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# Procedures for planning, approval and realization of investments in power networks

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**ANRE**  
Agenția Națională pentru Reglementare  
în Energetică

## **Situation before restructuring of the energy sector**

- **Obsolete infrastructure (depreciation at the level of 70 %).**
- **Lack of investments in the course of more than 15 years**
- **Use of electric meters that were installed in years 1965 - 1980 and that have not been verified for the period of more than 10 years, lack of gas and heat metering at residential consumers;**
- **Total losses of electricity comprise 20 – 30 %, of natural gas 10 – 15 %, of heat - more than 25 %)**
- **Persistent non-payments at the level of US \$ 100 million for electricity, US \$ 150 million for heat and US\$ 115 million for gas), utilization of barter settlements at the level of 50 – 70 %;**

## **Situation before restructuring of the energy sector**

- **Huge debts to suppliers of electricity and gas (comparable to annual consumption of electricity and gas in the country, US \$ 262 million)**
- **Tariffs that did not cover necessary costs (more than US \$ 125 million of losses);**
- **Rolling blackouts**
- **Lack of funds for investments**

## Measures that have been taken

- Reorganization of the energy sector (vertically integrated natural monopoly) and establishment:
  - of 4 enterprises related to generation of electricity (3 CHPs and one HPP)
  - 5 (at present 3) enterprises for distribution and supply of electricity;
  - Privatization of 3 distribution enterprises (at present, they are merged into one enterprise).
  - State Enterprise “Moldelectrica” – transmission and dispatch of electricity (is not subject to be privatized);
  - JSC “Moldovagaz” (50 % of shares belong to the Russian corporation “Gazprom”) – an enterprise that is importing natural gas, and 13 subsidiary enterprises: 1 enterprise for transmission of natural gas and 12 enterprises for distribution and supply;
  - appearance of other 13 private enterprises for distribution and supply of natural gas.

# Changes in the legislation

- Elaboration and approval of Laws on Energy, on Electricity and on Natural Gas.
- Establishment of an independent regulatory body (ANRE). Development of methodologies for calculation and application of tariffs for transmission and distribution of electricity and natural gas.
- Other regulatory and legal acts that contribute to enhancement of efficiency of enterprises of the energy sector.

# Investments in the energy complex

## *Development:*

- In 2000 - 2003 investments were made only in RED [electricity distribution network] Union Fenosa (privatized electricity distribution enterprises) – in average US \$ 6.0 million / year.
- From 2004, all distribution enterprises started making investments, as well as the enterprise on transmission of electricity. In gas networks investments were made exclusively at the expense of the state and the population – in total about US \$ 15 - 23 million per year.
- During the period of 2002 – 2008, investments in the energy sector comprised approximately US \$ 100 million.
- From 2009, private investments began in the gas sector.
- In 2010, investments comprised approximately US \$ 28 million in the electricity sector, and more than US \$ 24.6 million in the gas sector.
- In 2011, the agency approved investments in the amount of US \$ 29 million in the electricity sector, and US \$ 25 million in the gas sector.

# Investments in the energy complex

- **Influencing factors:**
  - An independent regulatory authority;
  - Stable and clear rules set for a sufficiently long period of time;
  - Licenses for activities with fixed conditions in the course of 25 years;
  - Quality indicators and responsibility for non-compliance;
  - The tariff methodology is for 5 - 7 years, and it corresponds to rules of the market economy;
  - Profitability according to WACC on net assets of enterprises;
  - Tariff that cover all necessary expenses;
  - An obligation was introduced in the Methodology to use depreciation funds on existing assets to make new investments;
  - Equal conditions for all investors and compensation of funds spent on investments through the tariff (depreciation and profitability).

# Investment Plans

Strategic investment plans of enterprises

- Annual investment plans (are approved by ANRE)
- Efficiency of investments
- Making changes in annual plans (with permission of ANRE)
- A report on execution of the annual investment plan (is submitted to ANRE)
- Inclusion in the tariff only those investments that were made in accordance with the plan approved by ANRE.



# Annual investment plan

- **Structure:**
  - Investments in network development (in accordance with city development plans and territory development plans);
  - Investments into reconstruction and upgrade of existing networks;
  - Capital repairs of existing fixed assets;
  - Investments related to metering devices;
  - Procurement of equipment;
  - Investments in buildings and constructions;
  - Investments for procurement of transport vehicles;
  - Systems, software, computer equipment;
  - Information technology, telecommunications, metering and automation;
  - Other investments.

# Investment Principles

## *The need:*

- Construction of new networks in accordance with city building plans, plans of gas infrastructure development of localities
- Growth of the level of consumption of energy resources by existing consumers
- Telemetry, automation, telecommunications
- Metering systems and devices
- Requirements to quality of services
- Upgrading, rehabilitation and modernization of existing networks
- Reduction of technological consumption and losses in the networks
- Creation of additional infrastructure and improvement of working conditions

# Requirements to investment plans

- *Rationale:*
  - need;
  - volume;
  - source of investment expenditures;
  - period of commissioning;
  - efficiency (the number of new consumers, increase of sales, improvement of the quality of services, reduction of losses, costs, influence of the tariff, etc.);
  - Duration of periods of useful lives of fixed assets.

# The role of the regulatory authority

- **Decisions related to approval of investment plans and reports are based on the following:**
  - Technical and economic analysis of proposed investments
  - Lawfulness and need
  - Transparency and impartiality
  - Economic justification in the interests of the industry, national interests and interests of consumers;
  - Efficient tools for regulation of the investment process (procedures, instructions, sanctions, tariff procedures, etc.);
  - Equal conditions for everybody, decency;
  - Timely and efficient decisions.

# Main Problems

- Lack of necessary experience and trained specialists in the sphere of investments.
- Lack of a financial market and of mechanisms for determining a correct and reasonable rate of return.
- External factors: economic crisis, limitations, dependence on import of equipment, materials, services, etc.
- Economic situation: lack of resources, stagnation, high level of inflation
- Different opinions and interpretations
- Existence of certain discrepancies in obligations of ANRE and actions of the Government and of the Parliament.

Thank You!

