Renewable Energy Update – 18 February 2014
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Romania to reassess Cernavoda Nuke Project

Romania's nuclear power project in Cernavoda, valued at over EUR6 billion, was initially scheduled to kick off in 2010, but was sidetracked due to lack of funds after four of the initial six investors withdrew, citing economic and market uncertainties.

Cernavoda currently operates two reactors of 700 megawatts power each and covers around 18% of Romania's electricity production. The two new reactors are expected to double the plant's capacity.

The state plans to cut its stake **in EnergoNuclear** to around 40% from roughly 85% presently and wants to attract new investors in the project, possibly from China. **ArcelorMittal** Romania and Enel own 9.15% and 6.2% in the project, respectively.

2013 In Review: Las Year's Most Important Events in Energy:

- **Hidroelectrica's exit from insolvency**

The nightmare of Romania's largest electricity producer, **Hidroelectrica**, ended in late June, with the company exiting insolvency one year and seven days after the announcement that shocked the local business sector. The company fired 700 employees, terminated the bilateral contracts that cost it more than EUR1 billion in losses and returned to profit.

- **Nabucco failure**

A more than ten year-wait ended this June with the announcement of Austria's **OMV**: **Nabucco West**, the remnant of the initial **Nabucco project**, lost the chance of supplying gas from the **Shah Deniz II** gas field in Azerbaijan via a 1,300 kilometer pipeline connecting Bulgaria to Austria via Romania.

In mid last year **Nabucco** underwent a major change, because raising the EUR8 billion needed was really difficult. A rival project was **TAP**, which only crosses three countries, starts from Greece and ends in Italy and is twice shorter. **TAP** won, leaving Romania continuing to rely on Russia for gas imports that cover one quarter of its consumption. Romania paid one billion euros to Gazprom via brokers for the gas it bought last year alone.

- **Green power subsidy cut**

The rumors about an imminent change of the green power support scheme started floating around at the end of last year.

The energy market regulator ANRE published a report in March saying that the sector that had attracted more than EUR4.5 billion investments in the harshest years of the crisis had been overcompensated but a cut could only be implemented as of the following year.

Faced with mounting pressure from the major industrial consumers, whose power bills had swollen while orders had dwindled, the government in July decided to defer part of the support for the already operational projects until 2017-2020 depending on the power generation technology used.

- ## First private managers

The year 2013 was the year with the most important appointments to management positions in energy companies based on the Government Ordinance 109/2011 about the corporate governance of public companies.

The process of appointing private sector managers to state-owned companies was not without criticism. For instance, the government spent EUR150,000 in **Complexul Energetic Oltenia** (Oltenia Energy Complex) case before the headhunters realized the best private sector manager was the one the government appointed, Laurentiu Ciurel.

- ## On the stock market

After years of promises about the listing of the major energy companies, two of the crown jewels finally took the step. **Nuclearelectrica** conducted an initial public offering for 10% of its stock in September.

The IPO closed at 11.2 lei (EUR2.5), the minimum level approved by the government in June, because investment funds were not as interested as to drive the price up. **Nuclearelectrica** therefore raised RON281.8 million via its IPO.

On the other hand, **Romgaz**, the largest natural gas producer in Romania, was more successful. The IPO for 15% in the company met with tremendous interest from investors, both foreign private equity funds and Romanian retail investors, which came up with EUR2.8 billion. Demand was seven times the supply, which allowed to government to sell the shares at RON30, almost the maximum level requested, RON32 and raise EUR390 million.

The most interesting companies scheduled for an IPO next year are **Hidroelectrica** and **Complexul Energetic Oltenia.**

- ## New taxes

Early in February, the government introduced a series of taxes specially tailored to the major energy companies, enforcing them overnight without discussing them with those companies

first. The new taxes were levied on the monopoly over distribution and transmission of electricity and natural gas, as well as the additional revenue gas producers get from the deregulation of the gas prices.

A new set of taxes is due to come into force next year, again decided overnight. Subject to the new taxes are the special building structures and fuel sold in Romania, which will carry a tax of EUR0.07 per liter. It is yet unknown how much each company will pay as special building structure tax.

Pungesti riots

Shale gas has become one of the hottest topics in Romania because of the conflicts between the inhabitants of Pungesti, a town in Vaslui County (east of the country), where Chevron's first exploration drill should be and the riot police. Chevron was forced to suspend operations on several occasions due to the violence in the area, because the locals prevented its equipment from reaching the drilling location.

The main fear about **Chevron**'s project has to do with how shale gas is exploited, which is thought to make a serious impact on the environment.

- ## Rompetrol memorandum

The memorandum stipulated that the Romanian government, which owns 44.6% in **Rompetrol Rafinare**, should transfer 26% to the **Rompetrol** group, the majority shareholder of the company, for $200 million.

At the same time, **KazMunayGas**, the owner of the **Rompetrol** group, pledged to set up a Kazakh-Romanian investment fund, in which **Rompetrol** should own 80% and the Romanian government 20%.

The fund was supposed to invest $1 billion in energy sector projects in the coming years. The Constitutional Court, however, has recently ruled that the law approving the memorandum of understanding between the Romanian state, the Ponta Government, the Parliament and the **Rompetrol** group was unconstitutional.

Installed Capacity of Solar Farms in Romania Up 15 Times Since End-2012

Investments in the construction of solar farms which became operational between January and November this year exceeded EUR1 billion.

Despite the unpredictable legislation, the capacity of the projects completed increased by a factor of 15 compared with the installed capacity at the end of 2012. South Korea's **Samsung** owns the largest photovoltaic park in operation in Romania at the moment.

Solar farms operating in the country at the end of November had a total capacity of 740.4 MW, according to national grid operator **Transelectrica**, as much as one of the two reactors at the country's Cernavoda power plant.

Transelectrica data also show that Romania had only 49.3 MW operational in photovoltaic parks at the end of 2012, which means the capacity increased 15-fold in eleven months.

The solar farms generating electricity this year got 1.68 million green certificates in the first eleven months, according to **Transelectrica** data, and 0.5 million certificates were deferred, pursuant to the modified green power support scheme.

The latest green certificate transactions on the OPCOM power exchange were conduced at a price of EUR44 per certificate. A certificate price ranges from EUR27 to EUR55, under the law.

Electrica Reconsiders Building Wind Farms Due To Planned Cut in Renewable Energy Aid

Romanian state-owned electricity distributor **Electrica** said it is reconsidering its plan to build two wind parks, as the two projects are expected to engulf EUR100 million following the government's decision to cut renewable energy aid starting January 2014.

Electrica was planning to build two wind farms, each with an installed capacity of 45 megawatts, in Frumusita (eastern county of Galati) and in Chirnogeni (southeastern county of Constanta). The two projects amount to nearly EUR100 million.

The construction of the two wind parks would allow **Electrica** to become an integrated energy company specialized in producing, distributing and supplying electricity.

Electrica, which is owned by the state through the Energy Department, is expected to be privatized in 2014, as per an agreement with the International Monetary Fund and the European Union.

Unisum Opens Three Photovoltaic Power Plants in Romania

China-based company **Unisun** built three photovoltaic power plants in the Romanian counties of Brasov and Cluj, with a total installed capacity of 19.59 MW, expected to generate up to EUR8 million from green certificate and energy sales.

The three plants are already connected to the grid, according to the company.

Unisun, a member of **Wuxi Guolian Development Group**, is a global developer of photovoltaic power plants and provider of green electricity, with projects totaling more than 500 MW in installed capacity.

Austria's Egger Invests EUR35M in Romania Biomass Power Station

Wood processor **Egger** finished works for the largest biomass station in Romania, an 83-megawatt project worth EUR35 million, set to generate heat and power for the company based in Radauti (Suceava county). Despite the large size of the new unit, the company says the produced energy will be entirely used on the Radauti platform.

Though biomass-based power was sheltered from changes of the renewable energy legislation, the installed capacity of projects fueled by agricultural or forestry waste is currently of just 35 MW, according to **Transelectrica** data. Biomass projects receive two green certificates for each MW injected in the network, a number that was not cut in last year's amendments to the energy regulations.

Romania to Encourage Investments in Thermal Plant Pollution Cut

There are several projects targeting CO2 emission cut in thermal power plants, including the upgrade of two units at Mintia power plant, the modernization of four pitcoal mines at energy company **CE Hunedoara**, project estimated at 60-64 million euros, and the upgrade of an unit in Turceni power plant financed by a EUR200 million loan from the European Bank for Reconstruction and Development.

Another project targeting coal energy production is that with **China Huadian Engineering**, for the construction of a thermal power unit at Rovinari power producer, estimated to exceed $1 billion.

The upgrade of **CE Hunedoara** mines would trigger a lower price in the power produced by the company, to around RON54 (EUR12) per gigacalorie, compared with RON100 in 2013.

State-owned **CE Hunedoara** was founded in 2012 following the merger of Deva and Paroseni coal-fired power plants with four pitcoal mines. The energy holding covers around 5% of Romania's electricity production.

Green Power Investors Expected To Spend another EUR3B in Romania In 2014

The green power sector is the strongest foreign investment magnet that Romania has had in the harsh years of crisis after the collapse of **Lehman Brothers**. In exchange for such investments, Romania has paid less than EUR1 billion in subsidies so far, which translated into higher electricity bills for households and companies.

According to the ANRE, the installed capacity of the plants generating power using renewable resources, which became operational in 2013, is as follows: 1,075 MW in photovoltaic plants, 73 MW in hydroelectric power plants, 900 MW in wind farms and 16 MW in biomass-fired plants.

Judging from the data and considering the average investment per megawatt stands at EUR1.5 million (wind farms) and EUR1.55 million (solar parks), the local market attracted more than EUR3 billion investments in the two green power sectors alone.

At the end of 2013, Romania had more than 2,700 MW in wind farms, double the capacity of the nuclear power plant in Cernavoda and 1,124 MW in solar parks.

Renewable energy producers got some EUR420 million worth of green certificates in January-November 2013, according to **Transelectrica.** Green certificates are the main type of support for such investments.

This year could see another EUR3 billion invested in wind farms and photovoltaic parks, despite the many modifications of the support scheme, if ANRE's forecast turns out to be true.

If these investments continue, Romania will end 2014 with almost 4,000 MW installed in wind farms and some 1,900 MW installed in photovoltaic parks.

Green Power Support Might Be Lowered Again

Three senators of the Social Democratic Party filed a proposition to amend the Renewable Energy Law, cutting the maximum value of green certificates from EUR55 to EUR30.

According to the current law, a green certificate currently costs between EUR27 and EUR55.

The approval of the draft would trigger a new cut in the state support for green energy producers.

Early 2013, the country's energy market regulator ANRE said renewable energy producers receive too many green certificates in ratio with investment costs in power units and recommended the government should reduce the number of green certificates granted to renewable energy producers.

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