



## **JANUARY 2009 | ELECTRICITY MARKET UPDATES**

### **General**

The State Comptroller has stated that delays in the further penetration of natural gas into the fuel mix for the electricity sector and the lack of development of IPPs has so far cost the market \$2 billion due to the use of higher costing fuels.

The defense establishment has voiced opposition to plans to erect wind turbines for generating electricity on the Golan Heights. MNI Ben Eliezer has instructed the director of electricity in his ministry to ask for detailed reasons for the opposition. The Ministry of Defense's opinion was formulated after consultations with the air force and the IDF's planning division.

It was finally agreed that the electricity tariff would not be decreased despite lower fuel costs and that the money saved would be utilized by IEC to invest in their emergency program for the establishment of power stations.

New photovoltaic regulations including tariffs have been published for stations of between 50 KV to 5 MW, therefore different to smaller stations that produce up to 50 KW. The tariff will be 1.6 shekels per kWh. The PUA has placed a ceiling of a maximum of 300 MW that will receive the incentives.

### **Israel Electric Corporation (IEC)**

The Government Companies Authority has joined the demand that IEC reduce some pension benefits to employees in view of the utility's severe actuarial deficit in its pension fund and low liquidity. The Government Companies Authority is demanding that IEC change its mechanism for raising the pay grade of pensioners. Government Companies Authority director general Udi Nissan said that IEC's current mechanism caused serious distortions and substantially increased its pension liability. IEC's pension fund has a deficit of several billion shekels, which is jeopardizing the company's financial standing. IEC's Employees Central Provident Fund managed by Clal Finance Batucha is demanding that IEC cover a NIS 4.4 billion actuarial deficit, including NIS 1.4 billion by August 2009. IEC rejects the demand, but recently reached a deal with Supervisor of Capital Markets, Insurance and Savings Yadin Antebi to appoint an external actuary to examine the matter.

IEC is turning to the local market for new funding as it finds itself having to lower its overseas financing targets. The socio-economic cabinet headed by Minister of Finance Ronnie Bar-On decided to authorize the electric company to raise NIS 500 million in a bond issue to institutional investors.

Two more natural gas turbines are in the process of being added to IEC's power station in Haifa ready to operate by 2010. Investment in the project is 2.7 billion shekels. The MNI Minister spoke at the corner-laying stone ceremony for the station talking about the benefits of natural gas and the clean air the citizens of Haifa merit.

Moody's confirmed a Baa2 rating for a billion dollars worth of bonds issued by IEC to be placed with institutional investors. The rating is stable.

IEC raised \$500 million in bonds in the US at an onerous 9.4% interest (prime + 6.25%), for 11 years up until 2020. IEC is demanding that the PUA recognize that the financial situation has changed, that most companies around the world would only be able to raise funds with an interest of close to 15% and to approve the interest and increase the electricity tariff to pay for this interest.