

PD-ABX-517

United States Agency for International Development

**GAS REGULATORY AND
RESTRUCTURING ASSISTANCE
IN ROMANIA**

Contract
IQC No. LAG-I-00-98-00006-00
Task Order No. 814

7th QUARTERLY REPORT

April 1 – June 30, 2002

NEXANT, Inc.
A Bechtel -Affiliated Company



Nexant

23865-814-0018

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**GAS REGULATORY AND
RESTRUCTURING ASSISTANCE
IN ROMANIA**

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April 1 – June 30, 2002

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(Bucharest, Romania: May 9, 2002)

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I. Background

The objective of USAID's Gas Regulatory and Restructuring Assistance Project in Romania (hereinafter referred to as "The Project") is to provide technical assistance to the Romanian Ministry of Industry and Resources ("MoIR"), formerly Ministry of Industry and Trade ("MoIT"), the Romanian National Gas Regulatory Authority ("ANRGN"), and the gas sector companies that, prior to Romanian Governmental Decision No. 334 of April 2000, were part of the Romanian National Gas Company, ROMGAZ SA¹.

The Project supports USAID's Strategic Objective 1.5: "A more economically sustainable and environmentally sound energy sector."

Assistance under The Project is provided in two areas:

- 1) Assistance to ANRGN, with participation of the gas sector companies, in establishing the rules of a liberalized, competitive natural gas market through the issuance of: (a) a Commercial Code, and (b) a Technical Code; and
- 2) Assistance to the successor companies of ROMGAZ in implementing reforms in the gas sector, by: (a) assisting the new companies to set up financial accounts, (b) assisting the Commercial Operator/Market Administrator to manage its responsibilities, and (c) assisting in defining the role and operations of the Gas Dispatcher/Transmission Operator.

Nexant, Inc. ("Nexant"), a Bechtel Technology & Consulting Company and the successor to Bechtel National Inc. for implementation of USAID's IQC #LAG-I-00-98-0006, is implementing The Project under Task Order #814 ("Gas Regulatory and Restructuring Assistance in Romania") of that IQC. Work began on September 25, 2000, with an estimated completion date of September 30, 2002.

¹ Governmental Decision No. 334 of April 2000 dissolved the National Gas Company, "ROMGAZ SA," and created the following state-owned corporations for the production, transportation, storage and distribution of natural gas in Romania: Transgaz (transmission), Exprogaz (production), Depogaz (storage), Distrigaz Nord (distribution), and Distrigaz Sud (distribution). On June 14, 2001, Governmental Decision No 575 merged Exprogaz with Depogaz to form a new company for production and storage under the name ROMGAZ, SA.

II. Summary of Project Activities During the Reporting Period

Overview

The reporting period (April 1-June 30, 2002), the seventh quarter of The Project's period of performance saw significant achievements relative to our Work Plan. By the end of the reporting period, nearly all of our major Task Order objectives, as refined by our Work Plans, had been achieved. (The status of project deliverables is presented in Appendix A.)

Achievements

Market Rules. Of greatest importance, ANRGN, our principal counterpart, has completed its drafting of the Market Rules – a Commercial and a Technical Code – which form the foundation for regulatory reform and the sustainability of a competitive gas market in Romania. The Technical Code was adopted on June 26, 2002 and published in the *Official Gazette*. The Commercial Code is expected to be adopted in July 2002. USAID, through our project, supported this critical effort with technical assistance and advisory services that included on-site consulting, seminars and a Study Tour to the USA. Although these documents are evolutionary and will be modified over the coming years to move Romania's gas sector closer and closer to the free market that is our project's objective, the preparation and adoption of these guidelines is a watershed event, clearly delineating the conceptual end to a system of control and the beginning of an era that is governed by market signals.

Program Implementation. The Framework for our project over the past three quarters has been a multi-part training/study-tour program, which was the outcome of our updated Training Needs Assessment in September 2001. During the last quarter (October – December, 2001) we sharpened the focus upon our project's four key areas – Commercial Code, Technical Code, Public Participation and Financial Sustainability – by establishing a team of Romanian counterparts ("Project Team") composed of staff members from each of the counterpart organizations – ANRGN, Distrigaz Nord, Distrigaz Sud, Romgaz and Transgaz – to take leadership over the development of the recommendations in each area. This program was implemented over the period October 2001-May 2002 through two Key Issues Seminars, 5 In-House Conferences and a Study Tour to the USA.

In January, at our 4th Key Issues Seminar, members of the Project Team summarized work in progress in each of the project's four focus areas. These presentations and highlighted issues for further consideration. Round-tables, assisted by consultants, were convened at this Seminar for follow-up discussions of the issues. The seminar concluded with reports from each of the Round-tables, framing questions to be explored in the next phase of the program, a Study Tour to the USA.

In February 2002, nine representatives from the Project Team traveled to Washington, DC for a one-week Study Tour that included an intensive program of meetings with counterparts at natural gas regulators on the federal and state levels, with natural gas distribution companies and with trade associations representing production, transportation and distribution interests.

5th Key Issues Seminar (Bucharest, May 2002).² This seminar, which achieved the conclusive objectives of our training program, was attended by each of the Study Tour participants as well as other representatives from our counterpart organizations. We had the continuing support of ANRGN through the participation of its President, Mr. Dan Pantilie, and Vice President, Mr. Mihai Ciocodeica; and of the Ministry of Industry and Resources through the participation of Ms. Anca Marica, Deputy General Director. Mr. Pantilie, president of ANRGN, made opening remarks that included his personal endorsement of the project.

Following-up an in-house conference on April 2 to follow-up the Study Tour and make preparations for the 5th Key Issues Seminar, the Study Tour participants made reports to their Romanian colleagues about lessons learned, conclusions to be drawn and recommendations for implementation, based upon the 3-part program in which they have participated.

With guest presentations on investment and privatization experience, the seminar also served to focus the remaining months of our project on financial sustainability issues with particular reference to private sector investment in the distribution companies. Our Guest Speaker was Mr. William J. Moran, Jr., Vice President, Merrill Lynch, Washington, DC. Also presented was a paper prepared by Jonathan Foord, Nexant, Ltd. (London) on privatization experience in Western Europe.

Immediately prior to the seminar a meeting was held at the Romanian Commodities Exchange with the view to helping develop a Romanian spot market for natural gas. Subsequent interactions will help to strengthen the understanding of our counterparts in this important market mechanism as we conclude our analyses of the Commercial Operator.

Other project-related activities included:

- 1) Attendance at the Energy Regulators Regional Association's 1st Energy Regulation & Investment Conference for Central/Eastern Europe and CIS in Budapest, April 24-26. (Dan Pantilie, President, ANRGN, and Mr. Borgström, Project Manager); and

² The Agenda for this Seminar is included at Appendix B.

- 2) Attendance at the World Energy Council's Regional Energy Forum, June 9-13, at Neptun-Olimp. (Mr. Gheorghe Stefan, Director, Transgaz; Mr. Eugen Georgescu, General Director, ANRGN; Ms. Anna Dumitru, Head of Legislation Dept., ANRGN; Ms. Marcela Oltean, General Director, ANRGN; Mr. Borgström, Project Manager and Mr. Tobescu, Senior Technical Advisor)
- 3) A presentation on Romanian gas security issues by Mr. Borgström at the 9th Central & Eastern European Power Industry Forum in Warsaw, Poland, March 13-14, 2002.³ and
- 4) A presentation on the Government's Role in Romania's Transition to a Market Economy by Mr. Borgström at the International Association for Energy Economics' International Conference, Aberdeen, Scotland, June 26-29, 2002.⁴

Challenges

Despite the Achievements outlined above, the reporting period included significant, unforeseen events that interrupted and impeded our planned momentum.

Funding. Activities in April were adversely affected by the temporary interruption of USAID funding. Although our USAID-approved Work Plan was based upon the full utilization of our total contract level (\$1,197,697), by the beginning of 2002, USAID's funding for our project was still only \$850,000, of which 91.1% had been spent. It had been expected that the remainder of our funding would be provided by USAID's FY-2002 budget, which was to have taken effect on 1 October 2001. In February, an "emergency" increment of \$150,035 enabled us to conduct our Study Tour to the USA, but the total funding, \$1,000,035 (of which 97.3% had been spent by March 31, 2002) was insufficient to continue project operations after mid-April. The crisis was exacerbated by an "indefinite hold" on funding for the Region. On 15 April it was necessary to stop all but essential project office activities.

Believing strongly in the importance of conducting the 5th Key Issues Seminar, scheduled for May 9th, as a culminating event in the training/Study Tour program that had been the focus of project and counterpart activities since September 2001, Nexant, Inc., "volunteered" the services of the Chief of Party through May 10 and Mr. Borgström, personally guaranteed the expenses of the 5th Key Issues Seminar against the possibility that USAID funding would not be available to support this event.

³ Time and expenses were born by Nexant, Inc., without cost to USAID.

⁴ The project manager supported time and expenses without cost to USAID.

On May 3, USAID released its “hold” on funding and the Contract Officer advised the Chief of Party that the project would be funded to its contract level. Project activities were immediately resumed and, as discussed above the 5th Key Issues Seminar was conducted as planned. Significantly, however, the project’s progress came to a halt for virtually the entire month of April, which because of recent changes in the management of ANRGN (see below) proved to be a crucial period for USAID to demonstrate its commitment to goals of the project.

Management Changes at ANRGN. Beginning in March 2002, changes within ANRGN’s management structure adversely affected both the continuity of our efforts and the level of support that our project had received from our principal counterpart.

As previously reported⁵, the Prime Minister suddenly dismissed Mr. Gheorghe Radu, ANRGN’s 3rd president since the establishment of the authority in January 2000, in March 2002. His abrupt dismissal was the conclusion of a constructive working relationship that had fostered our project’s successes. Mr. Radu’s support of our project had been demonstrated by his pro-active participation in the 1st, 3rd and 4th of the Key Issues Seminar, in the 1st and subsequent In House Seminars and in numerous meetings with project management.

Mr. Dan Pantilie, formerly of Distrigaz Sud, replaced Mr. Radu. The relationship with ANRGN’s new president is cordial, however, it is fair to note that Mr. Pantilie faces many other priorities in his new position and has not focused the same degree of attention upon our project as did his predecessor. Significantly, it was not until April 10 – one month after Mr. Pantilie’s appointment to the Presidency of ANRGN – that he was able to meet with the Project (the CoP and the USAID CTO) to discuss the continuation of project activities. It was also at this meeting that Mr. Pantilie expressed his unwillingness for ANRGN to continue the agreement of his predecessors to provide our project with full-time clerical assistance without charge.

Also at the end of March, Mr. Dan Morari, ANRGN’s General Director and our project’s highly-supportive, principal counterpart, resigned to take a management at Congaz, SA, the natural gas distribution company in Constanta, which is owned, in part, by Ruhrgaz. Mr. Morari’s departure ended the project’s day-to-day contact with ANRGN’s senior management and the ability of project management to reach timely solutions with respect to project plans and activities. Mr. Morari’s position relative to our project has not been replaced at the same level of interest or involvement; this difficulty of this “vacancy” was made apparent by the disruption of our activities occasioned by the ANRGN’s relocation to a new office building (see below).

⁵ See the 6th Quarterly Report.

Other recent management changes have included (a) the resignation of Ms. Denisa Brailescu, a pro-active Project Team member who was the chief architect of ANRGN's Public Participation Strategy; and (b) the transfer to Romgaz at Targu Mures of Mr. Marius Nenisanu, a Study Tour participant who had been responsible for coordination the development of the Technical Code.

Ms. Marcela Oltean, our Study Tour member from Distrigaz Nord resigned from the distribution company to take a General Directorship at ANRGN. In this new capacity Ms. Oltean has been unable to participate in the project; moreover, her transfer and promotion has left Distrigaz Nord without representation on the Project Team.

In short we face the concluding months of our project without the solidarity of support for our effort that had taken much of the preceding year to build.

Relocation of Office Facilities. A further challenge to the project's viability was the disruption of our activities caused by ANRGN's move to a new headquarters building. This move, which had been in the "talking" stages for many months, took place abruptly on May 16th and without *any* advance notice to project management. Moreover, and although it has been agreed since October 2000 that ANRGN would provide the project with private office space for its staff and visiting consultants⁶, ANRGN made no provision for the project in its new building. After the move took place and the "oversight" was apparent, it was decided – in meetings with the project manager, ANRGN and Transgaz – that the project manager and the project's senior technical advisor would return to the Project's former office at the former location, which is the property of Transgaz⁷.

The project's formerly full-time clerical assistant, who is an ANRGN employee⁸, is now seated at ANRGN's new headquarters and provides translation services to the project on an as requested basis.

⁶ Under agreements between the project's managers and ANRGN's presidents since the inception of the project in October 2000, the project has reimbursed ANRGN, at cost, for utilities, telephone service and other office maintenance items.

⁷ Appreciation is extended to Mr. Gabriel Coconea, General Director, Transgaz (Medias), and Mr. Gheorghe Stefan, Director, Transgaz (Bucharest) for their assistance in facilitating our Project's re-location after the abortive move to the new ANRGN headquarters building.

⁸ Ms. Doina Badea, an employee of ANRGN, has been assigned to work for the project since its inception; her services have been without cost to USAID. Prior to 30 June 2001, Nexant, Inc. compensated ANRGN for Ms. Badea's services; from 1 July 2001 through 16 May 2002, Ms. Badea's services were contributed by ANRGN without charge.

III. Future Activities

As we begin the final quarter of project implementation, attention will focus on the completion of our analyses in the areas of Financial Sustainability for the new gas companies. In this concluding effort, the project will intensify its focus upon the pre-privatization activities of Distrigaz-Nord and Distrigaz-Sud and on the involvement of the National Dispatcher (Transgaz), the Commercial Operator and other players in implementing the Commercial and Technical Codes. Consultant visits to each of the counterpart companies are scheduled for mid-July. Draft reports in both of these areas are planned for completion by August 31, 2002.⁹

A concluding program to present a review of project activities with recommendations for next steps is tentatively planned for September 19, 2002.

Despite the challenges that we've encountered during these past months, I reiterate the belief that the dynamics of the sector's organization, management and control systems require the continuity of purpose that our USAID-funded project can provide. Our project activities are designed to highlight the importance of a politically free regulatory process in which sector participants are free to act in response to market signals. Romania's restructuring effort is ongoing, but far from complete in either objective or achievement. Our Project Team welcomes this opportunity to demonstrate through consistent progress USAID's commitment to reform.

⁹ These activities had been planned for the 7th quarter (April – June, 2002), but were deferred owing to the "funding crisis" discussed above.

IV. In-Country Staff Activities During the Reporting Period:

Chief of Party / Resident Project Manager

Mr. Robert Borgström (Project Manager, Nexant, Inc.)	- April 23 ¹⁰ 29 April – 24 May ¹¹ 29 May – 25 June ¹²
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Short-Term Advisors

Mr. Jonathan Foord (Nexant, Ltd., London)	7-11 May
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Trade & Finance Specialist (Task 2.2)
Participant in Joint 5th Key Issues Seminar (Financial Sustainability)

CCN

Mr. Florin Tobescu (Associate, Nexant, Inc.)	Full Time
Ms. Doina Badea (ANRGN) ¹³	Full Time through 16 May; thereafter as assigned by ANRGN.

¹⁰ At, ERRA's 1st Energy Regulation & Investment Conference for Central/Eastern Europe and CIS, Budapest, Hungary; April 24-28, 2002.

¹¹ With USAID's prior concurrence, the project manager was away from Romania on Nexant, Inc., business, May 25-29, 2002

¹² Personal travel, including participation in the International Association for Energy Economics Annual Conference, Aberdeen, Scotland, June 26-29, 2002; meetings at Nexant, Ltd., offices in London, July 1-2, 2002.

¹³ Ms. Doina Badea is an employee of ANRGN and her services to the project are provided without cost to USAID. Prior to 30 June 2001, Nexant, Inc. compensated ANRGN for Ms. Badea's services; from 1 July 2001 onward, Ms. Badea's services are contributed by ANRGN without charge.

Volunteers¹⁴

The project's use of volunteer assistance is related, primarily, to our program of in-country seminars and their perspectives on one of our key focus areas. Volunteer participation during the reporting period was provided by:

Mr. Robert Borgström, Project Manager
Nexant, Inc.
*Chief of Party*¹⁵

Mr. William J. Moran, Jr., Vice President
Merrill Lynch
Washington, DC
Key Issues Seminar #5 (Bucharest: May 9, 2002)

Volunteers in prior reporting periods have been:

Mr. Peter Danforth, Bechtel (ret.), Washington, DC.
*Key Issues Seminar #2 (Bazna: June 2001) &
Study Tour Host (Washington, DC: February 2002)*

Mr. David A. Foti, Senior Manager, Accenture, Houston, Texas
Key Issues Seminar #3 (Poiana Brasov: September 2001)

Mr. William J. Froehlich, Lead Counsel, FERC, Washington, DC
*Key Issues Seminar #4 (Bucharest: January 2002)
Study Tour Host (Washington, DC: February 2002)*

Mr. Richard Waryn, Director, Emerging Markets Partnership, Washington, DC
Key Issues Seminar #2 (Bazna: June 2001)

¹⁴ Time contributed by the volunteer and/or the volunteer's employer.

¹⁵ Time provided by Nexant, Inc., without charge to USAID, during the "funding crisis".

V. Budget Activity

As of June 30, 2002, we have expended 91.2% of our project's budgeted resources – i.e., 90.6% of our LoE, 87.8% of our Labor Budget, and 100% of our budgeted ODC's.

During the period April 1 – June 30, 2002, we expended 255 days LoE at a cost of \$85,272, and had ODC's totaling \$70,175. The high ratio of ODC's relative to Labor over this period is accounted for, in large part, by two main items: (1) expenses of the Study Tour to the USA at the end of February, which were booked in March and appeared on invoices during April; and (2) expenses of the 5th Key Issues Seminar in May.

As Billed Per Task Order ¹⁶

	Budget ¹⁷	Totals at 3/31/02	4/1/02-6/30/02 ¹⁸	Total to 6/30/02	Remaining Budget
Level of Effort (days)	1,324	945	255	1,200	124
% Total	100.0	71.4	19.3	90.6	9.4
Labor (\$)	861,049	670,623	85,272	755,895	105,154
% Total	100.0	77.9	9.9	87.8	12.2
ODC (\$)	336,648	266,473	70,175	336,648	0
% Total	100.0	79.2	20.8	100.0	0.0
Total (\$)	1,197,697	937,096	141,017	1,078,113	119,584
% Total	100.0	78.2	13.0	91.2	8.8

¹⁶ Proposed restructuring includes only paid labor (subject to reimbursement from USAID) + volunteers.

¹⁷ Task Order Modification #02, Approved by USAID, December 19, 2001.

¹⁸ Estimated.

Per Funding To Date

In May 2002, USAID increased the funding for our project from \$1,000,035 to \$1,197,697. As shown, below, over 91% of these funds have been expended, leaving a balance of \$105,154 for the remainder of the project. It is expected that the budget for LoE and Labor Expenses is sufficient to complete all outstanding tasks of our Work Plan. Nexant, Inc will cover necessary expenses in excess of our ODC budget, which is exhausted.

Total Funded (\$)	1,197,697		1,092,543	105,154
% Total			91.2	8.8

Participation by Volunteers and Others Not Paid by USAID

To date the project has benefited from 448 days LoE without cost to USAID. This amount is well in excess of the 77 days that were budgeted and reflect, in large part, the contribution of professional services by Nexant, Inc. (169 days) and ANRGN (218 days). Individual consultants (and their respective companies) have contributed a total of 51 days LoE as participants in our Key Issues Seminars and as hosts of our Study Tour.

LoE (Days)	Budget	As of 3/31/02	4/1/02 – 6/30/02	Total to 6/30/02	S = Seminar ST = Study Tour CoP = Chief of Party
<u>Volunteers</u>					
<i>Danforth</i>		10		10	<i>K#2 + ST</i>
<i>Waryn</i>		9		9	<i>K#2</i>
<i>Foti</i>		10		10	<i>K#3</i>
<i>Froehlich</i>		12		12	<i>K#4 + ST</i>
<i>Moran</i>			10	10	<i>K#5</i>
<i>Borgström</i>			13	13	<i>CoP¹⁹</i>
Sub Total	77	41	23	64	
<u>CCN - Clerical²⁰ Contributed by:</u>					
<i>ANRGN</i>		180	38	218	
<i>Nexant, Inc.</i>		156		156	
Sub Total	0	336	38	374	
Total	77	377	61	448	

¹⁹ Cost of CoP's labor provided by Nexant, Inc. without cost to USAID during "funding crisis".

²⁰ Full-time clerical assistance provided by ANRGN without cost to USAID; Nexant through 30 June 2001 provided payment for this assistance; from 1 July 2001 through 16 May 2002 the assistance has been contributed by ANRGN. Following 16 May 2002, services are provided on an as needed basis.

Appendix A: Schedule of Tasks & Deliverables

Appendix A

Schedule of Tasks & Deliverables

1. Work Plans

- 1.1. Work Plan (delivered – 11/30/2000)
- 1.2. Revised Work Plan (submitted to USAID – 8/6/2001)

2. Quarterly Status Reports

- 2.1. Quarterly Status Report 1 – October-December 2000 – delivered
- 2.2. Quarterly Status Report 2 – January-March 2001 – delivered
- 2.3. Quarterly Status Report 3 – April-June 2001 - delivered
- 2.4. Quarterly Status Report 4 – July-September 2001 - delivered
- 2.5. Quarterly Status Report 5 – October-December 2001 - delivered
- 2.6. Quarterly Status Report 6 – January-March 2002
- 2.7. Quarterly Status Report 7 – April-June 2002
- 2.8. Quarterly Status Report 8 – July-September 2002

3. Completion Report (Sept. 2002)

4. Technical Reports

Task 2 – Technical Assistance to Regulation of Gas Markets

Sub-Task 2.1 – Market Rules

Market Model

- 2.1.1 Technical Memorandum on Gas Industry Market Structures in Other European Countries (Task 2.1.1) – delivered May 2001
- 2.1.2 Technical Memorandum on Proposed Market Model for Romania – completed.
- 2.1.3 Commercial Code
 - 2.1.3.1 Discussion paper outlining a recommended Commercial Code – working draft delivered in August 2001.
 - 2.1.3.2 Comments on drafts of Commercial Codes by ANRGN – continuing.
 - 2.1.3.3 Other memoranda on Commercial Code issues (ongoing)
- 2.1.4 Technical Code
 - 2.1.4.1 Discussion paper outlining a recommended Technical Code -- -- working draft delivered in October 2001
 - 2.1.4.2 Comments on drafts of Technical Codes by ANRGN – continuing.
 - 2.1.4.3 Other memoranda on Technical Code issues (ongoing)

Appendix A: Schedule of Tasks & Deliverables

Sub-Task 2.2 – Public Information

- 2.2.1 Strategy for communications with the public (December 2001)
- 2.2.2 Reports on public participation events
- 2.2.3 Papers for public dissemination
- 2.2.4 Other memoranda on developing public information

Sub-Task 2.3 – Training

- 2.3.1 Training Needs Assessment
 - 2.3.1.1 1st Year Assessment – Feb. 2001
 - 2.3.1.2 2nd Year Assessment – Sept. 2001
- 2.3.2 Key Issues Seminar 1 – Regulatory Issues (May 24, 2001) – Slides/handouts delivered.
- 2.3.3 Key Issues Seminar 2 – Gas Industry Issues (June 7, 2001) – Slides/handouts delivered
- 2.3.4 In-House Conference on Public Participation Strategy (December 2001)¹
- 2.3.5 Reports from attendance at Regional Meetings in CEE/NIS under USAID Sponsorship
- 2.3.6 Regulatory Law Seminar (January 2002)² – Slides/handouts delivered.

Task 3 – Technical Assistance to the Gas Industry

Sub-Task 3.1 – Financial Sustainability of the New Gas Companies

- 3.1.1 (Included within 2.3.3)
- 3.1.2 Report on Financial Unbundling of ROMGAZ (ongoing)
- 3.1.3 Other Memoranda

Sub-Task 3.2 – Establishment of Commercial Operator (2nd Quarter 2002)

- 3.2.1 Technical Memorandum on Organization & Management
- 3.2.2 Recommendations on Design/Operational Issues
- 3.2.3 Comments on Rules and Methods proposed by counterparts

Sub-Task 3.3 – Strengthening of the Gas Transmission Dispatcher (2nd Quarter 2002)

- 3.3.1 Technical Memorandum on Organization & Management
- 3.3.2 Comments on Rules and Methods proposed by Gas Dispatcher
- 3.3.3 Report on Resource Requirements

Sub-Task 3.4 – Training

- 3.4.1 An updated Training Needs Assessment (September 2001)

¹ Topics presented at the Joint USAID/EU Conference on Sept. 27-28, 2001. An in-house conference on Public Participation was conducted at ANRGN on Dec. 19, 2002; ongoing activities are scheduled for 2002.

² The “Regulatory Law Seminar” was included within the program of the 4th Key Issues Seminar on January 17-18, 2002.

Appendix A: Schedule of Tasks & Deliverables

- 3.4.2 **Joint USAID/EU Conference on Gas Sector Transitional Issues (Sept. 2002)**
- 3.4.3 **4th Key Issues Seminar (January 2002)– Market Rules³ - Slides/Handouts Delivered. - Market Operator, Dispatching Issues⁴**
- 3.4.4 **Study Tour to the USA (February 2002)**
- 3.4.5 **Seminar to Follow-up the Study Tour⁵ (May 2002)**
- 3.4.6 **An Additional Seminar (September 2002) on Topics TBD**
- 3.4.7 **Other trainings to be determined based upon the updated Training Needs Assessment.**

³ 4th Key Issues Seminar covered all four project focus areas: Market Rules-Commercial Code; Market Rules-Technical Code; Public Participation and Financial Sustainability.

⁴ Market Operator and Dispatching issues to be included in a future seminar, based upon analyses to be conducted during the 2nd quarter 2002.

⁵ Study tour reports to be included within the program of the 5th Key Issues Seminar on May 9, 2002.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
GAS REGULATORY & RESTRUCTURING
ASSISTANCE PROJECT IN ROMANIA



5th Key Issues Seminar
Financial Sustainability through Private Sector Investment

Hotel Continental
Bucharest
May 9, 2002

Agenda

08:30 Registration

09:00 Call to Order – Robert Borgström (Nexant, Inc.) Chief of Party,

Introductory Remarks

Mr. Dan Pantilie, President, ANRGN (Bucharest)

Dr. Virgil Musatescu, Senior Energy Advisor, USAID/Bucharest

09:30 FINANCIAL SUSTAINABILITY
THROUGH PRIVATE SECTOR INVESTMENT

Guest Presentations:

“International Investments”

Mr. William J. Moran, Jr.

Vice President, Merrill Lynch (Washington, DC)

“Private Sector Participation in the Gas Sector & International Examples”

Mr. Jonathan Foord

Nexant, Ltd. (London)

Questions & Answers

11:00 Break (coffee)

- 11:20 Presentations by Members of the Project Team
Market Rules: COMMERCIAL CODE (Presentation of Final Draft)
– Mr. Mihai Goage, ANRGN (Bucharest)
Market Rules: TECHNICAL CODE (Status Report)
– Mr. Marius Nenisanu, ANRGN (Bucharest)
PUBLIC PARTICIPATION (Observations from the Study Tour)
– Ms. Carmen Perniu, ANRGN (Bucharest)
FINANCIAL SUSTAINABILITY (Observations from the Study Tour)
– Ms. Marioara Neagu, Distrigaz Sud (Bucharest)
- 12:30 *Buffet Luncheon*
- 14:00 Round-Table Discussions
I. COMMERCIAL CODE
II. TECHNICAL CODE
III. FINANCIAL SUSTAINABILITY
- 16:00 Concluding Remarks
- 17:00 Adjournment

A-Legislative changes

NO.	PIECE OF LEGISLATION AND TITLE	PUBLISHED- OFFICIAL GAZETTE (MOF)	<u>Observations</u>
1.	Order 59/2002 on modifying the Order of Minister of Industry and Resources no. 113/2001 regarding approval of some technical regulation for containers – gas cylinders	217/April 1, 2002- issued by MIR	Annex no. 1 at the Order of Minister of Industry and Resources no. 113/2001 regarding approval of some technical regulation for containers – gas cylinders, published in Monitorul Oficial of Romania, Part I, no. 463 bis on August 14, 2001, is replaced by the annex at the present order
2.	Decision 491/2002 concerning the approval of the centralized list of the natural gas eligible consumers at national level	276/April 24, 2002- issued by ANRGN	The list of 45 eligible consumers for natural gas with a total annual consumption of 3,375,851mmcm is approved
3.	Decision 493/2002 concerning the withdrawal of the accreditation as eligible consumer for SC Amonil Slobozia SA	276/April 24, 2002- issued by ANRGN	Starting June 1 st this entity is not accredited as eligible consumer for the gas consumption in Slobozia Sud
4.	Decision 506/2002 concerning the modification of the frame contracts for captive consumers	282/April 25, 2002- issued by ANRGN	Through this decision the penalties for late payment made by the captive consumers are established at a level of 0.1%/day after the deadline
5.	Governmental Decision 393/2002 for the approval of the Methodological Norms for the application of the Energy Efficiency Law no.199/2000	292/April 30, 2002- issued by Government of Romania	Through this decision are established the general norms for energy efficiency programs, ESCO's, financial and fiscal incentives for energy efficiency increase

Appendix C
Review of Legislative & Market Changes

6.	Order 11/2002 concerning the accreditation as eligible consumers of some electricity end users	317/May 14, 2002- issued by ANRE	Through this order four industrial electricity end users are accredited as eligible consumers and Hidroelectrica may sell electricity to the eligible consumers up to the limit of the market opening rate
7.	Emergency Ordinance 54 /2002 concerning the establishment and maintenance of the minimum security stocks for oil and oil products	319/May 14, 2002- issued by GOR	Establishes the terms for the establishment, maintenance, control and monitoring of the minimum security stocks for oil and oil products by the National Administration for State Reserves under the authority of the Ministru of Industries and Resources
8.	Order 187/2002 for the approval of the Specific Security Norms for the works with the piped natural gas	323/May 16, 2002- issued by the Ministry of Labor and Social Protection	Specific norms for labor security for transportation through natural gas pipelines are approved. The norms are compulsory for activities having this character and are offered to those who are interested in by the Research-Development National Institute for Labor Protection
9.	Law 247/2002 for the approval of EO no. 124/2001 for the establishment, organization and functioning of the Romanian Fund for Energy Efficiency	334/May 23, 2002- issued by the Parliament	The Emergency Ordinance no. 124/2001 for the establishment, organization and functioning of the Romanian Fund for Energy Efficiency is approved with modifications
10.	Order 531/97/2002 on modifying the Order no. 865/195/2001 of the President of National Regulatory Authority and of the President of National Agency for Mineral Resources regarding the approval of prices and establishment of regulated tariff in natural gas sector	348/May 24, 2002- issued by ANRGN/ANRM	Art. 3 in Order of the President of National Regulatory Authority and of the President of National Agency for Mineral Resources no. 865/195/2001 regarding the approval of prices and establishment of regulated tariff in natural gas sector, published in Monitorul Oficial of Romania, Part I, no. 815 on December 18, 2001, has been abrogated

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11.	Decision 540/2002 on withdrawal of accreditation as eligible consumer for "Sofert" S.A. Company – Bacau for consumption place Bacau	348/May 24, 2002- issued by ANRGN	"Sofert" Company S.A. Bacau is erased from the national level centralized list containing natural gas eligible consumers reaccredited /accredited for the year 2002, annex at Decision of the President of National Regulatory Authority in Natural Gas Sector no. 491/2002
12.	Law 345/2002 concerning the Value Added Tax	371/June 1, 2002- issued by the Parliament	Establishes the terms for payment of this indirect tax and defines the activities and services carrying on the tax
13.	Order 615/2002 on modifying and completing the order of the President of National Regulatory Authority in Natural Gas Sector and of the President of National Agency for Mineral Resources no. 865/195/2001 on the approval of prices and establishment of regulated tariff in natural gas sector	426/June 19, 2002- issued by ANRGN and ANRM	The tariffs for natural gas storage services into underground storages operated by Natural Gas National Company "Romgaz" S.A. Medias, for a complete natural gas injection and extraction cycle – in compliance with annex at the present order, are modified
14.	Decision 616/2002 concerning the approval of the Technical Code in the Natural Gas Sector	438/June 24, 2002- issued by ANRGN	This document mentions technical regulations that are to be applied by any commercial company that performs activities in natural gas sector on Romania territory. The Technical Code itself does not contain all the technical regulations in natural gas sector, being a guide of these regulations and acting as a central document.

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During the reported period the prices and tariffs for natural gas remained the same as previous period (See “Note on Impact of Exchange Rates to Calculate Tariffs,” below.) Starting March 1, 2002 through an order issued by the National Authority for Gas Sector Regulation a social tariff is introduced for persons who comply with the provisions of Law 416/2001 (low income persons) as follows:

A- For a monthly consumption of less than 100 m³ (and respectively 300 m³) the price is 2,063,531ROL/1000 m³, which is the equivalent of 61.87USD/1000 m³;

B- For the natural gas quantity consumed beyond the levels mentioned above the regulated price will be applied foreseen at Art. 1 b) in Order of the President of National Regulatory Authority in Natural Gas Sector and the President of National Agency for Mineral Resources no. 865/195/2001 concerning the approval of prices and establishment of regulated tariff in natural gas sector:

		ROL/1000cm	USD/1000cm	
Captive Customers (Merchant Service)	Connected via Transgaz	2,293,146	68.76	
	Connected via Distrigaz-Nord or Distrigaz-Sud	2,751,375	82.50	
Transportation		230,115	6.90	
Underground Storage		727,030	21,80	
Distribution Tariff	Captive Customers	Connected via Transgaz	116,725	3.50
		Connected via Distrigaz-Nord Or Distrigaz-Sud	574,954	17.24
	Eligible Customers	458,229	13.74	

(The above prices and tariffs are calculated at ROL/S exchange rate 33,350 and do not include VAT)

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Note on Impact of Exchange Rates Used to Calculate Tariffs:

Due to an exchange rate ROL/USD which was lower than that one which has been predicted by the National Institute for Statistics, the distribution companies have charged the consumers approximately six million USD more than the actual cost of gas to those companies.

The distribution companies use to make price calculations on a quarterly basis. The vice president of ANRGN has stated the gas price will be kept at the same level and it will be adjusted only in case a variation higher than 5% against 33,500ROL/USD exchange rate it appears.

The other utilities (i.e. Electrica) take into account the real exchange rate used in the last day of the previous month by the National bank of Romania or the rate used by their commercial bank, which provides services for the utility company. It seems this is a better choice against the other which is based on the estimation delivered by the Statistics and is not in consumers' favor.

Due to the signed agreements with the IFI's (IMF and WB) the Ministry of Industry and Resources has already scheduled a price increase starting July 1st.

US Dollar to Romanian Lei Conversion Rate

	USD = ROL
April 29, 2002	33,453
May 31, 2002	33,533
June 27, 2002	33,475