

Romania – PRIDE Project
7th Quarterly Report – July 2005

To: Virgil Musatescu
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Romania

A. General Information

1. Project Identification

Title: Privatization, Investment, and Development of Energy Program (PRIDE)
Contract: RFP No. PCE-I-00-97-00016-00, Task Order No. 811
Contractor: Emerging Markets Group, Ltd.
Sub-contractors: Deloitte & Touche Romania (DTR)
Romanian American Enterprise Fund (RAEF)
International Resources Group (IRG)

2. Project Performance Dates

Period of performance: Two years
Start date: 29 September 2003
Completion date: 30 September 2005
Report date: 18 July 2005
Quarterly Report: No: 7

3. Project Management

HO Project Director: Veronica Gilbert
Chief of Party: Christopher H. Badach

4. Project Description

The project has four activities:

- Activity 1 Support for privatization in a transparent and equitable manner
- Activity 2 Support for the reform of the legal/regulatory environment
- Activity 3 Support to further strengthen the energy sector regulatory bodies
- Activity 4 Support investment and credit for increasing energy efficiency and reducing pollution

B. Report Layout

The reporting requirements for the Quarterly Progress Report are set out in the PRIDE project scope of work, namely:

- A. Identification of all professionals involved in rendering assistance and their respective roles and task responsibilities under this task order;
- B. Summary of progress on major implementation steps;
- C. Identification and description of implementation problems, proposed action to address such problems;
- D. Discussion of interaction with the counterpart(s), and any necessary alterations to the work plan and initial timetable;
- E. Results Achieved. A result is a change in policy or a change in behavior as a result of project assistance;
- F. Input to the Mission's annual results report including a summary of progress towards achieving targets; and:
- G. Coordination with other USAID implementers, other donors or international financial institutions (e.g., EBRD, EU Phare or World Bank).

In order to present the report the sequence of the above list has been reordered as follows:

- 1. Introduction
- 2. Interaction with Counterparts
- 3. Major Implementation Steps – Progress
- 4. Implementation Problems
- 5. Results Achieved
- 6. Professionals Involved
- 7. Input to Mission's Annual Results
- 8. Coordination with others

Since the PRIDE Project comprises four main activities, the above reporting requirements have been applied to each activity.

C. Activity 1 – Support to Privatization

1. Introduction

The new administrative structure of the Ministry of Economy and Commerce (MEC) and OPSPI was emerging only in the 2nd Quarter of 2005. At this stage of the administrative transformation the Secretary of State in MEC, Dan Victor Alexandru, has surfaced as a coordinating person in MEC for issues of privatization for entities in the MEC portfolio. Mr. Alexandru's area of expertise is the gas industry where he had developed a successful private business of local importance. A new Minister, Codrut Seres, became more active and outspoken on a variety of topics related to the privatization of energy assets, but his political strength is unclear (he is a member of a junior political party in ruling coalition) so he could be replaced in the near future.

In OPSPI there was the nomination of a new General Director. Mr. Mihai Bogdan Catuneneanu, previously an investment officer in charge of RAEF's energy efficiency activities, was selected to this position. Mr. Dorin Mucea, previously holding this position, is now nominally Mr. Catuneneanu's Deputy, but still seems to be the most influential official in OPSPI. However, as a result of public discussion on administrative reform and an anticipated overhaul of government offices, there is a proposal to integrate OPSPI as a department into AVAS, another presently operating privatization agency in Romania. OPSPI and both energy regulatory agencies (ANRE and ANRGN) were slow in complying with several contractual obligations accepted in preliminary privatization contracts for power (Banat and Dobrugea with Enel) and gas distribution companies (Distrigaz Sud and Nord with Ruhrgas and GdF). The mass media reported the arrests of a dozen senior officials from both privatized companies and from Electrica as involved in some corrupt supply contracts for sold companies prior to their privatization. After a long standstill in closing negotiations with Enel and only thanks to a personal intervention of the Prime Minister to save the deals, an agreement was reached. although final sale contract signing will be delayed again for another few months. There is a pending investigation of a corrupt capital expenditure program in the Turceni Energy Complex.

In the last three months OPSPI accepted CEZ's offer to purchase 51% of the shares of the Oltenia disco and the same offer of E.ON to acquire the Moldova electricity distribution company. However, in a similar transaction in Bulgaria six months ago CEZ paid almost twice as much per one customer's account, due to the competitive pressure from a higher number of bidders in Bulgaria and the higher transparency and objectivity of the deployed procedures.

In response to a confirmed high demand for the acquisition of Muntenia Sud, an electricity distribution company serving Bucharest and metropolitan area, the GoR decided to put for sale 67.5% of shares (50% of existing shares and 17.5% of new shares from capital increase). Offering for sale a control stake (over 67% in Romania) marks a desired departure from the previously rigid GoR stance to offer only a 51% stake. However, it's disputable why the GoR is offering 67% plus stake for a company with an already confirmed high demand for privatization; usually a control stake is offered for sale as a way to attract a higher number of potential bidders, not to respond to a high demand.

The new Minister of EC appointed a few months ago new senior managers of the Turceni Energy Complex . These new managers have a coalmining background and work experience and it is not clear yet whether they will be able to bring some extra value to the performance record of thermal power generation activities and TEC's readiness to effectively enter the privatization procedures. Under question remains TEC's present management ability to adapt dynamically to the rapidly changing operational and market environment and a deteriorating commercial condition in order to maintain TEC value. So far, most of the indicators of the TEC performance have shown disturbing signs of inefficiency. Under state ownership and supervision, the Turceni power generation blocks have operated at 45-60% of their capacity, with low time availability. Frequent repairs and modernization programs (real or reported) have brought limited operating improvement of the units for periods of one – two years.

There has been a substantial delay in the release of an initial and adverse KPMG financial audit opinion of the opening balance as of April 1, 2004 for the newly created TEC. An audit for the calendar year 2004, hopefully with more favorable audit conclusions and thus of a high importance for investors, will be prepared by KPMG only in late May/early June 2005. This is an essential document for presenting TEC to investors as a (potentially) saleable entity with prospects as a going concern. Bulgaria has launched a successful tender for sale of three thermal power generators: TPPs in Varna, Russe and Bobov Dol. The first two plants were sold to RAO UES for over € 500 million. A good PPC offer (€105 million) for the lignite-fired TPP Bobov Dol was rejected as too low. However, this thermal plant is not integrated with lignite mines and 11,000 coalminers went on strike in a fear of job losses. The transparent procedures of the privatization process, the offer for sale of a control (67%) stake of shares, and the better financial situation of the Bulgarian plants attracted 11 investors, but only four applicants submitted offers.

The GoR presented a draft of the Government decision (GD 514/2005 dated June 14, 2005) for the approval of JBIC loan by the Parliament. The loan contract was signed on March 31, 2005 but until now there was no public release of crucial components of the contract (ownership and management restrictions, specific terms and conditions of the loan, additional GoR commitments to Japanese Government that are allegedly included in minutes of the loan negotiations, etc). These details would define the pace, the structure of the transaction, and even the possibility for an expedient and equitable privatization process for TEC. This time the GoR's explanation for withholding this information is that it was not yet approved by the Parliament.

2. Interaction with Counterparts

The main counterparts we have worked with are:

OPSPI officials – Mihai Bogdan Catuneanu, Alexandru Alexe and Elena Necula supported by a legal advisory group from MEC and the Ministry of Finance.

Turceni Energy Complex newly nominated senior management – Nicolae Simonescu (General Director), Dan Gavrilesu (Commercial Director) Gheorghe Vaduva (Director of Production), Gorjaoba Corneliu (Director of Mining), Marian Motocu (Technical Director),

Lionel Leu (Production Director), Laviniu Danciu (Director of FGD Program), and Marius Liviu Preda- (International Business and Privatization Division).

In most cases interaction had been cooperative but the financial and operational information provided by the plant and mines' management is often incomplete and not commercially sound. It is also not technically reliable in view of the weak/erratic operational and financial accomplishments achieved in the past with much newer assets and equipment. The developed projections of gross and deliverable energy outputs seem to be based on the wishful thinking of TEC management to double output overnight, with disregard of the market capacity for power generated at TEC and unrealistic assumptions of high operating and technical parameters of power generating units. PRIDE sub-contractor RAEF does not have the professional capacity to challenge these projections from a market economy position and has limited its due diligence work to the verification of the technical capacity of installed equipment. Particularly disturbing in the MEC and TEC documents is the lack of a professionally developed and documented analysis of the national economy and population's long-term electricity needs, reflecting recent changes resulting from adopting the carbon-constrained development strategy promoted for the EU economic space.

3. Major Implementation Steps – Progress

The PRIDE Project Workplan identified a number of tasks to undertake in Activity 1. Progress being made in these areas is set out in Exhibit 1, overleaf.

Exhibit 1: Activity 1 – Plans and Progress on Major Implementation Steps

Task	Description	Progress	Next Steps
1.1	Prepare Privatization Strategy	Reviewed recently issued legal acts and development on investment markets to verify privatization options. Initial working draft of the Recommended Privatization Strategy was presented to OPSPI in April 2005 with no objection. That draft was amended to incorporate new market developments and relevant information availability. A new document was delivered on June 27, 2005 for OPSPI comments. The PRIDE strategy recommends a majority stake (51% or more) privatization option with securing on outset management control for a potential buyer. PRIDE recommends starting the process with a new tender announcement and the use of a pre-qualification selection of applicants according to a provided scoring system. The potential buyer is obliged to secure generation capacity of at least 6 TWh annually and the production of a minimum 8 million ton of lignite to support this generation level. The combined capital outlay program to rehabilitate units and their environmental upgrade is close to USD 1 billion, of which USD 900 million worth of capital projects has to be completed promptly within the next five years. Most likely a new tender announcement	<ul style="list-style-type: none"> • Incorporating comments and suggestions of OPSPI for the draft of Recommended Privatization Strategy. • Preparing publication of the deliverable document after obtaining its approval from USAID and OPSPI. • Continuation of editing/amending individual chapters of Information Memorandum. Materials delivered by RAEF do not currently fit to the concept and format of such a document according to internationally acceptable standards. • Re-establishing contact with all potential investors to identify their privatization appetite for TEC and other energy complexes in Romania. • Assessing schedule of next stages of privatization process to plan activities of PRIDE in the final months of the project activities.

		will be published in September with pre-qual selection in early November 2005.	
1.2	Valuation Memorandum Preparation	<p>Reviewed five basic TEC development scenarios and their impact on valuation. Break-even price is between USD 45-50 per MWh. This year breakdown of sale between spot and other transaction is assessed for TEC at 40:60 and discount rate assumed is around 13%. Change of TEC senior management may signalize need for new development ideas for power generation. Work cannot be completed on the reliable valuation of the Turceni Energy Complex until the consolidated financial statements and opening balance for TEC will be corrected and supplemented by other reliable business data.</p>	<ul style="list-style-type: none"> • Using audited financial data (when available) to correct preliminary valuation results. • Ensuring the satisfactory flow of needed information between the PRIDE and SF team to better coordinate effort and to complete the contracted tasks.
1.3	Removal of informal barriers to privatization.	<p>An investor needs to obtain locally issued environmental permit through an unclearly defined negotiation process.</p> <p>There is an unclear ownership status and ecological liabilities for large parcels of land that TEC wants to return to local communities, to remove it (temporary) from the company's responsibility.</p> <p>Restructured mining sector entities offered to transfer TEC debt into shares. If approved, it may change a volume of share capital for TEC.</p> <p>Additionally, CNLO mines' management requests the repayment of substantial debt for unpaid lignite supplies to TEC. Turceni included this payment as a yet not confirmed offset transaction.</p>	<ul style="list-style-type: none"> • Proposal to define ecological requirements for a new owner the same as for the old owner to avoid delays and disputes. • Clarify land ownership and potential environmental liabilities issues before closing transaction and signing SPA. • Draft of relevant document is under GoR review. There is a danger of overstating the magnitude of mining debt and share capital value. • Improving work coordination between MEC/OPSPI and Ministry of Public Finance to resolve this dispute.
1.4	Info Memorandum Preparation and Due Diligence Reports	<p>The collection of documentation used for preparation of the technical and commercial due diligence of TEC is well in hand. But there are serious doubts as to relevance of adopted approach for liberalized energy market conditions.</p> <p>New chapters (technical base, Roadmap, commercial& contractual environment, and employment issues) for the final Information Memorandum were prepared in a draft format, subject to further coverage revisions and updates.</p> <p>Performed extensive environmental audit of the Turceni plant and the Jilt & Dragotesti coalmines.</p> <p>Delayed activities are:</p> <ul style="list-style-type: none"> - Implementing steps recommended 	<ul style="list-style-type: none"> • Incorporating new technical and business information in relevant chapters of Info Memo, including new legal provisions (Mining Law, etc) • Editing existing chapters to reduce the overall size of the IM for irrelevant technical details and focusing on commercial value of TEC. • Prepare concise environmental audit report for GoR and potential investor review and use.

		by a legal due diligence of RTPR. - Financial audit of the Energy Complex by KPMG	<ul style="list-style-type: none"> • GoR/TEC need to fulfill their obligations to correct faulty legal and administrative procedures. • Need completed financial audit report by KPMG
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4. Implementation Problems

The main challenge in managing this privatization process is its incoherent implementation schedule and the slow progress of the GoR in executing the legal actions and administrative procedures needed to advance the process. The Turceni plant was not prepared for privatization and it has no legal and administrative capacity to create a new integrated entity, to transfer coalmining assets, to resolve complex land & assets ownership issues, and to settle environmental and financial obligations. According to the latest information, after the approval in August by the GoR of the privatization strategy for TEC, a new tender announcement will be published in September 2005. Potential applications will be received in October and the pre-qualification procedure of applicants will be finalized by mid-November 2005.

Following this a negotiation period may last an additional six months and final SPA signing may take another four to six months. According to GD 102/2004, Art. 4 (f), the PRIDE project is expected to provide services ensuring the diagnosis stage, the company's evaluation, the drawing up of the strategy to attract investments (i.e. developing the recommended privatization strategy), and to organize the negotiation process with the potential investors, subject of funds availability and relevant USAID consent. The initial workplan for the PRIDE activities was prepared on the basis of a GoR declaration that TEC would be privatized no later than in July 2004.

In the present situation the optimal moment to end the project activities would be shortly after implementing the pre-qualification selection of applicants. This would help to ensure that in the more advanced and vital stages of the privatization process (covering basically all negotiations) the only participants will be qualified investors with a proven industry expertise, the ability to perform efficiently on liberalized energy markets, and with the documented financial strength to implement ca USD 1 billion worth capital expenditure program.

5. Results Achieved

After taking into account the latest developments on the energy and investment markets and the expected slowdown of growth rates for aggregate demand for electricity demand following the strict implementation of carbon constrained development orientation in the EU economic space and from the presence of an excess capacity to generate low cost power in Bulgaria and Ukraine, we have proposed the following privatization strategy for GoR review.

- The GoR should make a new tender announcement to attract more reputable applicants.
- Applicants should be subject to a transparent and objective pre-qualification procedure to eliminate from the more advanced privatization stages those applicants

not fulfilling minimal quality criteria for investors participating in the bidding stage and not able to fulfill the GoR privatization objectives.

- The GoR should offer a majority ownership stake (at least 51% of voting rights) and operating management control at the outset of the acquisition. This is an essential condition precedent for many investors in the privatization of power generation assets, particularly in a view of the GoR decision to offer for sale 67.5% of shares for a much less risky distribution company, Muntenia Sud.
- A recommended transaction structure: a combination of state share sales and capital increase. Depending on a package selected by GoR the transaction at 51% stake level should bring at least USD 117 million and up to USD 130 million proceeds from sale at presently established market value of TEC (ca USD 153 million) and bookkeeping net assets value of USD 182 million.
- The GoR should insist on securing future power generation capacities of at least 6 TWh per year and the supporting lignite annual production of minimum 8 million tons by the new owner of TEC.

6. Input to Mission's Annual Results

The Turceni privatization process remains in process, not allowing a complete input into the Mission's Annual Results.

7. Professionals Involved

In addition to the Chief of Party, other experts contributing to Activity 1 were:

No	Expert name	Work performed
1.	Gabriela Baicu	<ul style="list-style-type: none"> - Overall supervision of DTR team work - Tailoring DCF model for valuation of TEC - Collection of all relevant data and background information from TEC management and its quality assessment - Reviewing preliminary valuation conclusions and their assessment with RAEF, OPSPI and MEC experts - Preparing valuation on a basis of analysis of comparable privatization transactions in the region.
2.	Stefan-Nicoara Moise	<ul style="list-style-type: none"> - Adopting DCF model format for specific analytical needs of TEC valuation exercise for five valuation scenarios.
3.	Andreea Panait	<ul style="list-style-type: none"> - Reviewing industry and GoR materials assessing price development for coal-fired power generation under capped electricity tariff constraints, - Assessing cost of coal extraction in associated opencast lignite pits for provided by TEC management investment scenarios - Reviewed applicability of reviewed value scenarios for presented by TEC development strategies
4.	Jonathan Ward	<ul style="list-style-type: none"> - Project management and administrative issues - Providing technical and editorial revision for project deliverables - Preparing training module and PP presentation for regulator, training delivery and gathering additional materials for broad distribution - Continuous investor and energy market research - Monitoring strict budget execution and financial/contractual reporting to USAID

8. Coordination with others

Jonathan Ward met in May with Kari Nyman and Farida Mazhar at the World Bank in Washington, DC. The World Bank's recent use of a Partial Risk Guarantee instrument in Romania for a recent distcom privatization was discussed; however, its applicability to the Turceni privatization was not made evident.

PRIDE concerns were shared about the complicating effect of the JBIC loan and its state majority ownership requirements on private investor interest; Kari Nyman's response was to recommend pushing the GoR on the use of a 100% GoR-owned FGD company. There was also some discussion without any decision of the GoR's preference given to a technical rehabilitation vs. replacement option for the generating units, despite that the economic rationale seems unclear. The World Bank agreed with the PRIDE recommendation for re-opening the TEC tender shortlist. Another area of concern for the World Bank is the lack of clarity of time schedule and transparency around the competitiveness of the privatization process. We share the same concerns as the World Bank.

Mr. Nyman's general response in the meeting (as with a previous meeting back in January) was non-committal, stating that the World Bank was presently well satisfied with the privatization progress of the GoR as evidenced by the distcom privatizations.

D. Activity 2 – Support to Legal and Regulatory Environment.

1. Introduction

As a part of this program PRIDE contributes assistance toward the institutional development of the new Romanian regulatory bodies and to the capacity building of local experts. The GoR decided suddenly on its own to accelerate the process of energy market liberalization. Instead of 55% threshold market opening starting from July 1, 2005 there will be a potential 83% market opening. Actually, energy market opening is ca 25% as many eligible customers have not used their rights to select a power supplier. However, if properly implemented, the higher market opening may temper somewhat the rising power prices. These occasionally reach USD 100 per MWh at the spot market transactions, with power prices in nearby SEE countries up to USD 30 per MWh. However ANRE has no developed institutional capacity to handle such tasks. There is no adequate technical base to facilitate the transmission and processing of corresponding data flows and no coherent conceptual framework of a power exchange platform to fulfill properly the due daily and short-term tasks of the Market Operator (OPCOM).

To develop the institutional capacity of ANRE and ANRGN, to eliminate the major bottlenecks for advancing the institutional development of energy regulatory bodies, and to enhance the professional skills of relevant regulatory experts, PRIDE in cooperation with USAID Bucharest (Virgil Musatescu) and ANRE/ANRGN senior management, has initiated a technical assistance program focusing in its initial stage on two major issues with a limited local expertise:

- Rules of Electricity Supplier of Last Resort (designation criteria, functions, selection methods and appointment procedures, SOLAR tariff setting and adjustments, etc.)

according to the best practices developed on liberalized energy markets. This assistance program will be continued at a pace of the absorption ability of regulators, assessed individually. We expect some slowdown in its implementation during the July-August period used for vacation by a majority of Romanian citizens. It will be resumed in early September and continued until end of the project.

- Best practices in drafting long-term bilateral contracts and the use of advanced risk management techniques in protecting prices and costs, securing an adequate profit margin, developing more confident budgeting and financial and operational procedures, tempering earning volatility, allowing “monetisation” of poorly performing assets, and enhancing a company’s ability to borrow. Hands-on regulators on such advanced concepts enhance their capability of effective oversight of market players’ performance.
- In cooperation with EMG Capital Market project in Romania PRIDE will try to draft a training program on new transaction instruments used in financial trading (forwards, futures and swaps, options, caps, floors and collars, etc) as well as to identify a group of capital market professionals with a steady interest in energy trading. There is no such group presently and without such professionals the attractiveness of signing long-term bilateral contracts, due to high market volatility, will be limited.

2. Interaction with Counterparts

Several meetings were held with the electricity regulator, ANRE, to clarify the actions needed to provide would-be investors in Turceni with a degree of certainty of a credible and reliable regulatory environment for a liberalized energy market of Romania. Another group of topics discussed with ANRE were SoLR issues. Leszek Kasproicz, after a one week-long workshop with ANRE experts, drafted a document “Rules of Electricity Supplier of Last Resort (SoLR)” defining and addressing practically all topics: role and eligibility of SoLR services, terms of service, tariffs setting and the selection of a SoLR service provider. The document integrates best international practices with Romanian regulatory specifics and energy market needs. After its internal review process, the document in English and Romanian will be posted on the ANRE website for external review process. After its due approval, the document will be used as a regulatory basis to develop SoLR services in Romania. Mr. Kasproicz will continue his assistance by periodical implementation meetings and ad hoc clarification and advisory services on a variety of technical aspects emerging during the implementation process.

We had scheduled the start of another capacity development activity – developing templates of bilateral contracts best fitting Romanian requirements by Mr. Fraser Morrison. Unfortunately, because of illness in his family, his arrival to Bucharest was postponed.

Meetings were also held with ANGRN, the gas regulator. The purpose of these meetings was to discuss a detailed scope and time schedule of technical assistance, which the PRIDE project on a follow up basis (in reference to training modules delivered there in December-March period) or as a new TA request.

3. Major Implementation Steps – Progress

The PRIDE Project Workplan, as amended and updated identified a number of tasks to undertake in Activity 2. Progress being made in these areas is set out in Exhibit 2.

Exhibit 2: Activity 2 – Plans and Progress on Major Implementation Steps

Task	Description	Progress	Next Steps
2.1	Analyze changing regulatory and operating rules and procedures in the liberalized electricity market, in mining and environmental legislation affecting power generation.	<p>PRIDE project to work on defining new elements of commercial and regulatory framework of importance for lignite-fired power generation.</p> <p>Specification of rules for SoLR service, organization of SoLR selection process, terms of services and customer-service related issues</p> <p>Clarification of licensing and authorization requirements, agencies involved, procedures applied.</p> <p>Defining of key terms, and portfolio of templates of used bilateral contract formats</p>	<p>Correction of relevant chapters of the Information Memorandum with description of the frameworks.</p> <p>Streamlining process of application for transfer and/ or renewal of licenses and permits.</p> <p>Preparing list of training topics for post-vacation period..</p>
2.2	Identify main topics for integration of public service rules into the Romanian electricity market and present them published ANRE document.	Clarification of further assistance needs for integrating public service obligations and selection of SoLR service provider, drafting amendments to legislation and regulation needed for implementation of public service principle.	Planned for September 2005.

Task	Description	Progress	Next Steps
2.3	Gas Regulatory Agency strengthening and assisting to meet EU requirements according to latest directive provisions.	<p>Selection of additional training topics aligned to capacity and skills of available pool of trainers.</p> <p>Drafting initial time schedule in cooperation with ANRGN.</p>	<p>Defining detailed agenda of TA and training topics.</p> <p>Drafting training schedule in cooperation with ANRGN and ANRE.</p>
2.4	Specification of delivery for advisory services desired by ANRGN.	<ul style="list-style-type: none"> Matching desired training topics with capacity and skills of available pool of trainers 	Drafting training schedule for accounting topics in cooperation with ANRGN.

3. Implementation Problems

This activity progresses mainly at the pace of the process of producing major regulatory documents and legal acts for a liberalized energy market in Romania and concluded privatization transactions. The overworked personnel of both regulatory agencies may lack the specific expertise for resolving a variety of methodological and conceptual issues, and hence there is a growing backlog of unresolved issues. We need to focus more on assisting on removing methodological and implementation bottlenecks.

4. Results Achieved

In respect of ANRE, the main result achieved thus far is a common recognition that the bidding documents must contain sufficient information on the current and future market arrangements, the time horizon and the conceptual prospects for “new portfolio” contracts, in order to provide some comfort to investors about future off-take agreements. Work will commence after the development of a new trading platform for a liberalized energy market conceptually assisted by Nord Pool group of experts and supported by World Bank by delivery of technical components of the platform.

5. Input to Mission’s Annual Results

Too early in project for results.

6. Professionals Involved

Christopher Badach, Leszek Kasprowicz and Virgil Musatescu had several meetings with ANRE and ANRGN senior management and on a working level.

7. Coordination with others

Apart from meetings with ANRE and ANRGN, we stayed in occasional, working contact with KEMA Consultants. KEMA’s specialists are infrequently in Romania and upon their arrival they have densely packed schedule of meetings and working contacts related to their core obligations.

E. Activity 3 – Regulatory Training

1. Introduction

As part of this program, the PRIDE project is contributing to an improvement of the regulatory capacity to manage the energy market more efficiently and effectively by providing technical expertise and training, as well as by development of professional partnerships, institutional relationships, and regional programs, within the project’s limited budget resources.

2. Interaction with Counterparts

Meetings have been held with both ANRE and ANGRN to specify the focus and coverage of individual training topics. Regulators usually ask for delivery of services well above our financial and implementation capacity. Two regulatory agencies in general and their leading specialists were involved in the resolution of dispute issues with private owners of gas and electricity distribution companies that were privatized about one year ago and still not able to sign the final SPA document. July and August here are traditional vacation months and most of officials are taking time-off. Any meaningful training activity can be resumed in early September.

3. Major Implementation Steps – Progress

For capacity building activities under the PRIDE Project Workplan identified a number of tasks to be undertaken in Activity 3. Plans and progress being made in these areas is set out in Exhibit 3.

Exhibit 3: Activity 3 – Plans and Progress on Major Implementation Steps

Task	Description	Progress	Next Steps
3.1	Defining training program affordable to PRIDE under existing project budget and time of operation's constraints.	Identified the best candidates for training from existing pool of specialists, defined their time availability and established contact with EMG Capital Market team in Bucharest to specify eventual trainers for financial instruments used in energy trading.	August – defining the final time schedule of the training program and align it with projected work schedule of both regulatory bodies.
3.2	Preliminary list of training activities to verify funds availability and feasibility of the program implementation.	Operative plan of training activities Budget and logistics for training sessions. Selection the best candidate (s) among short-listed foreign and local specialists to deliver training.	End of August 2005

4. Implementation Problems

With the still ongoing EU accession negotiations, especially over Environmental, Competition and Legal Chapters, and closing the privatization transactions for the energy sector entities sold one year ago, both regulatory agencies have had a fairly erratic work schedule, subject to rapid and drastic changes. It is thus been very difficult to prepare a binding training schedule that would not be changed within few weeks

According to assessment of the Capital Market project, development work of capital market institutions and professionals is still in its incipient stage. It will take at least two more years to train and firmly establish a group of dealers and brokers capable to service energy trading needs. From our observation of training classes in December 2004 most of the risk management related terms and concepts and the applicability of presented financial instruments were fairly unknown to the audience and even the involvement of a translator did not ensure the desired level of understanding for all participants. The financial trading concept and relevant instruments seem to be quite confusing to many well-trained managers with a solid general education but without a business background.

5. Results Achieved

The first stage of activity is just being completed. A tentative training schedule for the next stage of training has been proposed, along with potential topic corrections requested by the training recipients, which is dependent upon the progress of the regulators in complying with their statutory functions and obligations scheduled for September-October 2005.

6. Input to Mission's Annual Results

Initial results are expected in the 2005.

7. Professionals Involved

Christopher Badach and Virgil Musatescu held meetings with ANRE and ANRGN.

Jonathan Ward has been in contact with USEA and potential training candidates in the US.

Leszek Kasprowicz conducted a training workshop on the SOLR topics.

8. Coordination with others

Meetings held with ANRE and ANRGN.

F. Activity 4 – Increasing the Efficiency of Energy Assets and Reducing Pollution

Mr. Petru Tulin (National Bank of Romania, in charge of regulatory framework of NBR left its position. His replacement is not yet fully familiar with respective decision of NBR limiting attractiveness of DCA instrument use in Romania.

No activities were scheduled for the last quarter. In expectation of the relevant USAID instruction the project operations for Activity 4 were suspended.