Benin Offshore Oil Field Development
A model project for mitigating potential environmental threats.

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Benin’s only active oil facility, the 20 year offshore Sémé field, is nearing the end of its economic life. It has badly deteriorated: platforms are in poor repair; several wells are shut in; pipelines are corroded, have not been regularly pigged and some have occasionally leaked. These conditions present several environmental challenges. Oil spills could occur, releasing hydrocarbon liquids and trace chemicals into the environment. The platforms cannot be left in place nor can continued oil production or partial abandonment be an option since environmental risks will increase as production equipment ages further, structures corrode and prospects of transport line failures mount.

Benin’s Government therefore decided to undertake full field decommissioning: shutting down operations, plugging and abandoning of the wells, purging processing equipment and lines, removing topside equipment and platform structures. An IDA credit program for US$18 million will support the Government’s program and will be the first Bank project of its kind. Project provisions will improve the Government’s capability to regulate and enforce tighter environmental protection standards. The project is scheduled to be presented to the Board in May ‘98. Successful implementation, meeting the project’s environmental goals will lessen contingent liabilities, and make more likely the return of the international oil industry to Benin. The project is intended to serve as a model for the many other offshore fields worldwide that have to be decommissioned.

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Global Power Pricing Study

The Bank and Cambridge Energy Research Associates (CERA) formally agreed on March 10 to collaborate on a project to develop and publish a report on electricity pricing in the Bank’s client countries. The objective is to provide crucial information to policy makers and potential investors in the power sector. Forty to fifty countries are targeted in the project’s initial phase. The report is expected to consist of about 200 pages that provide:

- historical trends of electricity prices by customer class
- discussion of factors with influence on prices (e.g. subsidy policy changes and other power sector developments)

The Bank will be primarily responsible to provide data and analysis and to assist with marketing and distribution.

CERA will be primarily responsible to design, develop, author and produce all text, tables and graphics. CERA will create and execute a marketing plan and oversee the sales effort and will also identify private sector co-sponsors to help fund the project.

A Steering Committee comprised of two members from CERA and two from the Bank will have responsibility to oversee overall development, review the data and continued on page 2...

Signing the Agreement
text and formally approve publication. It will authorize additional products that the agreement provides for, such as commercial on-line access to an electricity prices database.

Proceeds from the Project are expected to more than fully cover its costs. Proceeds will come from direct sales and sponsorship (sponsors have already declared their interest). CERA and the Bank will share net proceeds on a 50/50 basis. CERA has not been retained as a consultant by the Bank. The Bank-CERA relationship in the project is a partnership of equal risk and benefits sharing.

Henri Bretaudeau and Kyran O’Sullivan will be the Bank’s representatives on the Steering Committee. It is expected that staff wishing to contribute data and analysis to the project will be able to assign their time through the Knowledge Management mechanism.

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Organized by the Thematic Groups...

Keith Brewer, Director General in the Metal and Mines Sector, Natural Resources Canada gave a presentation on March 19 to the Mining Thematic Group on Mining Taxation and Investment: Global Trends with a Special Emphasis on Canada. Mr. Brewer described the tax and investment regime for mining in Canada and discussed its importance in making Canada a global leader in the mining industry. He then compared Canadian production costs and effective tax rates with other important producing countries. He emphasized that statutory tax rates often have little relation to effective tax rates, especially in the first few years of production. He concluded with a discussion of important issues affecting the global climate for investment in minerals, highlighting the difficulties that investors often encounter in transition economies.

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The Energy Efficiency Thematic Group held a workshop on March 12 where Bob Taylor, Luis Vaca-Soto and S. Padmanabhan (Padu) presented instances of successful design of Bank energy efficiency projects in China, Brazil and India. Financing mechanisms, especially approaches to financial intermediation, suitable incentives and risk sharing among implementing agencies were discussed.

Next milestones in the Thematic Group’s work are a best practice handbook, an improved knowledge database, and a training course on designing successful efficiency projects.

A seminar on Distributed Generation was held on March 11. It was sponsored by the Renewable Energy Thematic Group (Magdalena Manzo & Judy Siegel). Technologies, markets, case studies, analytical tools and the Bank’s role were discussed. Main messages were:

- Distributed Generation applications have grown significantly in the past five years.
- Low growth projections indicate <10MW plants will represent 20% of the annual average global capacity growth. The 50kW-1MW distributed generation market worldwide is 29GW/year, and the 1-10MW market is another 9GW/year.
- These technologies offer significant benefits in terms of modularity, flexibility, short installation time, and environmental impact. Additionally, they are cost competitive on a life cycle basis.

A binder containing presentations and key readings was made available to participants.

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their reactions under the headings; negotiated vs. regulated access to pipelines; degree of market opening; transparency of pipeline tariffs. All the companies, predictably favored negotiated access. There was concern about large aggressive consumers—especially foreign companies entering the market quickly and disturbing the status quo. Gasunie (Netherlands) is reconciled to losing 10-15% of its customer volume. Distrigaz (Belgium) believes that if the market is opened too quickly (i.e. 40-50% of customers becoming eligible), then the government would need to exercise its right to modify eligibility. GdF felt that the 20% opening which would be required would be as much as it could cope with.

Ofgas director general Clare Spottiswoode in Feb. '98 told delegates at a conference in Brussels that the directive alone was too weak to break up existing EU gas monopolies. She said governments needed the political will to make competition happen.

EU energy policies:
EU press releases:
Ofgas:
http://www.ofgas.gov.uk/

Contributors: Kyran O’Sullivan x32722, Shane Streifel x33867

On the Move

Recent appointments have been.....

Theodore (Ted) Gorton has joined IENOG (after an absence of 5 years) and has begun assisting the Govt. of Romania to negotiate a major investment in the upstream oil and gas sector as well as working on an ESMAP project to identify undeveloped gas and oil reserves with commercial potential. He is an oil and gas contract specialist and has advised governments on legal and contractual frameworks and on the promotion of exploration and production investment. He has worked for a law firm as well as for Royal Dutch/Shell and Amoco.

Yves Duvivier will join ECSEG on April 1 from PSDEN. His primary areas of expertise are privatization and enterprise restructuring (including heavy industry), project finance (including large infrastructure and industrial projects), venture capital, engineering and corporate planning. Specific projects include privatization programs, lines of credit, and capital markets development in Eastern and Central Europe.

Robert Bacon has begun work in IENOG on a study, to provide the Bank with an assessment of the extent to which reform has been introduced in Bank client countries in the energy sector, critical factors influencing reform, issues relating to measurement of its impact and post reform challenges. He is Chairman of the sub-faculty of economics at Oxford University, UK.

Samia Benidir returned to the Bank, joining EMT as Senior Knowledge Management Officer from IMF where she was Deputy Division Chief of the Joint Bank/Fund Library. She holds a PhD in Information Science from the University of California at Berkeley. Her areas of specialty are information and knowledge management, and informatics.

Ko Naito has joined IENIM on a secondment from Metal Mining Agency of Japan. A geologist by profession, he has worked in a large number of Asian countries. He has started to work on the Mining Sector Reform and Restructuring Program in Romania, and the Mining and the Community Conference to be held in Papua New Guinea in July 1998.

Staff profiles can be consulted as well as updated on the Bank's homepage http://www-int.worldbank.org Enter your own or another name in Search and click on People QuickSearch

Energy Week '98
At press time, more than 200 Bank participants and 80 external participants have registered for Energy Week, the Bank’s premier energy forum.

April 6 to 8 Omni-Shoreham Hotel, Washington, DC
EU Natural Gas Market Liberalization

In December 1997, European Energy Ministers reached agreement on the European Presidency's proposal for liberalization of the EU natural gas market, paving the way for the introduction of competition into some of the continent's most closed markets. It is scheduled to be phased-in over the period 2000-2010 in three stages. The Directive will allow industrial users open access to supply sources other than the historical transmission and marketing monopolies. While the Directive will not bring about a competitive market immediately, it provides a framework for a competitive market to emerge.

The first phase of the Directive will require Member States to allow open access to at least 20% of their markets by the year 2000. After five years (2005), 28% of the market is to be open, and after a further five years (2010), at least a third of the market in each country is to have open access.

In the first phase of liberalization, eligible customers (those customers having legal capacity to contract) will include:

- final customers consuming more than 25 million cubic meters per year (such as large car plants, large chemical plants, etc.)
- gas-fired power generators irrespective of their annual consumption. Eligibility of cogenerators using less than 25 mcm is left to Member States' discretion.

The second phase will see the threshold fall to 15 mcm per year (medium sized industrial users would qualify). In the final phase the threshold will fall to 5 mcm (large retail sites and smaller industrial users would qualify). These threshold levels represent effective market opening of the EU's gas market at the start of the three stages to 33.6%, 36.4%, and 42.3% respectively, according to 1996 gas consumption figures for the 15 EU countries. Some analysts feel that the degree of market opening in 2000 will be 50-60%, given that once the momentum starts, market participants will be forced to adapt quickly or be left behind.

Liberalization is already well advanced in UK which has separated its transportation and marketing functions (elsewhere in Europe these functions remain tightly bundled). By the end of 1998, all categories of consumers in all parts of the UK should be able to choose their gas supplier. The UK-Belgium Interconnector gas pipeline will come into operation in October 1998, facilitating exports of spot-price UK gas to buyers in the heart of Europe. In addition the NorFra pipeline (the world's longest undersea pipeline) will be commissioned in July '98 bringing Norwegian gas to Dunkirk in France.

World Bank analysts expect long-term real natural gas prices paid to producers to decline because of increased competition and abundant sources of gas supply heading into Europe (Commodity Markets and the Developing Countries; A World Bank Quarterly, February 1998, Development Economics VP). The forecast is provided below. Consumer prices are also expected to fall.

However, Leigh Hancher, Professor of European Law at the University of Tilburg, assessing how effective the agreement will be (Financial Times, EC Energy Monthly, 27 January 1998, Issue 109), noted a combination of general derogation clauses for certain types of systems and the individual provisions on take or pay "will mean that many markets could be well-insulated from gas-to-gas competition for some time to come".

The journal Gas Matters in its January 1998 issue, carried out a survey of gas companies to gauge continued on page 4...

### European Border prices

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* MUV = manufacturers unit value index