

Shares in Brazilian power groups fall for second day

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Investors in Brazilian power generators saw their shares plummet on Wednesday for a second day after price falls in the country's largest-ever power auction reduced projected income.

Generators on Tuesday fetched prices between R\$52 (\$19, £10, EUR14) and R\$77

per megawatt hour, far below expectations of R\$70-R\$90. UBS, the investment

bank, on Wednesday called the auction a "letdown" and a "disappointment for investors".

But Dilma Rousseff, the energy minister, praised the auction for creating more predictability in the market and gains for consumers.

Shares in Eletrobras and Cesp, two state-controlled power companies, were down nearly 15 per cent and more than 10 per cent respectively for the session, having each lost nearly 10 per cent on Tuesday. While consumers may benefit from cheaper power, generators are likely to see their profitability and investment ability diminished. The result could delay much-needed investment in the industry. "This is not a very encouraging sign for new investments, we are very concerned," said Claudio Sales, head of CBIEE, the electricity investors' association. The marginal cost to generate new hydropower in Brazil is roughly US\$30 per megawatt, he says.

Analysts blame the auction's weak prices on its regulatory design, a short-term oversupply of energy, and political pressure on state-owned generators, which make up roughly 70 per cent of the electricity supply. Brazil requires estimated investments of R\$13.5bn in power generation to keep up with economic growth.