

**ROMANIAN
ENERGY REGULATORY AUTHORITY**



NEWSLETTER



Second Quarter 2014

Table of Contents

Romanian Energy Regulatory Authority - ANRE

The Electricity Market

- ♦ Electricity regulated market
- ♦ Promotion of electricity produced from renewable energy sources and high efficiency cogeneration

The Natural Gas Market

- ♦ Internal gas market
- ♦ National Gas Transmission System

Transposition of the Commission Directive 2012/27/EU on Energy Efficiency

Secondary regulations

- ♦ Updated regulatory framework

ANRE Management Participation at Energy Sector Events

The energy sector at a glance

Romanian Energy Regulatory Authority - ANRE

ANRE is an autonomous administrative body under Parliamentary control, entirely self-financed and independent as regards its decision-making process, organisation and functioning, whose scope of activity is to issue, approve and monitor the implementation of the national-wide binding regulatory framework required for the proper functioning of the electricity, heat and natural gas sectors and markets in terms of efficiency, competition, transparency and consumer protection.

ANRE General Objectives in the Electricity and Natural Gas Sectors

In exercising its responsibilities and competences, ANRE contributes to the fulfillment of the following general objectives:

- ◆ Promotion of a European internal electricity and natural gas market that is safe, competitive and environmentally sustainable and an effective opening in the benefit of all the customers and suppliers in the European Community, as well as guaranteeing adequate criteria for the efficient and reliable functioning of the electricity and gas networks, observing the longterm objectives proposed;
- ◆ Development of competitive and functional regional markets, integrated on the European internal electricity market;
- ◆ Eliminating restrictions on cross-border trade to meet the demand of electricity and improve integration of national market within the European internal market for electricity;
- ◆ Development of a safe, reliable and efficient national energy system, consumer oriented, which will allow the promotion of energy efficiency and the integration of renewable energy sources, as well as the distributed production on both electricity transmission network as well as on the electricity distribution network;
- ◆ Facilitating access to the network for new production units, especially by removing obstacles that prevent the access of new market participants to the electricity and gas markets or the use of renewable energy sources;
- ◆ Ensuring the provision of incentives to network operators and other users of electricity and gas network to increase efficiency of transmission and distribution systems functioning and to accelerate market integration;
- ◆ Consumer protection by ensuring an effective competitive market, supporting vulnerable customers, imposing quality standards for electricity and gas supply service, facilitating the access for final customers to their consumption data required for changing the electricity or gas supplier, as well as by providing accurate and complete information to consumers;
- ◆ Ensuring the compliance by operators in the electricity and natural gas sectors with their due transparency obligations.

The ELECTRICITY Market

Electricity Regulated Market

During the last years, Romania energy system went through various modifications. Now, there is a decentralized system in which the generation, transmission, distribution and supply activities are separated and provided to final consumer by suppliers.

Electricity trading on the Romanian market is carried out through two market segments:

- ◆ Regulated market,
- ◆ Competitive market.

Regulated electricity market includes electricity market segment corresponding to the suppliers' of last resort (SoLR) obligations.

Starting with 1st of July 2013, SoLR designated by ANRE are:

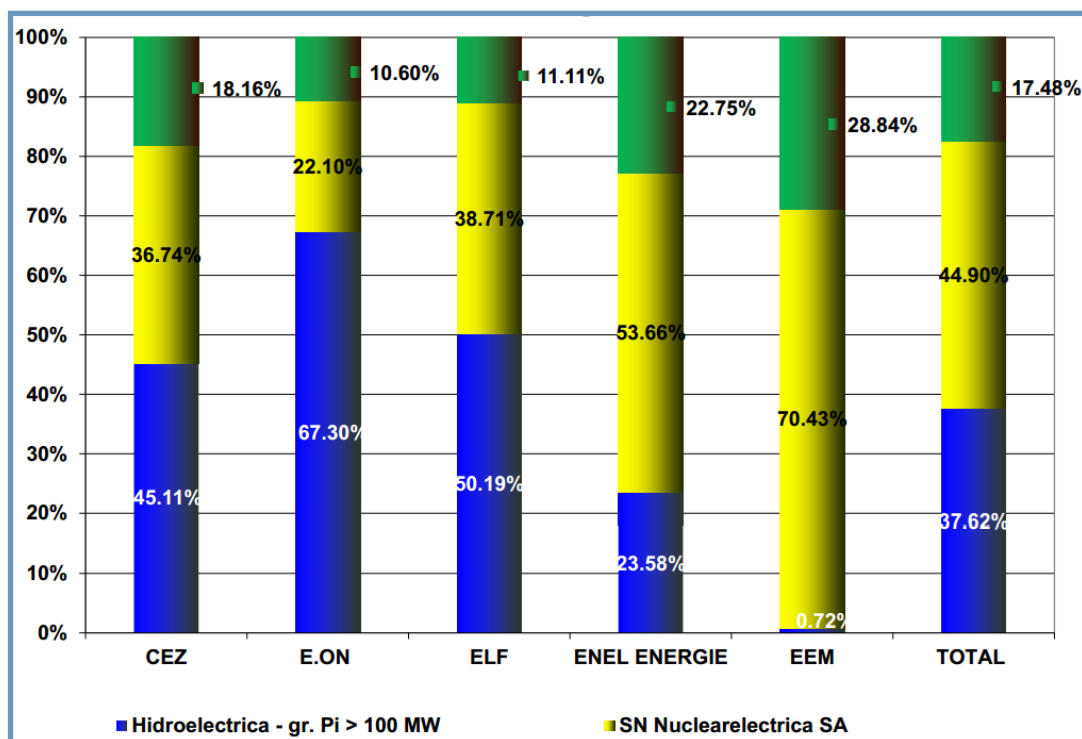
- ◆ SC Electrica Furnizare SA;

- ◆ SC ENEL Energie SA;
- ◆ SC ENEL Energie Muntenia SA;
- ◆ SC CEZ Vânzare SA;
- ◆ SC E.ON Energie Romania SA.

SoLR provide electric services on regulated market to final consumers as follows:

- ◆ Final consumers that benefit from universal service (US);
- ◆ Final consumers that do not use the eligibility right and do not benefit from universal service;
- ◆ Final consumers whose electricity supplier is in the situation of license withdrawal or any other situation identified by the competent authority in which final consumers are not supplied with electricity from any other source.

Electricity purchased under SoLR's regulated purchase agreements from producers participating at regulated market to cover consumption of final consumers billed at regulated tariffs (1st Quarter 2014)



Source: Monthly reporting of the suppliers of last resort - 1st Quarter 2014

Electricity is traded on the wholesale market and on the retail market.

The wholesale market includes all the transactions between participants, with the exception of electricity to final consumers which is traded on the retail market.

The electricity wholesale market of Romania is structured as follows:

- ◆ The market of bilateral contracts in which owners of license are free to enter bilateral contracts for trading electric power;
- ◆ The Day-Ahead Market (DAM) is a centralized market where contracts are traded on daily basis, for each trading period of the corresponding day of supply, based on the offers sent by the participants at DAM; it is a voluntary market managed by the market operator OPCOM;
- ◆ The balancing power market (BM) is a centralized market, mandatory for the electric power

producers where the Transport and System Operator buys and sells active electric power from and to the participants on the market, that own units/dispatched consumptions, to compensate the scheduled deviations between the energy production and consumption.

The centralized market of bilateral contracts (CMBC), awarded based on public tender, is a voluntary market organized by the market operator OPCOM, where there are traded the contracts with physical delivery of electricity among the participants to the market, based on some specific rules. At the end of 2012, CMBC was completed with an organized framework for trading contracts for electricity by large final consumers.

The wholesale market also includes the transactions traded on the market of technological system services and the centralized market for allocation of international inter-connection capacities.

Power Transmission Grid (PTG) Perspective Plan 2014-2023

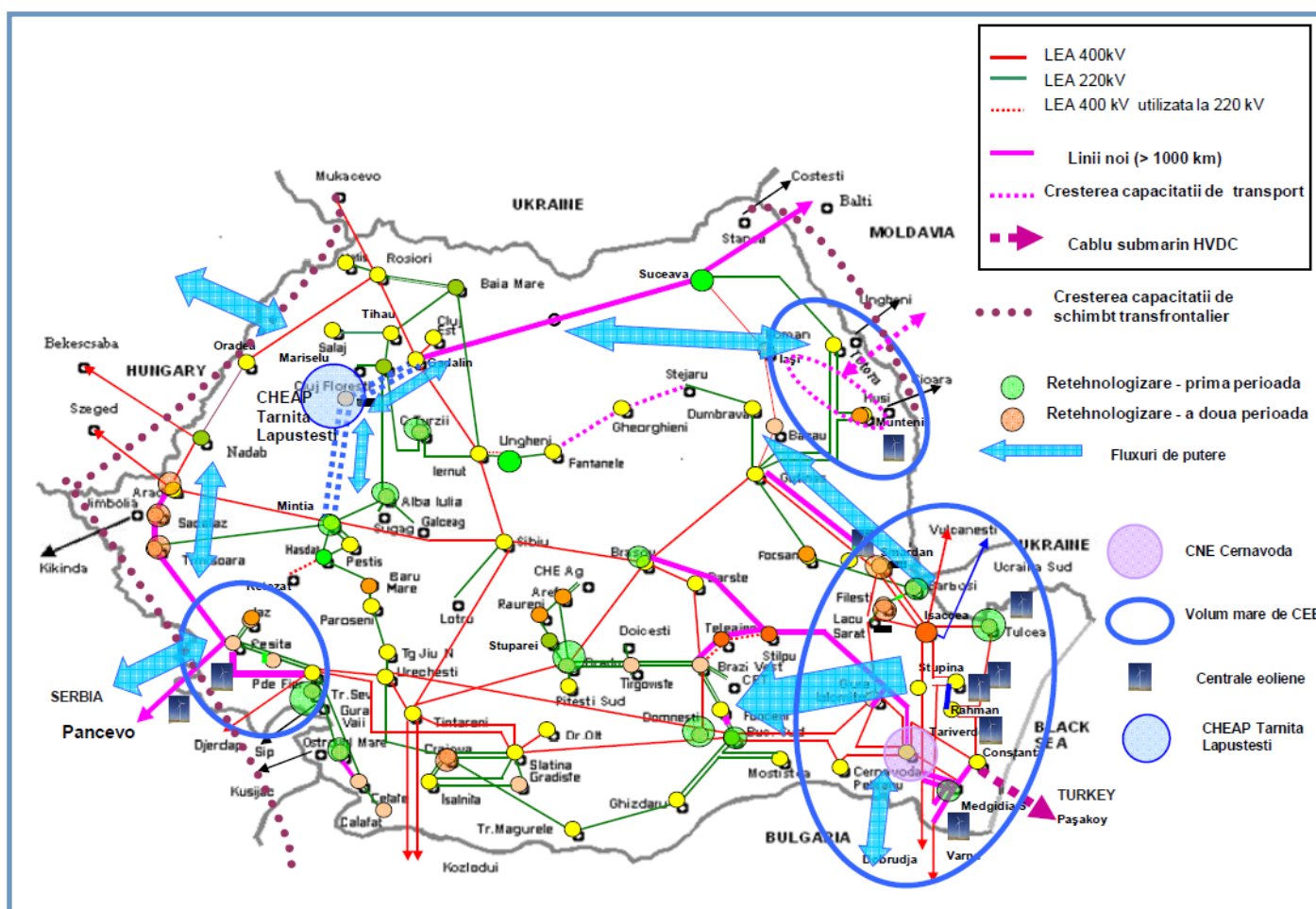
Regulation (EC) No714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity provides the establishment European Network of Transmission System Operators for Electricity (the ENTSO for Electricity) to promote cooperation between European transmission system operators. Given that more effective progress may be achieved through an approach at regional level, transmission system operators should set up regional structures within the overall cooperation structure, whilst ensuring that results at regional level are compatible with network codes and non-binding ten-year network development plans at Community level.

In compliance with the provisions of Electricity and Natural Gas Law no. 123/2012, ANRE approved the Power Transmission Grid (PTG) Perspective Plan 2014-2023, elaborated by the National Company for Power Transmission—“Transelectrica”. Based on its responsibilities and

competencies set forth in the the Law no.123/2012, Transelectrica elaborates Ten-Year Development Plans of PTG, with due consideration of the current situation and future evolution of power consumption and availability, including electricity imports and exports. The development plans of PTG consists of: a programme for PTG investments and major maintenance works needed, taking in consideration the arrangement of new electric power generation capacities and development of electricity consumption areas, in compliance with environmental regulations.

Network development plan at Community level is built on national and regional network development plans. Therefore, Ten-Year Development Plan of PTG elaborated by Transelectrica and endorsed by ANRE is correlated with the evolution of National Power System (NPS) as a whole, considering that NPS is expected to cover electricity consumption, in conditions of economic and energetic safety and efficiency.

PTG development projects — Power Transmission Grid (PTG) Perspective Plan 2014 – 2023



Source: Transelectrica - Power Transmission Grid (PTG) Perspective Plan 2014 – 2023

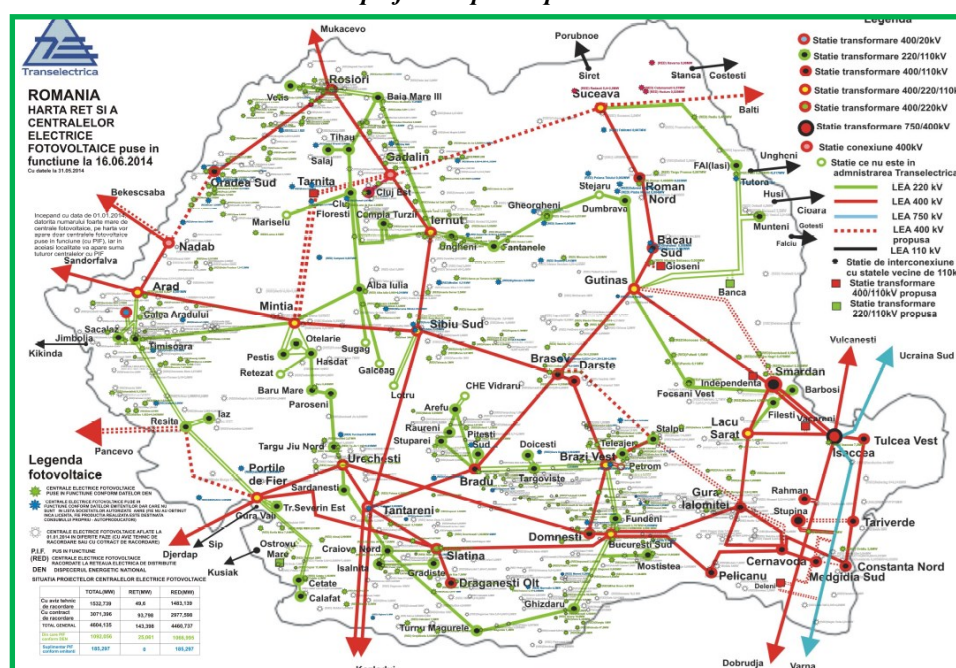
Promotion of electricity produced from renewable energy sources and high efficiency cogeneration

During the last years, when climate change became apparent, enhancement of renewable energy sources has become imperative.

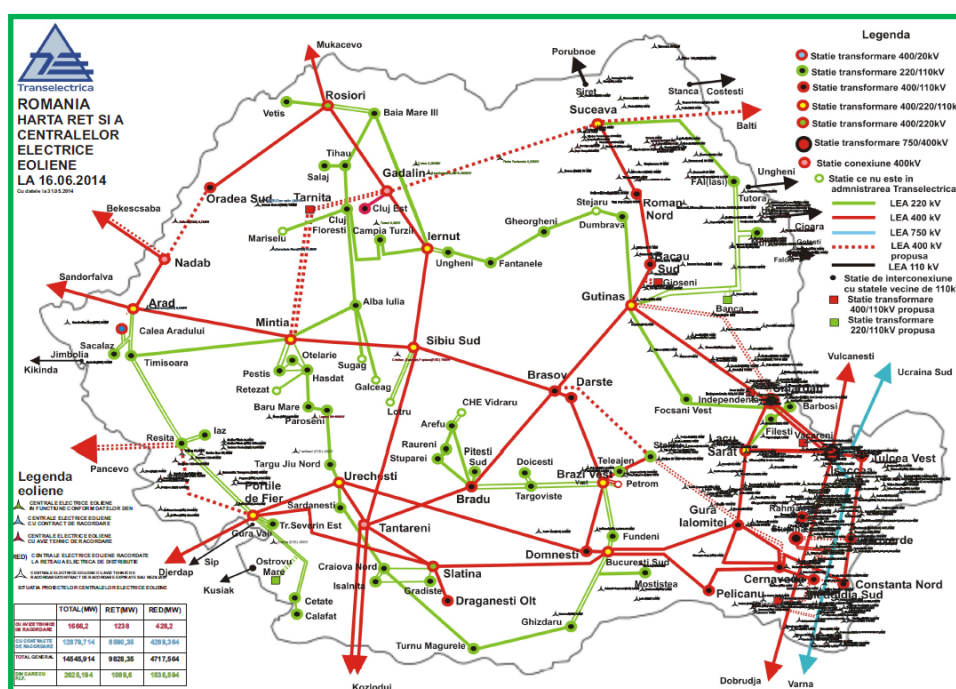
An important aspect of Promotion of Electricity produced from Renewable Energy Sources (E-SRE), established by law, is that transmission system operators and distribution system operators must provide with priority the access to the grid system of electricity produced from renewable energy sources.

Integration in National Power System of power plants from renewable sources

NPS map of solar power plants



NPS map of wind power plants



The NATURAL GAS Market

Internal Gas Market

Romania is among the least dependent states on gas import in the European region. Favorable geostrategic position, the recently discovered energy resources in Black Sea and future potential of shale gas show that Romania could obviously play a defining role in the region.

Natural Gas Market in Romania consists of:

- ♦ 1 National Transmission System Operator - SNTGN TRANSGAZ SA MEDIAȘ;
- ♦ 6 Gas Producers: Romgaz, OMV Petrom, Amromco Energy, Rafless Energy, Lotus Petrol, Foraj Sonde;
- ♦ 2 Storage System Operators: Romgaz and Depomureș;
- ♦ 41 Distribution System Operators – the largest are Distrigaz Sud Retele SRL and E.ON Gaz Distribuție SA;

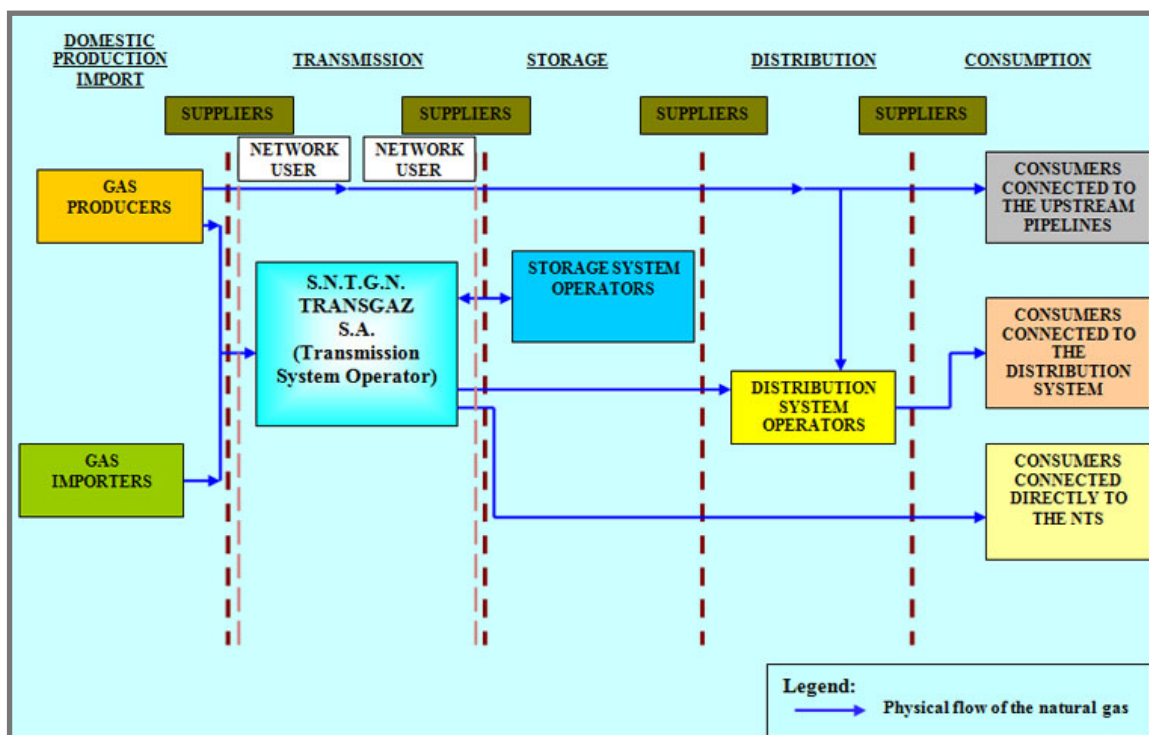
- ♦ 41 suppliers on Natural Gas Regulated Market;
- ♦ 45 suppliers on Natural Gas Competitive Market.

The development process of Natural Gas Market considered the following:

- ♦ The development of competition between natural gas suppliers;
- ♦ The continuous implementation of type “ceiling” tariff methodologies;
- ♦ Stimulation of establishment and/or rehabilitation of natural gas deposits, in order to increase the natural gas quantities from internal production and limitation of dependence of import;
- ♦ Aiming to diversify the sources of import.

Transgaz as National Transmission System Operator represents the turntable in ensuring the security of natural gas supply and in proper functioning of National Gas Market.

The Natural Gas Market in Romania



National Gas Transmission System

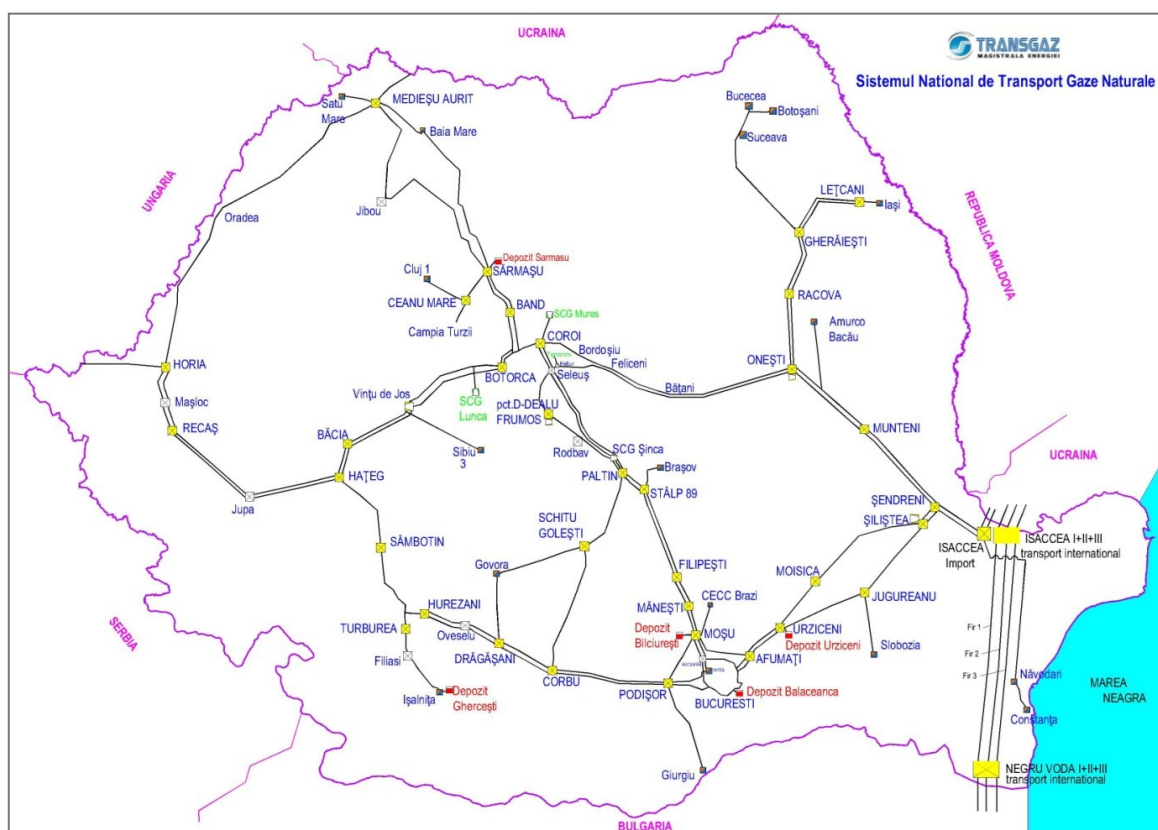
The National Gas Transmission System (NTS) consists of:

- ◆ 13.138 km total network length of pipelines, of which 553 km are transit pipelines;
- ◆ 1.119 natural gas regulating-metering-delivery stations;
- ◆ 6 gas metering stations for international transmission;
- ◆ 3 import gas metering stations (Isaccea, Medieșu Aurit, Csanadpalota);

- ◆ 5 compressor stations having a total installed power of 32 MW;
- ◆ 1.012 cathodic protection stations;
- ◆ 49 valve control stations and/or technological nodes.

Designed capacity of the national natural gas transmission system is about 30 bcm/year (excluding international gas transmission corridors with the designed capacity of 27.7 bmc/year and total technical capacity at existing operational pressure of 21.35 bmc/year).

National Gas Transmission System Map



International Gas Transmission

Iași-Ungheni Gas Pipeline

According to the Minister Delegate for Energy, the gas pipeline Iasi-Ungheni through which the Republic of Moldova will import resources from Romania will be finalised by 15 August, so that Romania exports through this pipeline almost 1-2% of the national production, in the first stage. The first phase of the project will allow an exchange of gas between Romania and Republic of Moldova of approximately 14,000 – 15,000 cubic metres per hour, which means 1-2% of the total production of Romania, and in the second phase, the capacity will reach 1.5- 2 billion cubic metres per year.

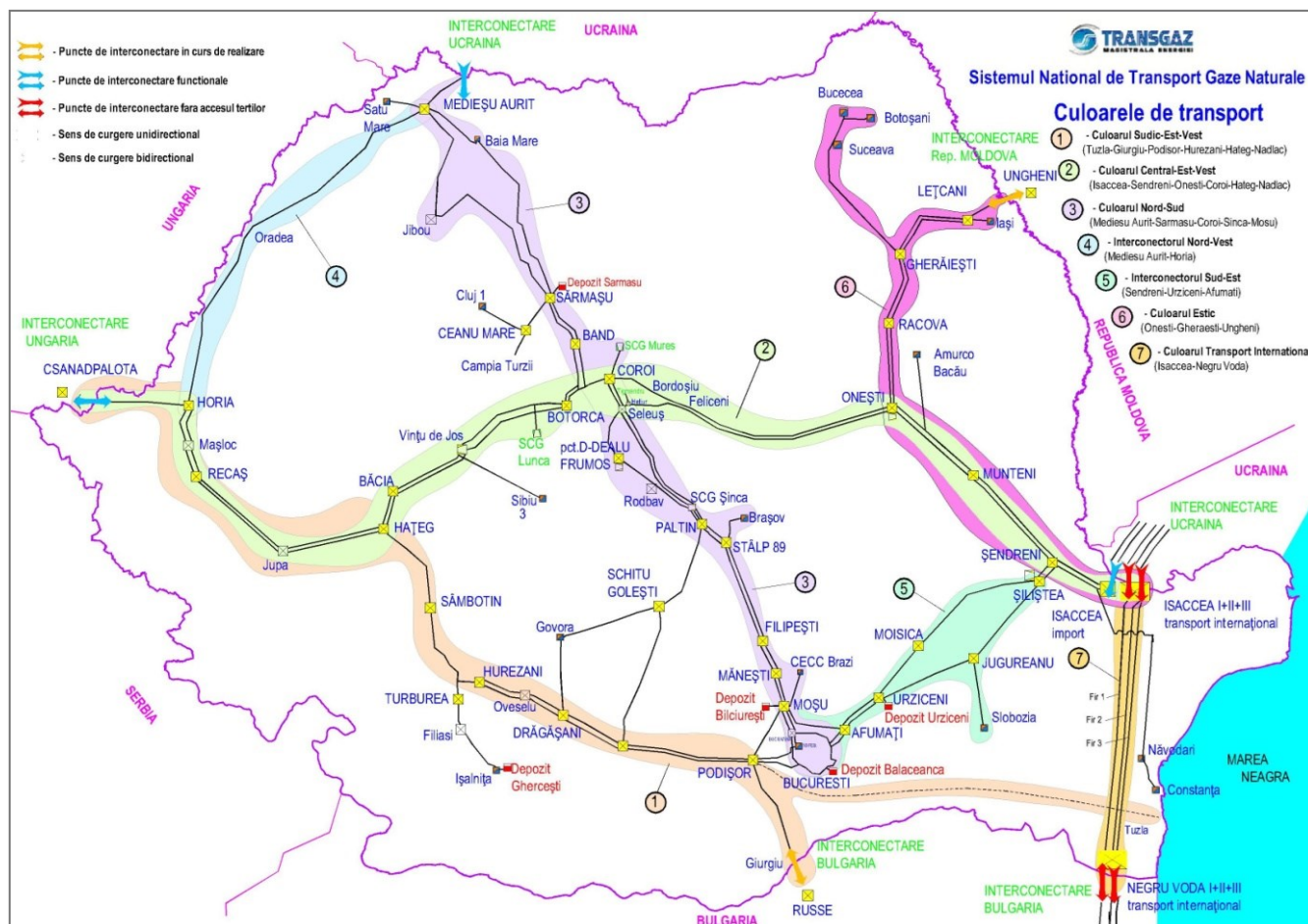
In the first phase, the gases imported from Romania will cover about 8-9% of the annual consumption of Moldova, excluding Transnistria.

According to the procedures, Transgaz and the new company from the Republic of Moldova, Vestmodlotransgaz, will sign an agreement of cooperation and then, according to the methodology will bid the capacity of the pipeline in a procedure called open season.

This is the first interconnector which functions in both cases starting with the first step.

From the point of view of the Romanian state, the project is finalised on the Romanian part. On the part of the Republic of Moldova is realised in large proportion and will be finalised by 15 August.

Major Natural Gas Transportation Corridors of the Romanian Natural Gas Transmission System



Transposition of the Commission Directive 2012/27/EU on Energy Efficiency

In June, 2014, the Parliament of Romania adopted Energy Efficiency Law in order to transpose the provisions of European Directive on Energy Efficiency in the Romanian legislation.

Target:

- ♦ The Directive establishes a common framework to promote energy efficiency within the Union in order to pursue the overall objective of the energy efficiency target of saving 20% of the Union's primary energy consumption by 2020, and of making further energy efficiency improvements after 2020.

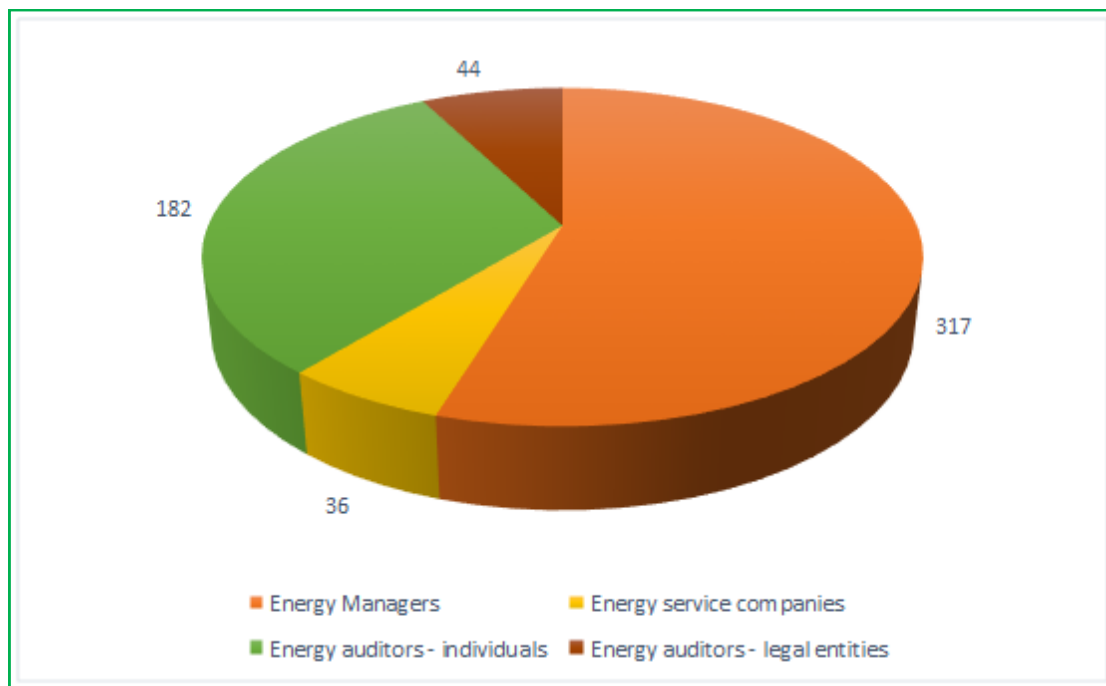
Actions:

- ♦ Implementation of energy efficiency initiatives

and programmes for each sector;

- ♦ Setting up an Energy Efficiency National Fund and providing technical assistance in Energy Efficiency;
- ♦ Supporting high-efficiency cogeneration;
- ♦ Rehabilitation of centralised heating systems;
- ♦ Pursuing the implementation of energy efficiency measures for energy savings;
- ♦ Promoting the development of energy services market, especially ESCO activities in Romania;
- ♦ Ensuring high level qualification systems for energy auditors and managers.

Certification of energy managers/Authorization of energy auditors /Accreditation of energy service companies



Secondary regulations

In order to update the regulatory framework in accordance with legislative provisions of the Third Energy Package, the main orders issued by ANRE in the 2nd quarter of 2014 are:

- ♦ **ANRE Order 32/2014** for the approval of Methodology for setting regulated revenue, total revenue and tariffs for natural gas transmission;
- ♦ **ANRE Order 35/2014** for the approval of Suppliers of Last Resort (SoLR) designation;
- ♦ **ANRE Order 36/2014** regarding modification and completion of Methodology for establishing the price of electricity sold by producers based on regulated contracts and quantities of electricity from regulated contracts signed by producers and Suppliers of Last Resort (SoLR), approved by ANRE Order 83/2013;
- ♦ **ANRE Order 48/2014** for the approval of Regulation for accreditation of ERS producers for application of the green certificates promotion system;
- ♦ **ANRE Order 50/2014** modifying Order 119/2013 for approving the contribution for cogeneration of high efficiency and some provisions regarding its billing;
- ♦ **ANRE Order 51/2014** for the approval of the average tariff for transmission services, the tariff for system services, regional tariffs for transmission services charged by Company for Power Transmission—“Transelectrica” and repealing Annex no.1, ANRE Order 96/2013 approving the average tariff for transmission services, the tariff for system services, regional tariffs for transmission services and tariffs for reactive energy charged by economic operators in electricity sector;
- ♦ **ANRE Order 53/2014** regarding modification and completion of the Network Code for the National Gas Transmission System, approved by ANRE Order 16/2013;
- ♦ **ANRE Order 54/2014** regarding some actions for gas market development;
- ♦ **ANRE Order 56/2014** for the approval of minimum stock level of natural gas for supply license holders and gas stock level for operating license holders on the National Gas Transmission System, for 2014-2015 storage cycle;
- ♦ **ANRE Order 57/2014** for the approval of the regulated tariffs on the electricity delivered by suppliers of last resort to household consumers and to consumers assimilated to household consumers that did not exercise their eligibility right.

ANRE Management Participation at Energy Sector Events

- ♦ *7-8 of April, 2014* — Participation at the working group on „Smart metering in Austria and Romania” initiated in the Memorandum of Understanding signed between the Austrian Energy Agency and ANRE. At the event were presented the latest achievements in the field. There has been, also, an exchange of information concerning the implementation of Directive 2009/72/EC and Directive 2012/27/UE. ANRE was represented by experts from Directorate for Analysis, Simulation and International Relations, the Directorate for Network Access and the Directorate for Monitoring and Energy Efficiency Projects.
- ♦ *14-18 of April, 2014* — Participation at ERRA workshop where representatives of the institutions activating in energy sector discussed issues related to: the authority, autonomy and responsibility of an regulatory institution, the evolution of the regulatory process, restructuration of the electricity industry, electricity market, regulatory process on energy from renewable resources, experience with privatization and security of supply.
- ♦ *4-11 of May, 2014* — Participation at Offshore Technology Conference 2014, organized by U.S. Commercial Service - USA Embassy Bucharest, that took place in USA, Houston, Texas. Representatives of the Romanian Government and ANRE and representatives of the U.S. authorities (USTDA, USAID, U.S. Department of State, U.S. Department of Commerce) participated at bilateral meetings.
- ♦ *19 of May, 2014* — Participation with representatives of Romanian Competition Council and European Commission at a video conference on cases pending before the Commission regarding notifications and prenotification of the support measures through green certificates and prenotification of the support scheme for consumers with capacities lower than 1 MW, under the EC Environmental and Energy State Aid Guidelines.
- ♦ *20-21 of May, 2014* — Participation at a meeting with the delegation of the National Energy Regulatory Agency of Moldova. The main purpose of the visit of Moldavian delegation was to strengthen the cooperation between the two regulatory bodies and to discuss the perspectives of the European Union Energy Market and the ANRE's support for the integration of Republic of Moldova.
- ♦ *25-27 of May, 2014* — Participation at the 24th Meeting of the Regional Coordinating Committee and the 16th Meeting of Stakeholders Working Group organized by ACER in collaboration with the Energy Regulatory Office in Poland, in Warsaw. The main subjects discussed during the first meeting were: national issues, especially those regarding the results of BAL NC and the European Union's Third Energy Package implementation in each country; the 2011-2014 Work Programme and setting the priorities of 2015-2018 Work Programme; preliminary discussions on the Gas Target Model (the 2nd version); licensing regime. The main subjects discussed during the second meeting were: recent activities in the region; Gas Target Model and the role in GRI SSE region; Balancing Network Code; licensing regime and conclusions to KEMA studies.
- ♦ *3 of June, 2014* — Participation at Energy

Investors Summit (EIS), regional event organized by Links Associates in partnership with Wall Street Journal Europe, under the auspices of Romanian Ministry of Economy. The Summit brought together strategic companies in the Romanian energy sector, government officials, top-notch experts, high-profile bankers, representative of investment banks and funds and international investors. We seek to identify avenues of cooperation in the energy field between key players, investors and decision makers.

- ◆ *4-5 of June, 2014* — Participation at Bucharest Forum Energy, organized by the Aspen Institute Romania and the Romanian Government and Energy Department—Romanian Ministry of Economy. As speaker, Mr. Nicolae Havrileț, President of ANRE, presented the keynote speech on "Gas market and the role of infrastructure development in the black sea region". The event was attended by the most powerful private and governmental actors in the region, representatives of international regulatory



organizations in the energy sector, representatives of international financial institutions and energy experts from over 15 countries from Europe, America, the Black Sea region, Eastern Mediterranean, the Caucasus and Central Asia to discuss solutions to increase energy security and development in the energy sector in the current European and international context. The event took place over two days and mixed plenary sessions and round table format conversations. Discussions covered a wide range of topics spanning from trans-regional interconnections, energy infrastructure investments, the future of energy sources exploration and production, EU-US trade and investment cooperation at the Black Sea and Caspian Sea etc.

FOREN 2014

TOMORROW'S ENERGY: FROM VISION TO REALITY



WEC Romanian National Committee organized, during 22 – 26 June 2014, under the auspices of the Government of Romania, under the leadership of the World Energy Council (WEC) and with the support of WEC Member Committees in Central and Eastern Europe, the 12th WEC Central & Eastern Europe Regional Energy Forum - **FOREN 2014** „*Tomorrow's Energy: From Vision to Reality*”. Besides WEC/ RNC members, the Forum gathered over 800 participants: top officials from ministers, governments, academia, energy leaders from European international companies, experts in energy and environment issues, representatives of mass-media.

The Programme of FOREN 2014 included 40 events about current issues at national and international level: Keynote speeches from noteworthy policy makers and businessmen in the CEE region, Round Tables on the latest accomplishments in the energy field, Special Events (Energy Day, Policy Trilemma, Keynote Addresses, Workshops), hundreds of technical papers presented within the five Discussion Sessions, technical visits and social events.

As speaker, Mr. Niculae Havrileț, President of ANRE, participated at Keynote Adresse 1 „Energy Markets in 2014: Developments and Advances Towards European Integration in Terms of Transparency and Integrity”, organized by WEC/RNC and OPCOM (Romanian Gas and Electricity Market Operator). Also, the President attended, as moderator, the event „Policy Trilemma: Role of Stakeholders (Governments, Energy Business, Civil Society and International Organizations) to solve up Energy Trilemma. Overview on Strategic Programs at European and Regional Level”.

Mr. Emil Calotă, Vicepresident of ANRE, with representatives of Regulation, Monitoring and Authorization in Energy Efficiency General Division of ANRE attended the Workshop ”Energy Efficiency – Policies, measures, best practices”, organized by WEC/RNC and Romanian Association for Promoting Energy Efficiency ARPEE.

Representatives of Electricity Network Acces and Authorization General Division of ANRE attended the Round Table RT10 “Managerial and financial challenges on the present strategic background of the Romanian energy sector ”, organized by Deloitte Romania and WEC/RNC.



The ENERGY SECTOR at a glance

- ◆ Natural gas producers are forced by law to sell part of their production on the local commodities market as of July 1, while gas distributors should do the same at beginning of next year, including the natural gas which might be imported by Romania, government decided Wednesday.
- ◆ Electrica S.A. launched the IPO for 51 percent of its share capital, the largest initial public offering ever on the Bucharest Stock Exchange which was being run between June 16 and June 25, 2014. On 4th of July, 2014, London Stock Exchange welcomed Electrica S.A. to the Main Market following its listing of Global Depositary Receipts (GDRs). The company raised \$605 million at IPO, giving it a market value of \$1.18 billion.
- ◆ According to Romanian Ministry of Economy, Romania has already achieved the renewable energy from wind and solar sources target undertaken for 2020. Therefore, the projects regarding energy generation from these kind of sources will not receive European funds from the budget for 2014-2020.
- ◆ The European Bank for Reconstruction and Development (EBRD) continues to invest in renewable energy production in Romania, with its first financing of a solar energy project in central and south-eastern Europe. EDP Renovaveis (EDPR), a global leader in the renewable energy sector, will receive a loan of EUR 20 million towards the construction and operation of six solar photovoltaic (PV) parks totalling 50 MW in the southern Romanian region of Oltenia, a press release informs. A parallel facility of EUR 10 million will be provided by the Black Sea Trade and Development Bank (BSTDB).
- ◆ Chinese companies are interested in upgrading and expanding the production capacities at Rovinari thermal power plant, in developing the Units 3 and 4 of Cernavoda Nuclear Power Plant, the privatization of Oltchim petrochemical plant, the creation of the pumped-storage hydro power plant at Tarnita, the construction of Craiova-Pitesti motorway and the construction of the high-speed railroad Bucharest-Constanta.
- ◆ Romania lifts the cogeneration tax on electricity exports as of July 1, in a bid to boost energy trading. The measure is sure to stimulate electricity exports, a necessary step considering that Romania has an installed capacity of around 20,000 megawatts and a consumption rate of roughly 8,500 MW a year.
- ◆ Big electricity consumers will pay only 15-60% of green certificates corresponding to mandatory quota set by law, state aid aiming to avoid the risk of losing competitiveness by companies due to the support granted to renewable energy.
- ◆ The contribution value for high efficiency cogeneration was reduced by 45.8%, leading to a decrease of electricity value billed to household consumers (with a consumption of about 100kWh), on average by about 1.7%.

Romanian Energy Regulatory Authority

Directorate for Communication, Cooperation and Relations with Parliament

3, Constantin Nacu Street

ROMANIA

020995

Tel: 021/311.22.44

Fax: 021/312.43.65

E-mail: anre@anre.ro

www.anre.ro