

ROMANIAN ENERGY DAY 2018

FINANCING THE TRANZITION COSTS TO A LOW-CARBON ECONOMY

LEGISLATIVE AND REGULATORY IMPLICATIONS

The 3rd panel of this year's Romanian Energy Day addressed the topic of Financing the Transition Costs to a Low-Carbon Economy. Moderated by Mr. Christian EGENHOFER, Senior Research Fellow and Director at CEPS Energy Climate House, the session benefited from the keynote speech of Mr. Ion CIMPEANU, State Secretary in the Environment Ministry of Romania and from the active discussions from relevant speakers: Christophe GENCE-CREUX, Head of Electricity Department at ACER, Mr. Vladimir DUMITRU, Advisor to the President of Environment Fund Administration, Mr. Sorin BOZA, General Manager of Complexul Energetic Oltenia, Mr. Teodor CHIRICA, Principal Advisor of Nuclearelectrica and President of FORATOM, Mr. Antonello MONTI, Director of E.ON Center RWTH University, Mr. Nikolaos CHATZIARGYRIOU, CEO of Hellenic Electricity Distribution Network Operator, Mr. Francesco GAZZOLETTI, Managing Partner of FortyEight Brussels. The panel was wrapped up by Mr. Tudor CONSTANTINESCU, Principal Advisor to the Director General of DG ENERGY.

Kicking off the panel, Mr. Ion Cimpeanu reminded the audience about the Paris Agreement and the negotiations from last year's One Planet Summit in Paris, which covered the financing for climate action and sustainable business, accelerating local and regional climate action and strengthening policies for ecological and inclusive transition. Climate change is



bringing severe weather, especially destructive for coastal areas and island nations. For Romania, the effect of climate change is reduced, being manifested as floods during spring and fall, and land desertification, especially during the past 5 to 10 years. Regarding the energy sector, Mr. Cimpeanu highlights the necessity of synergies between the climate action and the sustainable

development goals, as well as collaboration with other governments for experience and good practice sharing.

Mr. Vladimir Dumitru points out the close connection between energy and environment, The Environment Fund Administration (EFA) being the only specialized institution in Romania providing financing for environmental projects, addressing both legal entities and individual households. Currently, EFA manages programs in areas of water



treatment, CO2 emissions reduction, installation of heating systems using renewable energy (the Green House program), scrapping used and polluting cars with new and also electric vehicles (Rabla and Rabla Plus). Moreover, Mr. Dumitru presented the upcoming programs that the EFA will finance, namely (1) the deployment of national infrastructure for charging stations for EVs in every 100 km, (2) granting a bonus for the acquisition of EVs, (3) households' RES installations within the limit of 6KW capacity and connection to the national electricity grid and (4) remote households' RES installations up to one or two KW, homes without access to electricity and at more than two kilometers from the national electricity grid.

Mr. Christophe Gence-Creux points out that decarbonization policies facilitate business opportunities and foreign investors. Regarding achieving the internal electricity market, Mr. Gence-Creux identifies three main ingredients, a better coordination between member states at all levels, a sustainable regulatory framework with the right rules at European level and a clear decision making process. Moreover, the Head of the Electricity Department at ACER points out two major concerns regarding the ongoing



discussions on the framework of the new energy package, (1) the configuration of the bidding zones in the internal electricity market and the way the cross border capacities between countries are calculated and (2) the recast of the ACER regulation. According to Mr. Cence-Creux, changing the current governance framework, proposing new amendments and directions might complicate the policy making process and jeopardize the perspectives of the low-carbon economy.

Mr. Teodor Chirica addressed the audience as the president of the European Atomic Forum and the senior advisor of the CEO of Nuclearelectrica. Mr. Chirica outlined his intervention around the need to increase the share of low-carbon energy resources, rather than exclusively renewables. According to him, nuclear industry advocates for the use of low-carbon



technology as a measure to reduce GHG emissions. Exclusivity of just one clean technology however threatens the stability of the network and the affordability, potentially inducing market failures, Mr. Chirica highlighting that the European energy and climate targets cannot be achieved without nuclear power. In Romania, Nuclearelectrica operates two nuclear reactors accounting for 18% of total electricity production and around 32% of the low-carbon generation, nuclear power being a safe and reliable generation technology, achieving the national and European energy and climate targets.

Mr. Antonello Monti addressed the impact of high RES integration into the grid, the large potential costs for a scenario of up to 100% RES penetration, the increase of network smartness and the relationship between the customer and the grid of the future, issues not properly understood.



Mr. Nikolaos Chatziargyriou points out the many changes introduced by the transition to the low-carbon economy, new elements such as new customers, new local energy communities, local storage facilities, distributed generation, all connected to the distribution network. The new elements require flexibility resources to the level of transmission operator as well. Moreover, an important aspect is the issue of assuring adequate financing for modernizing the European grid, data placing the level of investment at 400 billion EURO



by 2020, including for digitalization, extended control activities, telemetering, better customer services and networking planning, procurements, etc.

Mr. Sorin Boza introduced to the audience the Oltenia Energy Complex, the second largest company in Romania, with more than 13.500 employee, representing around 30% of total electricity produced. Mr. Boza pointed out two major issues concerning the shift towards lower carbon generation putting a tremendous pressure on



assuring enough funding for investments, namely the implementation costs of BATs (Best Available Techniques) reaching around 200 million EURO and the cost of CO2 certificates reaching 25% of company's total turnover.

Mr. Francesco Gazzoletti points out that there are still little known facts about the future energy sector, about how technology will disrupt the energy market, about reallocation of margins, redistributing and shifting remuneration across the value chain. Also, Mr. Gazzoletti highlighted the assumption of the Clean Energy Package, namely that the energy markets will be dominated by zero or close to



zero marginal generation. Undoubtedly the new generation capacities will be dominated by RES, specifically onshore and offshore wind, which from a financial standpoint are similar to nuclear power, being capital intensive investments with large upfront payment and smaller operating costs.

Last but not least, Mr. Tudor Constantinescu points out that the energy and climate targets for 2030 of the European Union and of its Member States are about efficiency and renewable energy sources, requiring a governance mechanism and a stronger focus on regional cooperation, in order to assure the successful transition



towards the low-carbon economy. Mr. Constantinescu acknowledges Romania's strengths and advancements in areas like primary energy resources, energy intensity and the high penetration of renewable energy sources. Also, Romania is facing a number of challenges, such as assuring sufficient financing, achieving its interconnections targets, reaching its energy efficiency potential,

lowering energy poverty as well the low investments in the research and development domain. Regarding the positive developments in the field of RES, Romania is still ranking low in terms of new jobs created in the sector, therefore financing the low-carbon economy is also about financing the modernization of the economy, the energy transition is about developing a wiser industrial policy which will allow decarbonization and would tap into Romania's potential benefits. Regarding the investments required to reach the EU's 2030 targets, Mr. Constantinescu points that financing should be a mix between public funds, structural funds and also the private sector which needs to be better mobilized.

