

# **RESTRUCTURING IN THE ENERGY SECTOR OF MOLDOVA**

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# History

## Moldova power sector before the reforms:

- **Management**
  - Government and Department of Energy
  - State Company Moldenergo (vertically integrated)
  - Transnistrian enterprises (Thermoelectric Power Station, HPP and 2 distribution companies)
- **Legal and normative acts**
  - Regulation on electricity supply and payment



# History (cont-ed)

- **Existing conditions**

- Chronic non-payments and barter transactions;
- Privileges with no financial coverage;
- Tariffs not covering the costs;
- Huge debts to electricity and fuel suppliers;
- Transformation of power sector debts into state external debts;
- Daily rotating black-outs;
- Enormous electricity losses and thefts;
- Lack of funds for system development, rehabilitation and maintenance;
- All energy enterprises unprofitable (essentially bankrupt)



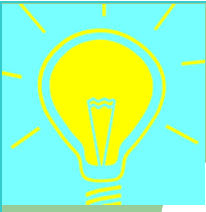
# Power Sector Transition

- **Management**

- **Department (Ministry) of Energy** – carries out state energy policy
- **ANRE** – carries out the activity of power sector regulation

- **Enterprises**

- 4 independent generation companies (3 CHPs and 1 HPP)
- 5 distribution companies (3 - privatized in 2000 and 2 SC)
- SC Moldelectrica (transmission and dispatch activity)
- **Transnistrian enterprises (only the Thermoelectric Power Station is privatized)**



# Power Sector Transition (cont-ed)

- **Established legal and normative acts**
  - Energy Law
  - Electricity Act
  - Law on individual privatization plans
  - Law on restructuring the debts of energy sector enterprises
  - ANRE regulating acts, norms and procedures
  - Other legal and normative acts related to energy sector enterprises' activity



# Power Sector Today

- **Current situation**

- Elimination of barter transactions, 95-100% cash payments
- Repeal of all privileged consumers and established direct state compensations
- Cost-based tariffs
- No current debts to wholesale electricity suppliers
- No longer power sector debts assumed by the state
- Electricity available on a twenty-four hour basis;
- Decrease of electricity losses and debts;
- Enterprises started to invest in system development, rehabilitation and maintenance (new investments in privatized as well as state enterprises);
- Power sector enterprises have significantly improved their financial condition (no threat of bankruptcy) and profitable



# Restructuring and Privatization

- **Preparatory phase:**
  1. Financial restructuring (debt restructuring), 1996
  2. Organizational restructuring: demonopolization of Moldenergo and creation of independent enterprises (3 CHPs, HPP, 5 discos and a transmission and dispatch company), 1997
  3. Institutional restructuring: Creation of regulatory authority (ANRE), 1997
  4. Development and adoption of laws (1997-1999) :
    - Energy law
    - Electricity act
    - Law on privatization
    - Law on individual privatization plans
    - Law on debts restructuring



# Restructuring and Privatization (cont-ed)

- **Preparatory phase (continued)**
  - 5. Annulment of all privileges on electricity payment and replaced with direct state compensations, 1998
  - 6. Settlement of land title issues, 1999
  - 7. Strengthening ANRE role:
    - Ensuring the independency through legal acts;
    - Development and issuance of licenses with a validity terms of 25 years to all enterprises;
    - Ensuring that license conditions are not amended unilaterally
    - Developed and approved power market rules based on bilateral contracts
    - Tariff methodology complying with the market economy principles for a stable period
    - Annually tariff reviews and adjustments approved
    - Regulating norms and procedures (service rules, dispute resolution, market rules, etc.)
    - Substantive independency and openness in decision-making process





# Privatization process (continued)

## ● Privatization phase:

1. Assessment of financial and technical performance of distribution companies (due diligence) by EBRD, CANTOR, KPMG, 1999
2. Selection of the investment bank, (CCF), 1999
3. Held conferences and meetings with potential investors and international mass-media in London, Paris and Madrid (DoP, MoF, ANRE, CCF), 1999
4. Establishment of tender commission, 1999
5. Development of tender documents, 1999
6. Announcement of privatization bid, August 1999
7. Pre-selection of bidders, November 1999
8. Evaluation of offers and tender results, December 1999
9. Negotiations, December 1999 – February 2000
10. Signing of Agreement for sale-purchase of shares for 3 out of 5 Discos, February 2000

# Main conditions and criteria of privatization

- IPP Law:
  - Sale of 100% share package
  - 5 distribution companies – in 3 lots
  - Sale to one investor – 2 lots at most
  - Highest price for share package
  - Highest level of investments
  - Investor's experience and financial strength



## Role of Regulator (ANRE)

- Privatization – carried out by government (Tender Commission and DoP)
- ANRE:
  - Independent regulating authority
  - Not a member of Tender Commission
  - Advisor to the government, DoP and investment bank
  - Participation in all Commission meetings
  - Participated and authored legal and normative procedures for bid selection
  - A principal participant in bid negotiation process

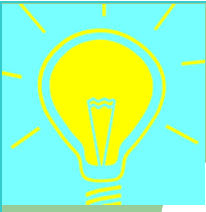


## Role of Regulator (cont-ed)

- **Main issues:**

- 1. Tariff Methodology:**

- Duration (7 years –I period, now -5 years)
    - First year base costs and tariff (basic tariff)
    - Established parameters and procedure for annual tariff review
    - Base valuation and calculation of amortization of existing fixed assets
    - Amortization period
    - Investment and rate of return
    - Recognized working capital and rate of return on working capital
    - Recognized base-case distribution losses with 7-year schedule of declining losses



## Role of Regulator (continued)

### 2. Licenses:

- Validity period
- Conditions
- Separation of regulated and non-regulated activities
- Information and reporting requirements
- Responsibility: management obligations
- Procedure for license conditions amendment
- Suspension and Withdrawal
- Exclusive distribution rights in the authorized territory
- Participation in other business activities
- Dispute resolution



## Role of Regulator (cont-ed)

### 3. Investment plan:

- Investment amount, destination and purpose
- Procedure for amending the investment plan
- Investment depreciation period for tariff recovery
- Rate of return on existing assets and on new investments recognized in tariff
- Responsibility for failure to comply with investment plan: penalties, sanctions, license impacts
- Additional investments allowed in tariffs, subject to regulatory approval



## Role of Regulator (continued)

### 4. Other issues:

- Review and amendment of power market rules
- Allocation method for transmission losses
- Main provisions related to electricity supply and payments, consumer disconnection (metering, billing and service rules)
- Consumer interests protection (Dispute Resolution Procedure)
- Open and non-discriminatory network access
- Networks extension



## Donors and technical assistance

- **USAID**
- **WORLD BANK**
- **IMF**
- **EBRD**





# Main problems, lessons learned

- Lack of experience by all participants
- Lack of knowledge on market economy principles
- Conflict of goals and purpose
- Political factors: political changes, interference, process criticism
- External factors: economic crisis, import restrictions, fuel dependency and other
- National economy status: stagnating economy
- Donor pressure: WB, EBRD, IMF
- Reneging of contractual obligations: Court of Account, 35-100 kV lines issue.
- Conflict between ANRE authority and Government actions