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, June 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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Romanian government has adopted a controversial bill reducing state support for renewable energy producers.

Some of the changes brought by the bill are:

- The receipt of part of the green certificates given to electricity producers will be postponed until 2017 in the case of hydropower and solar power plants or 2018 for wind plants.
- Green certificates will be traded in a transparent manner, directly between producers and suppliers.
- New wind installations will only get one green certificate instead of two certificates currently awarded, small hydro power plants one instead of three and solar projects two instead of six.
- The accreditation of electricity production units for application of the green certificate promotion system will be limited to the total annual level of installed capacity in electricity production units from renewable sources, as such is determined in the National Renewable Energy Action Plan.
- ANRE will have the obligation to regulate through annual quotas the amount of renewable energy allowed to be delivered into the national electricity grid.
- ANRE will monitor investments on a quarterly basis in order to be able to immediately apply the overcompensation adjustment mechanism.

Investments in photovoltaic parks continue despite the Romanian Government’s plan to reduce the renewable energy support scheme.

What is so special about Cateasca that made it the target of EUR 20 million investments needed to install 15 MW of solar PVs? Its location is its main competitive edge, because it is in the southern region of Romania, a very good place for solar power generation. It is also close to the Bucharest-Pitesti highway, and investors like easy access to infrastructure.

The most famous of those willing to invest there is Valentin Visoiu, owner of the real estate and construction group Conarg. Visoiu took over a company last year

that was started by a young entrepreneur set to develop a solar farm in Cateasca. The 5.7 MW project has already been built unlike the other farms. The farm is now undergoing tests and will be “100% operational in the next few weeks,” Visoiu said. The investment amounted to about EUR6 million. The factors that made the businessman choose this place for this investment include the capacity of the national grid company to take the power generated by the farm and the infrastructure.

There are lots of other solar PV investments on both sides of the Bucharest-Pitesti highway, either operational or under construction, according to national grid company Transelectrica data.

Nuclearelectrica will likely launch an initial public offering of 10% of its shares in June.

The prospectus will be published on June 15 and the IPO will be launched two weeks later.

The authorities plan to sell 51% in Electrica in July, a shift from the initial strategy which envisaged selling Electrica’s main divisions separately. The listing of a 15% stake in Romgaz Medias was scheduled for October, while the listing of CE Oltenia, another key state-run energy company, requires additional planning.

Oltenia Energy Complex is now working at only 2% of its installed capacity.

The halving of energy consumption during the extended holiday period, which included Orthodox Easter and May Day, and the good production of hydro-power producer Hidroelectrica and high wind power production in Dobrogea, sidelined CE Oltenia, which now operates at just 100 MW of its 4,000-MW installed capacity.

“This is a special situation. The energy system has not faced such low industrial consumption before,” said Nicolae Havrilet, president of energy market regulator ANRE. According to Havrilet, the main factor that led to this situation was that the entire Romanian economy “halted” for a week-long holiday as May Day was only a few days before Orthodox Easter this year.

According to him, energy producers go into the market “in order of merit”. The first to go in is Nuclearelectrica, which as a nuclear producer cannot suspend and start

reactors depending on fluctuations of demand. Nuclearelectrica has an installed capacity of 1,400 MW, which means this producer alone was able to cover almost 40% of the demand during the mentioned holiday period. The next to go in is hydro-power producer Hidroelectrica, which generates the cheapest energy in Romania. But on top of these sources of cheap energy come over 2,100 MW installed in wind farms, whose production is introduced into the system as a matter of priority by law.

CE Oltenia has lost contracts because participants in the market prefer to terminate reliable long-term contracts and buy cheaper spot energy instead.

Hidroelectrica will put up for sales 88 of its 160 micro-hydro facilities starting June 2013.

The sale was approved by Hidroelectrica's shareholders on 13th March. The 88 units the hydropower producer plan to sell have a total installed capacity of 58 megawatts.

Romanian state-owned power producer Nuclearelectrica expects a significant higher profit this year, helped by growing revenues and improved cost-control management.

Nuclearelectrica, operator of Romania's sole nuclear power plant in Cernavoda, forecasts a net profit of EUR 30.4 million in 2013, well above the profit reported in the previous year. The company expects revenues will rise 1.1% to RON 2.2 billion in 2013, while costs are estimated at RON 2 billion, unchanged on the year. Nuclearelectrica has scheduled total investments worth RON 568.5 million this year, up from RON 501.6 million in 2012. Nuclearetrica is majority owned by the Economy Ministry. The company operates two 700-megawatt reactors in Cernavoda, covering around 20% of Romania's energy consumption.

Romania had 94 megawatts installed in solar power parks by May 16, 2013.

As the investment per megawatt stands between EUR 1.3 million to EUR1.8 million, the investments made so far amount to about EUR 150 million. Installing one megawatt of power in a solar farm requires some 2.3 to 2.5 hectares of land and therefore Romania's photovoltaic farms occupy as much land as 200 football fields.

Half of the counties of Romania have attracted investors so far, with most farms

installed in the southern counties of Olt, Prahova and Giurgiu. Prahova used to be the destination of choice for solar power investors, now they are going to Olt, where 18 MW have been installed in the wake of EUR 30 million investments. Next in the ranking are Prahova and Giurgiu of the 21 counties in Romania where solar PV investments have been developed.

Such investments were made despite the legislative uncertainty surrounding the business. In April, authorities put up for public debate an emergency ordinance amending the renewable energy support scheme.

The current scheme rewards one megawatt of electricity generated in a solar farm with six green certificates and the emergency ordinance proposes to delay awarding two certificates until 2016.

Unlike the wind power business where major investors like Czech Republic's CEZ, Italy's Enel and Energias de Portugal prevail, the investors in solar power include a number of Romanian entrepreneurs, such as Tiriac Holdings, BV McCann Erickson Romania and RCS&RDS.

Romania's long-delayed project to build a thermal power plant in Braila is not likely to materialize unless the government grants state aid to support the investment.

E.ON Romania, the local unit of German utility E.ON, and Italy's Enel in 2008 have signed a memorandum with the Romanian authorities for the construction of a 800-megawatt coal thermal plant in Braila, but the project was never started. Together with Enel, we've asked that the project receive state aid as this is the only way it would happen. However, the legal regulations are missing,E.ON Romania's chief executive Frank Hajdinjak told a news conference.

Romanians who want to sell or rent their homes will be obliged to present the building's energy efficiency certificate to prospective buyers or tenants.

Starting 20th July 2013, homeowners must present potential buyers or tenants with the building's energy certificate before the transaction is completed, otherwise the contract is considered void. The measure is stated in Law 159/2013, which amends Law 372/2005 on energy efficiency in buildings.

The measure should have been applied starting 2010 but was put off several times as notaries argued it would lead to a 5%-10% increase in old home prices, which would freeze transactions.

State-run power producer Hidroelectrica will complete its insolvency process by 1st July.

Our main goal will be to promote a professional management and to list 10% of the company's shares on the Bucharest Stock Exchange," Nita said. He said Hidroelectrica's remaining debts after it emerges from bankruptcy would be rescheduled.

Hidrolectrica, Romania's largest power producer, has filed for insolvency at the end of June 2012 and is currently undergoing reorganization. The company cited several reasons for starting the insolvency procedure, including a prolonged drought and unprofitable electricity contracts with over a dozen companies.

Romania's Competition Council said the government might require authorization from the European Commission to implement a measure aimed at exempting industrial consumers from paying part of the production costs in the renewable energy sector.

The proposed measure may fall into the category of state aid, said the president of the antitrust regulator. Romanian producers of renewable energy benefit from government support via a green certificates scheme, which allows them to recover part of the production costs. Each renewable energy producer is granted a number of green certificates for power fed into the electricity grid. The subsidies are eventually passed onto consumers' electricity bills.

The draft ordinance that would amend the existing law supporting renewable energy also stipulates large consumers would be exempted from paying half of the green certificates for the electricity consumed.

"The problem with the draft ordinance stems from the support measures for industrial consumers… We believe these measures could be viewed as state aid, the President said. The European Commission has asked to be notified regarding a possible payment relief for industrial consumers. "The Commission told us that no EU member has received authorization to implement such a measure so far.

Austria has tried and failed, while Germany is being investigated over a similar matter.

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 have been complaining about the high cost of electricity bills and asked for measures that would limit the impact of green certificates on energy tariffs.

Conversely, green energy producers have threatened to halt or abandon their projects in Romania if subsidies are cut. Green investments in Romania have exceeded EUR 3 billion so far, while renewable energy covers around 8% of the total electricity consumption.

Romania is the least competitive European Union country because of electricity prices.

Romania is the only country which made the mistake of giving EUR160 for the production of one megawatt of wind power. Also, all thermal power units are shut down to allow wind energy to enter the grid. Prime Minister Victor Ponta said in May, after the European Council summit, Romania would rethink its renewable energy support scheme so costs would not burden household and industrial consumers.

The draft bill stipulates, among others, a temporary cutback in the number of green certificates granted to renewable energy producers, and regulates trading of green certificates on the local energy exchange OPCOM.

The solar photovoltaic investments have turned places no one had heard of before into popular destinations among investors.

National grid operator Transelectrica (TEL.RO) data show that the 20 biggest solar farms in the national power system had a capacity of more than 82 MW together by 1st April 2013. At an average cost of EUR 1.5 million per megawatt, the total investment stands at over EUR 127 million.

The biggest investment was made in Grojdibodu (southern Romania), where Energias de Portugal installed a 9.9 MW solar farm on a plot of land the size of 30 football fields.

The data Transelectrica published shows that the solar power has become the new clean energy boom. The cheaper and cheaper equipment and the support for solar power producers have attracted more and more investors, with EUR 200 million worth of solar farms becoming operational in the first four months of this year alone. Whereas Transelectrica only had four photovoltaic parks with a total capacity of 1 MW in its records in 2011, once the support scheme for the renewable power changed, investment started. Attracted by the scheme that rewarded each megawatt of solar power generated with six green certificates, investors developed solar power plants with a total capacity of 49 MW in 2012.

The solar PV investments increased fast and the expanded by 59 MW this April alone, taking the entire installed capacity to 177 MW four months into the year. As the average cost to install a megawatt of capacity in a photovoltaic park is EUR1.5 million, the total investments since the beginning of the year should be EUR 192 million.

Other types of renewable energy did not make as much progress in April. Only two wind farms of 16 MW together became operational on a segment where total capacity installed stands at more than 2,000 MW. A further 15 MW were installed in two micro-hydropower plants of electrodes manufacturer Electrocarbon Slatina (ELNG.RO).

In all, 281 MW were installed in wind power farms, 128 MW in solar farms, 20 in hydropower plants and 3 MW in biomass plants in the first four months of the year, which required about EUR 670 million investment based on the data provided by the national grid company.

Energy producers got EUR 211 million worth of green certificates via the support scheme in January-April, more than two thirds of the amount granted last year.