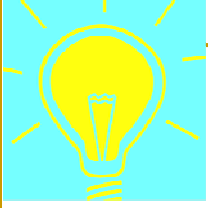


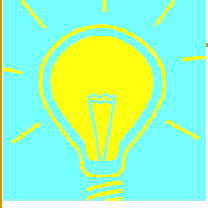
Procedures for planning, approval and realization of investments by license holders

Gheorghe LUPAN
Head of the Department, ANRE



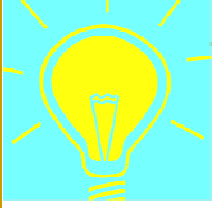
Situation that existed before restructuring

- ❑ **Old infrastructure (70% depreciated).**
- ❑ **Lack of investments in the sector during the period of more than 15 years.**
- ❑ **Electricity meters were installed in years 1965- 1980 and had not been verified for more than 10 years, lack of meters at residential consumers for natural gas and heating;**
- ❑ **Losses and thefts of electricity (total 20- 30%), of natural gas (10-15%), of thermal energy (more than 25%)**
- ❑ **Chronic non-payments (at the level of USD 100 million – electricity, USD 150 million – thermal energy, and USD 115 million - natural gas , barter settlements (50-70%);**



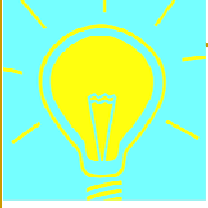
Situation that existed before restructuring

- ❑ **Enormous debts to suppliers of electricity and gas (equivalent to annual consumption of electricity and natural gas – USD 262 million)**
- ❑ **Tariff rates that did not cover necessary costs (losses exceeding USD 125 million);**
- ❑ **Rolling disconnections of electricity**
- ❑ **Lack of sources for investments**



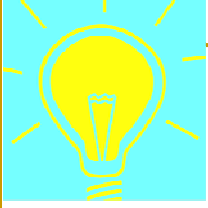
Taken measures

- ❑ Restructuring of the electricity sector (vertical integrated monopoly) and creation of the following:
- ❑ 4 electricity generating enterprises (3 CHPs and HPP)
- ❑ 5 (currently 3) distribution enterprises and supply of electricity
- ❑ Privatization of 3 distribution enterprises (currently merged in one).
- ❑ State-owned enterprise “Moldelectrica” – transmission and dispatch services (is not subject for privatization)
- ❑ Joint-stock company “Moldovagaz” (50% of shares belong to “Gazprom”) – the importer of natural gas, with creation of 13 subsidiaries (legal entities): 1 enterprise for transmission of natural gas and 12 enterprises that distribute and supply natural gas
- ❑ Appearance of other 13 private enterprises that distribute and supply natural gas.



Measures of Legal and Regulatory Nature

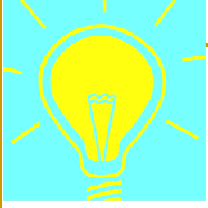
- ❑ Elaboration and adoption of the Law on Energy, Law on Electricity and Law on Natural Gas.
- ❑ Establishment of an independent regulatory body (ANRE). Elaboration of Methodologies for calculation and application of tariffs for transmission, distribution of electricity and natural gas, correspondingly.
- ❑ Other legal and regulatory acts that contribute to more efficient operation of enterprises in the energy sector.



Investments in the Energy Complex

Evolution:

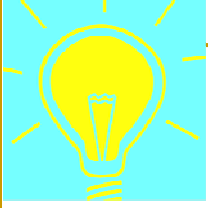
- In 2000-2003, investments only of Distribution Networks (RED) Union Fenosa (privatized RED)- around USD 6,0 million a year.
- From 2004, investments into all electricity distribution networks and the electricity transmission enterprise, in gas networks investments made only by the state and citizens – all in all more than USD 15-23 million a year
- In 2002-2008, USD 100 million.
- From 2009 private investments in gas sector
- In 2010, investments more than USD 28 million in electricity sector, and more than USD 24.6 million in the gas sector.
- In 2011, investments approved by the Agency: electricity sector around USD 29 million, natural gas sector – around USD 25 million.



Investments in the Energy Complex

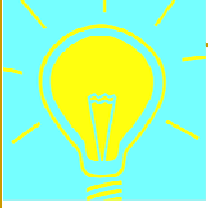
■ Influencing factors:

- Independent regulatory body;
- Clear and stable rules for a long period of time;
- License for activities with conditions that are not changed unilaterally for 25 years;
- Quality indicators and liability for non-compliance;
- The tariff methodology for a period of 5-7 years pursuant to market economy rules;
- Profitability according to WACC for net assets of the enterprise;
- Tariffs that cover necessary costs;
- Mandatory provisions in the Methodology of using depreciation of existing assets while making new investments;
- Equal conditions for all investors and recovery of investments that were made (depreciation and profitability) through the tariff.



Investment Plans

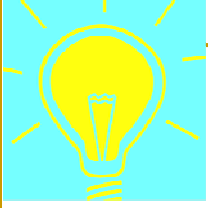
- Strategic investment plans of enterprises
- Annual plans (approved by ANRE)
- Efficiency of investments
- Modification of annual plans (with approval of ANRE)
- A report on execution of the annual investment plan (presented to ANRE)
- Acceptance in the tariff only of investments carried out in accordance with the plan approved by ANRE.



Annual Investment Plan

■ **Structure:**

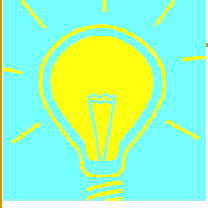
- ❑ Investment in extension of new networks (on the base of urban development plans);
- ❑ Investments in reconstruction, upgrade, modernization, restoration of existing networks;
- ❑ Capital repairs of fixed assets (capitalization);
- ❑ Investments in metering;
- ❑ Procurement of plant and equipment,
- ❑ Investments into buildings and constructions;
- ❑ Investments in transport vehicles;
- ❑ Investments in systems, programs, computer equipment;
- ❑ Investments in information, telecommunications, telemetric, automation technologies;
- ❑ Other investments.



Investment Principles

Needs:

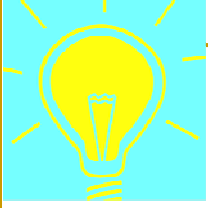
- Construction of new networks in conformity with urban plans, plans of gasification of localities
- Increase of consumption of existing consumers
- Telemetries, automation, telecommunications
- Metering
- Obligations concerning service quality
- Upgrade, rehabilitation, modernization of existing networks
- Reduction of technological consumption and losses in networks
- Ancillary infrastructure and creation of working conditions



Requirements to Investment Plans

■ *Arguments:*

- need;
- value;
- source of investments;
- period for commissioning;
- efficiency (number of new consumers, increase of sales, improvement of quality of provided services, reduction of losses, expenses, influence on tariffs, etc.);
- Length of service of fixed assets.



Role of the Regulatory Body

- **Decision on approval of investment plans and reports is based on the following:**
 - Technical analysis and economics of proposed investments
 - Necessity and legality
 - Transparency and impartiality
 - Economic justification in the interests of the sector, national interests and interests of consumers;
 - Efficient tools for regulation of the investment process (procedures, instructions, sanctions, tariff procedures, professional arrangements, etc.);
 - Equality for all, correctness and efficiency;
 - Prompt and timely decisions.

Basic Problems

- Lack of in-depth experience and trained specialists in the field of investments
- Non-existence of financial markets and of mechanisms for determining the correct and reasonable level of rates of return.
- External factors: economic crisis, restrictions, dependence on import of equipment, materials, services, etc.
- Economic situation: lack of resources, high rate of inflation
- Different approaches and opinions
- Some disagreements between functions of ANRE and actions of the Government, Parliament, President.

Thank you!