Romania’s Energy Market. Challenges and Mergers

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Abstract: - In this paper, the authors tried to present a synthesis over the developments carried out across Romania’s energy market in the last decade and also to foresee the movements which will take place in the future.

Our study presents the structure of the wholesale electricity market at a glance but also the retail market, and in addition is analyzing the concentration indicators in the Romanian energy market.

Another aspect pointed out in this paper is the price evolution on the wholesale electricity market compared to the prices appeared on Energy Exchange Austria (EXXA).

The study appreciates as major challenge the establishment of new legal entities in the energy sector by merging the existing ones and ensure them on the one hand profitability, and on the other hand the necessary financing sources.

The authors believe that currently in Romania there is not a balanced mixed of energy production capacities: hydro, gas, liquid, solid and nuclear but only “separated” spreading in more than 15-20 companies, which in final leads the Romanian state to be an unsecured and inefficient energy provider on a long term basis. Still the solution approached by the authors of this study is to merge the existing companies in one, two or maximum three companies, to ensure them a private management, to identify and guarantee the necessary financing sources.

On the opposite, the authors believe that if the Romanian state could not manage to do this in a certain and short period of time (1 year), then they should move toward on the direction and privatize these companies operating in the energy sector, privatization through either strategic investors or by listing shares to internal and external stock exchange.

Looking back to the Romanian energy sector, the basic stone in this pyramid was put just and perfect years ago, but now the authors appreciate that a decision should take place in 2011: real restructuring of the Romanian energy sector or privatization of it, otherwise, the chaos might take place in the consumers’ life leading to real delays in the development of Romania.

In final, the authors are summarizing in seven conclusions, in fact, the essence of this paper, that Romania still owns natural resources and if, a decision is not take fast: either to apply an accelerate restructuring process of the energy sector or to privatize these wealthy companies, then the next ten years are compromised. In fact, the purpose should be to have an efficient energy strategy, predictable, sustainable and enhanced in the European Union boundaries.

Key-Words: - Romania’s energy market, challenges, mergers, solutions, European Union

1 Brief description of the developments across Romania’s Energy Market in the last decade

- Government Decision 365/1998 – vertically integrated monopoly – company RENEL – was split in separated distribution and supply companies (SC Electrica SA) and generation companies (SC Termoelectrica SA and SC Hidroelectrica SA) and was established within a new company - CONEL SA.

Two other electricity generators (SN Nuclearelectrica SA and RAAN) were separately established;

- Transmission, system services and market administration have been separately organized, within CONEL SA;
The relationships between parties within the electricity sector were settled based on contracts;

- Government Decision 122/2000 – electricity market opens at 10%;
- Government Decision 627/2000 – CONEL holding is dissolved;
- September 2000 – launch of the compulsory electricity spot market in Romania, administered by OPCOM and organized based on pool model;
- July 2005 – launch of the new market model, based on:
  - Voluntary spot market, with both sides offers and bilateral settlement;
  - Compulsory balancing market, with Transport Operator as single counterparty;
  - Financial responsibilities of the balancing are allocated to the Balancing Responsible Party;
- Government Decision 644/2005 – electricity market opens at 83.5%;
- November 2005 – launch of the green certificates market;
- December 2005 – launch of the centralized market for bilateral contracts;
- March 2007 – launch of the centralized market for partially standardized bilateral contracts with continuous negotiation;
- July 2008 – launch of the mechanism of direct debit and guarantee for electricity transactions on the day-ahead market (OPCOM as central counterparty).
- August 2008 – process of legal unbundling of distribution and supply companies has been concluded.

2 Challenges, Mergers and Advantages

Currently, we think that Romania’s energy market is in front of a “real challenge” as it owns an interesting mixed of production capacities: hydro, gas, liquid, solid and nuclear but only “separated” not combined in one, or two or at least three companies. This situation is an unhappy one compared to many other countries: Italy, Czech Republic, Germany etc. Therefore, we believe that Romanian’s Government should turnaround the current status, and in this sense, The Ministry of Economy, Commerce and Business is trying to set up two energetic giants: Electra and Hidroenergetica. Looking at this idea like a “pyramid”, the basic stone and relatively strong, still in this establishment of the already mentioned companies are a lot of polishing to be done before, after or both.

The challenge is the following: part of the companies which are to be part of the mergers (both in Electra and Hidroenergetica) are currently registering important losses compared to other companies which are reflecting profits, therefore being quite difficult to estimate if after the mergers will be done, the outcome of Electra and Hidroenergetica will be positive or negative in terms of profitability.

The loss makers are in general the energy production companies based on coal. In addition ELCEN, the biggest thermo energy producer is constantly crediting on a medium and long term basis the hot water and heat consumers, which is negatively impacting the net result.

One solution before or after creating those companies might be to have “private management” instead on a political (public one) based one, in order to improve the efficiency and maximize profitability following a in-depth financial-economical-social-environmental analysis.

Even, the Romanian Government will manage to solve this current problem related to the financial status of the new foreseen energetic companies, still they will have in front of them the dilemma of finding the best financing sources for make them functional and sustainable taking also into consideration the energy policy of the European Commission.

3 Conclusion

1. The “real opening degree of electricity market” in Romania still needs to be “polished” in terms of legal framework in order to balance on the one hand
the social protection wanted by the Romanian Government but also to “push” the Romanian energy market into the boundaries of the European Commission policy;
2. Romania is showing too many “small” trading companies and in the future a lot of mergers will occur in this sense;
3. Still, an important player on the analyzed energy market is the Romanian state through Electrica, which owns approximately 30% market share on the supply and distribution energy market
4. The biggest hydro energy producer is Hidroelectrica, 85% of its shares belonging to the Romanian State
5. Clearly, in the forthcoming period the Romanian State should re-arrange/restructure the energy sector in order to create value added both for the country and for European Union;
6. After the Romanian Government will decide the establishment of one, or two or three energetic-giant companies before to become operationally, the Government should imperatively settle on and identified the necessary financing sources for their future otherwise the giant will end up in bankrupt, which will significantly negative impacted the Romanian population. Among the necessary financing sources might be: bonds, listing shares to Bucharest Stock Exchange and London Stock Exchange, borrowings from European Investment Bank, European Bank for Reconstruction and Development, International Financing Corporation-World Bank
7. Romania’s strategy in the energetic sector should base on the following pylons: a) restructuring the pricing methodology for gas and electricity; b) set up of new energetic companies by merging the existing legal entities in order to obtain a balanced mixed of production capacities; c) identification of financing sources; d) take into account the importance of consumer angle; e) to be secured and efficient and more importantly 20% of it green energy

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