



# **ENERGY MARKET NEWSLETTER**

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## In the news

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### **EU-funded energy projects to combat energy crisis**

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Correspondence from Brussels – 59 energy projects are included in the economic recovery program with financing from the European Union adopted by the Commission in December 2008, to combat the effects of the crisis in the EU states. The EU executive already approved a number of 44 projects for infrastructure in gas and electricity fields, other 6 projects in the field of carbon capture and storage and 9 wind energy projects. Community funds allocated to these projects amount to EUR 3.8bn. According to the Commission, works have already started for a series of projects, the project overall being quite advanced in terms of implementation. Thus, at the end of 2010, EUR 697mln were transferred to beneficiaries: EUR 354mln for gas and power grids, EUR 146mln for offshore wind energy projects and EUR 197mln aiming at carbon capture and storage. Among the projects advanced or completed are: the interconnection of gas pipelines Romania - Hungary and Austria – Slovakia, the interconnection of power grids Austria – Hungary, the natural gas interconnection project Hungary – Croatia, also in an advanced phase. The value of EU funding to achieve the interconnection of gas pipelines Romania – Hungary is EUR 16,606,788 (the partners of the interconnection being the companies FGSZ Natural Gas Transmission Closed company Limited and SNTGN TRANSGAZ SA), while the interconnection Bulgaria – Romania received EUR 8,929,000 (companies involved are SNTGN TRANSGAZ SA and BULGARTRANSGAZ EAD). (Amos News, February 4<sup>th</sup>)

### **Basescu Said that Serbia and Moldova Should Be Connected to a Single European Energy Market**

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The President Traian Basescu said on Friday in Brussels that, the construction of a single energy market and the interconnection with non-EU countries is being considered at the European level, thus supporting Serbia and Moldova. At the end of the European Council which he attended, the President reported that by 2014 all regulations related to the single energy market should be in force, "and by 2015 there shouldn't be any energetically isolated country in the European Union". "The single energy market refers only to the gas and electricity markets. From this point of view, it is interesting that the interconnection with the non-EU countries, such as Serbia and Moldova, is being carefully analyzed; our support is for the two countries, it remains to see the EU budget and how to connect the two countries. As a result, either we are talking about the electricity market, or the gas market, the unification of the market and the interconnection of all EU Member States, this only means that it diminishes the risk that a country might remain without supply. This objective will allow Romania, for example, to supplement the gas demand either from Gazprom or from gas extracted from the North Sea or elsewhere, or liquefied gas, which originates from Algeria or anywhere else, which is de-liquefied in the Ports of the European Union. So this is, I believe, one of the most important decisions aimed at the energy security. Again, this is about the

unification of the gas and electricity markets", the President said. Traian Basescu talked about the intervention of Romania, within the European Council, regarding the need to take into account vulnerable people when unifying prices that the unification of the market imposes. "It was our intervention in the policy making of market prices at EU level to take into account vulnerable people. So we must find a formula to grant or allotment at a price affordable for any person. The most important discussion was the one on economic governance. A document perambulator to the decision that will be taken in March was adopted. It has as primarily objective the fiscal and financial consolidation of the euro area, because there are great vulnerabilities and very large implications there. I can say, for example, that within this unique policy, the issue to set a single retirement age is being discussed, a unique system of taxes, so a wide range of issues and extremely difficult to put into operation to meet all requirements of the Member States of the euro region. Non-member states can participate in the completion of the documents, because they are future members of the euro area and it affects them, too. And what happens in the euro area, anyway, has a great impact on the non-euro states - if we take only Romania into account, which reports the national currency in the first place to the euro", he added. (Money, February 5<sup>th</sup>)

### **EU countries have adopted an action plan for energy security**

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The heads of states and governments of the European Union (EU), reunited Friday in Brussels, adopted an action plan to ensure natural gas and electricity at affordable prices for the population, according to AFP. The heads of states and governments of the EU adopted a declaration on energy, the president of the Union, Herman van Rompuy, said. The document stresses the need to promote investments in renewable and clean energy. Friday's European summit has as objectives the diversification of the ways to produce electricity in order to reduce EU's dependence on imports, strengthening the oil and natural gas supply networks and making savings. The Union spends each year EUR 270 billion to buy oil and EUR 40 billion for purchasing natural gas, amounts equivalent to 2.5% of the European community GDP, according to the European Commission. The amount of gas used in EU for electricity production has tripled over the past 15 years. The Commission estimates that 73% to 79% of the gas consumed by the community states until 2020 will represent imports from Russia, Algeria and Norway. The price of this type of fuel is related to the oil quotation. The Commission estimates that by 2020 investments of EUR 1.000 billion will be required for achieving the three goals, which should allow a EUR 1,000 reduction of the annual energy bill for European consumers. The Brent oil price, a reference for the London Stock Exchange, has reached Thursday the maximum of the last 28 months, respectively \$ 103.37 per barrel. (Money, February 4<sup>th</sup>)

## **The North-South Initiative for the connection and integration of energy sources and networks in the Baltic Sea, Adriatic Sea and Black Sea**

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The President of the European Commission, Jose Manuel Barroso, and the leaders of six EU member states from Eastern Europe (including Romania and Bulgaria, editor's note) announced on Thursday evening the initiation of a comprehensive program to connect and integrate the energy networks and sources from the Baltic Sea, Adriatic Sea and the Black Sea, the so-called "North-South Initiative", Novinite reported on Friday. The new EU initiative on energy security was officially approved at a working dinner which took place at the headquarters of the European Commission in Brussels, which was attended by Jose Manuel Barroso, the prime ministers of the Member States of the Visegrad Group - Poland (Donald Tusk), the Czech Republic (Petr Necas), Slovakia (Iveta Radicova) and Hungary (Viktor Orban) – the Bulgarian Prime Minister Boiko Borisov and the Romanian President Traian Basescu. The strategic concept behind this North-South energy transportation corridor, first announced formally by Barroso on January 31<sup>st</sup> 2011, is to connect the energy systems in the area located between the Baltic Sea (in the north), Adriatic Sea (in the south-west) and the Black Sea (south-east), covering Poland, the Czech Republic, Slovakia, Hungary, Romania and Bulgaria, and possibly Austria and Croatia, a candidate country for the EU membership. In the longer term, the European Commission provides an extension of this integration process to non-EU members of the Energy Community Treaty (Albania, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and Kosovo).

### *Focused on natural gas transit*

The North-South Corridor will focus primarily on the natural gas transit and the interconnection of energy networks, but will also handle the oil and electricity transit. According to Novinite, the corridor is expected to play a special role in the EU energy strategy, to improve the energy security and independence of the countries in the eastern part of the EU and contribute to their economic development. Their achievement will basically make the Central and Eastern European region less vulnerable to a gas supply limitation on the route Ukraine-Belarus-Russia. The energy war between Russia and Ukraine, in January 2009, gave a very tough lesson to the EU in this regard, emphasizing its dependence on natural gas supplies from Russia and the underdevelopment of its energy ties. The North-South energy corridor project in eastern EU would be formally approved at EU level by the end of 2011 and rely on EU funds. Until then, the project will be managed by a special working group.

### *The reduction of "energy poverty"*

According to Novinite, citing EUObserver, the North-South corridor is also part of a larger plan to increase the attractiveness of South-Eastern Europe for investors and producers, as well as to reduce the "energy poverty", given that a significant proportion of the population in South-Eastern Europe spends a relatively large share of income for energy. Before getting to EU level, the preparatory works were made in a "Visegrad +" format, which brings together the four countries of the Visegrad group (Poland, the Czech Republic, Slovakia and Hungary), EU members Austria, Bulgaria, Romania and Slovenia and the EU-candidates Serbia, Croatia and Bosnia-Herzegovina. A statement signed in February 2010 expresses the

support of these countries for the North-South interconnections. Among the projects mentioned, there are liquefied natural gas (LNG) terminals that will be built in Poland and Croatia, the terminal in Constanta, Romania, and other projects for the construction of LNG terminals and compressed natural gas (CNG) in the Black Sea region. Other projects mentioned are the plans to continue promoting the Nabucco project and NETS, the Hungarian project to unite the natural gas transportation networks in Central and South-Eastern Europe by creating a joint operator of the gas transmission system (TSO). The meeting in Brussels of Barroso with the six leaders of the EU states from Eastern Europe was held on the eve of the European Council on Friday. (Capital, February 4<sup>th</sup>)

### **Another issue on Basescu's agenda: the energy companies**

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President Traian Basescu told the IMF, EC and WB delegation members that, if the new energy companies will be blocked for a long time in court, it is better to take administrative decisions than wait. "We got very far. We noticed a progress made by the Romanian side", a representative of the delegation, quoted by Mediafax, said, noting that an important topic that was discussed is related to the energy sector. In this context, President Basescu said the Romanian party has problems related to energy companies. He told the delegation members that "if the new energy companies will be blocked for a long time in court, it is better to take administrative decisions than wait, in order not to block the entire process". Basescu asked if the delegation discussed with the Government about the problems of the budget and deficit. The delegation representatives said that there is good news, Romania achieving its objectives. "The government has made efforts related to the budget deficit", Jeffrey Franks noted. Romania has an ongoing external funding agreement with the IMF, EU and other international financial institutions, totaling about EUR 20 billion. An IMF - EC mission has started the seventh evaluation of the stand-by agreement, which will analyze the fulfillment of the objectives established for the last quarter of 2010 and the conditions of a new, preventive agreement, will be negotiated. The visit will conclude on February 8<sup>th</sup>. (Wall-Street, February 7<sup>th</sup>)

### **Alro pays more for electricity**

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The aluminum producer Alro Slatina has paid a record price for the electricity purchased from Hidroelectrica in January, respectively RON 129.22 per MWh, due to the higher aluminum quotations at the London Metal Exchange, sources in the field declared for "Adevarul". Since last year, the price Alro pays for energy varies proportional to that of aluminum. In 2009, Alro was buying electricity with RON 81 per MWh, and last year, after the introduction of this formula, the average price stood at RON 113 per MWh.

*Aluminum, more expensive than last year*

"In February, Alro will pay RON 130 per MWh," the quoted sources also said. Thus, the price paid by the aluminum producer is higher than the price provided in the contracts with some "wise guys", such as Energy Holding, which buys energy with RON 130 per MWh

from Hidroelectrica this year. According to the London Metals Exchange, the aluminum quotation started 2010 at a value of about \$ 2,200 per ton and ended the year at a level of nearly \$ 2,500, after it fell below \$ 1,900 in early summer. Friday, the exchange closed the session at the quotation of \$ 2,535. A survey conducted by Reuters estimated that the aluminum price this year will record an average of \$ 2,484 per ton, compared to \$ 2,173 as the average last year stood at. Alro Slatina, the largest energy consumer in Romania, buys from Hidroelectrica three TWh of electricity annually, an amount equivalent to about 6% of the national consumption. (Adevarul, February 7<sup>th</sup>)

### **The energy price could increase by 35% until 2050**

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Energy prices could increase by up to 35% between 2020 and 2050, according to a report of Eurelectric, the energy industry employers' association in Europe. The report said that the price will increase, inter alia, due to the implementation cost of existing investments programs. The new technologies, which will lead to a reduction of carbon emissions, will cost more, and the increase of the price per one ton of carbon emissions, which will penalize polluting sources, will have a role in the price increase, EuropaPress wrote. The Spanish Energy Industry Association (UNISA) has asked the EU to make a regulatory effort to cope with changes. UNISA also requires that the revenues would be enough so as to avoid the problems with the variations of an intermittent renewable energy park. The president of the association, Martinez del Barrio, also demanded that the price paid by consumers would reflect both the value of energy and new renewable energy technologies and that all consumers could fully take advantage of the new resources and rationalize their energy consumption. (Ziare.com, February 6<sup>th</sup>)

### **2011, Finally, the Year of Wind Energy in Romania**

Last year, 448 MW were installed in Romania, the largest capacity from the former socialist countries, except for Poland. For 2011, another 700 MW are expected to be added. In Central Europe and South-Eastern Europe (including Austria and Greece), Romania will probably rank first in the top of states with the largest installed capacity this year, only Turkey being a competitive rival. That, after years when the wind energy had practically become a dream (all actors, from operators to the authorities and consultants saying many times that we have a fabulous potential, which, due to various faults, can never be operated). One of the motion of this growth is the legislative clarification (slow, but finally close to an end) and easing the procedures for obtaining the necessary permits. The most eloquent example in this regard is found in the most renowned region in this field, Dobrogea, where, for about three months, some localities in Constanta have decided to set up their own city planning commission (a fact allowed by a legislative amendment in force since about two years ago). Therefore, to obtain all planning permits, companies no longer need to wait for months for the County Council to issue them, thus being able to solve these bureaucratic problems in a few days at municipal level. The real good news this year comes from the authorities, who will finally publish the much awaited law enforcement standards of Law 220, "sometime in May-June",

according to Ionel David, Public Affairs Consultant within the Romanian Wind Energy Association. The rules have been published for some time now on the website of the Romanian Energy Regulatory Authority (ANRE), but have not yet form a government ordinance. What is the reason for this? After six pre-notifications (the first dating from November 2009) sent to the European Commission, only in January, "a positive feedback has been received", the Romanian Government will submit the official notification in March. After no longer than two and a half months as of March, the EC will answer (thankfully, positive), "and the Head of ANRE has promised that, at the time, the rules will take effect", Ionel David continued.

*Installed Capacity for Renewable Energy, Romania*

Year	Installed MW
2009	14.1
2010	454
2011	703.5
2012	1335
2013	1508

Source: The Romanian Wind Energy Association (Capital, February 7<sup>th</sup> )

**Installed capacity in wind turbines will grow this year by 55%**

Installed electricity generation capacity in Romanian wind farms will be this year of 703.5MW, by 55% more than the value of 454MW in 2010, estimates the Romanian Wind Energy Association (AREE). In 2009 there were in Romania wind turbines with a cumulated power of 14.1Mw, and in 2010 the total capacity reached 462MW. Thus, Romania ranked the seventh in the EU in terms of volume growth. "There are contracts for connection to the power grid for 5,200MW. Transelectrica, together with the thermal power plant of 800MW that Petrom builds, can support up to 6,000MW in wind turbines", declared yesterday Ionel David, public relations consultant with AREE. According to Transelectrica, the Romanian power grid can connect up to 3,500MW capacities in wind energy. Romania's potential in this field is of 14,000MW installed. The Wind Energy Association appreciated that in 2012 would be built plants with a power of 1,335MW, and in 2013 the production capacity will be supplemented with another 1,508MW, so in Romania there will be a production capacity from wind sources of 4,013MW. At EU level, the total production capacity in wind turbines was at the end of the last year of 84,074MW. Germany has the largest production capacity of wind energy in the EU, of 27,214MW, according to data at the end of 2010, followed by Spain, with 20,676MW, Italy (5,797MW) and France (5,660MW). Investments in onshore wind parks can amount to EUR 1.5-1.7 per MW. The Association has 85 members, mainly developers of wind projects, but also banks, lawyer houses, consultancy companies, construction and transportation companies. (Curierul National, February 8<sup>th</sup>)

**Boc announced that, by July, the national companies to be liquidated will be determined**

The head of the Government said Monday that an assessment of the state-owned companies is necessary, an assessment which will decide whether they will be restructured, privatized or liquidated, the companies deemed strategic being excluded from the last two procedures. The Prime Minister believes that the assessment and restructuring of the state-owned companies can no longer be postponed, given that their faulty management has come to impede the private sector. "By reforming them, we will provide a substantial support to the private sector, which is sometimes blocked by the inappropriate operation of the state-owned companies. From this perspective, we will make, until the end of July, an analysis of each state-owned company, and each company will be classified in one of following categories: company to be restructured, company to be privatized and company to be liquidated, where there is no chance of recovery", Boc said. On the other hand, a few such companies are excluded from privatization due to their strategic importance for the Romanian state. "We do not consider the privatization of CEC or the sale of the majority stake in Hidroelectrica, Romgaz or Transgaz. These are strategic companies of the state and will remain as such. We consider companies that bring losses to the state budget", Boc said. The national companies that will remain in the state's portfolio will have to considerably improve their management "by introducing external, regular audits for these companies and the financial control of these companies will be transferred from the ministries to the Ministry of Finance for a rigorous control and an effective management". (Bank News, February 8<sup>th</sup>)

**Electricity and gas tariffs increase in the interval 2013-2015, as the Government eliminates the regulated price**

Electricity and gas tariffs will increase in the period 2013-2015, after the Government will eliminate regulated prices, at the IMF's request, based on a schedule that will be established until September 2011, and the vulnerable consumers, who need to be protected, will be defined. The elimination of electricity and gas regulated prices was announced on Monday evening by Prime Minister Emil Boc, at the end of the negotiations with the IMF. "In the energy field, in the year 2011, the following measures will be taken: by September a timetable to eliminate electricity and gas regulated prices will be set, and this timetable will be implemented in the period 2013-2015. Therefore, by September this analysis will be done, a schedule will be established, but the implementation schedule will aim the period 2013-2015. Also, by the end of 2011 the Ministry of Finance and the Ministry of Labour will define vulnerable consumers, according with the European legislation, and create the mechanisms to protect them, in light of the measures to be taken during the period 2013-2015", Boc said during a press conference. (Ziarul Financiar, Evenimentul Zilei, Hotnews, Gandul February 7<sup>th</sup>)

## **Boc: CEC, Hidroelectrica, Romgaz and Transgaz Won't Be Privatized**

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The Government isn't thinking about privatizing CEC, Hidroelectrica, Transgaz or Romgaz, Prime Minister Emil Boc said. "We do not consider the privatization of CEC, Hidroelectrica, Romgaz and Transgaz. These are strategic companies", Boc said. He said that the Government is considering privatizing companies that are not operated in the manner of market conditions. "State-owned companies have been reformed and restructured in the last 20 years. By the end of July 2011, we will analyze each state companies, each company will be classified into the following categories: those who will continue the activity, possibly restructured companies, companies that will be privatized or liquidated, where there are no chances of performance. Each company will be thoroughly examined", Boc said. He said that the processes started in 2010 targeting the sale of minority packages at Petrom, Transgaz and Transelectrica would be continued. In addition, setting up two integrated energy companies, Electra and Hidroenergetica, remains an important objective of the Government. (Capital, February 7<sup>th</sup>)

## **The Government Resumes the Privatization in the Energy Field**

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The Ministry of Economy has committed through a new agreement with the IMF to develop an alternative solution to restructure the state-owned energy sector, in case the two energy giants will not be ready this year. The alternative plan will include resuming the privatization of the energy complexes in Oltenia and listing on the Stock Exchange Hidroelectrica and Nuclearelectrica. Two years later of failed attempts to set up the two energy companies, Electra and Hidroenergetica, the Ministry of Economy publicly admits that it is time to develop an alternative plan of reorganizing state-owned companies. This idea is included in the new agreement with the IMF, under the "Growth and Structural Reform to Increase Flexibility for State Enterprises" Chapter. Setting up Electra and Hidroenergetica is blocked in Court by the Property Fund and by some unions in the energy field; and their completion this year is virtually impossible because the terms in these trials. Moreover, the entire project should be restarted from scratch and redesigned based on 2010 financial results of the companies involved, so that there are no fixed subsidies, as the IMF warned on this plan. The agreement with the IMF requires "looking for an alternative solution, if the establishment of the two energy companies isn't completed by the end of 2011, including by privatizing packages of shares of energy companies".

### *Romgaz on the Stock Exchange by Spring*

Sources within the Ministry of Economy said, for Adevarul Newspaper, that the idea of an alternative solution is in early phase, and for this reason, the text of the agreement doesn't specify any company name in this chapter. "In the next period we will concentrate on this new solution. If you remember, there was, at one time, the idea of listing minority stakes from Hidroelectrica and Nuclearelectrica on the Exchange Stock. Most likely we will resume this issue. It is possible to privatize Craiova, Turceni and Rovinari Energy Complexes, the quoted sources have said. Moreover, the IMF urged the sale of minority stakes in Petrom, Romgaz, Transelectrica, Hidroelectrica and Nuclearelectrica, and the full or the majority packages at

the three complexes, at Electrocentrale Bucharest and Radet by the end of this year. The Fund also asked for closing down Termoelectrica and uneconomic mines. In response, the authorities included in the new agreement the sale of 15% of Transelectrica and Transgaz and 9.8% of Petrom this year, and listing 15% of Romgaz in spring 2012. The new IMF agreement also provides that ANAF will continue the collection of arrears to the National Coal Company and it will sell the viable assets. Unviable mines will be closed by 2018. Termoelectrica will be divided in viable units and non-viable units, and the latter will be closed, the document also mentions.

#### *How Did It Get Here?*

The idea of listing minority packages from Hidroelectrica and Nuclearelectrica, the largest and most profitable producers of energy from Romania, has been taken into account in 2006-2007, before the authorities come up with the idea of setting up a single national energy company. The solution of listing the two producers and privatizing the energy complexes was recently suggested by both the World Bank and by the Fund Property. According to specialists in the field, for a plan to restructure the sector to be truly viable it requires an analysis of energy resources and establishing a national objective. Furthermore, the plan should be discussed with social partners and with private investors and taken on by the political spectrum. "Just because these steps weren't fulfilled we ended up in the current situation, having a government decision to set up the energy champions, that we can not apply", experts have told us.

#### *Basescu Has Called for New Measures*

"If the new energy companies will be blocked for a long time in Court, it is better to take administrative decisions rather than wait, not to block the entire process", President Traian Basescu told the IMF delegation on Saturday. Besides, the first draft of the new version of Romania's energy strategy for 2011-2035 says nothing about the two energy giants. (Adevarul, February 8<sup>th</sup>)

### **Renewable energy producers accessing European funds will receive only one green certificate**

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The investors in projects for producing energy from renewable sources will be able to opt either for accessing European funds or for receiving more green certificates according to the new legislation in the field, the representatives of the Romanian Wind Energy Association (RWEA) said today. After the last notification sent by Romania to the European Commission in order to receive the opinion required for the application of Law 220, the Community Executive asked the Romanian Energy Regulatory Authority (ANRE) to engage in the implementation of some measures that would avoid the overcompensation of renewable energy producers. One of these measures refers to the accumulation of the green certificates scheme with other types of aid for investments, the accessing of European funds being included in this chapter. "So those who have accessed European funds for such projects will continue to receive one green certificate for each MWh of renewable energy. After the new support scheme (which offers more certificates – editor's note) will be applied, the investors

may opt either for European funds and a green certificate, or for a number of green certificates depending on the technology, as provided in the new law", Dana Duica, the executive director of RWEA, explained. So far, 14 investors have already signed contracts to access EU funds for renewable energy production, of the more than 400 projects submitted. This measure will especially affect small developers, because only an amount of up to EUR 20 million can be accessed from EU funds. "This includes wind projects of up to 40 MW", Duica also said. A second requirement of the European Commission was the monitoring of the market until 2016 by an independent institution. "ANRE's answer was that it will develop a regulatory framework to monitor production costs and the revenues of the producers who benefit from the green certificates scheme, according to the new law, and it will propose in 2016 the earliest the revision since 2017, if appropriate, of the number of green certificates and / or duration of the support scheme", Duica explained. Currently, all renewable energy producers receive a green certificate for each MWh of energy introduced into the network, certificates which they sell on a specialized market, with an additional gain compared to the energy price itself. The new law, which grants more licenses, although it was voted in the autumn of 2008, is not applied in the absence of an opinion of the European Commission. RWEA representatives estimate that this opinion will come in May-June and the new law that promotes renewable energy will be applied from the middle of this year. "The implementing rules are largely ready, and ANRE president has promised that, when the answer of the European Commission will come, they will be immediately approved and transformed into orders", Ionel David, a RWEA representative, said in turn.

#### *How much green energy costs*

In parallel, energy suppliers are obliged to purchase a number of certificates proportional to the energy delivered. The suppliers transfer those costs in the final tariffs, so the support scheme is borne by all consumers in Romania. In this chapter, RWEA officials showed that a 1% share of renewable energy in the national consumption means a 1% increase of the final bill. "ANRE estimated a 30% impact in the bill until 2017, but this will not happen suddenly, but gradually, 3-4% per year. However, since 2013, all the producers of energy from fossil fuels will have to buy certificates of carbon dioxide emissions, and the energy from traditional sources will be more expensive", Ionel David added. At the end of 2009, in Romania there were only a few turbines totaling 14 MW, and last year the installed capacity increased to 454 MW. According to RWEA estimates, this year another 703.5 MW will be installed. In total, at the end of 2013, Romania will have wind turbines of 4,013 MW. (Adevarul, February 7<sup>th</sup>)

### **Franks: the energy and gas prices for the population will not increase in the near future**

The population should not expect an increase of the electricity and gas prices in the "near future", since the liberalization of the costs will be achieved gradually, by 2015, and differently for the rich and the vulnerable, the head of the IMF mission, Jeffrey Franks, declared. "Households should not expect price increases in the near future, because the liberalization of electricity and gas prices will start later and it will be completed in 2015. We

have not established yet when this process will begin because we want to work first on defining the vulnerable people and ensure their protection", Franks said during a press conference. The IMF official said that the first phase of price liberalization will target consumers other than the population, a process that will begin in the coming months and will be completed in 2013. He explained that following the price liberalization process, the rich households will pay the real price, while the rest of the households will pay less. "The Government, Ministry of Labor and the Ministry of Economy will work with the energy regulatory authority. All consumers will have a slow adjustment in order to protect the poor", Franks said. He mentioned that the electricity and gas price increase as a result of the liberalization process depends on the amount the households currently pay, because consumers pay different prices. Electricity and gas tariffs will increase in the period 2013-2015, according to a timetable that will be established until September 2011. The elimination of regulated gas and electricity prices was announced on Monday evening by Prime Minister Emil Boc, after the negotiations with the IMF. (Mediafax, Bloombiz February 8<sup>th</sup>)

### **AOAR: We do not understand why the IMF is concerned about the energy market liberalization**

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The representatives of the Association of Businessmen in Romania (AOAR) considers the involvement of the International Monetary Fund (IMF) on the energy market as an interference, adding that Romania has a sufficient degree of openness of this sector, Mediafax announced. "According to ANRE, Romania has a high enough opening of the energy market. We do not understand the requirements of the IMF, they do not solve the problems on the market in Romania. Furthermore, the gas market in Romania has no commitment to align to the European Union. We do not understand why the IMF is concerned about the energy market liberalization. It is an interference that we do not understand. If the IMF has made no efforts to pull the economy out of recession, it should at least not to try to drag it deeper into recession", Cristian Parvan, general secretary of AOAR, declared Tuesday during a press conference. He said that the energy market liberalization will only totally cancel the competitiveness of the Romanian companies in the field. The head of the IMF mission for the assessment of the stand-by agreement, Jeffrey Franks, said Tuesday that the population should not expect an increase of the electricity and gas prices in the "near future", because the costs liberalization process will be achieved gradually, until 2015, and differently for the rich and the vulnerable. Electricity and gas tariffs will increase in the period 2013-2015, according to a schedule that will be established in September 2011. The elimination of regulated electricity and gas prices was announced on Monday evening by the Premier Emil Boc, following the negotiations with the IMF. (Bloombiz, Evenimentul Zilei February 8<sup>th</sup>)

## **Ariton Examined with the Turkish Minister of Energy the Nabucco Project and the Project for the Underwater Electric Cable**

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The Romanian Minister of Economy, Trade and Business, Ion Ariton, analyzed in Bucharest, together with the Minister of Energy and Natural Resources of Turkey, Taner Yildiz, the evolutions of the two strategic projects, the Nabucco gas pipeline project and the project for the underwater electric cable. "We have looked at two developments for the strategic projects, Nabucco and the high voltage submarine cable project between Romania and Turkey. We reaffirmed our support on this occasion to progress faster in the realization of the Nabucco project, a project of major importance for the diversification of gas supplies in the region. As for the cooperation on third markets, we agreed to form a working group, together with company representatives, to identify concrete projects in the areas in the Caucasus and in the Middle East in the energy field", Ion Ariton said. The Minister has shown "delighted" for the results of Tuesday's talks between the two parties. "Both me and the Minister Taner Yildiz reaffirmed the desire to deepen the cooperation for both the energy field as well as in other areas of bilateral and regional economic cooperation. As an EU member, Romania considers that Turkey can become an important contributor to the increase of the European energy security and a key partner in many of our regional projects. We have discussed about the development of new projects for the cooperation in the transport of electricity, in oil and gas field, renewable energies and for strengthening regional markets integrated to European requirements. We have agreed that our experts would continue a regular dialogue on issues of the regional and European agenda, so that we can better improve the complementarities in our projects regarding the mentioned fields", Ariton said. The works of the Romanian-Turkish team in the energy field are carried out in Bucharest between February 7<sup>th</sup> to 8<sup>th</sup>, 2011, when the representatives of the specialized companies from both countries discuss the development of new cooperation projects in the transport of electricity, in oil and gas field, renewable energies and for strengthening regional markets integrated at European requirements. (Money, Adevarul February 8<sup>th</sup>, Bursa February 9<sup>th</sup>)

## **Popa, NBR: The liberalization of gas and energy prices does not affect the inflation for 2011 and 2012**

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The Government's program to increase electricity and gas prices, demanded by the International Monetary Fund (IMF) and European Commission (EC), can not increase the inflation rate in 2011 and 2012, because the liberalization program begins with industrial consumers, Cristian Popa, Deputy Governor of the National Bank of Romania, said at The Money Channel. "Regulated prices have their own dynamics. The liberalization for industrial consumers is being analyzed and it will be applied later, it does not affect the inflation for 2011 and 2012. If the growth of regulated prices will change, we will include it in future forecast", Popa declared. He added that the inflation increase caused by the rise of VAT from 19 to 24%, was of 4%. "Inflation has jumped from 4% to 8%, mainly due to the VAT increase. I trust the NBR forecast of 3.6%", Popa said. The liberalization of gas prices will be made in three stages, and the adjustment for households will start later and it will be done

gradually", the head of the International Monetary Fund (IMF) mission in Romania, Jeffrey Franks, declared on Tuesday. According to him, the authorities will define, in the coming period, the categories of vulnerable consumers. (Money, February 8<sup>th</sup>)

### **What Are the Plans of E.ON in Romania in the Energy Production?**

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The German group E. ON does not give up on the project to build a power plant in Braila, although the establishment of the "energy giants" by the Romanian State threatens their plans, and it has designed up to 250 wind MW. "The project in Braila will continue. We will establish the project company with Enel and Termoelectrica (partners in the project – editor's note) this year", the General manager of E.ON in Romania, Frank Hajdinjak, said today. The three companies have signed ever since 2008 a memorandum of understanding to achieve a new 800 MW plant in Braila on the platform of former CET, and the investment is estimated at over EUR 1bn. The project has suffered major delays; however, given that the construction would have had to start in 2010, the plant would become operational in 2014-2015.

#### *Private Companies Fear "the National Champions"*

According to Hajdinjak, something that endangers the investment is the Government's project to establish "the national champions" in energy, Electra and Hidroenergetica. "We fear that competition will be affected", the E. ON official in Romania pointed out. On the other hand, the German group, which five years ago bought from the Romanian state the former Electrica Moldova and former Distrigaz Nord, thus strengthened its position locally. Thus, in 2010 it has made the legal merger of the supply activities of natural gas and electricity, founded E. ON Energy Romania, with 2.9 million customers. Also, E. ON group founded E. ON Renewables Romania, involved in a number of wind projects that could reach, in one or two years, at a total installed capacity of 150-250 MW. E. ON representative in Romania said that apart from sale of natural gas, other activities have generated a profit in 2010; the results are comparable with those registered in 2009, according to estimates. 548 employees left the group last year. (Evenimentul Zilei, February 9<sup>th</sup>)

### **The gas and electricity demand could stagnate in 2011**

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The demand for natural gas and electricity will remain in 2011 at a similar level to that recorded in 2010, the general manager of E.ON Romania, Frank Hajdinjak, said Wednesday during a press conference. "The demand has stagnated at a pretty low level. I do not think that we will see an increase in consumption, so we expect similar levels of demand in 2011", Frank Hajdinjak stated. The final electricity consumption in 2010 amounted to 50,520,000,000 kWh, 3.8% higher than in 2009, according to the National Institute of Statistics. In 2010, primary energy resources decreased by 0.3% and electricity resources increased by 4.2% compared to 2009. The main primary energy resources amounted to 34.090 million tons of oil equivalent (toe), with 107.8 million toe less than in 2009. Romania's natural gas consumption totaled, in the first 11 months of 2010, 127.57 million MWh, respectively 5.74% more than the consumption in the same period last year, which

amounted to 120,642,000 MWh, according to the data centralized by the Romanian Energy Regulatory Authority (ANRE). The domestic natural gas production in November 2010, which enters into consumption, represented 83.37% of the total sources. The first two producers (Romgaz and Petrom) have covered 97.75% of this source. The imports which entered into consumption in the current month, current imports and extracted from storage, represented the difference of 16.63%. The top three importers - domestic suppliers - with an imports market share of over 20% each, made together 69.89%. (Doing Business, February 10<sup>th</sup>)