

Dutch energy sector preparing for massive sell-off



# No national champion in the Netherlands

Unlike France, the Netherlands is heading for a sell-off of its energy utilities. An attempted merger between the country's two biggest energy companies Essent and Nuon foundered in September because the parties could not agree on the balance of power. Expectations are that major European players such as Eon, RWE and EDF will now attempt Dutch acquisitions. The Dutch parliament has approved legislation enabling the split-up of energy production and distribution activities.

Dutch political parties are unfazed by the imminent disappearance of strong Dutch players in the energy sector. In The Hague market forces are the credo. A national energy merger fits ill with this view. Competition authority NMA also frowns upon the idea of a national champion. And the Dutch energy companies are not very popular in The Hague. They suffer from a poor image due to the administrative chaos that ensued when the energy market was opened up in 2004. But the pain reaches deeper. In 1998 the four biggest electricity producers attempted to negotiate a merger, spurred by then economic affairs minister Hans Wijers. It foundered. According to insiders, the biggest stumbling block had been the issue of who was to become executive chairman and the city where the merger was to be announced. It left the politicians astounded.

In 2004 then Economic Affairs Minister Laurens Jan Brinkhorst decided that liberalisation was proving laborious and the market wasn't working. To increase competition he announced the energy companies would have to unbundle their activities. The transport networks had already been hived off into the state entities Tennet (electricity) and Gasunie (gas). But Brinkhorst required the utility companies, mostly owned by local authorities (provinces and municipalities) to spin off their distribution networks as well. After the proposed split up, the networks would remain in government hands while

production and supply would be eligible for privatisation.

Unbundling! The energy sector was left reeling. The government proposal wiped out the last vestiges of trust between the energy sector and the political powers. The companies felt they were being robbed. They warned that the battle against the competition in Europe would be lost before it had begun. For Brinkhorst, the sell-off was no big deal. 'Everyone knows that Dutch companies are too small to go it alone in Europe. The question is whether you should allow the networks to be sucked into that process,' he said. Dutch companies were therefore well advised to seek a foreign partner 'as quickly as possible'.

Brinkhorst guided his unbundling bill successfully through the Lower House. His successors then gained the go-ahead (narrowly) from the Upper House. The spin-off of the energy companies' distribution networks must now be effected by January 1, 2011.

Right up until the last minute Essent and Nuon thought they could thwart the unbundling initiative. On February 1 2007, the two companies (both owned by local public authorities) unveiled fresh plans to merge. Essent, in particular, was in favour of merging. But there were doubts within Nuon, according to a reconstruction of events published recently by Dutch business daily *Het Financieele Dagblad*. Nuon chief Ludo van Halderen favoured a

direct alliance with an energy company from Britain or Scandinavia. Van Halderen was opposed to a scenario which meant having to restructure for three years, only to discover that all potential merger candidates on the international scene had already picked their partners. He was initially reined in by his supervisory board and started reluctant steps to effect a merger. Over the summer, fresh problems arose. Nuon was dissatisfied with the 45%-55% ratio after having turned in better annual results than Essent. It also seemed that Van Halderen managed to carry his reluctance over into the negotiating team. In early September the plans were abandoned.

Both companies are now licking their wounds and reassessing the future. They will have to hive off their networks. That will leave a commercial operator, made

*'Dutch companies are too small to go it alone'*

up of power generating plants, trading divisions and supply activities. The risks of the free market will prove too great for the public shareholders, most analysts agree. That's why the sell-off of the energy companies won't be long in coming. ■