Regular update offering general business news and important legal updates to provide you with a complete image of the Romanian Renewables Sector.

Renewable Energy Update

Bucharest, May 2013

Romania was ranked 13 in Ernst & Young's 2012 *Country Attractiveness – All Renewables Index* out of 40 countries world-wide. To address the needs of those operating in Eastern Europe's Renewables Haven, BWSP Hammond Bogaru & Associates issues a unique regular update with a special focus on renewable energy news. We offer both general business news and important legal updates to provide you with a complete image of the Romanian Renewables Sector.

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ABOUT US

BWSP Hammond Bogaru & Associates is the Romanian law firm partner of **BWSP Legal** - a Central and Eastern European strategic partnership formed to give legal advice and solutions for clients investing in and operating throughout the region as well as their own jurisdictions.

Our Renewable Energy Practice advises on all types of renewable energy projects and supports the development of the clean energy sector in Romania.

Adrem Invest will start the construction of a cogeneration thermal power plant using biomass in Suceava.

Construction works will be carried out by firm General Construct. The plant will produce thermal power starting this winter and will supply electricity starting with the spring of 2014. Austrian firm URBAS will provide the necessary equipment.

Romania should focus its energy strategy on smaller, yet more flexible projects.

The problem is that Romania's energy system has gone through profound changes, the most important of which is the start of green power generation. Afterwards, the system has been subjected to significant daily fluctuations and in the absence of capacity to regulate it, use of thermoelectric and hydropower plant has increased, and costs became higher too.

Moreover, a large part of Romania's generation facilities is past is service life. With harsh drought in the last two years and a system that has been neglected for two decades, Romania ended up importing electricity in 2012, which is unusual for a country that is a net power exporter.

The major companies in the energy business, which the Romanian government is trying to lure to its projects say big investments are a thing of the past and what is needed now is a more flexible approach. The countries that managed to revitalize their energy generation sectors are those that made several investments options in various technologies available to investors.

The major players in this industry believe that the crisis has rendered big energy projects very difficult to finance. They also believe addressing the situation Romania's energy system is in cannot longer be delayed.

A solution would be support schemes for conventional energy, the representatives of the major European companies operating in Romania say. As green power received help to take off from one of the most generous support schemes in Europe, major conventional energy projects could receive support, too.

Another idea would be to create a capacity market. This means building facilities, mainly running on gas, capable of going online and back on stand-by when the system needs it to balance the fluctuations of renewable energy.

After three years and EUR3 billion invested in 2,000 MW of wind energy, Romania pollutes more than it did before the 800 turbines were installed.

In the absence of investments in small and fast facilities, balancing the energy system falls upon thermoelectric power plans running on coal and hydropower plants. This means high costs and higher carbon dioxide emissions. Moreover, green power drove prices down on

the electricity exchange, which is bad news for the thermoelectric power plants whose costs are rising.

Thermoelectric power plants are either up or down depending on how the wind blows, and this means higher costs and higher CO2 emissions. With all the investments in clean power, Romania ended up polluting more. These are costs unfairly booked by thermoelectric power plants because ultimately the way they operate is a consequence of the operation of the system.

After green power, which is generated at virtually no cost, started being traded in significant amounts, the spot electricity price plummeted. Whereas the spot price on March 12, 2012 was 232 lei (EUR53) per MWh, the same MWh was trading for RON183 per MWh on March 21, 2013. The downward trend also shows in bilateral contracts where deals are closed at prices about 10% lower than in January-March 2012. Although this is a very good thing for major consumers, it is not really good news for thermoelectric power plants, whose costs are rising.

The problem is that while Romania imports oil and gas, coal is a domestic resource that could last hundreds of years and building new facilities would also create new jobs. Romanian authorities are currently considering reducing the green power support scheme as a result of its impact on bills. Moreover, they are unhappy that the renewable energy boom did not lead to a horizontal industry development.



Enel Green Power committed EUR 251M to Romaniawind projects in 2012

A year earlier, the Italian company invested EUR330 million in wind energy projects on the local market. Enel has stated that it has consolidated it’s presence in major markets such as the United States, Canada and Romania, as well as in emerging markets such as Mexico and Guatemala.

Enel Green Power operates wind farms with a total capacity of 498 MW in Romania. The company reported total electricity output on the local market of 589 gigawatt hours in 2012. The group’s combined installed capacity reached 8,001 megawatts in December last year.

Romania’s energy potential from geothermal sources could be evaluated at about EUR1.5 billion.

Dafora group, a business of around EUR50 million operating in the constructions and drilling sector, holds 90% of the exploration rights of Romania's geothermal water reserves, according to the data of the country's Mineral Resources Agency (ANRM). Transgex already heats up and provides house water for several districts in Oradea and Bihor. The businessman has recently decided to use these resources to produce electricity. Transgex already invested EUR227,000 in a small electric power plant but it needs support to continue its development on this segment, the same as other forms of green energy production.

Being the first in southeastern Europe, ANRE has not yet notified this activity to the EU, so it cannot qualify for green certificates. This renders it difficult to recover the investments made. According to ANRE the problem is the interest for this field is still too low and ANRE does not have the available data to convince the European Union to approve the state aid for the production of electricity from geothermal water in the form of green certificates.

According to available data, the area with underground waters used for heating are mainly is the northwestern Romania, while the areas with good outlooks are very close to Bucharest. Currently, the geothermal energy is 37% used for heating, 30% for agriculture (greenhouses) and 23% used for industrial processes. According to a survey made by Romania's Geological Institute in 2006, the nominal power of the electric power production units based on geothermal waters, which might be installed in Romania, sets at 375 MW and require over EUR1.5 billion investments.

Other countries have been using for a longer time the geothermal energy on large scale to produce electric power. Iceland is the country with the best potential compared with the size of its territory, due to the volcanic geological structure. Around a quarter of the energy production of Iceland comes from geothermal water plants, while 90% of the buildings are heated through these resources.

An investor in a solar PV project who now gets six green certificates per megawatt/hour of power generated might get only four as of this summer, and then get the rest after mid 2016, according to a new draft emergency ordinance.

The ordinance is intended to modify the current support scheme for renewable energy investors. Wind power investors would get only one green certificate instead of the current two and get the rest of the certificates as of 2018.

The change will come into force this July and will affect investors in wind farms, solar PV projects and hydropower plants. It has been previously mentioned by Zoltan Nagy-Bege, member in the Regulatory Committee of Romania's energy market regulator ANRE.

A previous proposed change to the support scheme was to cut the number of green certificates allocated for each technology along with the maximum price set by the law from EUR55 to EUR30.

If we carefully look at the facts we can see we will have certificate costs increase as of 2016. The price may be lower by that time, but we can already see that the price of green certificates is going down. We may end up in the same place. Anyway, I hope they will have a public debate," Economy Ministry sources say.

ANRE will have a meeting on Friday to analyze the monitoring report of the renewable energy project market in 2012 and decide whether green technologies eligible for the current scheme are overcompensated or not.

The latest emergency ordinance draft says these steps are taken in order "to contain the uncontrolled rise in prices for end electricity consumers" and "to maintain competitiveness of the main energy intensive sectors of the economy."

Romania has so far attracted more than EUR 3 billion investments in clean energy projects, with over 2,100 MW installed in wind farms alone.



The current system supporting renewable energy producers in Romania does not take into account the impact on the main energy consumers and might affect the latter’s operational sustainability, said Romanian steelmaker Arcelor Mittal Galati.

The company said it is a supporter of green energy, but these projects do not contribute to the scheme as much as large electricity consumers do.

Green energy producers are not competitive enough to support themselves exclusively with revenues obtained on the electricity market. Moreover, the required level of investments and the limited operating time of the plants (one third of a year) constrain the state to implement support mechanisms to ensure their profitability, reads the press release.

Wind farms in Romania receive two green certificates worth EUR58 each for each megawatt of energy they produce, on top of revenues from selling electricity on the market.

Support schemes are mainly financed by large industrial producers in Romania, as well as by other consumers, which are currently severely affected by the scheme, the company warns.

Green energy producers receive a number of certificates depending on the generation technology they use and the amount of energy they produce. They sell green certificates to energy suppliers, who must ensure a certain amount of renewable energy for consumers. The number of green certificates they bought indicates whether they met their quota or not. The affair entails expenses for energy suppliers, which transfer them to beneficiaries.

As Romania has one of the most generous support schemes for renewable energy in Europe, the country has attracted significant investment in the sector. However, many industrial consumers are starting to complain about the high cost of electricity bills and are asking for measures that would limit the impact of green certificates on energy tariffs.

Local authorities in Sfantu Gheorghe, central Romania, want to build a photovoltaic park worth 47.5 million lei (around EUR11 million).

The financing contract of the project was signed Friday in the presence of Sfantu Gheorghe mayor Antal Arpad and Minister-delegate for Energy Constantin Nita.

Nita said local authorities in Sfantu Gheorghe want to cut electricity costs, adding that local authorities in other towns in Romania have also submitted this type of projects.

Antal said the town will contribute 2% to the project, namely, RON 763,000, and stressed that electricity costs will be considerably reduced, considering that last year’s costs amounted to RON 2.5 million, he concluded.

Investors in green energy kicked off production at facilities with a capacity of EUR350MW in the first two months of the year.

Total investments in renewable energy have so far exceeded EUR3.5 billion, but because of imminent reduction of subsidies to producers, the Romanian energy sector could lose some of its appeal.

The Romanian wind farm market added almost 300 MW to its capacity, according to data from energy transmission company Transelectrica and operating the new wind turbines entailed investments of around EUR 450 million.

By comparison, the solar energy sector gained only 42 MW, which were installed following investments of around EUR64 million, starting from a standard cost of EUR 1.5 million for installing one MW. In the first two months of this year solar projects with a similar capacity to that installed in the whole of last year were set up.

In the case of biomass energy, facilities with a total capacity of around 5 MW were installed

after investments of EUR 17.5 million and the installed power in hydropower stations that benefit from the support scheme also increased by 5 MW, after investments of around EUR 11 million.

Wind power projects produced the bulk of Romania's green energy, with the exception of major hydro-power stations, which are not eligible for support through the green certificates system.

Second in terms of the value of green certificates attracted are investors in biomass energy, which collected around EUR 7.3 billion. In turn, producers of hydropower in facilities with capacities of less than 10 MW received EUR 5.4 million, while owners of solar farms collected EUR 1.7 million in the first two months of the year.



Danish group Vestas will supply 36 wind turbines with a capacity of 72 megawatts for a project developed by Lukerg Renew in Tulcea county.

Lukerg Renew is a joint venture between Russian oil company Lukoil and Italy's ERG Renew. The 36 wind turbines will be supplied in the second half of the year, with an option for another six turbines with an installed capacity of 12 MW.

The first phase of Lukerg Renew's wind power project in Tulcea will have 42 turbines of 2 MW each. Last year, Lukerg Renew bought an 84 MW project in Tulcea from Italian company Inergia. The project includes three wind farms, in Dorobantu, Topolog and Casimcea.

Enel Green Power intends to enter the Romanian solar energy sector and develop farms with a total capacity of 55 MW between 2013 and 2017.

In Romania, in just two years, we have achieved our targets for built net capacity, reaching around 500 MW of net installed capacity in wind energy. The next step in our strategy is to

diversify our presence in the country from a technology point of view,says Enel Green Power Romania.

The company is working on solar projects of 55 MW, 19 MW of which are under construction, while projects of 36 MW are ready to build, according to the business plan for 2013-2017. The company does not plan further investments in wind energy on the Romanian market after at the end of last year it had reached an installed capacity of 498 MW in wind farms.

Enel's renewable energy division had 31 employees in 2011 and a turnover of EUR11.5 million, according to Finance Ministry data. The Enel group, which in Romania owns the energy distribution companies for the Bucharest, Dobrogea and Banat areas, last year had revenues of over EUR1 billion and an operating profit of EUR231 million.

Romania has a major potential as far as renewable energy is concerned, which makes investments in this sector attractive: the quality of its natural resources, such as wind, water, biomass, sun. Enel is the first major player in the utilities sector to announce concrete plans to enter the photovoltaic (solar) segment. Solar farms in Romania have so far tended to be developed by smaller firms, but with money from foreign strategic investors. The entire installed capacity of solar power projects in Romania was 94 MW in mid-April, according to data from power grid operator Transelectrica.



Green power has been the hottest topic in the energy sector.

Investors have already poured billions of euros into the Romanian market, authorities are increasingly unnerved by the extent of green energy investments, while major industrial companies threaten shutdown if their energy bills were to rise.

But although representatives of the wind and of the solar energy industry cite unreliability of the legislation, subsidies received by producers of green energy have reached EUR160 million in the first three months of the year, more than half the amount collected in the whole of last year, and the size of solar farms has increased almost two-fold against the end of 2012.

Data published by Transelectrica, the company that oversees the functioning of the local

energy system, shows that 2.96 million green certificates were issued in the first three months of the year, with 5.56 million units issued in the whole of last year. The green certificate is an instrument that rewards production of green energy based on the technology used, and is priced between EUR27 and EUR55.

While in the whole of last year green certificates of over EUR 300 million were issued, in just three months since the beginning of this year certificates worth over EUR 160 million were issued.

But despite all the rumors surrounding the modification of the support scheme, investments in this sector continued and production of green energy from these sources increased. For instance in the first three months of the year 266.5 new MW were installed in wind farms, which means projects of almost EUR 400 million.

The biggest rise was recorded on the solar energy segment, with projects going from a capacity of 49 MW at the end of last year to a total capacity of 118.1 MW after the first quarter of this year. This means new installed projects worth around EUR90-EUR100 million.

What could the changes look like according to the new draft law?

On April 2, after months of rumors as to the possible modification of the green energy support scheme, the Economy Ministry has put up for public debate a draft emergency ordinance to modify the current legislation.

According to the draft, between July 2013 and the end of December 2016 the granting of a number of green certificates for every MWh produced and delivered by renewable energy producers is set to be postponed as follows: one green certificate for new hydro-power stations with installed capacities of a maximum of 10 MW, one green certificate for wind power stations, two green certificates for solar power stations.

Hydro-power stations and solar projects will get the postponed green certificates starting in January 2017 and wind power stations will get them starting in January 2018. Basically, instead of getting 2 green certificates, an investor in a wind power station is set to get only one certificate and get the other one from 2018 onwards. Investors in solar projects are set to get 4 green certificates instead of 6, and receive the remaining two as of 2017. These provisions will apply for already functioning projects.

On the other hand, the energy market regulator ANRE has also reached several conclusions in a monitoring report for 2012: in the case of new wind projects each MWh of energy produced should get 1.5 green certificates instead of 2 and 1.3 certificates if the equipment is reused. For small hydro-power stations support should be cut from 3 certificates to 2.3 certificates, while one MWh produced by a solar farm should be

rewarded with 3 certificates instead of 6 as is the case now. These modifications should apply only for equipment that will start operating in 2014.

The European Bank for Reconstruction and Development will contribute through a EUR200 syndicated loan scheme to the financing of modernization and rehabilitation project for the Turceni power plant.

The financing scheme entails the syndication of the EUR200 million loan to commercial banks, with the participation of EBRD, the international lender said in a statement. EBRD's contribution to the loan has not been disclosed. The money will also be used to restructure and refinance a similar type loan, of EUR150 million, which the EBRD arranged for the Turceni power plant in 2009.

CE Oltenia holding was founded in 2012 following the merger of coal mining company Societatea Nationala a Lignitului Oltenia and energy producers Turceni, Craiova and Rovinari. CE Oltenia has a share capital of RON1.27 billion, and is 77.17% owned by the Romanian state and 21.53% by investment fund Fondul Proprietatea.

Romania will list a 12% stake in CE Oltenia on the Bucharest Stock Exchange in an initial public offering.

Solar power producers may be forbidden to install photovoltaic panels on farmland.

The measure might be included in a draft Government emergency ordinance amending the law on supporting renewable energy producers. About 2 hectares of land are needed to produce one megawatt of solar energy.

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