

## **Hurdles in the Path of Romanian Gas Market Liberalization**

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The Romanian Government presented the Parliament in September 2014 with a Decision to postpone gas market liberalization for households by two and a half years, until 1 July 2021. The initial deadline of 31 December 2018 was agreed upon in 2012 by the first government of Prime Minister Victor Ponta along with the Troika of international lenders: the European Commission (EC), the International Money Fund and the World Bank.

The 2018 calendar was supposed to bring a 3% increase in household gas prices as of 1 October 2014, as a first step towards timely liberalization. In light of the burden that would have thus fallen on households ahead of presidential elections held in December, the Government, through its Department of Energy, requested this delay. The motivation given by the Energy Minister was that while the average salary has dropped 1% in the past two years, the price of gas has increased by 16% in the same timeframe.

Though the Parliament approved the move, what lacked was a written approval by the European Commission, despite the Energy Minister's reassurance that it will be obtained, following discussions with former Energy Commissioner Günther Oettinger at the end of August on the occasion of the inauguration of the Iași-Ungheni Interconnector. The conclusion of the talks was, however, only one-sidedly confirmed in a letter sent on September 4 by the Department for Energy to Mr. Oettinger.

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Despite this, media recently circulated a letter from the new Climate Action and Energy Commissioner stating that postponement has not been approved by the EC and that Romania is bound by its previous commitments. Any agreement that the Department of Energy may have obtained was not enshrined in any official notice of the Commission.

In defense of the decision to postpone liberalization despite EC lack of approval, the Prime Minister stated that the Government will first and foremost respect the decision of the Parliament, though it is cooperating with the EC in order to fulfill Romania's obligations. However, these obligations must have in mind the best interest of household users, according to Prime Minister Victor Ponta. The Energy Minister then went on to discuss the issue with Troika representatives visiting Romania in the first week of December, resulting in an agreement stating that the Department for Energy and the National Regulatory Authority for Energy (ANRE) would work together on a new calendar to be applied from 1 July 2015 to 1 July 2021.

The issue is, indeed, a sensitive one, with little understanding on behalf of the population of what exactly price liberalization entails. The fact that industrial consumers will enter the market as of next year caused fears that prices for gas will rise for all consumers, regardless of their status. This had the Energy Minister put his job on the line in order to quell fears, stating that he was willing to quit if household gas prices increase as of 1 January 2015.

Liberalization of the Romanian gas market follows two different calendars, one for industrial users and another for households. The non-household calendar has already run its course since its start in 2012 and is to be finalized by end-2014, with industrial consumers set to enter the free market as of 1 January 2015.

The latest bump in its road was exempting district heating thermal power plants (CETs) from having to purchase gas on the free market, a step taken through an emergency ordinance by the Government in the first week of December. The legislation was proposed by the Department for Energy following pressure from the ANRE and it has received the EC's approval – which agreed that CETs have priority in purchasing

domestic gas, transacted as regulated price. The ANRE, however, could have obtained the same result by other means it has at its disposal, not necessarily pushing the Department for Energy for legislation.

The ANRE wanted to make sure that households will not have to pay a higher heating price as a result of increased gas prices on the free market (approximately Lei 36 higher than regulated prices), after offering a (rather nontransparent) estimated increase between 28% and 38% from current heating prices. ANRE's initiative was also meant to avoid discrimination between households with individual gas-powered heating systems (which are not to enter the liberalized gas market until 2021) and those depending on CETs.

The subject was amply debated by the media following a statement by the Energy Minister that the 170,000 small and medium enterprises (SMEs) affected by the change should also be exempt from entering the liberalized gas market along with the CETs. However, the SMEs are presently in the final stages of the liberalization calendar, which means they are already paying virtually the liberalized price of 89.4 Lei/MWh (€20.4). To postpone their legally-established entrance on the free market as of 1 January 2015 would keep them from reaping the benefits of liberalization (choosing among multiple suppliers). Instead, they would be held captive with their current supplier, but at an already liberalized price.

The reason why the Energy Minister brought SMEs into the debate was to protect them from paying a high price for gas or even ending up with no gas to buy if domestic resources are not sufficient to cover consumption and in case imports come to a halt in high-demand months. Domestic gas is used first and foremost for households, then for CETs and only afterwards for large industry and SMEs. With large industrial consumers more likely to secure contracts for gas thanks to the high volumes they purchase, SMEs could find themselves at risk of not having access anymore to gas. The entire issue was, however, misunderstood and misinterpreted, leading to confusion on behalf of the population.

These have not been the only obstacles that liberalization has faced since its inception. The interval since 2012 has also been fraught with threats from large industrial producers such as agro-industrial producer Interagro and fertilizer producer Chemgas Slobozia that they will become uncompetitive as a result of larger gas bills. Some went as far as saying they would need to close down, thus causing unemployment. In effect, the Energy Minister already tried to persuade the CE to also postpone liberalization for industrial consumers, but to no avail.

Romania uses around 12.5 bcm of natural gas per year, 11 bcm of which come from domestic sources. The difference is covered by imports from Russia at prices higher than the one for domestic gas (around \$160 per thousand cubic meters, compared to around \$320 for imports). The low degree of import dependence, along with the 2012 gas finds in offshore fields in the Black Sea mean that Romania could become a success story in the region.

However, obstacles in the path of liberalization such as the aforementioned ones, along with slow progress on interconnectors are causing it to lag behind. The EC has even launched a series of infringement procedures to remedy Romania's lack of compliance with European requirements.

One important issue to be solved and which is connected to the liberalization process is that gas producers need to supply with priority the household consumers. Another is that Romania lacks a "robust bi-directional interconnection" and has shown slow progress in implementation of interconnector projects, including those that have received European Union funding. The latter issue has also been pointed out in the recent Energy Security Stress Tests performed by the EC.

As the entire liberalization conundrum stands proof, these challenging aspects of market transition risk getting out of hand in lack of political will and cooperation towards correcting them.

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