accredited with the National Load Dispatch Center.



11



Energy/Power Transactions



- Generators who are Market Agents may:
 - Purchase power and energy contracts from other generators and sell them in the market;
 - Sell power and/energy, through contracts or in the spot market, generated by their own power generation facilities or contracted with third parties;
 - Purchase power and energy deficits, through contracts or in the spot market, to meet their contractual obligations.

12



Energy/Power Transactions

- Consumer agents are market agents, who may make the following commercial energy and power transactions:
 - Purchase, through contracts or in the spot market, power and energy to meet their own demand and consumption.
 - Sell power and energy surplus in the spot market (not required for self-consumption or by their customers in respect of their contractual commitments).



13



Major Distributors:

- DISNORTE
- DISSUR
- BLUEFIELDS

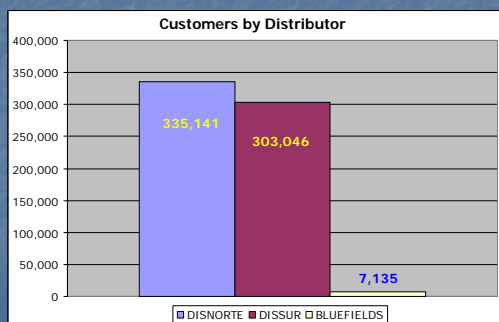


14



Distributors - Customers

December 2007

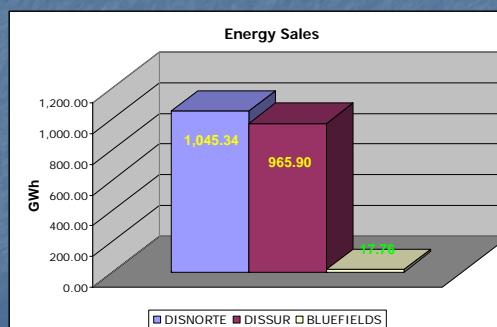


15



Distributors - Demand

December 2007



16



Distributors - Demand

- To meet their demand, distributors must have contracts covering 80% of the demand expected for the next year and 60% of the demand expected for the subsequent year. (Art. 172 LIE Reg.)
- INE recognizes contracts that are derived from:
 - Sector privatization process - 78% recognized contracts
 - International competitive bidding supervised by INE



17



Energy Crisis 2005 - 2007

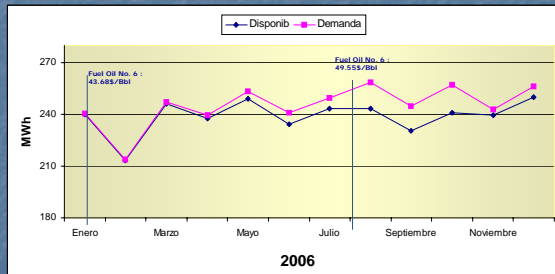
3-9% Reduction of Monthly Demand

- 2004 :
 - Political implications – Subsidies versus Tariff Adjustments
 - Lack of belligerence of Regulator to compel distributors to bid
 - Lack of investment in existing plants
 - Lack of interest of distributors to seek new offers at more competitive prices
- 2005-2007 Constraints:
 - Technical and commercial import constraints
 - Lack of payment by distributors
 - No bank guarantees
 - Water contributed by HIDROGESA reservoirs (20% of historical record)
 - Joint decision in the electric sector: No diesel synchronization – No tariff adjustments

18



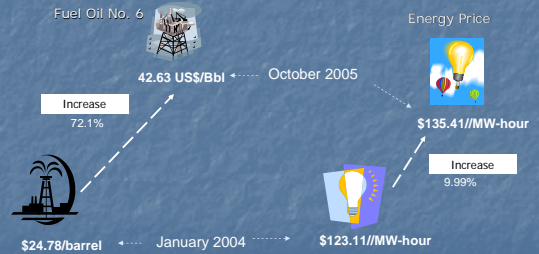
Energy Crisis



19

Oil Prices versus Electric Energy Prices

Despite impact of high oil price increases, electric tariffs do not match fuel cost increases.



20



Legislative Regulatory Intervention

Law 554, Energy Stability Law (17 November 2005) :

- Spot Market Regulation
- Subsidies to residential customers consuming less than 150 kWh/month
- Monthly Tariff Adjustments
- Mandates distributors to reconstitute bank guarantees
- Orders distributors to bid 150MW thermal energy



21



Legislative Regulatory Intervention

Actions - Benefits:

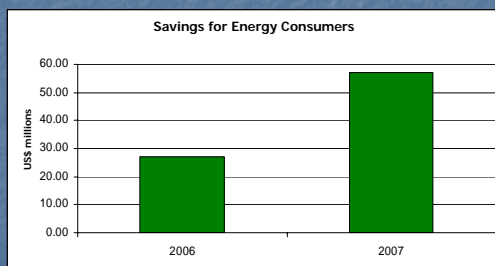
- Spot Market: Energy sales to distributors at generator's variable cost price + 10% + toll (generated 30% less in spot billing)
- Distributors are mandated to reconstitute payment guarantees with regional /national market and generating companies.
- Tariff adjustments to provide financial adequacy - 35%
- Orders DISNORTE and DISSUR to bid 150MW thermal energy – objective not achieved.
- Promote financing for energy sector projects available for Nicaragua (IDB, CABI, WB).

22



Regulatory Intervention

Effect (Law 554) :



Would have incurred 15% tariff adjustment above those already authorized

23