

Weekly Report



August 27-31
2018

Energy Sector
Political Update

► Romanian Government plans to launch a national investment fund for energy efficiency, as reported on Monday, August 27

In this regard, the Ministry of Energy has launched a call for a study on the “mechanism of establishment, organization and functioning of a specialized investment fund for energy efficiency at national level.” Through this call, which ends on August 31 and implies a 14-thousand EUR tender, the Ministry aims to look into possibilities for setting up the above-mentioned fund, the entities involved, as well as operational scheme needed for funding energy efficiency projects in problematic sectors such as industry, transport, thermal energy supplies, cogeneration, public lightning, gas and electricity distribution. Moreover, the authors of the study would also need to propose sources for the specialized fund, such as loans, public funds, fines, private capital.

Energy

► As reported this week on Tuesday, August 28, the Romanian Energy Regulatory Authority (ANRE) intends to diversify the content of its existing prices comparison measurer (in the form of an online application), by obliging electricity suppliers (with final clients in their portfolios) to introduce information on their current offers in the application's database.

The update of the application, which has been available on ANRE's website for over a year, is aimed at increasing competition between energy suppliers and at providing updated information to consumers, according to ANRE. In practical terms, if ANRE implements a decision in this regard, electricity suppliers would be obliged to make available for consumers "at least one electricity supply offer for each category of final consumers, respectively domestic and non-domestic consumers" and to update the offers accordingly.

Energy

- ▶ OMV Petrom to sell around 60 deposits in order to finance exploitation works in the Black Sea, according to a recently published report of the company.

At the moment, OMV Petrom has a portfolio of around 200 perimeters, as the last major transaction was operated at the end of 2016, when the company yielded 17 petroleum agreements to Mazarine Energy Romania, a company controlled by financial giant Carlyle. OMV Petrom's plans to sell around 60 deposits in the upcoming period comes amidst the company's concentration of investments in the Black Sea, in the Neptun Deep perimeter, operated in partnership with ExxonMobil. However, despite 75% of the company's investment budget being dedicated to exploration and production, a final decision on Neptun Deep is yet to be made this year, depending on the fiscal regime, the liberalization of the gas market and the development of natural gas infrastructure.

Energy

- ▶ Petrolexportimport to declare insolvency in October, as reported last week on Sunday, August 26.

The petroleum products importer will declare insolvency following the approval of the extraordinary general meeting of shareholders, planned for October 1. The decision comes as a result of the company's poor financial performance in 2017 and in the first half of 2018 and the insolvency procedure itself is intended to be simplified. In the past, until 1997, Petrolexportimport held the monopoly on petroleum imports and exports on the Romanian market. In 2000, the company was privatized, entering direct competition with similar players on the market.



Energy

- ▶ As reported on Wednesday last week, August 22, Transgaz begun installation works for the first pipes of the BRUA project, in the Recaș area (Timiș county, SW Romania), according to Mr. Ion Sterian, the General Director of Transgaz.

The necessary materials are provided by the Turkish company Toscelik Spiral Boru Uretin Samayi, based on a 126.9 million EUR contract. Phase I of the BRUA project requires a total investment of 478.6 million EUR and has a completion deadline in december 2019.

- ▶ Transelectrica announced on Friday, August 24, the appointment of interim members of the directorate, reconfirming Mr. Adrian-Constantin Rusu as President and General Manager of the Romanian Transmission and System Operator (TSO).

His mandate is granted for a period of 4 months, starting with September 17, 2018, with the possibility of extension for another 2 months. Mr. Rusu replaced Georgeta Corina Popescu in May 2018 (after she also had a provisional mandate since September 2017). **At the same time, shareholders of Transelectrica will hold a meeting on September 27 to elect the new members of the Transelectrica's Supervisory Board.** They will also set then the remuneration of the members and approve a new form of the mandate contract.

Energy

- ▶ The Romanian state may force Hidroelectrica to abandon several hydroelectric power plant projects already started in recent years - including the Tarnița-Lăpuștești project (a pumped storage hydropower plant from Cluj county), registered as a national strategic objective in the governance program - in order to protect and preserve the environment.

According to a Government draft decision initiated by the Ministry of Waters and Forests, the Government would ban the construction of hydropower plants at heights exceeding 800 meters, justifying that Romania has to implement the European Water Framework Directive 2000/60/EC and the European Habitats Directive 92/43/EEC. The representatives of the Ministry argue that the provisions of this decision should also be included in the Energy Strategy of Romania 2016-2030 with a perspective of 2050. Hidroelectrica officials say the company, which is the largest electricity producer in Romania, will be deeply affected because the draft law covers all the "new and water-related activities". **Bogdan Badea, General Manager of the company, stated that Romania risks not to reach its renewable target for 2030 if this decision will come into force.**

Energy

- ▶ The Nuclearelectrica (SNN) Board of Directors approved on August 29 the extension of the terms of the company's CEO, Deputy CEO and CFO with 2 months more, starting from September 5.

Cosmin Ghiță was first appointed SNN's CEO last summer, in 2017, after Daniela Lulache left the job. Since then, his mandate was prolonged every 4 months.

- ▶ The Ministry of Energy announced on Monday, August 27, that the Petroșani Thermal Power Plant is the first installation of the Hunedoara Energy Complex (CEH) built according to the European environmental legislation, after an investment of 65.3 million EUR.

The power plant was endowed with high performance equipment and this investment is of dual importance. On the one hand, the Petroșani thermal power plant will be supplied with coal from the Jiu Valley, and on the other hand, any step taken towards meeting the environmental requirements by coal-fired power plants in Romania represents an equally diverse energy mix in the future for the company.

Energy

- ▶ A consumers' association is trying to develop its own gas and electricity supply company, for the first time in Romania.

„Asociația Consumatorilor și Micilor Producători de Energie” (ACMPE, or “The Association of Consumers and Small Power Producers”) is a non-profit entity based in Sighișoara city (Mureș county) that aims to protect the interests of energy and gas consumers as well as small producers/ prosumers in relation to major Romanian suppliers, distributors and ANRE. It was founded by Mr. Liviu Popa and now plan need to raise at least 1 million EUR in order to start and support the business.



Energy – Key data

- ▶ 89.5% of total final consumption of natural gas in Romania was traded on the Romanian Commodities Exchange in May 2018, according to the latest monthly report of ANRE (regarding the gas market).

The average price was between 74.83 RON (on STEG platform) and 75.07 RON (on BRM - Romanian Commodities Exchange platform), almost 6% higher than last year.

- ▶ The price of the CO₂ certificates reached 20 EUR at the end of last week, more than three times higher compared to 2017, bringing “bad news” and difficulties for the coal-fired power plants in Romania.

The Oltenia Energy Complex (CEO) is the most affected company by this change in Romania and so far this year it has to pay a quarter of a billion EUR only for the acquisition of carbon dioxide certificates (as a major polluter). Romanian politicians stated that solutions are being sought at European level in order to receive back a part of the money - although the most optimal action would be to invest in the company’s modernization.

- ▶ Only 14.2% of all households (about 1.25 million) have switched to the electricity liberalized market so far in Romania.

The 7.5 million consumers are still on the regulated market despite the fact that the last component of the regulated tariff (of 10%) it has been removed from January 1st, this year.

Energy – Trends to watch this week

- ▶ Electricity prices have increased by 70% in the Romanian spot and forward markets during this month and they are still expected to increase.

Prices are 70% higher in August compared with the beginning of the month/year due to a high consumption (due to high temperatures) and to a low energy production from renewable sources in the entire region (except hydro). This rising trend is also influenced by the increase of coal, oil, gas and CO2 certificates prices.

- ▶ The Ministry of Economy announced on Tuesday, August 28, that the national electricity TSO Transelectrica intends to set up an office in the Republic of Moldova.

Thus, Economy Minister Danuț Andrușca had a bilateral meeting with his Moldovan, Minister Chiril Gaburici.

Energy – Trends to watch this week

► But the main topic of the discussion between the Romanian and Moldovan Minister was the privatization process of Vestmoldtransgaz, the Moldovan gas TSO. Romanian Minister of Economy Dănuț Andrușcă stated that the Transgaz's takeover of the Vestmoldtransgaz will be completed next week.

By signing the sale agreement of the Vestmoldtransgaz State Enterprise on March 28 by Eurotransgaz (company established and owned by Transgaz in the Republic of Moldova and the authorities of the neighboring country) were created the premises for the construction of the Ungheni-Chișinău gas pipeline, a vital project (already started) aimed to drive the energy security of the Republic of Moldova.

Energy – Trends to watch this week

► Transgaz announced on August 21 investments of 360 million EUR in the Tuzla-Podișor gas pipeline, which will take natural gas extracted from the Black Sea and will transport it to export pipelines – according to data released by company's directors. This pipeline will be interconnected with the current international gas transit pipeline Tranzit 1 (Isaccea-Negru Vodă) and its transport capacity will be 8.14 billion cubic meters per year. Currently, the feasibility and environmental impact studies have been finalized and building permits have been obtained. The final investment decision will be taken this year and the gas pipeline construction is planned to start in the period 2019-2020.



Energy – Trends to watch this week

- ▶ Electrocentrale București (ELCEN) creditors postponed again the vote on the reorganization plan for the electricity and thermal power producer for another 30 days, due to the fact that the City Hall needs to pay all its 2 billion RON debt.

This is the second postponement of the approval of the reorganization plan by ELCEN creditors, on which the future of the power supply system in Bucharest depends - the first postponement took place in July. The completion of the insolvency procedure of ELCEN must be coordinated with the insolvency procedure of RADET supplier, in order to ensure the continuation of the public power supply service for Bucharest Capital and to create the prerequisites for attracting European funds for the development of production capacities and for the development of the heat distribution infrastructure. Basically, this action increases the uncertainty about the future of the supply of hot water and heat in Bucharest.

Political

► Last week on Tuesday, August 21, Liviu Dragnea (PSD Chairman and Chamber of Deputies President) confessed during a TV show that he had been a victim of an alleged murder attempt. In a rather shocking turn of events, Dragnea mentioned that the year before, four people had been hired to follow, threaten and eventually murder him, under the command of a “famous person.”

However, the PSD Chairman did not say who exactly wants his head, but he underlined (the day after the TV show) that “he is not George Soros (PSD’s go-to enemy/ scapegoat) although he is seemingly equally famous.” Dragnea’s confession sparked both ridicule and outrage, as the third most powerful man in Romania (according to his institutional status - de facto first in terms of political power / influence) should have mobilized the authorities to investigate the case and strengthen his personal security.

Political

- ▶ Dragnea underlined that neither did he press any charges nor did he ask for increased security because he could not “trust the authorities led by a semi-mobster state.”

Law enforcement bodies responsible for state officials' security - SPP (the main security service for state officials), SRI (the Romanian internal Intelligence Service), the State's Attorney's Office and DIICOT (the Directorate for Investigating Organized Crime and Terrorism) - denied immediately any knowledge of a complaint or investigation on this particular topic. **Codrin Ștefănescu (former PSD Deputy Secretary General)** also reacted, reinforcing Dragnea's conspiracy theory and stating that “the silence coming from the President and the secret services means they all knew about this and did not interfere or they did not know anything, which is equally serious.” Opposition leaders subsequently pointed out that the PSD Chairman is “paranoid and ridiculous”, sparking the creativity of Romanian internet trolls.

Political

- ▶ However, this story was part of a wider (and fairly successful) strategy of derailing the public agenda from the ongoing discussions about the protests on August 10, while directly attacking state institutions which are not under PSD's influence. Some would argue that PSD's intentions go even further, with an indirect attack on the President, who presumably protects institutions such as SRI.

Similar attacks might follow, mainly from PSD, in an attempt to justify an eventual direct call for the President's impeachment. ALDE, PSD's coalition partner, is not expected to support this new communicational mantra **because the Presidential impeachment may backfire and derail any chances in 2019 for President hopeful, Senate and ALDE leader, Calin Popescu Tariceanu.**

Political

- ▶ Justice Minister Tudorel Toader announced the commencement of all legal procedures “for assessing the activity of Augustin Lazăr, the General Prosecutor.”

This key institutional development comes after a cooperation protocol between the State’s Attorney’s Office and the Romanian Intelligence Service (SRI) was leaked to the media, in a different version from the one published on the State’s Attorney’s official website. The source of this institutional stir -and an unexpected “whistleblower”- was Darius Vâlcov, Adviser to PM Viorica Dăncilă. On Lazăr’s assessment (aimed at mirroring the assessment of former DNA Chief Prosecutor Laura Codruța, which finally led to her dismissal), Tudorel Toader announced that “an official result, as well as potential suggestions, will be public after 30 days the most.” *Aside from SRI, Lazăr is considered one of the last opposition pillars inside the system.* The first one to react to this decision was Călin Popescu Tăriceanu (Senate Speaker, ALDE Chairman - Toader is supported politically by ALDE) stating that “this is a sign of normalcy; this *assessment is encouraging, the parallel state’s infiltration level in Romania’s justice system is truly intolerable.*” Liviu Dragnea publicly asked the Parliamentary Committee for SRI Control to start an investigation on alleged illegal deeds of the intelligence service.

Political

- ▶ While investigating the violent turn of August 10 protests, Lazăr's immediate reaction to Toader's decision was to accuse the Justice Minister of "destabilizing the State's Attorney's Office while manipulating the public opinion.

This topic could start from a particular person with criminal related issues." Lazăr did not point fingers, but suggested that the person in question is Darius Vâlcov. On Tuesday, August 28, the Prosecutors' Section of the Superior Council of Magistrates stated that Minister Toader's declarations "coining the idea that prosecutors are breaking the law and the fundamental rights of citizens" are "severe statements towarded at the Romanian justice system" which can "cast a doubt on the Public Ministry's activity and credibility." (n.b. the Public Ministry is the totality of prosecutors' offices and judicial authorities in Romania.)

Political

- ▶ The "war on justice" is expected to continue on several fronts - legislation, institutions, political perceived opponents/ actors. At the same time, some shocking data -demanding answers - came to the fore last week: the Judicial Inspection published preliminary data coming from the DNA (the National Anticorruption Directorate), showing that over 63% of the Romanian Judges have been investigated by the DNA in the past few years and more than 60% of the prosecutors are in the same situation.

At the moment, the media is just an open ground for future clashes between several camps in the justice system, while it's important to note that the parliamentary majority really has the majority to move forward as planned.

Political

- ▶ But the main shock of the week came from abroad. Former Mayor of New York City and current lawyer of US President Donald Trump, Rudy Giuliani, addressed an open letter to Romanian President Klaus Iohannis (and the other key players in the Romanian State), dealing with the state of the Romanian justice system and largely reframing and reinforcing the theses of the governing coalition in Bucharest.

Giuliani, who has never shown any particular interest in Romania's internal affairs, is now expressing his "concerns about continuing damage to the rule of law in Romania being done under the guise of effective law enforcement." As a justification for his concerns, Giuliani adds that "this damage directly and negatively affects the flow of foreign direct investment in Romania, because no rational investor would invest assets in a place where the rule of law and the legal system are subjected to manipulation by those in power." The twist is given by Giuliani blaming the National Anticorruption Directorate for "excesses under its former Chief, Laura Codruța Kovesi" and the "secret protocols" signed between DNA and SRI, namely between Kovesi and former Chief of SRI, George Maior (currently Romanian ambassador to the US). Moreover, Giuliani called for the examination of the protocols signed and even for the reform of the penal code.

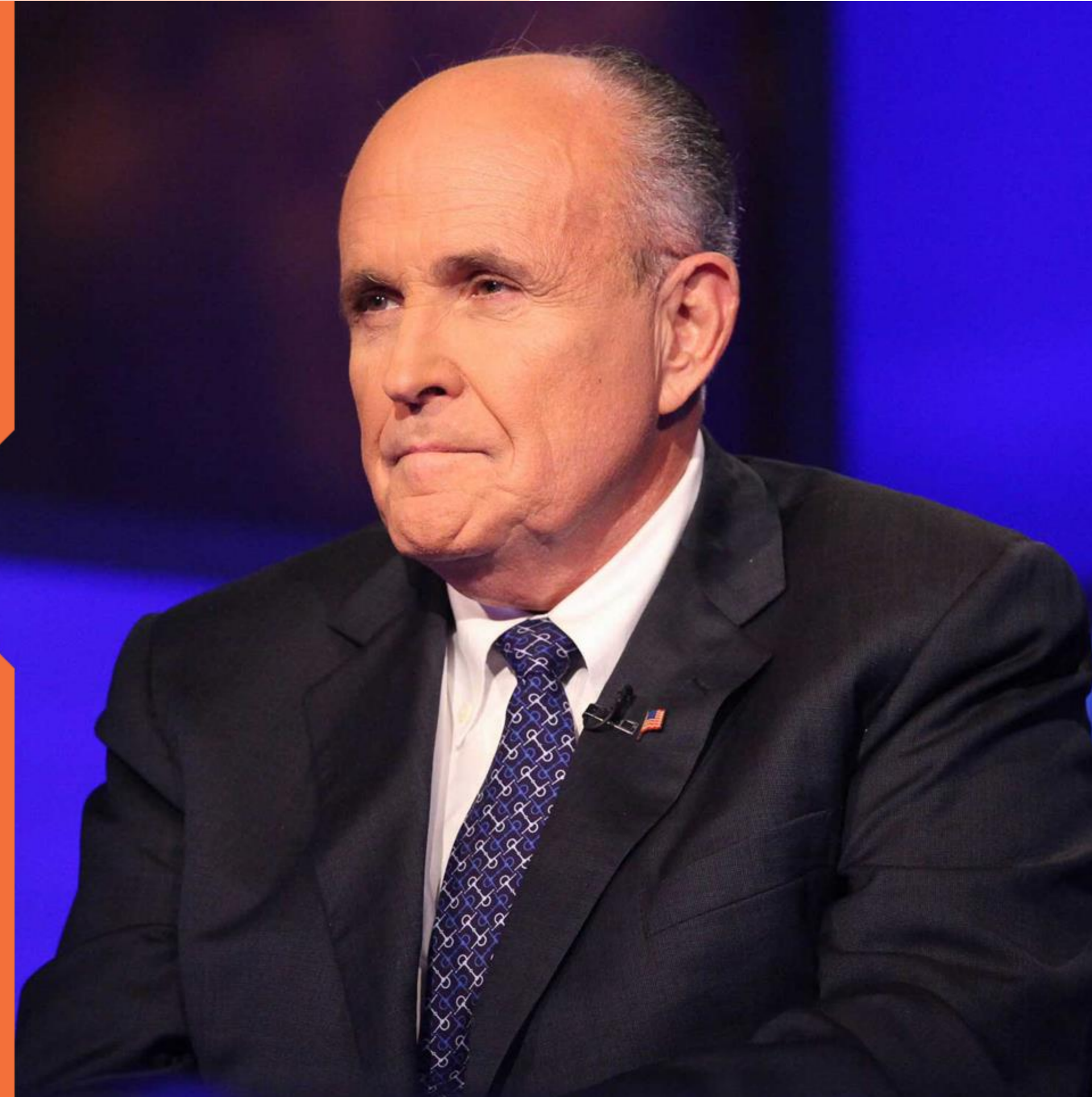
Political

Maior, now an Ambassador to the United States, has debunked the allegations and labeled Giuliani's letter as "an expression of a lobby initiated by certain forces interested in defending nationals who had legal issues." Maior then faced the criticism of the Ministry of Foreign Affairs, which stated that "Mr. Ambassador George Maior had a position that was not approved by the Ministry or by the Government and does not represent the MFA's position." In response, the US Embassy in Bucharest declared through [Spokesperson Donald Carroll](#) that "the US Government does not comment the opinions and conclusions of private persons, American citizens."

- ▶ Analytically speaking, it seems very likely that Giuliani's letter is indeed the result of a [private lobbying effort](#), based on the idea that the Romanian public might respond better to an [American figure](#), in terms of credibility, particularly by association with President Trump. This is further reinforced by another [recent surprising media appearance](#), Louis Freeh, former FBI director, currently a lawyer for one of Romania's rich and famous, Puiu Popoviciu - here is what he said for Forbes: [Read here](#)

Political

In other news on the topic:
Opposition representatives reacted swiftly, accusing the fact that the letter was not even written by Giuliani himself, a bit too much even for state of the current opposition.



Political - Top events to spot last week

► The President decided to summon the Superior Council for Country's Defense (CSAT) on September 4, to discuss the governmental budgetary adjustment. PM Dăncilă asked Iohannis to convoke the Council as soon as possible, accusing the President of consciously delaying a CSAT decision on the budget (which is key, according to the Romanian legislation). Other PSD leaders went even further and criticized Iohannis of interfering with the Government's duty of delivering pensions and salaries. Iohannis called the Government's officials "incompetent and not knowing the regulations." He continued calling the government incompetent with the occasion of the Romanian diplomats assembly, end of August. In terms of rules: on the one hand, according to regulations, the Government needs the CSAT approval for any measure with an impact on the state's security and other important resolutions (state budget included); on the other, the pensions system is not in danger, as several PSD leaders accused the President, because all pensions are paid from the social security budget, not from the state budget. The budgetary adjustment usually implies the redistribution of funds, so that the functioning of certain process at the level of the Government (including investments) is ensured.

Political - Top events to spot last week

► As mentioned before, Iohannis is expected to face increasing attacks from the governing coalition, mostly on the basis of his opposition to certain legislative developments or governmental actions.

This tactic is meant to wear out Iohannis' electoral trust points in view of the upcoming presidential elections. President Iohannis is keen on reuniting the opposition parties to create a praetorian guard behind him. PNL is the first party to show full support, while Iohannis started to take part at their assemblies, even mediating between the party leaders (Orban and Blaga) for a truce. **It remains to be seen if the President will also be supported by USR, who managed via their campaign "#Nocriminalsinpublicoffice" to collect more than 1 million signatures** (an announcement in this sense was made by USR leaders last week) **and basically own the anticorruption topic online and partially offline.**

Political - Trends to watch this week

- ▶ PSD has an Executive Party Committee scheduled for this week. Expect a governmental evaluation and, rumor has it, several ministerial reshuffles. The letter of Ecaterina Andronescu against the current PSD leadership may be perceived just as a flash in the pan.
- ▶ ALDE has scheduled a meeting to establish this autumn's party priorities. Expect topics related to legislative projects (such as the lobbying law, the offshore law and other drafts important for ALDE) as well as messages against the *parallel state*.
- ▶ Expect media pressure as regards the future DNA leadership: the candidates' interviews are scheduled for this week (4 candidates have enrolled for DNA's Chief Prosecutor until last Friday, according to Justice Minister Toader).
- ▶ Expect continued media clashes between Augustin Lazăr and Tudorel Toader as regards the Romanian Intelligence Service.
- ▶ Expect increased attention from EU's leadership as the Romanian Presidency of the Council of the European Union approaches. On August 27, German MFA Heiko Maas was in Bucharest, meeting Romanian Ambassadors and President Klaus Iohannis.