



PRINCIPLES AND WAYS OF INVESTING IN ENERGY SECTOR

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Situation before Restructuring

- ❑ **Obsolete infrastructure (70% wear);**
- ❑ **Lack of investments in the sector for over 15 years;**
- ❑ **Electricity meters installed in 1965- 1980 and unverified for more than 10 years, lack of meters with household consumers of natural gas and thermal energy;**
- ❑ **Losses and thefts: electricity (total 20- 30%), natural gas (10-15%), thermal energy (over 25%);**
- ❑ **Long-lasting non-payments (100 ml.\$ electricity, 150 ml \$ thermal energy and 115 ml \$ gas), barter settlements (50-70%);**



Situation before Restructuring

- ❑ **Huge debts to energy and gas suppliers (equivalent to the annual energy and natural gas consumption, 262 ml.\$)**
- ❑ **Tariffs not covering incurred costs (losses over 125 ml.\$);**
- ❑ **Transformation of debts in state foreign debts (140 ml.\$);**
- ❑ **Rotational power disconnections**
- ❑ **Lack of sources for investments**



Measures Taken

- ❑ Energy sector restructuring (vertically integrated natural monopoly) and the creation:
- ❑ 4 electricity-producing enterprises (3 CET and CHE)
- ❑ 5 (currently 3) electricity distribution and supply enterprises
- ❑ Privatization of 3 distribution enterprises (currently merged into one)
- ❑ State Enterprise “Moldelectrica” – transportation and dispatch service (not susceptible for privatization)
- ❑ JSC “Moldovagaz” (50% shares of SAD “Gazprom”) – natural gas importer, 13 affiliates created (legal entities): one natural gas transportation enterprise and 12 distribution and supply enterprises
- ❑ Other 13 emerging private companies authorized for natural gas distribution and supply.



Measures Implemented (continuation)

- ❑ Development and implementation of Debt Restructuring Plan
- ❑ Development and adoption of the Law on Energy, Law on Electricity and Law on Natural Gas
- ❑ Creation of an independent regulator (ANRE)
Other legislative and normative acts governing the activity of energy enterprises



Investments in Energy System

Situation:

- In 2000-2003 - investments only in RED Union Fenosa (RED privatized) - on average 6,0 ml. \$ annually
- Since 2004 - investments in all REDs and the electricity transportation enterprise, a total of 15- 23 ml \$ yearly
- In 2002-2008 – investments in gas networks – made only by the state and citizens – a total of over 100 ml \$
- Since 2009 – private investment in gas sector
- Since 2010 – investments estimated at over 28 ml.\$ in energy sector and over 35 ml. \$ in gas sector.



Investments in Energy System

- **Factors of influence** (at state level):
 - Obligation of enterprises to invest (prescribed by law and License Condition);
 - Privatization;
 - Improvement of investment climate in the country;
 - Setting 0 tax rate to the revenue used for development;
 - Appearance of accessibility to bank credits and loans and reduction of interest rates;
 - Economic growth



Investments in Energy System

- **Factors of influence(regulator):**
 - Independent regulatory authority;
 - Clear rules, set for a long-lasting timeframe;
 - License for activity with conditions, one-sidedly unchanged for 25 years;
 - Quality indicators and responsibility for non-compliance;
 - Tariff methodology for 5-7 years, corresponding to market economy rules;
 - Profitability according to WACC for the net assets of the enterprise;
 - Cost-covering tariffs;
 - Obligatory methodology provisions to use the wear of the existing assts in making new investments;
 - Equal conditions for all investors and recovery of investments through tariffs (wear and profitability).



Investments in Energy System

■ Summary:

- ❑ Long-term investor's interests are ensured by law, licenses and normative regulatory acts;
- ❑ Investors are guaranteed to have the possibility to recover their investments and also gain profit from investments;
- ❑ Ensuring investment recovery and 0 tax rate to re-invested capital is an incentive for further investment



Investment Plans

- Strategic investment plans of enterprises
- Annual plans (approved by ANRE)
- Efficiency of investments
- Modification of annual plans (with ANRE consent)
- Report on annual investment plan performance (presented to ANRE)
- Accepting only investments in compliance with the plan approved by ANRE to be included in tariffs .



Annual Investment Plan

■ Contents:

- ❑ Investments in deployment of new networks (based on urban development plans);
- ❑ Investments in reconstruction, renovation, modernization and restoration of existing networks
- ❑ Capital repair of fixed assets (capitalization);
- ❑ Investments in metering;
- ❑ Procurement of equipment;
- ❑ Investments in buildings and constructions;
- ❑ Investments in means of transport;
- ❑ Investments in systems, programs, computers;
- ❑ Investments informatics, telecommunications, telemetry, automation;
- ❑ Other investments.



Investment Principles

Necessities:

- Deployment of new networks in compliance with urban plans, gasification plans for localities
- Increasing consumption requirements of existing consumers
- Telemetry, automation, telecommunications
- Metering
- Quality of service obligations
- Renovation, rehabilitation, modernization of existing networks
- Reduction of technological consumption and losses in networks
- Auxiliary infrastructure and creation of labor conditions



Investment Principles

- Investor's requirements:
- Long-term playing rules
- Independent regulator
- Accessible recourses
- Ensured investment recovery
- Adequate rate of profitability



Requirements to Investment Plans

■ **Justification:**

- necessity;
- value;
- investment source;
- period of operation;
- efficiency (number of new consumers, growing sales, quality of service improvement, reduction of losses, costs, influence on tariffs, etc.);
- life of fixed assets.



Role of Regulator

- **Decisions approving investment plans and reports are based on:**
 - Technical and economic analysis of proposed investments
 - Necessity and legality;
 - Transparency and impartiality;
 - Economic justification for the interest of the sector, national and consumers' interests;
 - Efficient regulatory tools for investment process (procedures, instructions, sanctions, tariff procedures, professional organization, etc);
 - Equality, fairness and efficiency for all;
 - Prompt and timely decisions.



Main Challenges, Lessons Learned

- Lack of in-depth experience and qualified expert in investment matters
- Lack of a financial market and tools for determining correct and reasonable rates of profitability.
- Conflict of interest
- Political factors: political conjuncture, involvement, criticism
- External factors: economic recession, restrictions, dependence on import of equipment, materials, services, etc.
- Economic situation: lack of resources, stagnation, high inflation
- Government commitments to donors (WB, IMF, EBRD, etc.)
- Different treatments and views
- Sometimes - mismatch between functions of ANRE and actions of Government, Parliament, Presidency.

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