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With all the business and regulatory challenges facing today's utility executives, how can some nevertheless create significant value for their customers and shareholders—while others lag behind?

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The View from Calpine

Calpine Corp. has a vision of the long-term value of building an industry around independent power production. Despite recent setbacks, IPPs will play an important role in the emerging new power industry, Calpine's top executive maintains.

Peter Cartwright, chairman, president and chief executive of Calpine, is not new to a belief in independent power. He founded Calpine two decades ago to capitalize on opportunities in the generation business. By the end of this year, the company expects to be producing a block of power sufficient to serve 30 million households, qualifying it as one of the largest power producers in the country. Cartwright has labored in the power industry in the United States, Asia, Latin America and Europe for 40 years. His take on the future of his company and IPPs:



energybiz: Calpine has suffered financially as a result of the tumultuous changes affecting the IPP market in recent years. On what do you build your hope for a rebound?

CARTWRIGHT: Over the last several years, electricity prices have been low as a result of a significant increase in new power plants coming on line. But demand for electricity is increasing, and Calpine has the most modern, most efficient, and least polluting fleet of power plants in North America.

energybiz: Does the energy industry and the general business world understand the role and importance of independent power production in America?

CARTWRIGHT: In electricity markets where there is open competition such as Texas, prices are low. This benefits all consumers — industrial, commercial, and residential.

energybiz: Why is it more efficient for IPPs to meet the future power needs of the country, rather than rely on utilities to build their own power plants?

CARTWRIGHT: When an IPP builds a new power plant it must carefully control its cost. Taxpayers and electricity

Russian Power Opportunity

By Robert Ebol

Russia plans to break up its Unified Energy System, the world's largest electric utility, to spur deregulation and court foreign investors. Russia would continue to hold a controlling interest.

Anatoly Chubais, the system's chief executive, said that it will take an infusion of \$50 billion to upgrade Russia's aging electricity system.

Chubais believes the electric power sector of Russia will perform more efficiently if it is deregulated. Undoubtedly, he has observed that the Russian private oil companies have outperformed state-owned oil companies, especially where Western managerial expertise and technology have been applied. In part, state-owned companies lack shareholders demanding better performance and returns on investment.

Chubais will do what he can to "sell" UES to the potential private investor, but he can expect that these investors will take a hard look at Russia's electric power sector, in terms of prospective returns on investment

and political risk. The Yukos affair, with President Putin moving to reassert government control of the oil sector, will convince risk-averse investors to stay away.

Electric power is not as sexy as oil. Investors, seeking access to new supplies, look longingly at the Russian oil potential. The electric power industry needs a complete make-over. Electric power rates need to be raised, but that is politically difficult. Consumers need to pay their bills on time, which is not always the case today. Meters need to be installed everywhere. Will all this come through deregulation? That is a lot to ask.

Chubais can attempt to court foreign investors, but why would the foreign investor consider the Russian electric power system at this time? Later perhaps, after deregulation is in place and a more reasoned appraisal of the system can be made.

Robert Ebol is chairman of the energy program at The Center for Strategic and International Studies.

consumers are not on the hook for cost overruns. Competition guarantees the lowest cost in the power industry.

energybiz: In addition to Calpine, what kinds of investors remain active in the IPP sector?

CARTWRIGHT: Many IPP companies have dropped out of the business over the last several years including most utilities that had unregulated subsidiaries. Banks and private funds have taken over some of the power plants that were being built. Municipal utilities and a few IPPs are planning new power plants.

energybiz: What will be the greatest single factor shaping the generation business in the coming decade?

CARTWRIGHT: Some of the major issues facing the industry are:

- The need to control power plant emissions including green house gases. This will mean closing down older plants and in particular old coal-fired plants that are highly polluting.
- Bringing in new resources of natural gas including importing liquefied natural gas.
- Increasing competition in the power industry and allowing customers — particularly industrial and large commercial customers — to purchase power on the open market.

News Flash >>>

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MOSCOW PRICE BOOST

Electric and heating rates in Moscow were boosted effective the beginning of the year. Rates for Mosenergo's consumers were raised by 12.55 percent, on average. The Energy Committee of the Moscow region increased the respective tariffs by 12.23 percent. The cost of gas to power Mosenergo's power plants jumped by 24 percent last year.

- By Martin Rosenberg