ROMANIA COUNTRY PROFILE

Overview

Romania has a population of approximately 21.55 million with a GDP of about USD 200,071 million. The total primary energy supply in 2007 was 38.91 Mtoe (million tons of oil equivalent) of which 3.5% is hydro power; 8.9% is combustible renewable and waste (including biomass and biogas), 24.9% is coal/peat, 33.2% is natural gas, 24.4% is oil, 0.1% is geothermal/solar/wind and 5.1% is nuclear. Net imports are around 12.09 Mtoe. CO₂ emissions are 91.93 (measured as Mt of CO₂) Romania is a member of the European Union (EU) and as such is bound to comply with the EU energy acquis, which includes the improvement of sector competitiveness, security of energy supplies and the protection of the environment.

1. Institutional structure

The Ministry of Economy and Commerce (Ministry) and Government of Romania are responsible for policy setting in the energy sector. The Ministry proposes the national energy strategy and the energy policy to the Government for approval; the Ministry also draws up programmes and action plans to implement the Government’s policy for the electricity sector, including programmes for energy efficiency and for promotion of renewable energy. The Romanian Energy Regulatory Authority (ANRE) is responsible for regulation of the electricity, gas and district heating sectors (in 2007, the separate gas regulatory authority, ANRGN, was merged with ANRE, and ANRGN’s powers were transferred to ANRE). ANRE is defined under national legislation as an independent public legal person of national interest under the coordination of the Prime Minister. ANRE develops its activity according to its own operation and organisation rules, with the latter approved through Government decision.

ANRE is managed by a Regulatory Committee consisting of the President, three Vice-Presidents and seven committee members. All have a five year mandate. The Minister nominates the President and Vice President, and appointment is made by the Prime Minister. The seven committee members are selected from ANRE staff upon the proposal of ANRE’s President and are appointed by decision of the Prime Minister. Dismissal authority tracks appointment authority, with dismissal for cause only. Over the years, several committee members have resigned before the expiration of their terms.

ANRE is a reasonably large authority with around 100 staff members and a sizable budget, separate from the state budget. It is entirely financed from fees obtained for licences, authorisations and other regulatory activities levied upon the regulated companies, as well as from some funds provided by international organisations, as per the legal provisions on public finances. Salaries for committee members are on par with senior level electricity industry officials; salaries for staff are on par with equivalent state sector energy positions.

ANRE has the power to issue licences, set tariffs and resolve customer complaints. It may penalise regulated entities through the issuance of public letters, comparative reports, suspension and modification of licences (including withholding revenues), tariff revision and revocation. It has lesser authority with respect to drafting secondary legislation. Though it adopts the tariff methodology, it does not adopt licensing and authorisation rules, or regulations regarding users’ connection to public

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44 Information herein is drawn primarily from ANRE’s website and Annual Report, along with English translations of the legislation, including regulations and decrees on energy sector matters.
electricity networks, all of which are drafted by ANRE but approved by the Government. ANRE establishes the main rules for congestion management and the Transmission System Operator (TSO) administers the Balancing Market, handling congestion management, according to the Commercial Code.

ANRE’s decisions can be appealed to the Bucharest Court of Appeals, and its decisions stay in effect pending appeal.

Romania has an active competition authority, known as the Competition Council. ANRE has a cooperative agreement with the Competition Council, and is required to notify the Ministry and the Competition Council of any market dominance abuses. ANRE has set up its own monitoring and control procedures in order to assess compliance of undertakings with the existing pricing and tariff system.

The electricity law empowers ANRE to set up the procedure or the resolution of pre-contractual disputes and to settle possible disputes occurring among sector companies upon the conclusion of contracts, including supply contracts. Pre-contractual disputes include issues such as access to the grid, the access tariff, provisions in contracts and starting conditions. Once a contractual relationship between companies is underway, a party to the contract may file a complaint with ANRE, which first seeks to address the complaint through negotiation and advice (with an average of 80% of complaints resolved in this manner), and only when such approach is exhausted, utilises judicial process with hearings resulting with a ruling from ANRE.

2. Electricity sector

a. Market framework

In 2007, by Governmental decision 638/2007, the market was opened fully for both electricity and natural gas. On the competition retail market, suppliers sell electricity through bilateral contracts at negotiated prices or through standard offers. In 2007, about 51% of the electricity sold by generators was traded on the regulated market and 49% on the competitive market.

Romania’s market framework has long been one of the most reflective of best practices in the region. In sum, it has one TSO (Transelectrica SA), which also serves as the Balancing Market Operator; one Market Operator (OPCOM), which also functions as the Operator of Green Certificates Market, Bilateral Contracts Market and Settlement Administrator; eight electricity distribution operators that also supply end-users, and 22 distribution operators with less than 100,000 customers. The market has numerous independent generators and suppliers. The TSO has been unbundled since 1998. The eight distribution and supply entities became fully operational in 2003, and five of them have been privatised (Energy Electrica Banat, Enel Electrica Dobrogea, E.ON Moldova, CEZ-Electrica Oltenia, and Electrica Muntenia Sud).

A new electricity law and national energy strategy, both adopted in 2007, have increased market transparency, liquidity and monitoring. Also in 2007, rules for a capacity market were established and in 2008 the Government established the mechanism of direct debit and guarantee for electricity transactions on the day-ahead market.

The wholesale market model is based on bilateral contracts with a day-ahead market and a balancing market. This market encompasses the following types of prices: regulated prices corresponding to regulated contracts (for the supply quota for customers who choose not to exercise their eligibility right and for grid losses); negotiated prices corresponding to negotiated contracts (covering the
remainder of the contracts); and market prices corresponding to the centralised market. There are also contracts for the import and export of electricity, transactions through spot market bids and other sector services transactions. In 2007, Romania integrated its electricity market into the regional market through bilateral export/import contracts entered into by generators and suppliers with external partners. Imports approximated 1.3 TWh and exports about 3.4 TWh (all commercial exchanges, not transit).

The TSO is responsible for and administers the Balancing and System Services central markets and is the Balancing Market Operator, i.e., addressing differences between the offer and the demand occurring in real time (while market participants take financial responsibility for the generated imbalances). The settlement administrator is a distinct department organised within OPCOM and is responsible for settlements of the central markets and for the settlements of the imbalances.

b. Network access and tariffs

Tariffs are approved *ex ante* based on a Methodology and Order for tariffs for specific categories that are regulated. There are regulated tariffs for: transmission, system and distribution services of electricity; supply of electricity to captive customers and to the supplier of last resort; the purchase of ancillary services; network connection; centralised market operations; generating and metering activities. Cross-subsidisation between regulated activities as well as between regulated and deregulated activities of an undertaking is prohibited.

Methodologies for incentive-based regulation of distribution and transmission tariffs have been in effect since 2005. The existing transmission tariff methodology was approved by ANRE in 2007 and is based on a revenue-cap. Transmission tariffs differ by nodes, i.e., the tariff amounts depend on the impact of the injection or extraction of electricity into or from the nodes of the transmission. ANRE applies a performance standard for the electricity transmission service and the tariff structure includes a corrective factor for compliance (or failure to comply) with quality of service standards. Distribution tariffs are calculated according to a price-cap methodology, with distribution tariffs differentiated by three voltage levels (high, medium and low) and separately assigned for distribution tariffs for each operator.

In 2008, two new categories of tariffs were introduced, uniform regulated tariffs at national level for electricity delivered by the default suppliers and/or supplier of last resort to household customers, and differentiated regulated tariffs for electricity delivered by the default suppliers and/or by the supplier of last resort to captive customers other than households and the tariff for reactive power.

ANRE has the power by law to eliminate cross-subsidies between industrial and residential customers. A social tariff has been introduced for low-income customers.

Third Party Access is regulated and ANRE’s office is responsible for monitoring fair and non-discriminatory access of third parties to the transmission and distribution network. With regard to implementation of Third Party Access rules, the TSO is responsible on the transmission side, and the Distribution System Operator on the distribution side. All parties seeking access to the transmission and distribution networks must follow the same set of technical terms and conditions, as well as pay the same tariff. Non-discrimination is also enforced through penalties envisaged in the Electricity Law that may be imposed by ANRE, and through tariff approval. Refusal of access is allowed only in cases
stipulated in the Law on gas and relevant secondary legislation, and must be justified. The grid code was approved by ANRE in 2004.

ANRE drafts and the Government approves the regulations that set forth licence and authorisation procedures, deadlines and conditions consisting of criteria, power levels, certification, approvals, guarantees and the like, differentiated by category of capacities and by activities subject to authorisation. The validity period of the licences is eight years for the electricity supply licences and 25 years for all other types of licences.

All market participants need to be licensed by ANRE to operate. Eighty companies are licensed by ANRE to produce electricity generation. Seven of these each delivered more than 5% of the net electricity production in the system and the total market quota of the first three largest generators is approximately 55.7%. ANRE has licensed about 117 suppliers, and seven of these were the main providers of default supply to customers that choose not to exercise their eligibility right (four are state-owned undertakings, while three are majority privatised). In addition, ANRE licenses one TSO, one market operator, and 30 distribution operators.

c. Operational environment

ANRE monitors security of supply, while the Government is responsible for approving the long term and annual balance based on a proposal received by the transmission (distribution) system operator in consultation with ANRE. ANRE approves operational and planning standards including any schemes for the calculation of total transfer capacity that are issued by the TSO. If authorisation does not produce sufficient capacity, the Government will decide on the need to issue a tender and will set the criteria for such tender.

The TSO is responsible for transmission planning and proposes the transmission assets investment, which must be endorsed by ANRE and approved by the Government. The system operators in general provide information as to appropriate measures that need to be taken to reinforce the relevant network.

The Electricity Law requires that ANRE, on the basis of its own regulation, designate the supplier of last resort for a period of one to five years (starting 1 July 2007) and list the suppliers of last resort on its website and in Romania’s Official Gazette. ANRE has now met this obligation and set a supplier of last resort tariff. By law, the supplier of last resort can be the same entity that supplies electricity to the majority of the household customers within the area assigned through the licence to a distribution system operator.

The Electricity Law entitles vulnerable customers to receive state/local budget compensations in order to pay for their minimally required consumption. The categories of vulnerable customers, the aggregate of their minimal consumption, and the customer protection mechanisms are set through Governmental decision.

3. Gas sector

a. Market framework

Internal production of gas is around 70%, with imports (all from Russia) around 30%. The share of natural gas in power is around 23%. As noted, the gas market was opened for all customers in 2007 and all customers are free to choose a natural gas supplier from those licensed by the regulatory authority.
The Romanian gas market is made up of the competitive market (trading of gas between suppliers and between suppliers and customers making use of their eligibility) and the regulated market (based on framework contracts, including contracts for market contractual balancing, transmission, distribution, storage and transit with the exception of one dedicated pipeline). In the regulated market, prices are set by ANRE.

Transmission, storage and distribution were unbundled (accounting, legal and functional) in 2006. The current gas market is made up of: one state-owned TSO (SNTGN Transgaz S.A. Medias), which operates the transportation system; seven producers (Petrom, Romgaz, Amromco, Toreador, Wintershall Medias, Aurelian Oil & Gas and Carpathian Energy); three underground storage operators (Romgaz, Amgaz and Depomures); 36 companies for gas distribution and supply to captive customers (the largest are Distrigaz Sud and E.ON Gaz Romania) and 86 suppliers on the wholesale market.

b. Network access and tariffs

Regulated tariffs are fixed by ANRE for: supply to final customers, including public service obligations, management of commercial contracts and contractual balance of the internal market, gas transmission, gas storage, distribution, and transit (except transit through dedicated main lines); transit by dedicated lines is submitted to the regime established by international agreements according to which they were constructed.

ANRE has the power to ensure that charges applied by the network operator reflect the real costs. The law holds that rules on the system of prices and tariffs for regulated activities shall stimulate the efficient use of natural gas, ensure the quality of services, promote competition on the natural gas market and protection of customers’ interests, eliminate cross-subsidies and/or unreasonable differentiations between the categories of final customers or by the type of use of natural gas, prevent speculations and speculative behaviour on the natural gas market, and encourage the passing of the demand from the peak of consumption to low consumption periods.

ANRE issues Third Party Access (TPA) regulations for storage, transportation and distribution systems, as well as technical codes and technical norms in the gas sector. Tariffs for TPA have two components, a connection tariff and access agreements. The formula for the connection tariff is set forth in the regulation on access to the gas transmission and distribution systems and is paid only once, at connection. At present, there is no possibility to access the existing transit lines, as these are dedicated lines that are fully booked as a result of international agreements. With respect to the transmission system, the rule for capacity reserve is first come, first served. ANRE is also charged with granting exemptions to TPA rules, and has recently reviewed an application for an exemption in relation to the Nabucco project. In assessing whether an exemption should be granted; ANRE applies Article 22 of the Directive 2003/55/EC.

In the gas sector, ANRE issues dispatch, transmission, storage, supply, distribution and gas transit licences, as well as authorisations for setting up natural gas distribution and storage systems. It has the right to withdraw or terminate licences and apply fines for any abuse of licensed conditions. It also has responsibility in

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45 The Nabucco project represents a new gas pipeline connecting the Caspian region, Middle East and Egypt via Turkey, Bulgaria, Romania, Hungary with Austria and further on with the Central and Western European gas markets. The first construction phase is targeted for 2011.
approving any merger or separation of gas utilities because of possible influence on tariffs. Around 36 companies own distribution licences on natural gas in Romania.

c. Operational environment

The Electricity Law and Gas Law requires that ANRE, on the basis of its own regulation, shall set forth in licence terms and conditions, the objectives for each licensed operator with respect to ensuring the security and continuity in natural gas supply, as well as the conditions and the procedure for nominating the supplier of last resort. Certain steps are being taken to allow new connections, including Nabucco, to increase the security of supply and reduce dependency on the single import source (Russia).

ANRE is responsible for approval of long term planning of distribution and transmission companies and it monitors its fulfilment through approval of tariffs, monitoring procedures and licensing procedures. A minimum set of public service obligations is set forth in the gas law, with obligations specific to each licensee set forth in the licences.

4. Renewable energy sources/energy efficiency

In 2003, Romania transposed into domestic legislation the Directive 2001/77/EC on the promotion of electricity produced from renewable energy in the internal electricity market. It also adopted an action plan called “The Energy Strategy of Romania for the period 2007-2020.” In Romania, the renewable energy target to be achieved is 11% of gross energy in 2010. The target was set at 33% of gross electricity consumption in 2010 and Romania has made good progress toward this goal.

In 2009, ANRE issued Guidelines for the Production of Electricity from Renewable Energy, which offers information to potential new power producers to assist investment in renewable energy in Romania. The Guidelines explain: the rationale for investing in renewable energy and state supporting policies; necessary steps that an investor must take to begin production or trade in renewable energy in Romania, the documentation required by new participants in the market, and the roles of various market participants with respect to renewable energy, including how to obtain and sell green certificates.

Romania has adopted a mandatory quota system combined with the trade system with minimum and maximum price limits legally set up for the green certificates, rather than feed-in tariffs. As a consequence, the main supporting policies for renewable energy in Romania are tradable green certificates (a quota system has been in place since 2004) for wind, solar, biomass or hydro power generated in plants with less than 10 MW capacity; and mandatory dispatching and priority trade of electricity produced from renewable energy since 2004. 2005 was the initial year for the green certificates market as well as the centralised market for bilateral contracts. The renewable energy sources and the support schemes are set through Government decision, upon the proposal of the competent ministry.

- The validity of quota obligation has been extended from 2.74% in 2007 to 16.8% by 2020.
- For the period 2008-2014 the trading value of green certificates ranges between a minimum value of 27 Euro/certificate and a maximum value of 55 Euro/certificate. According to GD 1892/2004 the minimum value was 24 Euro/certificate and the maximum value was 42 Euro/certificate.
In order to obtain a green certificate, generators producing energy from renewable energy which have qualified for priority production have to apply, on a yearly basis, for registration with the TSO. Each month, the renewable energy generators receive one green certificate for each MWh of supplied electricity from the TSO. The green certificates provide details about the renewable energy producer and necessary information for connection to the grid. ANRE approves the fee that TSO collects for issuing green certificates to generators. The green certificates can be traded only once unless exceptions apply.

ANRE is responsible for certifying guarantees of origin.

To ensure that environmental regulations are met, an environmental impact assessment study is required from any applicant during the authorisation and/or licensing procedure by ANRE.

Romania has ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change and was the first Annex I country to do so. Under Kyoto, it has a target of 8% in reduction of greenhouse gas emissions, with the base year being 1989.

5. Conclusion

Romania performs well overall and with respect to its grouping (Group A), just slightly above the Group average for electricity and well above it for gas. Moreover, within its Group, Romania has an electricity sector score of 0.931 relative to a Group average score of 0.93 (with 1.0 reflecting full adoption and implementation of best practices as identified in the benchmarks and indicators of this Assessment). Romania has a natural gas sector score of 0.914 relative to a Group A average of 0.864.

Within the electricity sector and particularly in its region (as a former signatory to the Treaty establishing the Energy Community and now as an EU Member on the border of the EU and the Energy Community), Romania has been a leader in the region in development of its regulatory framework, with almost half of its electricity now sold on the competitive market. Much of the sector has been privatised, with numerous participants, and the day-ahead and balancing markets are functioning properly. Its tariffs, grid code, and market rules reflect regional best practices both on paper and in practice.

The same holds true in the gas market. It is also relatively well governed and developing, with Romania’s production of 70% of its domestic needs providing a diversity of resources facilitating market development and diversification. Transmission, storage and distribution have been unbundled for three years and the grid code has not only been in place for a relatively long period of time compared to its neighbours, but has been altered over time to respond to operational experience.
Electricity spider graph – Romania

Note: The diagram presents the electricity sector results of Romania, in accordance with the benchmarks and indicators identified in the assessment model. The extremity of each axis represents an optimum score of 1.0, that is, full compliance with international best practices. The fuller the “web”, the closer the overall electricity regulatory framework approximates international best practices. The results for Romania are represented by the thick bold line. For comparison purposes, the shaded area presents the electricity sector average of the Group A countries.

Electricity Sector - Comparative view of Group A countries
Gas spider graph - Romania

Note: The diagram presents the gas sector results of Romania, in accordance with the benchmarks and indicators identified in the assessment model. The extremity of each axis represents an optimum score of 1.0, that is, full compliance with international best practices. The fuller the “web”, the closer the overall gas regulatory framework approximates international best practices. The results for Romania are represented by the thick bold line. For comparison purposes, the shaded area presents the gas sector average of the Group A countries.

Gas Sector - Comparative view of Group A countries