



National
Association of
Regulatory
Utility
Commissioners



INVESTMENTS IN THE ENERGY SECTOR OF MOLDOVA

Mariana Botezatu
Director ANRE

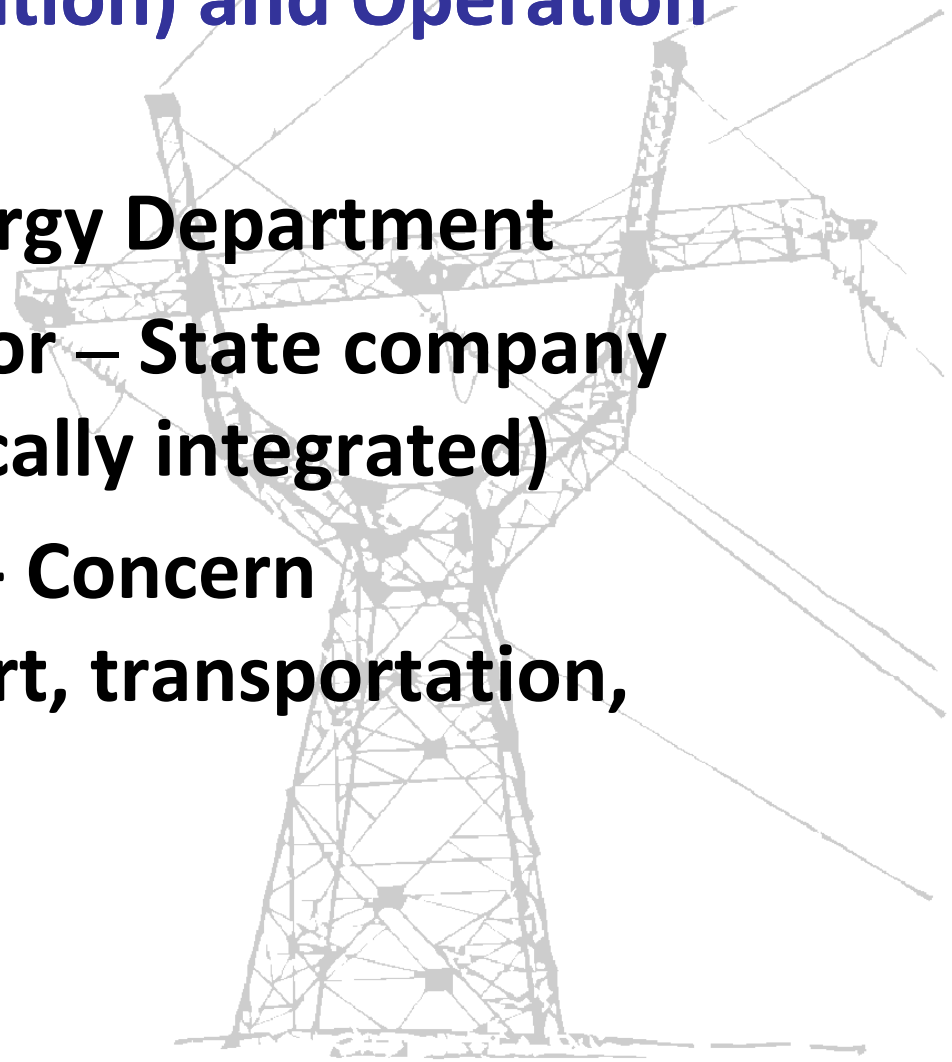
Missouri
September 20-24, 2010



Energy Sector before the Reform

Management (Administration) and Operation

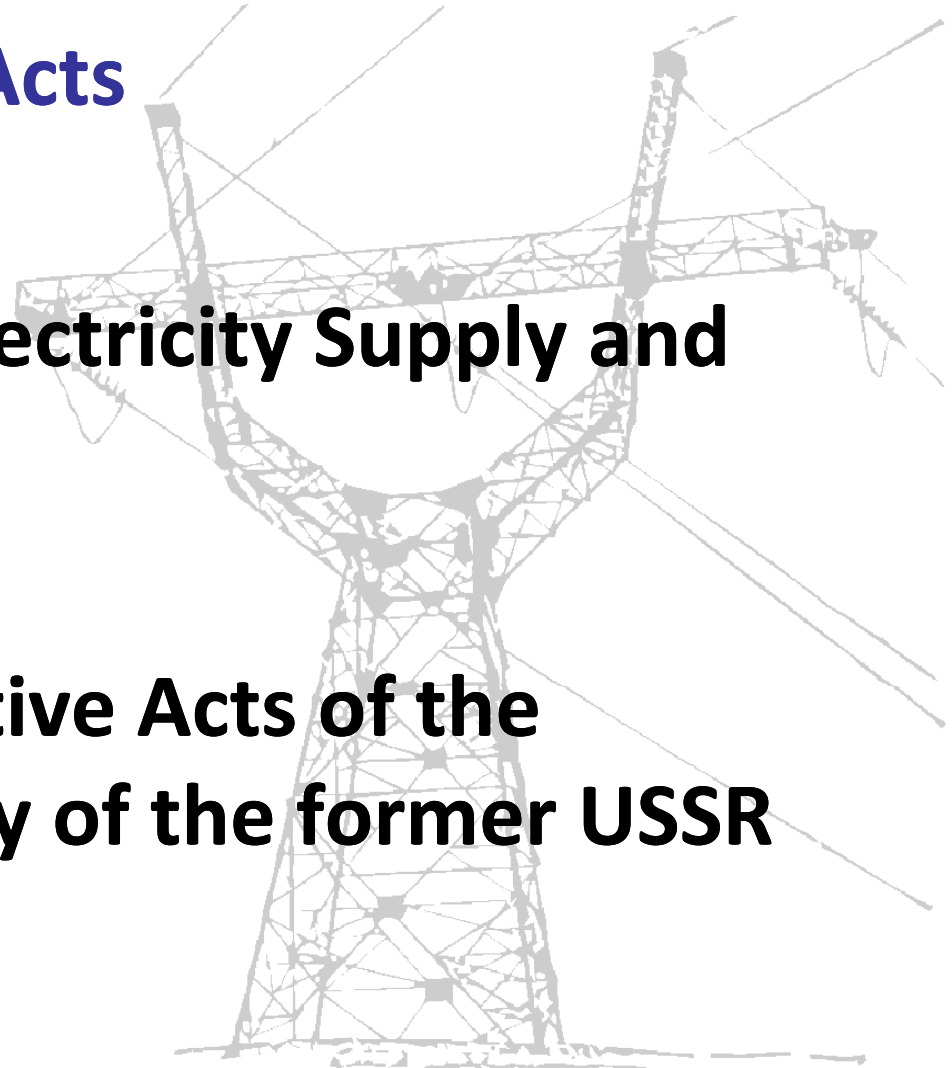
- **Government and Energy Department**
- **In the electricity sector – State company “Moldenergo” (vertically integrated)**
- **In natural gas sector - Concern “Moldovagaz” (import, transportation, distribution, supply)**



Energy Sector before the Reform

Legal and Normative Acts

- **Regulations on Electricity Supply and Payment**
- **Technical Normative Acts of the Ministry of Energy of the former USSR**



Energy Sector before the Reform

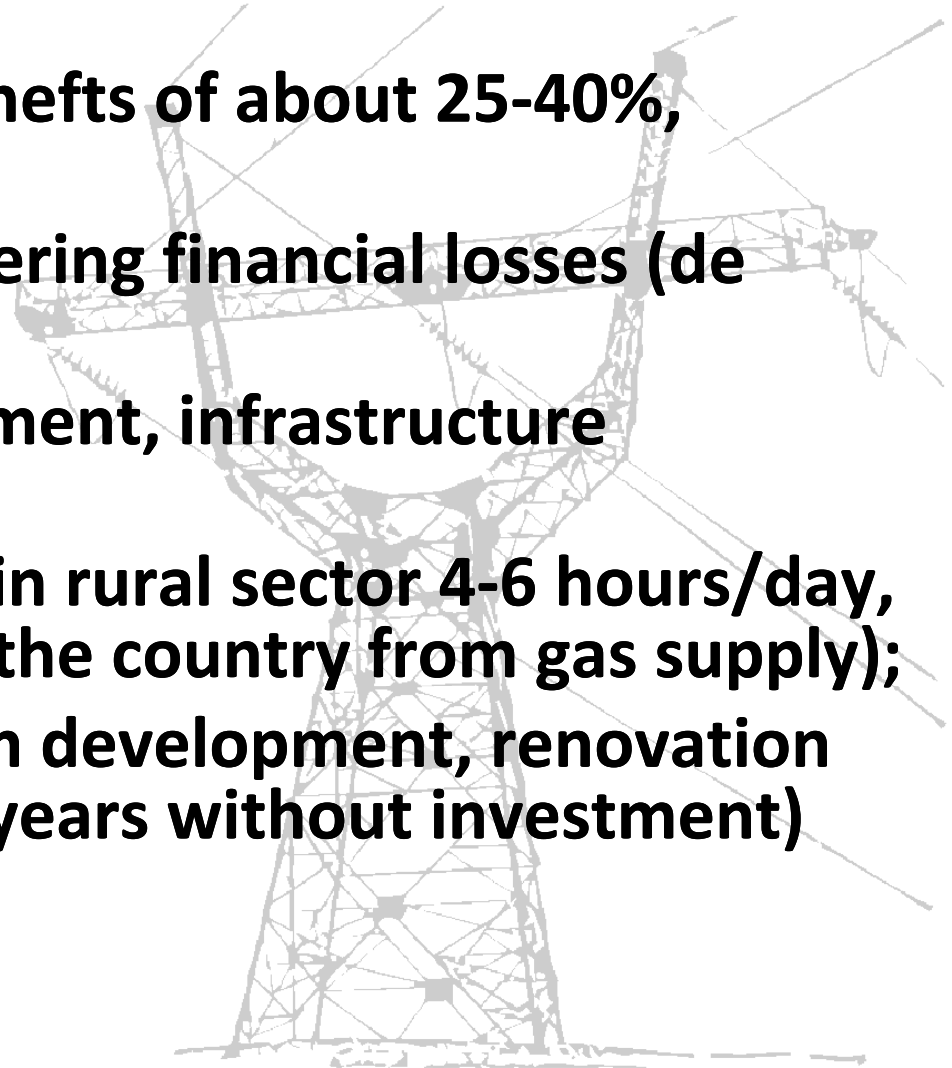
The State of Things

- **Obsolete equipment (70% depreciation);**
- **Obsolete meters, unverified for more than 10 years (energy/electricity), lack of meters on household natural gas consumers;**
- **Chronic non-payment (reaching 100 mln. USD for electricity and 115 mln. USD – for natural gas), barter transactions (50-70%);**
- **Privileges for 33 categories of consumers with no financial coverage;**
- **Tariffs not covering the costs (over 125 mln. USD losses);**
- **Huge debts to electricity and gas suppliers (262 mln. USD) ;**
- **Transformation of energy sector debts into state external debts (140 mln. USD);**

Energy Sector before the Reform

The State of Things (continued)

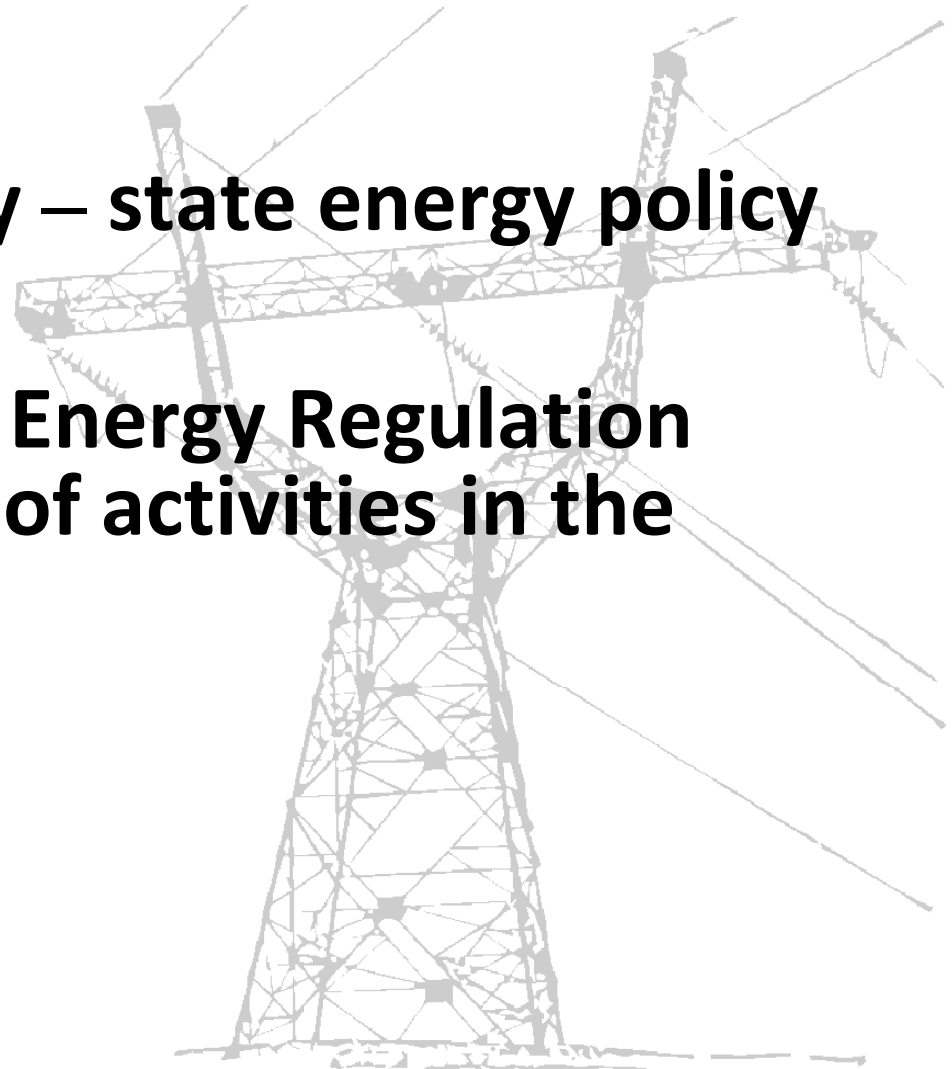
- Huge energy losses and thefts of about 25-40%, natural gas - 10-15%;
- All sector companies suffering financial losses (de facto bankrupt);
- Theft of networks, equipment, infrastructure degradation;
- Daily rotating blackouts (in rural sector 4-6 hours/day, 2 total disconnections of the country from gas supply);
- Lack of sources for system development, renovation and maintenance (10-15 years without investment)



Energy Sector after the Reform

Management

- ❑ **Ministry of Economy – state energy policy**
- ❑ **National Agency for Energy Regulation (ANRE) – regulation of activities in the energy sector.**



Energy Sector after the Reform

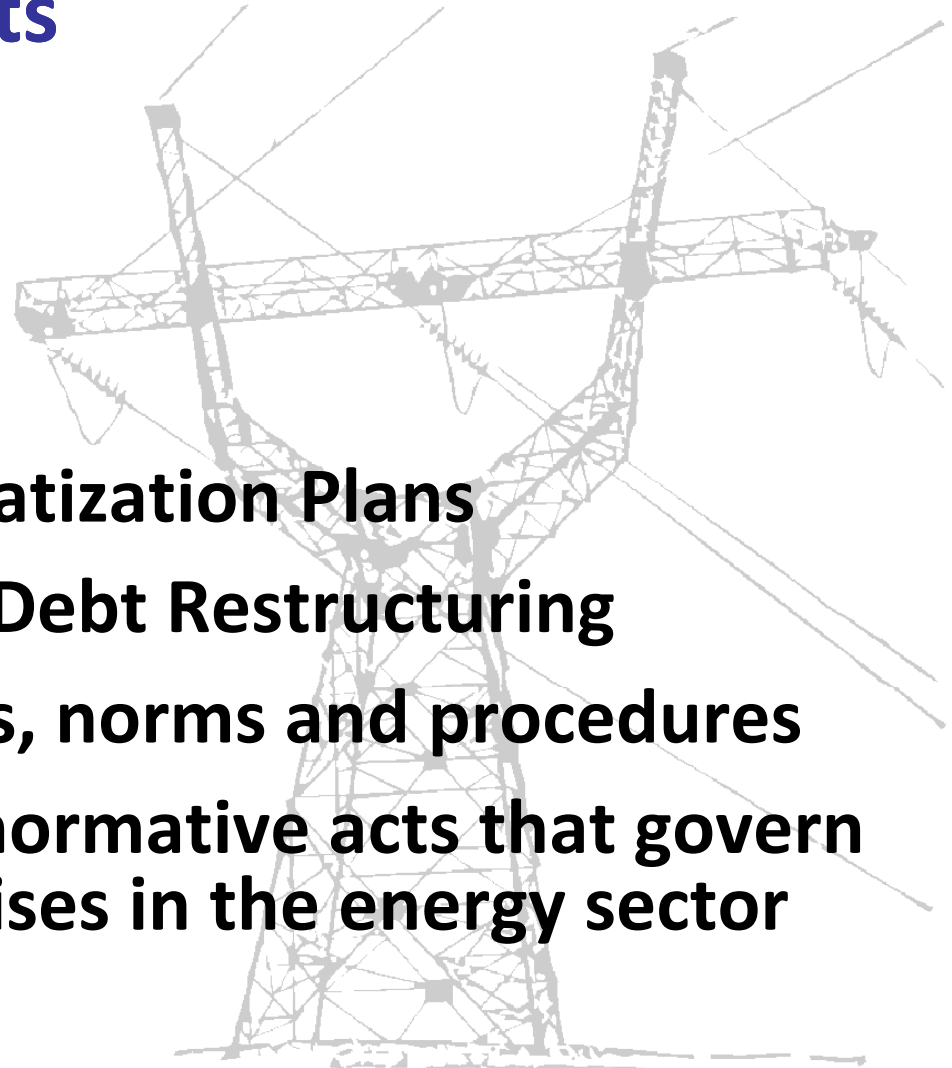
Enterprises

- 4 electricity generation enterprises (3 CHPs and HPP)
- 5 (currently 3) electricity distribution and supply companies of which 3 (currently 1) privatized and 2 – state property.
- State company “Moldelectrica” – transportation and dispatch (privatization not possible)
- JSC “Moldovagaz” (50% shares “Gazprom”, Russia) – natural gas importer, with 13 branch establishments (legal persons): 1 natural gas transportation enterprise and 12 gas distribution and supply enterprises
- 13 private natural gas distribution and supply companies.

Energy Sector after the Reform

Legal and Normative Acts

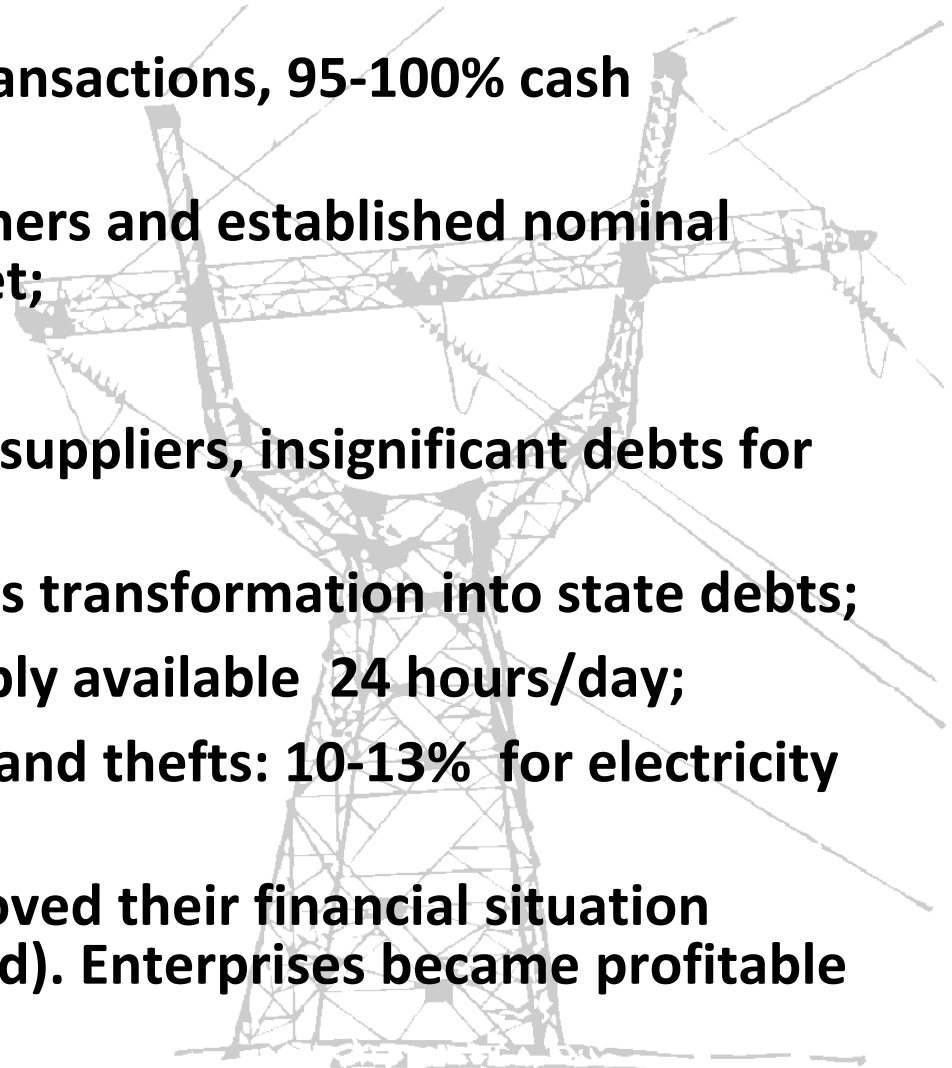
- Law on Energy
- Law on Electricity
- Law on Natural Gas
- Law on Individual Privatization Plans
- Law on Energy Sector Debt Restructuring
- ANRE's regulatory acts, norms and procedures
- Other legislative and normative acts that govern the activity of enterprises in the energy sector



Energy Sector after the Reform

State of Things

- ☐ Complete removal of barter transactions, 95-100% cash payments;
- ☐ Repeal of all privileged consumers and established nominal compensation from the budget;
- ☐ Tariff covering costs;
- ☐ No current debts to electricity suppliers, insignificant debts for imported natural gas;
- ☐ Removal of energy sector debts transformation into state debts;
- ☐ Electricity and natural gas supply available 24 hours/day;
- ☐ Significant reduction of losses and thefts: 10-13% for electricity and 4 - 5% for natural gas;
- ☐ Enterprises considerably improved their financial situation (bankruptcy threat disappeared). Enterprises became profitable (Except - Termocom).



Investments in the Energy Sector

General Situation

- 1987 to 2001- 2004 practically without investments;
- In 2000-2003 investments only to RED Union Fenosa (privatized) – on average 6,0 mln. USD annually;
- Since 2004 investments in all REDs and electricity transportation enterprises – total of 15-23 mln. USD annually, and since 2008 – investment to natural gas networks

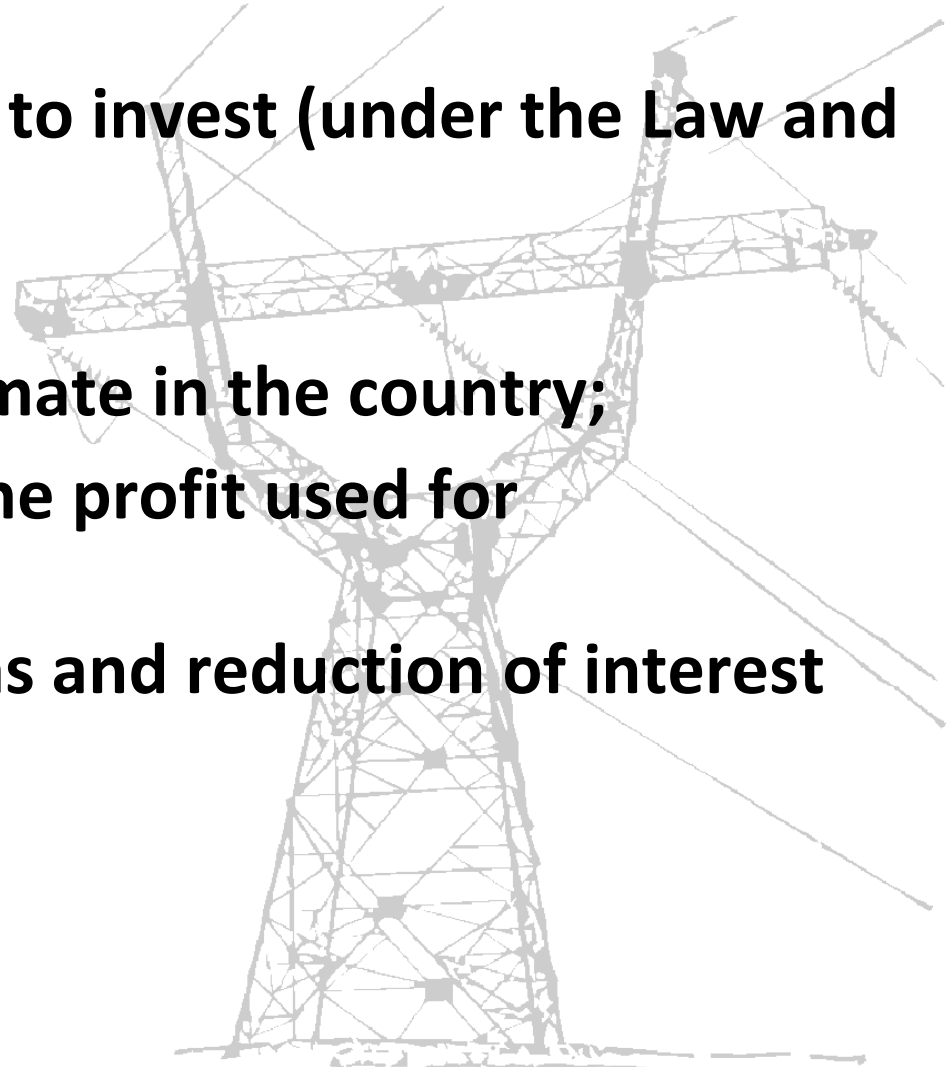
(Note: in 2002-2008 only the state and consumers made investments in natural gas networks);

- In 2010 - 28 mln. USD investments in energy sector and over 26 mln. USD in natural gas sector.

Investments in the Energy Sector

Influencing Factors (at state level)

- Obligation of enterprises to invest (under the Law and license conditions);
- Privatization;
- Improved investment climate in the country;
- Setting tax rate “0” for the profit used for development;
- Accessibility to bank loans and reduction of interest rates;
- Economic growth.



Investments in the Energy Sector

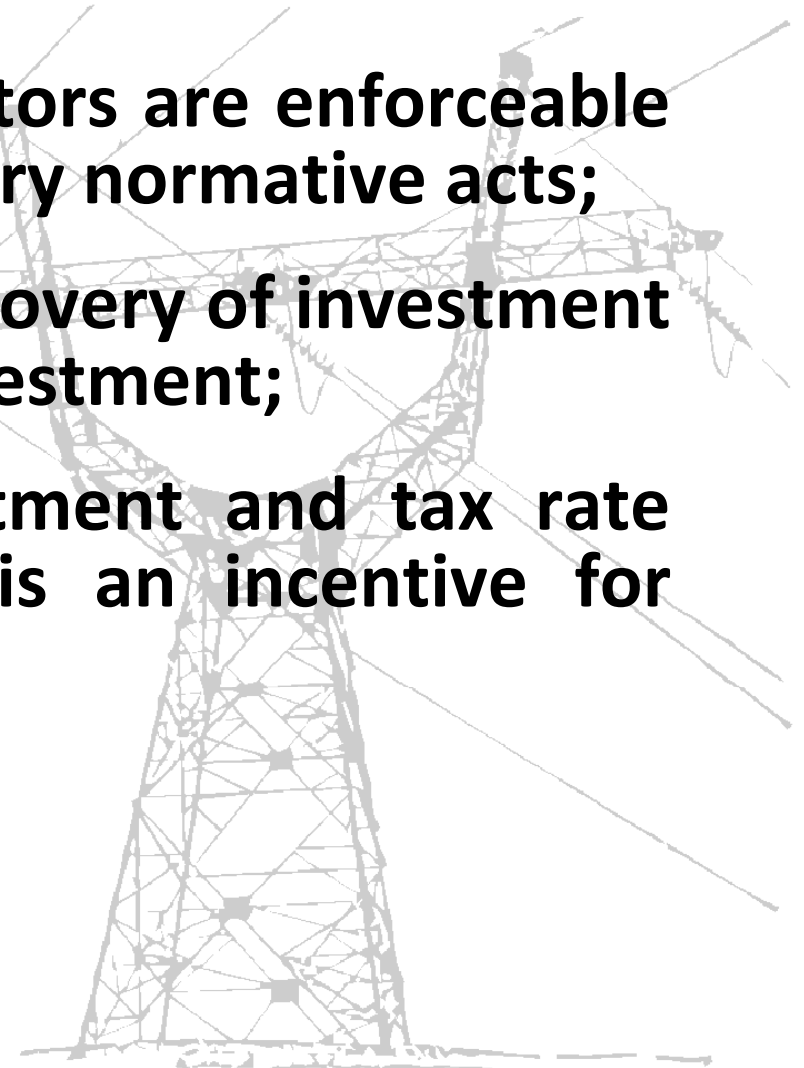
Influencing Factors (regulator)

- Independent regulatory authority;
- Clear rules, established for a long-term timeframe;
- Licenses for activity with unchanged conditions for 25 years;
- Quality of services indicators and responsibility for non-conformance;
- Tariff methodology for 5-7 years, corresponding to market economy;
- Rate of return according to WACC apply to net assets of enterprises;
- Tariffs covering necessary costs;
- Methodology provisions to use existing assets depreciation for new investments;
- Equal conditions for all investors and recovery of investments through tariff (depreciation and return).

Investments in the Energy Sector

Summary

- Long-term interests of investors are enforceable by law, licenses and regulatory normative acts;
- Investors are guaranteed recovery of investment and profit obtained from investment;
- Ensuring recovery of investment and tax rate “0” for capital invested is an incentive for further investment.



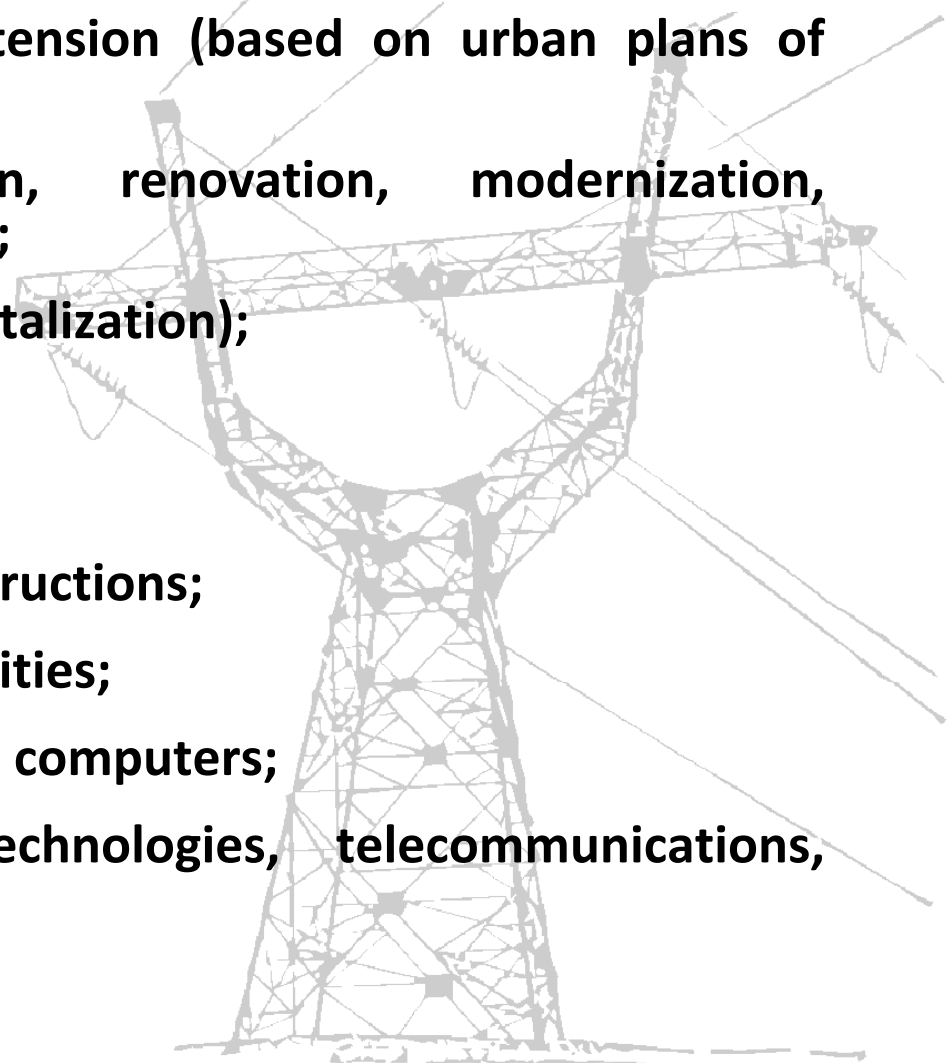
Investment Plans

- ❑ Strategic investment plans of enterprises;
- ❑ Annual plans (approved by ANRE);
- ❑ Modification of annual plans (with ANRE approval)
- ❑ Report on annual investment plan implementation (provided to ANRE);
- ❑ Acceptance only of investments made according to the plan approved by ANRE to be included in tariffs.

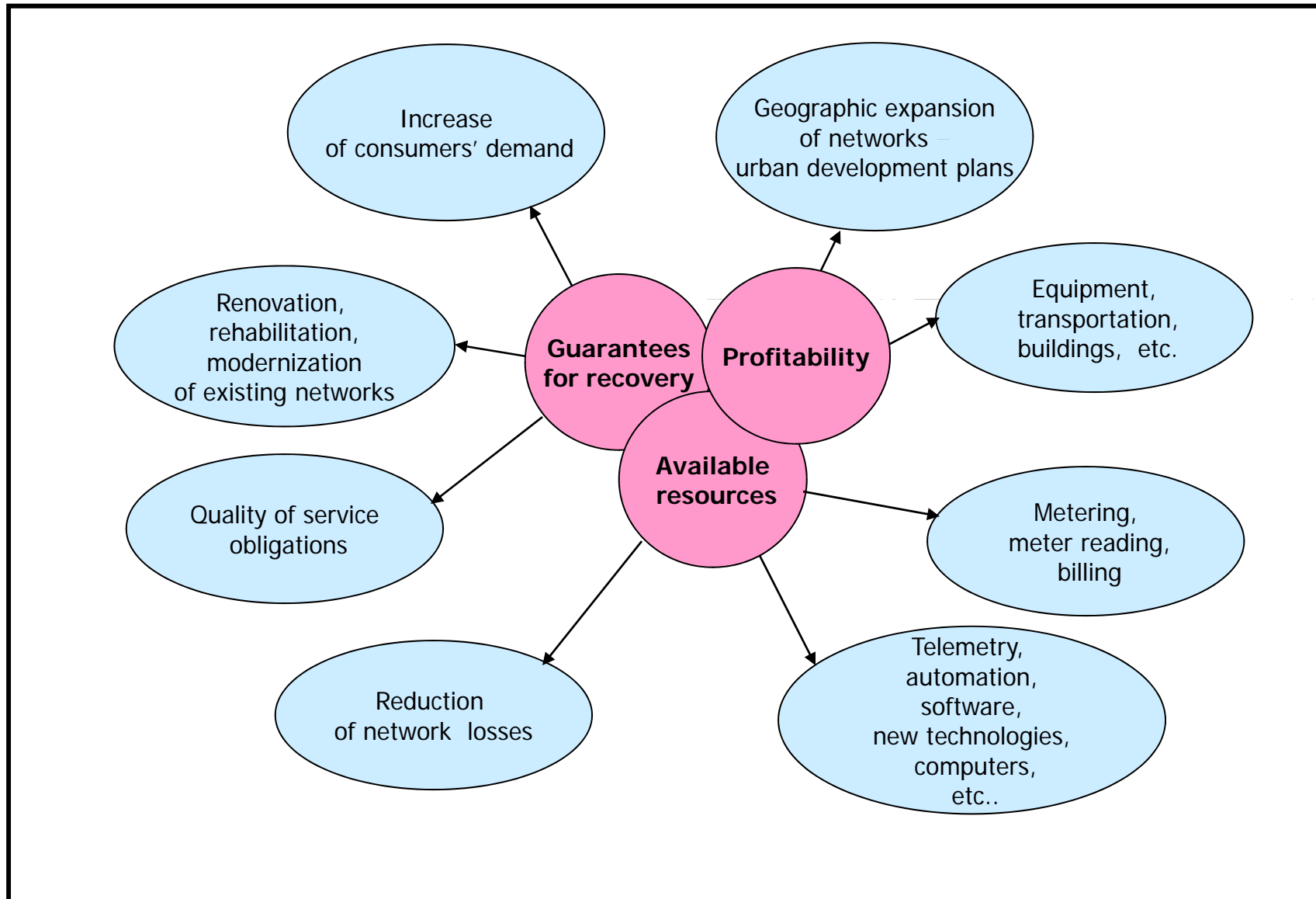
Annual Investment Plans

Content

- ☐ Investments in new network extension (based on urban plans of development);
- ☐ Investments in reconstruction, renovation, modernization, rehabilitation of existing networks;
- ☐ Capital repairs of fixed assets (capitalization);
- ☐ Investments in metering;
- ☐ Procurement of equipment;
- ☐ Investments in buildings and constructions;
- ☐ Investments in transportation facilities;
- ☐ Investments in systems, programs, computers;
- ☐ Investments in information technologies, telecommunications, automations;
- ☐ Other investments.



Investments Management Policies

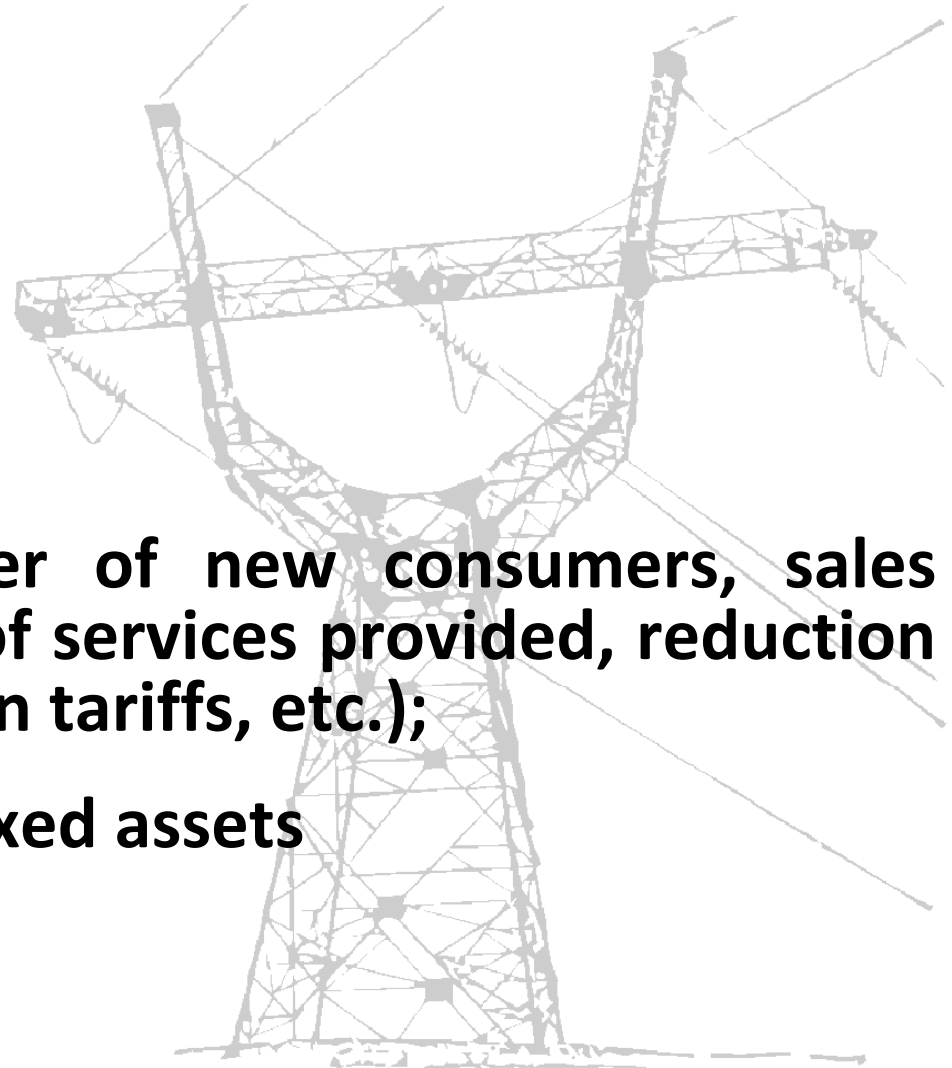


Requirements for Investment plans



Justification

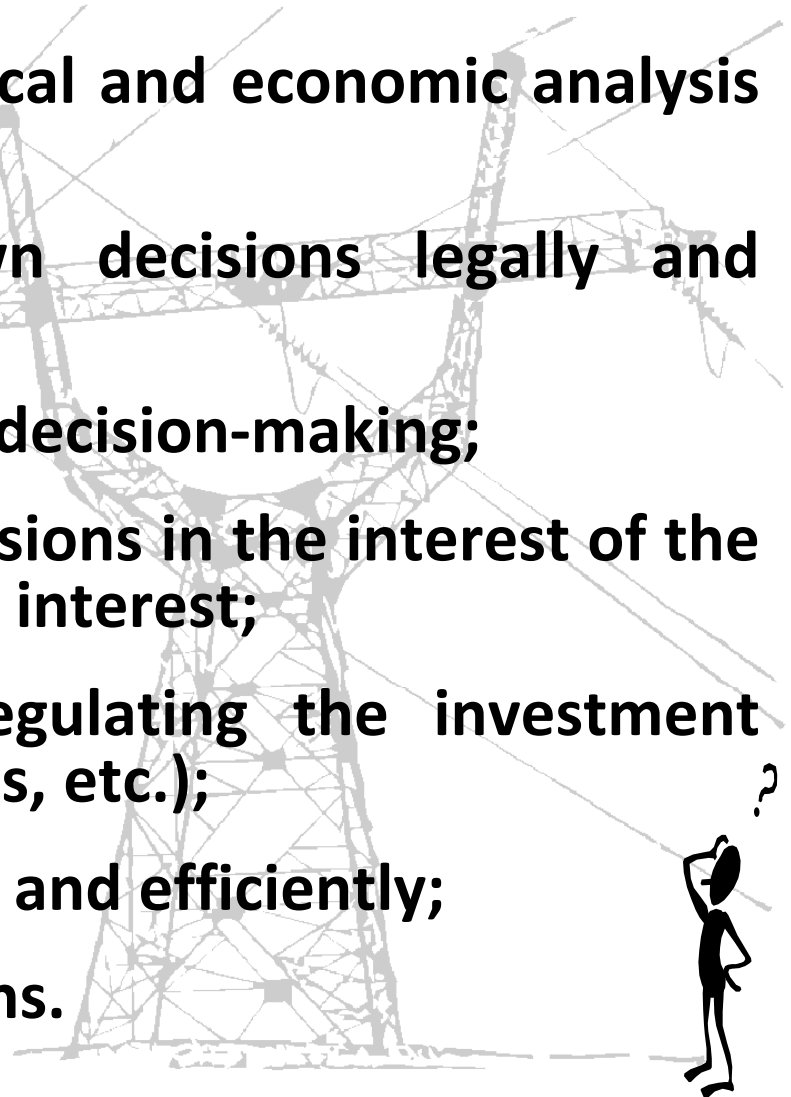
- ☐ **Necessity;**
- ☐ **Value;**
- ☐ **Source;**
- ☐ **Commissioning period;**
- ☐ **Intended effect (number of new consumers, sales increase, improvement of services provided, reduction of losses, costs, impact on tariffs, etc.);**
- ☐ **Depreciation period of fixed assets**



Role of the Regulator

In Approving Investment Plans and Reports:

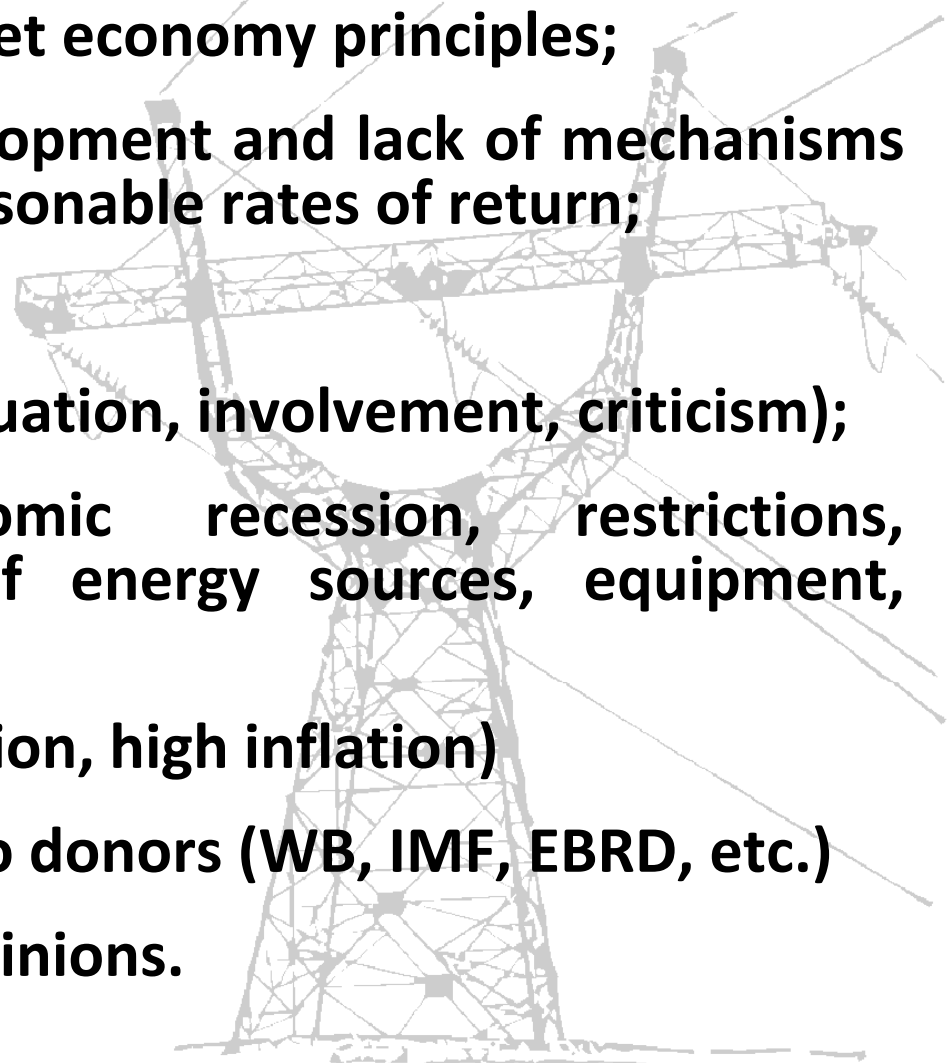
- Take as basis persuasive technical and economic analysis in decision-making;
- Explain and supports its own decisions legally and analytically;
- Be transparent and impartial in decision-making;
- Take economically justified decisions in the interest of the sector, national and consumer's interest;
- Develop efficient tools for regulating the investment process (procedures, instructions, etc.);
- Act equally for everybody, fairly and efficiently;
- Take prompt and timely decisions.



Main Problems, Lessons Learned



- Lack of deep experience;
- Unawareness of some market economy principles;
- Poor financial market development and lack of mechanisms for determining fair and reasonable rates of return;
- Conflict of interest;
- Political factors (political situation, involvement, criticism);
- External factors (economic recession, restrictions, dependence on import of energy sources, equipment, materials, etc.);
- Economic situation (stagnation, high inflation)
- Government's obligations to donors (WB, IMF, EBRD, etc.)
- Different treatments and opinions.



Thank you!

Contact details:

Botezatu Mariana

Director

National Agency for Energy Regulation

MD-2012, Moldova

Chisinau, 90 Columna str.,

Tel: /373 22/ 541 384; 543 972

Fax: /373 22/ 224 698

E-mail: mbotezatu@anre.md

www.anre.md

