

# Main developments

in Romania's energy sector

October 2018

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– Will it be stable?

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# Energy Sector

## Offshore law: Key question after promulgation – Will it be stable?

► President Klaus Iohannis has promulgated the Offshore Law amid a renewed, albeit brief debate, over a necessary correction to the fiscal stability clause raised by PNL's Virgil Popescu, who raised the risk that without the correction investors could circumvent supplementary gas taxes.

PSD's President Liviu Dragnea told reporters that any correction is out of the question and, albeit on a sarcastic tone, called on PNL to submit a proposal to review the law. Before its promulgation, a Sunday prime-time show took an in-depth view at the history of offshore gas in Romania and put forward the view that Romanians could have been cheated out of their wealth following extreme pressures from abroad. After the law was adopted, Labor Minister Olguta Vasilescu claimed that some in PSD are not satisfied with the final form as it does not reach 50-50 distribution.

This dissatisfaction was also expressed by some from USR who, in addition to blaming the coalition for non-transparent debates, echoed the need for reaching at least 50-50 distribution. The stability clause was the main point of contention between coalition partners, a point where PSD eventually conceded to the expressed dissatisfaction of PSD's Liviu Dragnea. Dragnea, right after the vote, basically called the stability clause superfluous, as any Parliament could later change the law to eliminate that clause.

Meanwhile, companies who have delayed their FIDs have signed capacity contracts with Transgaz, prompting some to point to it as proof that the Offshore Law does provide sufficient investor take. An optimistic view over exploitation of the resources was also expressed by Energy Minister Anton Anton who is eyeing what to do with the gas.

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## **What to look for:**

*The final form of the offshore law appears to leave some frustration for all parties involved. With nationalistic sentiments on the rise, stimulated by a governing coalition pushing anti-Western rhetoric over perceived interference in internal decision-making over the justice system, combined with a historical preference in Romanian society for mystification over the fight for natural resources, reputational attacks over resource theft could intensify near or after FIDs.*

*The hanging issue of the necessary correction to the stability clause could represent the highest vulnerability to the overall stability of the offshore law, as nationalistic factions present in all current parliamentary could reach a consensus over the need to eliminate perceived risks to the Romanian state's income. Such a review, either via emergency ordinance, or via draft law submitted in Parliament, could lead to debates over further necessary adjustments to the offshore law, to take into account for example evolutions in the local and regional gas markets, or to ensure that much-touted 50-50 distribution.*

*A review via emergency ordinance could be riskier as, while the correction would take effect immediately, the approval law could be "kept in the drawers" until actors feel confident that further adjustments could be implemented. A mid-term review risk could be exacerbated both by potential changes in the governing structures of the ruling parties, or by a political upending in the upcoming Parliamentary elections.*

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## Gas liberalization: Tough winter and nationalism could raise risks

► While no further statements were made over the proposed capping of purchase prices for natural gas from internal production, gas prices on wholesale markets remain high. This has started to feed into the topic of household heating for the winter after ELCEN announced it is seeking a 10% increase in its heating price due to higher gas purchase prices, an increase which Bucharest Mayor Gabriela Firea, a supporter of the gas price cap idea, announced would be absorbed by City Hall. ANRE's VP Nagy-Bege has already warned that significant gas price hikes for households could be implemented from April 2019 and called the evolution of wholesale prices "worrying". A major gas supplier has accused the two main gas producers for the situation, due to an apparent unwillingness to market gas. Romgaz tried to exonerate itself by pointing to higher production and a good marketing price from its behalf.

**What to look for:** *The issue should continue to be monitored closely since Finance Minister Teodorovici's "right time" to reopen this issue could materialize if a harsh winter meets high prices. The anti-EU trend combined with the recent announcement from the UK for capping household electricity and gas prices could spur authorities to take notes from the country that is taking its independence back. While in the UK the proposed cap, estimated to save GBP 1 bn per year to households, would affect retail prices, in Romania both the electricity and the natural gas retail markets remain largely regulated, leaving few avenues of intervention on that side of the supply chain. While political struggles within PSD and over justice laws leave little room for attention on this issue at the moment, it could still be approached this winter with a sense of urgency and a perceived benefit of regaining political capital.*

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## Fuel price: Cap being analyzed by authorities over supplementary fuel excise

► Finance Minister Teodorovici stated that a price cap for fuel retail is being considered, to ensure that an elimination of the supplementary fuel excise, discussed in early-2018, would be transferred entirely to consumers. Competition Council President Bogdan Chiritoiu confirmed his institution is working with the Finance Ministry to analyze the issue and did not seem to dismiss the idea.

**What to look for:** Another strongly sentimental issue, the fuel price cap could be used as a further avenue for regaining political capital. Nationalistic sentiments could again exacerbate risks on this issue, although the external example presented recently by Russia's fuel price cap proposal could be harder to package. A dynamic with potential influence could be the issue of leadership over the Competition Council, with two draft laws progressing through Parliament which have been interpreted as aiming to create the framework to ensure the ousting of Mr. Chiritoiu.

## State's role in the energy sector: SAPE wants to start purchasing shares in energy companies

► SAPE, a company administering the state's shares from electricity distribution companies, announced it aims to invest proceeds over a court battle with ENEL in increasing its stake in energy companies. Sources have told press that the main aim would be Hidroelectrica, but the direction remains unclear.

**What to look for:** The move could be merely a way for the state to maximize its revenues from its most profitable company, given current and future budgetary constraints. On the other hand, it could signal a more general policy of increasing state ownership in the energy sector. This sector would be deemed strategic by a draft law for protecting the state's interests in the economy. The draft law, which also contains provisions related to LSCI, reversing fraudulent privatizations and allowing the state to increase its share in strategic sectors, has not progressed through Parliament since the beginning of the year.