

# CHALLENGES OF PUBLIC AND PRIVATE MANAGEMENT IN THE ENERGETIC FIELD IN ROMANIA

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## **Abstract:**

*The energy market in Romania during the last years is an important challenge for public and private management given the wide field of action for investment opportunities identified in energy production. In the energetic field in Romania, economic interest of private investors to make direct investments efficient crosses with the State interest to reduce costs of energy provided to different consumer categories by making stimulents given to investors in this field to be the best. This «seeming» conflict of interests is justified by the necessity of promoting some public policies based on an energetic strategy, which should increase the energetic autonomy degree in Romania as a component of national security. The approach must be carried on in a world in which traditional resources are limited or are concentrated in locations constituted worldwide as true power poles influencing the circuit of international assets flows. In this context, the problem of promoting some predictable public policies appears as being of major importance given the executive power inconsistency manifested in this field, too, which does not offer a stable control framework and more, it creates discomfort and mistrust to the business environment.*

**Key words:** *public management, grants, market operators, sustainable development, energy market*

**JEL classification:** L23, L52, L94, M11, O33

## **1. Romania and Energetic Independence**

Big opportunities offered by the energetic field are based on the fact that, Romania is one of the European Union member States with the highest degree of energetic independence, which can be improved. Romania's energetic dependency rate of imports<sup>1</sup> in the year 2011 was only of 21% in contrast to the European average of 54%. Unfortunately, this state does not reveal in electric energy and gasoline prices, which are the highest in EU if they relate to the purchasing power.

Romania has the long-term capacity to become one of the important European States in the energetic field thanks to gas and oil deposits recently discovered in the Black Sea<sup>2</sup> and thanks to possibilities offered by the big potential of alternative energy resources (wind, solar, biomass, hydro, shale hydrocarbons, etc.), which it can exploit during the years to come. However, the results will be dependent on the exploiting and distribution risks, on the lack of necessary infrastructure and on the followed public management quality. The last statement is valid given that: "Management is the establishing and target reaching process by using and coordinating human, technical and financial resources in the environment context"<sup>3</sup> and another author, Richard Farmer, thinks that "Management is one of the essential factors explaining why a country is rich or poor".

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Private management supports the enunciated approach by direct investments or by participation together with State companies in this investment effort<sup>4</sup>. The effects of participation of domestic companies to direct investments in energy are benefic. For example, Romgaz, as partner, will have a quote and a much higher rating, given that denationalization or selling of packages from it must be realized this year, according to the agreement with the International Monetary Fund, the European Commission and the World Bank.

The impact of discoveries and various choices of energetic resources generated by new production technologies create conditions for reducing natural gas import avoiding the high price in import natural gas purchasing.

Energetic independence is conditioned by support of necessary investments in technology, in infrastructure and in pipeline networks, which are to ensure the connection between Romania as potential exporter and other States.

The energetic field offers a subject of analysis for public management in Romania from the point of view of opportunities it offers by contributing to domestic industry development in order to answer equipment, works and service requests. The topic stirs even in the fact that in some States in Europe prices have been positively adjusted. In Hungary, for example, electric energy went cheaper with 10% and gas prices from Bulgaria went down with the same percent. In contradiction with these States, in Romania, electric energy has been increased with 6% from January 1 2013, after the National Regulatory Authority in Energy recognized higher costs for delivered quantities to electricity producers in the regulated field. To this price increase, raising to an average of 10% we consider there will be other price increases justified by the support scheme placed by Romania at the disposal of investors in green energy.

## **2. Challenges of Public Management**

Public management in Romania will have to consider the fact that, from the point of view of encouraging business in general, generating budgetary incomes, in the energetic field in special, it will have to approach responsibly and solve a series of problems concerning:

- Updating Romania's energetic strategy;
- Supporting and encouraging projects in energy;
- Improving and ensuring the stability of the legal framework;
- Optimization and credibility of the support scheme in Romanian green energy;
- Energy price deregulation in the same rhythm to making it efficient;
- Improvement of public procurement system;
- Making communication efficient at the level of public management;
- Local industry support;

### **2.1. Updating Romania's Energetic Strategy**

The long term strategy for the energetic sector, scientifically built and approved as a result of consulting economic operators on the market having expertise in the field, is meant to ensure a stability and predictability framework both to public policies and to the ones promoted by big investors, given the great dimension of invested assets.

Romania's actual energetic strategy was built for the 2007-2020<sup>6</sup> period and had as objective power dimensioning necessary on long and medium term, at as low a price, under safety and quality production conditions and in supplying, respecting long term development principles.

The present strategy evidences the main challenges for the National Electro-energetic System, these being:

- Increase in energy request in the period to come;
- Necessity of non-performing capability replacement with expired life durability;
- The request in obtaining greater shares of electric energy produced by regenerating sources;
- Supply security and regional and European market integration;

Through Romania's Energetic Strategy, the ministry defines its politics of energetic sector development; it analyzes traditional resources and the ones concerning exploitation of regenerating resources, the raw materials and energy transport, etc.

Based on action directions, 28 objectives of national energetic sector development were defined (10 objectives for energetic safety, 5 objectives for sustainable development, 6 objectives for competitiveness and 7 objectives for environmental protection). By strategy implementation positive effects will be generated (78% out of identified potential effects total) and negative effects mainly associated to proposed measures of building new energetic capabilities. Positive effects are the consequence of proposed measures to diminish polluter emissions and of power efficiency growth. Negative effects over environment could be reduced when environment protection aspects will not be interpreted strictly as a legal burden or obligation imposed by the European Union but will represent logical and important criteria in the planning and designing of energy development capabilities.

The conclusions on the actual strategy have a critical component in the fact that the actual energetic sector is built excessively on the support of exhaustible or regenerating natural resources. The success will depend on the way in which the ones involved in this field will manage to reduce the exploiting degree of exhaustible resources, to ensure the growth degree of using regenerating resources and impose the growth of energetic efficiency measures.

The actual energetic strategy updating is motivated by the fact that it was issued before the economic crisis, that the consume predictions need revision and by a series of other actual factors generated by:

- The necessity of respecting assumed engagements starting with 2012 concerning the corporate governing of State enterprises and their listing at the stock market. Private management promotion to State companies is slow and stock market listings have not produced effects<sup>7</sup>.
- The influence of Hidroelectrica<sup>8</sup>'s insolvency on Romanian energy market in 2012.
- The incipient implementation stage of some big energetic projects of national interest, which remained an intention, due to a lack of important strategic investors (the activation of reactors 3 and 4 from Cernavodă, Tarni□a hyroelectric power station)

## **2.2 Supporting and Encouraging Energetic Projects**

Energy investors need an attractive system and especially safe of dues which mean supplementary incomes to the State budget. The legal framework for dues needs a clear approach in order to find equilibrium between budgetary effort and investors' appetite, given that energetic projects in the period to come will be extremely big and varied<sup>9</sup>.

The above-mentioned investments may be attracted by:

- The assuming of energetic strategy on a long term;
- Establishing a stable and predictable framework of regulating dues, so that investors create their own safe and long term business plans;
- Fiscal framework and fiscal discipline ensuring coherence and stability;
- The approach of public management on principles of efficiency and not on administrative or strictly political criteria;

- The development of the energetic field through energetic efficiency, waste reduction and increase in using regenerating resources;

### **2.3. Improvement of Legal Framework**

A safe legal framework, contradicted by the last unexpected changes brought to the Fiscal Code this year without consulting the economic operators and without public debate as a public management deficiency<sup>10</sup>, brings stability and transparency. This aspect is extremely important because without respecting this request, Romania's great potential of resources risks to be exploited inefficiently.

Negative comments over the existing legal framework appear connected to the Law of energy and natural gas<sup>11</sup>. A controversial provision of the law is the obligation to participate exclusively on the energy transaction stock market OPCOM, which in traders' opinion risks blocking the market.

About improving the legal framework, as an attribute of public management, there has to be said that Romania has not yet adopted integrally the necessary legislation in order to implement European directives in the energetic sector. Because of this, the European Commission has noticed and proposes penalty<sup>12</sup> for Romania in the EU Court of Justice considering that two important.

### **2.4. Optimization and Credibility of the Support Scheme in Romanian Green Energy**

The support scheme offered by Romania beginning with 2011 for investments in solar and wind projects is one of the most generous in Europe. This scheme proved to be attractive, managing to attract investments of over 3 billion Euros during the last three years but also to increase costs of electric energy bills.

The support scheme, also approved by the European Commission is based on green certificates and obligatory rates. In fact, beginning with the end of 2011, every MWh of green energy delivered in the national system is rewarded with a number of green certificates whose value is established by law to an amount between 27 and 55 Euro, transferred on the bill paid by consumers.

Discomfort, uncertainty and lack of predictability comes from the fact that the scheme is susceptible to be diminished this year, given the fact that half of the 10% price increase of the energy bill for 2013 is caused by these stimulents<sup>13</sup> and by the fact that investments must be completed fast. More, in the case of solar energy the support scheme by which six green certificates are given is valid only until 2014, and for the support scheme, only projects completed until 2016 qualify. Another question would be if the adjusted scheme would apply to projects already begun, the stake being large investments in green energy, already in action.

Discomfort is obvious to investors who projected the investment on a certain financing concept, which will be reconsidered with uncontrollable effects but also to the State, which by its responsible people has to justify the inconsequence of the practiced public management.

The support scheme is criticized by the green energy producers because it increases energy costs for industrial operators making them uncompetitive and will probably be corrected by reducing the number of green certificates, by accepting a maximum level on the transaction market of green certificates and by the fact that a financial guarantee for projects will be required.

## **2.5. Energy Price Deregulation in the Same Rhythm to Making it Efficient**

Energy price deregulation will bring on a first stage their increase but the positive effect will be a growth in competition on the energy market. The reduction effort of the energy price will be transferred to private management as an effect of competition and will be the result of energetic efficiency measures of producers and consumers by consume reduction. The consume decrease has the advantage that it will contribute to maintaining the energetic equilibrium.

The result will also be influenced by the fact that most system assets are old, inefficient and polluting and the final users have the tendency to reduce individual consume.

Given these aspects, energetic efficiency is a priority for the future if energetic independence is wanted as a component of national security.

## **2.6. Improvement of Public Procurement System**

The unsatisfying system of public procurement is the consequence of defective public management applied in Romania. This system proved to be inefficient, flexibly regulated and led to delay, blocking and even cancelling of some important projects of infrastructure development in Romania, being the main cause for not accessing European funds at the foreseen level.

The Foreign Investors Council<sup>14</sup> proposes more solutions that are pertinent in order to improve the public procurement system envisaging:

- The growth of stability and efficiency of the regulatory framework by making profound analyses on the impact that changes in law have at short time intervals;
- The National Council for Solving Complaints to become efficient and correctly monitor the tendencies and the nature of complaints;
- The National Authority for Regulating and Monitoring public procurement to improve technical competences;
- Regulating of methodologies and clear and responsible procedures which should lead to conflicts of interest efficient discovery;
- Elimination of non-unitary inter-institutional practices;
- The role and control field of different authorities involved in public procurement financed with European funds to be clearly delimited so that it would not conflict or contradict with given solutions;
- The implementation of a national certification and accreditation system for economic operators participating in public procurement;
- The regulation of a modality of indexing prices from contracts whose implementation last longer than a year;

These solutions are launched as successful variants given that Romania is the European State with the most difficult situation of Small and Middle Enterprises (SMEs<sup>15</sup>) after the crisis.

## **2.7. Making Communication Efficient at the Level of Public Management**

Public management in the energetic sector suffers of inefficient communication, in that investors in projects generating green energy do not receive on time assumed official information about changes in the support scheme.

Efficient communication needs to take into account that Romania pledged herself to EU to ensure 38% of the gross final consume of energy with green energy by 2020. However,

without a safe and attractive support scheme and without efficient communication this target cannot be reached.

## **2.8. Local Industry Support**

Supporting energetic projects through coherent public politics can favour the development of local industry by allowing certain categories of works<sup>16</sup> to be made in the country. There are opinions that promote the granting of the support scheme on condition that using locally fabricated components in order to make these investments is compulsory. This conditioning is justified if we have in mind that until now only 5% of the components of wind turbines installed in Romania (800) were produced in the country, while 30% of the energy price paid by consumers is represented by grants given for green certificates<sup>17</sup>. Another argument is the fact that during the period 2010-2012, the implemented projects in the green energy production have attracted funds of approximately three billion Euros, the majority in wind farms, but the greatest part of these got to external turbine producers<sup>18</sup>, without having a horizontal impact in the development of local industry.

The analyzed aspects are complex and difficult to control. In our opinion, such conditionings cannot be controlled. Local enterprises may earn Marketplace through production efficiency and low costs, as an attribute of performing management at the company level.

## **Conclusions**

There is a wish to make the energetic sector efficient given the fact that Romania has a special energetic potential and finds itself in a favourable position in comparison to other European States. Nevertheless, in order to make the national energetic sector efficient it needs special investments the State cannot make<sup>19</sup>.

Backing these investments needs to be thought as a responsible working attitude of public management. It must be achieved by private management ensuring efficiency to the approach. It guarantees that the energetic sector is an economic growth factor in Romania, being known that investments lead to GDP increase, to creating jobs, to supplementary incomes drawn to the State budget and to attracting the know-how in Romania with a multiplying effect in economy.

The energetic system cannot be made efficient in order to answer expectations without a component mix development from the point of view of long-term sustainability for each variant and without solving the aforementioned problems.

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<sup>1</sup>data published by Eurostat

<sup>2</sup> OMV Petrom and ExxonMobil companies have announced, at the beginning of 2012 important deposits of natural gas in Neptun perimeter on a surface of approximately 9900 square kilometers after researches begun in 2008. According to ExxonMobil estimations, the deposits would be of 42 to 84 billion cubic meters, representing three to six times the annual consume of Romania.

<sup>3</sup> Lloyds S. Baird, James E. Post, John F. Mahon, *Management, Functions and Responsibilities*, Harper and Row, 1990, p. 39.

<sup>4</sup> OMV Petrom and Exxon agreed that Romgaz, having the State as shareholder, to participate in exploiting Black Sea deposits. It disposes of specialists, adequate management and necessary extraction technologies. In addition, deposits are Romania's property and facilitate an efficient system of dues.

<sup>5</sup> The State Commission for Energy and Water Regulation (DKEVR) estimates that gas prices will go down to 10%, after the duty was cut down on with almost 72 leva to 656,47 leva/1000 m<sup>3</sup> gas starting with January 1 2013. The main natural gas supplier in Bulgaria, Bulgargaz, estimates income reduction with about 2 million Euros during the first year quarter, because of cheaper duties.

<sup>6</sup> approved through HG. No. 1069/2007

<sup>7</sup> Although in 2012 there had to be a transaction for shares of Romgaz, Hidroelectrica and Transgaz, only a 15% supplementary package out of Transelectrica's shares have been sold for 37 million Euros, the rest of listings being postponed for this year.

<sup>8</sup> after years of disadvantageous contracts, of unjustified wages politics or of overpriced purchases, on June 15 2012, Hidroelectrica was declared insolvent, and direct selling contracts of energy were denounced. According to ZF calculations, totally, starting with signing these contracts, in 2003 -2004, losses could raise to 1.5 billion Euros.

<sup>9</sup> E.ON has projects with wind energy with a total capacity of 300 MW, GDF Suez has a wind farm of 50 MW in Galați county, Enel prepares two termo projects in Brăila and Galați, next to its involvement in expanding the Cernavoda power station (ZF Power Summit 2013 – 28.02.2013)

<sup>10</sup> OG 8/2013

<sup>11</sup> published in the Official Monitor in July 16 2012

<sup>12</sup> the European Commission proposes a penalty of 30.228,48 Euros for Romania starting with the Court decision date until the directives are adopted by national legislation, implementation that had to be carried integrally until March 3 2011.

<sup>13</sup> until 2020 the total amounts could reach about 10 billion Euros.

<sup>14</sup> the Foreign Investors Council was founded in 1997 and numbers at present 123 companies, with cumulated investments of 35 billion Euros, the equivalent of almost two thirds of direct foreign investments total realized in Romania starting with 1990 until present.

<sup>15</sup> the Eurostat report about SMEs for 2012 evidences, in relation to SMEs, the fact that achieved production, work productivity and the increased number of employees have experienced significant reductions and the decrease to half of the value added by these, given that it preserved a 90% occupation of the initial work force.

<sup>16</sup> European statistics show that about 75-80% out of an investment value in a wind farm represents the cost of the turbine, the rest being costs related to electrical installations, foundation execution or necessary studies.

<sup>17</sup> during the last three years, grants have risen to almost half a billion Euro, and in 2013 to approximately 550 million Euros, according to data offered by the National Regulation Authority in Energy.

<sup>18</sup> General Electric or Siemens

<sup>19</sup> "The investments this sector needs are extremely big on all segments, of 3-4 billion Euros a year during the following 20 years. Last year, there were investments in the energetic sector of 2-2.5 billion Euros, money that have gone almost totally to regenerating energy", ZF Power Summit '13.