



MARCH 2009 | Israeli Ministries – Energy Related Updates

Ministry of National Infrastructure

- The next MNI Minister will be Uzi Landau from Avigdor Lieberman's Israel Beitenu party.
- MNI Minister Ben Eliezer gave a parting speech in the Knesset, as follows:

Natural Gas Suppliers – first and foremost we acted to ensure sources of supply and the most important contract that I signed was with the Government of Egypt which ensures the supply of gas for 20 years and we also managed to promote the negotiations with BG, Russia and Azerbaijan and we also promoted the LNG tender. We all hope that the Tamar field will start producing gas very quickly, but to my sorrow despite the huge discovery, it is not enough. I hope that more reserves will be discovered in our seas, but it is necessary to conclude the issue of imports of natural gas in order to ensure secure sources.

Natural Gas Transmission – during this tenure the NTS was advanced throughout the country and in fact the system now extends from the Dead Sea in the south via Ashkelon, Ashdod, Tel Aviv and up to the Dor coast in the north. By the end of the year we will have reached the Haifa Bay in the west and Alon Tavor on the north-east. About one billion dollars have been invested in the system and I regard this as the national carrier of the 21st Century.

Natural Gas Distribution – the tier that completes the transmission system is the distribution network that will bring natural gas to end consumers at low pressure. This is for manufacturers and industry that play an important role in the natural gas revolution and which will replace polluting fuel oil and gasoil in industry. Already today two industrial plants are using natural gas: the water desalination plant in Ashkelon and the Hadera Paper Mills and many more are asking to convert to natural gas.

Infrastructure corridor – We are in the midst of an economic feasibility study to transmit 3 pipelines from Ceyhan in Turkey to Haifa and Ashkelon in order to obtain natural gas that could reach Israel from any destination and pass via Turkey to Israel

The electricity sector went through a phase of ups and downs during this current tenure and we are currently in the midst of an emergency plan to stabilize the electricity sector and to ensure secure supplies of electricity to the whole market.

IEC's emergency program – over the last two years an emergency plan has been conceptualized and implemented to establish a number of natural gas generated power stations by IEC. These projects are to be completed by 2012 and in fact they will ensure the continuous and steady supply of electricity to the market. Currently, IEC's

installed generation capacity is about 11,000 MW and this has brought us more than once to the brink of black-outs.

- **Long term plan** – in parallel, we have promoted the development plan for the Israeli electricity market for the next two decades within the framework of which we have conceptualized a policy according to which the Israeli electricity sector will be based 50% on coal and 40% on natural gas and at least 10% on renewable energy.

Reform – to my sorrow we have not managed to implement the reform in the electricity market which we have tried to promote in a most intensive manner. I believe that we have been closer than ever to achieve it. We promoted this together with IEC's workers but as stated a number of circumstances and personal interests managed to derail this most important process vital for the electricity sector. I believe that it will not be possible to implement reform without the active participation and consent of the workers themselves.

IPPs – Another disappointment for me is the extreme slow pace of any progress on the IPP front, which I regard as an important tier in achieving reform in the electricity sector. Despite the huge efforts we have invested, only about 80 MW of electricity are today generated by private producers compared to 3800 MW of licenses that I have granted. I hope we are now beyond all the hurdles and that the next few years will see huge progress in this field

Renewable energy – the issue of renewable energy is one of the main matters that my ministry has dealt with, if not the most important one. Over the last two years we have carried out an array of unprecedented procedures which I believe which change the reality in which we all live. Israel is now faced with the most immense opportunity to play a leading role in solar energy around the world, because of the unique climatic conditions in Israel, because of the open spaces available on which to set up such technology and because of the best technological minds and basis available here to carry out such projects.

First and foremost I hope that the incoming MNI Minister will ensure to implement in full the decision to declare the Negev and the Arava as preferential national areas for renewable energy. This is a decision that I brought to the cabinet only a number of weeks ago. As you know the proposal included a number of significant steps such as the need to set aside land, feed-in tariffs and tax incentives to help promote renewable energy investments. The decision has determined an objective of 10% of renewable energy by 2020, but this objective is a compromise and I believe that with governmental support we can reach the objective of 20% by 2020.

An unprecedented important objective is to implement the Ashelim tender, which consists of establishing two thermal solar facilities and two photovoltaic facilities for a total generation capacity of 250 MW. In addition we need to publish land tenders for the next solar project in Timna which is supposed to bring another 200 MW. Indeed, the government has passed a decision that as of 2010, each year a project of 250 MW of renewable energy is to be established.

Another important project is that of small and medium size solar facilities. Beginning with the concept of establishing small photovoltaic facilities which to date have

brought about the establishment of about 700 KW of electricity spread amongst 40 different facilities and as far as I understand IEC has orders for an additional 2.5 MW. From here we will be moving to the medium size facilities, where we hope to see the establishment of 300 MW of facilities by 2013.

Besides our continued caring on the supply side, we have also dealt with the demand side in order to reduce consumption levels of electricity. At the first stage, governmental institutions will have to implement a special reduction program.

Water desalination – We have increased the amount of water being desalinated in Israel to reach 750 million cubic meters by 2020, with 600 to be completed by 2013. The facilities in Ashkelon and Palmahim are already functioning and will even increase the scope of their production. The Hadera facilities will start operations in approximately 6 months

Environmental Protection Ministry

- The new Minister of Environmental Protection is Gilad Erdan from the Likud. This ministry will only receive 0.9% of the country's budget, attesting to the small importance of the ministry in the overall affairs of the state.
- The two IEC coal stations at Hadera and Ashkelon have been found to cause 65% and 60% respectively of all the country's sulfur dioxide and nitrogen oxide emissions. In 2006, the Orot power station in Hadera caused 30% of the pollution, in 2007 the figure increased to 42% so that IEC's status as the gravest polluter is worsening.

Natural Gas Distribution

- The Super Energy consortium which consists of 50% of Shapir Civil and Maritime Engineering Ltd. And 50% of Supergas, one of the Israeli LPG companies won the second natural gas distribution tender. The tender is to set up a distribution network in the center of Israel to deliver natural gas from Ashdod to Herzlia.

Oil Refineries

- Yashar Ben-Mordechai the CEO of the Haifa Oil Refineries said that it was the right thing to privatize the oil refineries as the privatization enables the Oil Refinery to purchase other entities without needing a government decision to do so, but the wrong move to split them up because in today's oil refinery world it is important to benefit from the advantage of size which has been lost in the split into two separate companies

Paz

- Paz posted NIS 3.38 billion revenue for the fourth quarter of 2008. The company posted a net loss of NIS 77 million for the fourth quarter, compared with a net profit of NIS 121 million for the corresponding quarter of 2007. The company attributed the loss to a reduction in value on inventory. For the year as a whole, Paz posted NIS 17.91 billion revenue, 32% more than the NIS 13.59 billion revenue in 2007. The net profit rose to NIS 607 million in 2008 from NIS 579 million in 2007. Net profit attributed to majority shareholders was NIS 602 million in 2008. Retail revenue from gas stations and convenience stores rose to NIS 10.6 billion in 2008 from NIS 8.47 billion in 2007. Refining revenue from Paz Ashdod Refinery rose to NIS 5.97 billion in 2008 from NIS 4.1 billion in 2007.

Solar Energy

- The Negev and the Arava are rapidly turning into the global Silicon Valley for alternative energy President Peres said at the inauguration of the \$2.5 billion solar energy power station in the Eilat region in the Arava desert, adding that Israel can be a world pioneer in the battle for freedom from dependency on oil and the worldwide pollution it brings. The world's first hybrid solarized gas turbine power station is being built by AORA at Kibbutz Samar. AORA is an Israeli company whose modular energy generating system is designed to generate renewable power and heat at a lower cost and on less terrain than other systems and be backed up by other fuels when the sun is not available. The Eilat region represents 15% of Israel's land but only contains 0.5% of the population
- The interministerial committee published the tender for the establishment of two desired solar power stations at Ashelim, for a total cost of \$650 million. The plants are to be of the thermal-solar technology each of 80-110 MW. Seven groups have pre-qualified for the tender and will compete for it: Shikum Ve'Binui together with Solel and Bateman, Dor Alon with Minrav and the German Solar Millennium and the French Alstom and the Italian company Actelios, Clal Energy from the IDB Group together with the Spanish Avangua group, the Israeli Solar Luz II together with the American Solar-Power and the French Dalkia group, Shafir and the French EDF; Ormat and the German Orsol and ICG from Israel Corp together with the Canadian Sky Power
- The National Planning and Building Commission at the Ministry of Interior approved the land use for the construction of the 250-megawatt solar power station at Ashelim in the Negev.

Fuel and Tariffs

- In 2008 there was a 3.5% increase in incidents concerning the ground transportation of dangerous materials compared to 2007 (56 incidents). There were 7 maritime or air incidents during 2008 involving dangerous materials.

- The CEOs of Israel's four largest fuel companies predict that sales at gas stations will fall in 2009, after two years of record revenue and a large increase in the number of gas stations. The CEOs added that their companies will be compelled to reduce customer credit, because they are worried that customers will find it difficult to pay. Paz CEO Yona Fogel, Delek Israel Fuel Corporation CEO Eyal Lapidot, Sonol CEO Tamir Poliker and Dor Alon Energy CEO Israel Yaniv agreed that the recession will also hit sales to institutional customers.
- The price for 95 octane gasoline has increased by 8.3%. The increase amounts to NIS 0.42 per liter. The price of self-service 95 octane gasoline will rise to NIS 5.46 per liter from NIS 5.04. The price of full-service 95 octane gasoline, including the NIS 0.13 service charge, will rise to NIS 5.59 per liter from NIS 5.17. The reason for the price hike is the rise in global oil prices last month. The price of 95 octane gasoline has risen 14.9% from NIS 4.75 at the beginning of the year, after falling over 30% late last year. The price of 95 octane gasoline is government controlled. In January, price controls were removed on leaded 96 octane gasoline, which means that the Ministry of National Infrastructures is no longer publishing prices for it.