APPLICATION’S MODALITY OF THE 54/2003 UE Direction IN ROMANIAN ELECTRIC POWER SYSTEM – UNBUNDLING’S APPLIANCE BY CEZ as IN ROMANIA

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ABSTRACT

From the moment, while the Rumanian has intended to enter in European Union, European Norm nr. 54/2003, regarding the common regulations of the electrical internal market, has represented UN important indispensable guide because of fundamental principles. Consequently at present there have been accomplished the following:
- the major restructure of the system,
- the liberalization of the segments which are fit to competing, that is electricity producing and delivery,
- the regulating of the natural monopoly segments, that is transportation, distribution, and
- Privatization where competing was desired.

The acquisition by the Czech Company Group CEZ of the Company Electrica Oltenia S.A., in 2005 year, from Company Electrica S.A. Romania, has represented a long reorganization process of the all structures, in the acquisitioned company. At present this reorganization is not finished.

Organizing restructure using unbundling was planned to start functioning on July 1, 2007.

The Romanian electricity market reforms consequences made Romania to be mentioned in the European mass-media as a leader of the European south-east electricity regional market, taking into consideration both the rhythm of reform enforcement and the level of its evolution.

1. INTRODUCTION

In order to obey the 54/2003 UE Direction standards, Romania has chosen the privatisation option for the MT, JT power energetic segment. The Romanian MT, JT segment includes the energetic plants which work under 0.4 kV to 110 kV tension.

The first privatisations were made in 2004. The buyer that is ENEL Italy bought the major share pack (51%) belonging to 2 electricity, providing and distributing branches, branches included in SC Electrica SA Romania at the time. SC Electrica SA included in 2004 8 (eight) branches. In 2005 E.ON Germany and CEZ Tchecia bought the major share packs (meaning also 51%) belonging to other two branches. In 2006 ENEL Italy was intended to buy the major pack (67%) belonging to another branch.

It is possible that the 3 remaining branches, which belong to the state, not to be privatised.

2. ABOUT CEZ GRUP a.s.

CEZ Group is a key-player on the electricity market in Central Europe and is the second big exporter for power in Europe.

From activity field of the Group make part also the telecommunications, informational technology, the research in nuclear field, the projection, the structures, like the maintenance of the installations and equipments with utilization in power field, extraction of the raw materials and processing of the derivates products, utilized for electricity generation.

For last 5 years it must to remark the next step for reorganization and extension:
- at end 2004 year, the Group had 97 companies, whence 34 reported directly at CEZ Group.
- Into 2005 year, the electricity distributor of CEZ Group, finding in regional distributor companies, was completely reorganized having new process (the „unbundling” process). CEZ a.s. acquired all shares of SKODA PRAHA company a.s., which supply engineering services, and of the I&C Energo a.s. company, leader of wholesale for the integrated industrial systems. CEZ Group continued the extension at local level.
- in 2006, June, the Group has 96 companies, with 24 foreign firms, and
- at end of three trimester 2007 CEZ Group operated in 30 companies of other countries,
- the strategies for development of CEZ Group, in 2005 and 2006 years had for view:
  - acquisition the controlling interests in more foreign companies of Central and South-East Europe: in the beginning of the year 2005, for three distributor companies in Bulgaria (Elektorazpredelenie Plevan EAD, Sofia Oblast EAD and Stolichno EAD), for thermo-electric power station Varna, in Bulgaria, and through winning, in the second semester 2005, of distributor company Electrica Oltenia from Rumania. In 2005, December CEZ Group consolidated the position through acquisition of Severoceske dolny, a.s. Also CEZ Group acquired the controlling interests, in January 2006, for electricity companies of up-Silesia (in Poland): Elektrocieplownia Chorzow Sp. z.o.o. (Elcho) and Elektrownia Skawina S.A.,
  - extending at international level and, the same time, consolidation of the position on internal market, through acquisition of one company having as objective extraction of coal.
The results of these strategies are:
- CEZ Group has 7 million clients, with a installed city portfolio over 14300MW.
- He has a capitalizing over 30 milliards euros and he has dealings actions in markets of Prague and Warsaw,
- CEZ Group activates, evidently in Czech Republic, and in other 10 countries of Central and South-East Europe,
- In Bulgaria, CEZ holds a distribution network and supply electric power to 1,9 million clients and holds the largest coal plant in Varna,
- In Romania, CEZ distributes and supply electric power to 1,4 million clients,
- CEZ Group holds two production companies in Poland and makes transactions in all countries of Central and South-East Europe,
- The branch of CEZ Power Group from Russia had selected by Russian government for to construct 3 units’ plants with a capacity for 600MW,
- In 2007, December, CEZ Group and Hungarian company for gas and oil created a strategic alliance having an object the gas plants,
- Recently (2008), CEZ in union with Turkish Akkık Group obtained an auction for Turkish distribution company Sedas,
- In 2008, October, CEZ Group bought in Romania two wind projects. The projects will form the widest wind park on the land from Europe, having a capacity for 600MW, representing approximately the extension capacity double of the widest wind operational park existing, at present, in Europe:
- the first stage of building will generate 347.5MW being operational at end of 2009 year;
- the second stage of construction will generate 252.5MW and will operational to end 2010 year;
- when will be total functional, the wind park will represent approximately 30% of regenerating electric power from Romania (including hydroelectric power). It is the first important wind project that will be realized in Romania, where, at present, it obtains only 7MW wind energy.

3. PREVIOUS UNBUNDLING STRUCTURES

In 2005 when CEZ Czech took it over, Electrica Oltenia Branch was structured according to the typical structure of al branches forming SC Electrica SA Romania.

Figures no. 1 and 2 shows in detail the structure which was taken over by CEZ Czech when Electrica Oltenia was privatised:
- One regional centralising component, that is the branch (fig.no.1), managed by a general manager; the branch had a superstructure which on one hand was coordinating the activities of the smaller branches, and on the other hand it centralised their activities.
- 7 county executive components, that is the smaller branches (fig.no.2); the smaller branches, in their turn, had the same structures like the branch, only for the local level; they were both executing the activities and at the same time they were subordinated to the branch. The executive activity was mainly performed by local centres, each smaller branch having a different number of these kinds of centres.

4. POST UNBUNDLING STRUCTURES

At the beginning of 2006, CEZ’ first action in Romania was to create a management entity, which developed itself together with the reorganising of the newly taken over electric energy company.

Parallel to this, in March 2006, more projects were made and launched.

The electric energy supplying system was aimed at in the beginning. This activity was chosen the first because it was wished it to become more efficient, as competition within the Romanian electricity market was increasing; the market was relatively largely opened at the time (about 83.5%).

The final aim of beginning the activity using project shapes was also meant to conclude some serious analyses which could finally led to implement the unbundling. The international practice shows that the separation implementation takes between 6 months and 3 years.

The consequence was that after about a year, on March 1, 2007, the supplying activity could be partially separated from the electric energy distribution activity, and CEZ Sales appeared. The final separation took place on July 1, 2007, when a new company, CEZ Services, separated itself from the electric energy distribution company.

Consequently, on July 1, 2007, the majority share holder CEZ Romania could report the unbundling implementation. Under these circumstances the ANRE
must adapt the specific legislation to the new conditions functioning within the energy field. There must be underlined that CEZ was the first commercial agent which implemented the unbundling in Romania. At present, Romania CEZ group has **5 companies** and their structure is shown in fig. no.3. 

**Three** of these companies derive from the previous electric energy supply and distribution company, that is: CEZ Sales which used to supply electric energy for the top consumers (see fig.no.3). CEZ Sales assumed all rights and obligations which result from electricity supplying contracts, acquisition contracts and service contracts specified in Separation Project. 

CEZ Services (see fig.no.4) which covers other activities performed by the previous electric energy supply and distribution company such as: accounting-financial, human resources, IT calculations, and electric energy supplying for the small clients (this type of activity was leased by CEZ Sales to CEZ Services), and CEZ Distribution (see fig.no.5) whose main activity was headed only to electric energy distribution.

**The fourth** company of the CEZ Romania group is CEZ Trade Romania, founded in March 2004. This society can to sell electricity also by retail market but only standard produces and in big volumes. CEZ Trade Romania has contracts by electricity acquisition with suppliers from Romania, Hungarian and Serbia. 

**The fifth** company belonging to CEZ Romania group, is SC CEZ Romania S.R.L. (fig.no.3), previously mentioned, and is used to provide the management system for the other 4 companies. 

Whereas the reorganising processes were concluded for the first 2 companies that are for CEZ Sales on March 1, 2007 and for CEZ Services on July 1, 2007 the reorganising process for CEZ Distribution has not been concluded yet; its bottom line was settled for the end of December 2009. 

Onto all studding period, for the realization of the unbundling, Electrica SA (old mother society) was invited to but at coordination equip of the project, formed by Electrica Oltenia SA and CEZ Romania S.R.L., for the harmonising the opinions about the separation concept of the activities and for finding the best scenario for implementation.

5. **FUTURE PURPOSES**

Future purposes are: 

- new projects will be started for the company’s strategic direction in order to make all the activities performed by the group companies be more efficient, 
- the integrated IT application development will be watched, SAP for instance, in order to develop the existing modulus or to implement new ones, 
- an own base for personnel’s training will be developed in order to provide employees competence and the development of their career’s management, 
- the investment level will be watched so that the network should satisfy both the technical requirements and the clients’ wishes,
a campaign for regaining lost clients and finding new ones will be started;
the tariffs for electric energy supply will be reanalysed, both the regulated ones and the negotiated ones, so that they would become the most competitive within the Romanian (for the time being) electric energy market,
the cooperation with ANRE will be increased in order to improve and make some costs be accepted, thus the company would be able to offer attractive tariffs to the consumers.

Analysing the working systems one can see that the maintenance activity is not provided within CEZ company group; it has been performed by outside companies. Consequently, for the future, CEZ group intends to analyse the opportunity of providing this kind of activity itself.

6. CONCLUSIONS

When analysing the privatisation and the following actions interesting conclusions can be drawn:
54/2003 UE Direction becomes interesting only when capital infusion is wished for, as it does not compel privatise;
The reorganising implemented by CEZ within the branch bought in Romania intended to turn a so-called geographical structure into a functional one;
The strategies of Group CEZ, in politics for reorganization, was orientated with the view to performance and this was a precondition of the all initiatives of the company, having the next principle:
- Priority in creation of value,
- Encouraging of the individual responsibility for touching of the ambitious results,
- Consolidation of the connections and assimilating CEZ Group’s values,
- Development of the human potential,
- Creation of a international organization,
- Accepting of a continuous changing process,
- Encouraging of the integrity;
Through this reorganising are achieved:
- the unification and standardisation of the work organization, of the process and work methods,
- the extension of outsourcing for the additional process,
- the effective and efficient using of internal source,
- the real centralisation;
The making study concerning the activity separation within Electrica Oltenia was made by Arthur D.Little (“ADL”) international consulting company; this company had exclusiveness in designing and developing an ampler programme for CEZ Group. The making study purpose was to analyse different scripts for separating the activities within SC Electrica Oltenia SA in order to find the right solution which should be implemented (both operational and financial) and to provide directions and counselling when implementing the right script;
The successors of Electrica Oltenia (CEZ Distribution and CEZ Sales) have the social centre in Craiova. Pursuant to finalization of the partial operation partition, Electrica Oltenia will continue to carry on electricity distribution (with the new name CEZ Distribution) and such as proprietary of the assets distribution (these representing the most part of the assets Electrica Oltenia). The electricity supplying activity, made by Electrica Oltenia so far division date, will be carry, after this date, by CEZ Sales ( this will serve the eligible customers and the clients which do not choose the supplier and will accomplish the last option supplying;
The privatising reorganising costs are not low and they do not always have favourable consequences for the employees or the consumers of privatised services. Consequently the activity reorganising process enforced both personnel relocation actions and/or personnel re-evaluation thus leading (after long negotiations) to solutions accepted both by patronally and the employees; thus, a social programme for the fired employees was also developed;
Reorganising and unbundling allowed a motivating salary system for employees, in accordance with the market economy requirements;
While privatising CEZ has always had the priority to get a mutual agreement with the Romanian authorities as CEZ is interested in implementing major investments in Romania; this interest must not be neglected as CEZ is a company having one of the best managements within Central Europe;
At the same time the unbundling moves the electric energy consumer from the distribution process and the consequences have not been very favourable to the client. The phenomenon was also shown on different international events and occasions by other European countries where this separation within the energetic branch took place;
For the time being the privatisation consequences in Romania can not be evaluated for long terms, either for making the supply and distribution activities more efficient or to satisfy the consumer; these consequences pursuit will be made on longer terms, so that the results and the conclusions should be as unbiased as possible.

7. BIBLIGRAFIE

[2] Dir. 2003/54/EC regarding the common regulations of the interne electricity market.