



Transelectrica®

Societate Administrată în Sistem Dualist

Compania Națională de Transport al Energiei Electrice
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No. 3114/19.01.2022

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NOTE

Approving the Transelectrica to exit from the shareholders of the regional centre coordinating the operational security of electricity systems in South-East Europe - Selene CC

General European context

These last years, European policies provide higher importance for the electricity system, particularly the part held by transmission system operators at regional and European levels, by establishing and assuming major energy policy objectives community-wide while protecting the environment. The European ecologic pact, the legislative energy packages, public transparency regulations and the set of European regulations approving network codes enhance the part, increase the attributions, bring new tasks and grow the responsibility of transmission system operators, placing emphasis on the regional and pan-European side of electricity transmission and on electricity systems operation with a view to increase supply safety, competition in the sector and electricity affordability for consumers. The transmission system operators' contribution is decisive in order to reach the European objectives and to implement the fore-mentioned European regulations.

The following years will see greater increase of TSO activities both individually and collectively within regional and European cooperation structures; activities will grow in volume and in complexity with further implementation of European regulations issued in the Legislative Package III Energy and application of the Legislative Package IV Energy, known as the 'Clean Energy Package'. The electricity transmission sector received new assignments and mandates, in addition to those already provided in the set of applicable network codes under implementation (eight European regulations covering three domains: grid connection, electricity market operation, and electric power systems operation). Greater emphasis is also laid on the regional cooperation of national TSOs, as regional activities based on existing European regulations, issued under the Legislative Package III are developed and extended in accordance with the Legislative Package IV.

European capacity calculation regions of cross-border transmission capacity

Europe-wide, capacity calculation regions represent basic structure in the complex trans-national cooperation for electricity systems operation and for the cross-border integration of

electricity markets. Last years, operational and market processes were developed in the capacity calculations regions, such processes being essential for the future formation of the common European electricity market and for major objectives of European policies in energy and environmental protection.

The idea of capacity calculation regions was introduced in European legislation by European regulations approving the network codes issued according to the third European legislative package on energy (Legislative package III). These European regulations defined the part and functionality of Regional Security Coordinators, RSC, and established a set of essential regional coordination services to be provided by such regional coordination structures. At the same time the European legislation established to have regional centres under TSO's control to provide proper development of such centres and to fulfil the purpose such regional structures were intended for. The European configuration of capacity calculation regions was established by the Agency for the Cooperation of Energy Regulators, ACER. The proper constitution of capacity calculation regions, both in methodologic and organisational terms, the development and operation of specific working tools were provided by the TSO in each region, established in the ACER-approved configuration.

Thus, in accordance with the provisions of European legislation in electricity (EU Regulation 2017/1485¹, EU Regulation 2015/1222², ACER Decision 6/2016³), Romania's national power system was integrated in the European configuration of Capacity Calculation Regions, CCR, by establishing the Romanian system's inclusion into the following regions: (i) Core region by the Romanian-Hungarian border, and (ii) South-Eastern Europe, SEE by the Romanian-Bulgarian border.

Consequently Transelectrica was integrated into the regional cooperation structures and became shareholder in the regional centres coordinating operational security in the two regions she belonged to, namely TSCNET GmbH - regional centre serving Core region and Selene CC - regional centre serving SEE region.

Transelectrica among the shareholders of the regional capacity calculation centre serving South-Eastern Europe (SEE)

In accordance with the provisions of EU Regulation 2017/1485 instituting the obligation to have regional coordination entities under control of affiliated TSOs, in the capacity calculation region SEE regional TSO adopted a cooperation formula by establishing an independent juridical person to play the part of regional operational security coordination centre. The juridical form selected was of stock trading company and the control to be provided by regional TSOs was set by shareholder membership participation. After a proposal received from the TSOs of Greece-Italy, GRIT, capacity calculation region, namely the Greek TSO and the Italian TSO, such centre was reconsidered and revised for multiregional level, meaning to serve two capacity calculation regions: SEE CCR and GRIT CCR. Thus the Italian TSO was included in the shareholder structure of the regional centre besides the TSOs of SEE (from Bulgaria, Greece, and Romania).

In this context company SOUTHEAST ELECTRICITY NETWORK COORDINATION CENTER - SEleNe CC - Societe Anonyme (Selene CC) was established in 2020 with headquarters in Greece, Thessaloniki with a view to comply with legal European requirements for the organisation of regional cooperation in SEE. Company Selene CC plays the role of regional centre for operational security of power systems in the capacity calculation region South-Eastern Europe.

Shareholders of Transelectrica approved by HAGA 6/2020 the Company's participation to constituting the share capital of the SEE regional centre. Transelectrica invested 50,000 Euro

¹ EU Regulation 2017/1485 establishing a guideline regarding operation of the electricity transmission system

² EU Regulation 2015/1222 establishing a guideline regarding capacity allocation and congestion management

³ ACER Decision 6/2016 defining the capacity calculation regions

to constitute the share capital of SEE regional centre, to date this being the only capital contribution the company brought to Selene CC regional centre.

The shareholder-established governance for the SEE regional centre provides maintaining equal shareholder participations to the company's capital, with equal voting powers in the statutory bodies of Selene CC.

SEE regional centre became operational on 1 July 2021 once the first regional service was implemented, namely coordinated capacity calculation for the day-ahead.

European regions to operate power systems

Legislative package IV Energy by EU Regulation 2019/943⁴ established new requirements for regional cooperation. The idea of System Operation Region, SOR, was introduced and would become fundamental for the common internal electricity market. Europe-wide, the new SOR regions became referential in order to further organise regional cooperation, in terms of covered system areas served by regional coordination centres for operational security. At the same time the European Regulation enhanced the part of existing regional coordination structures and entrusted these regional entities with additional issues, besides those established in the fore-mentioned European regulation. The European regulation also established clearer requirements about the establishment territory, decision-making and internal governance of such regional coordination entities. By these new conditions and tasks required by European legislation, the existing regional entities are mentioned as Regional Coordination Centre, RCC. Thus, existing regional entities, RSC should be adapted and properly capacitated to comply with the new requirements for RCC, being subjected to transition from the existent RSC operation and governance model to the future RCC. The transition should end by 1 July 2022.

ACER Decision 10/2020, with later amendments, defined Europe-wide the configuration of system operation regions, according to the provisions of EU Regulation 2019/943. Within such approved configuration Romania was allocated to Central SOR and Greece, Bulgaria and Italy's peninsular part were allocated to SEE SOR. At the same time, the Romanian-Bulgarian border represents interface frontier between the Central SOR and SEE SOR. In terms of operational services, the border (interface) between Central SOR and SEE SOR, namely the frontier between Romania and Bulgaria, should be managed by the coordination centre of SEE (Selene CC) in coordination and collaboration with Transelectrica based on contractual relation (article 4, para 4 of ACER Decision 10/2020, Annex 1).

New European requirements for regional organisation and cooperation

Once introducing the system operation region (SOR) concept and expanding the role and functionality of RCC regional centres serving such regions, the European legislation established also specific requirements for decision-making and internal governance of these regional coordination entities. In this respect the legislation provides important decisions of the RCC regional centre implementing regional operational processes to be exclusively reserved to the TSOs composing the respective SOR. The European legislation does not forbid access to the shareholders of a RCC regional centre to TSOs that are not component members in that SOR. However the European legislation provides decisional exclusivity to the TSOs composing the SOR, in case of subjects considered fundamental for regional development, thus restricting the access of TSOs outside the region to decision-making for such issues. These topics refer to approval of company by-laws, approval of the annual budget, approving the functional structure and organisational chart, the establishment of the inter-regional cooperation framework.

⁴ EU Regulation 2019/943 regarding the internal electricity market

As far as Transelectrica is concerned, in the context of the before-provided presentation the Company's situation towards the SEE region has changed. Previously in the stage when capacity calculation regions represented the referential structure based on which regional cooperation was organised within regional centres Transelectrica engaged as shareholder of SEE regional centre as a form of control exercised over it, being the necessary path to comply with the requirements of European legislation applicable in that time, taking into account Transelectrica belonged to SEE CCR. At present when Europe-wide the new configuration was established by system operation regions SOR and Transelectrica was assigned to Central SOR, the participation of Transelectrica among the shareholders of the RCC regional centre of SEE is no longer a legal obligation. However there is no interdiction with respect to Transelectrica's participation as TSO that is not member of SEE SOR, into the shareholder membership of the SEE regional centre. But the previously-mentioned constraints are applicable with respect to limiting the Company's decision-making capacity, as shareholder, for the current development and activity of the SEE regional centre (according to the list of decision topics reserved exclusively to TSOs within the SOR, provided above).

Other relevant considerations

Maintaining Transelectrica among the shareholders of the RCC regional centre within SEE would assume Company participation to the collective effort of this centre's shareholders to finance developing the entity's operational capacity (by specific IT&C platforms of high complexity), to implement all regional services established by the European legislation on behalf of the centre (including services specific to SEE SOR, which Transelectrica will not benefit of in operational terms). Taking into account the short history of operation and the low financial parameters of the regional centre as trading entity, both as regards the capital size and the annual revenues obtained, the regional centre's capacity to obtain necessary funds on the financial market to develop its operational capacity is extremely limited. In the absence of feasible financial solutions from external sources, the regional centre's shareholders will have to provide financing of necessary developments by new capital contributions, loans or other financial support methods. In other words, remaining among the shareholders of the regional centre would entail important financial commitments of Transelectrica in capacity of shareholder, when its decision-making power is limited given the position of TSO not belonging to SEE SOR. In accordance with Romania's regulatory framework, the regulated tariffs charged by Transelectrica do not allow recovering financial investments, but only the cost of services received from such regional centres based on contract. Mention should be made, taking into account regional centres provide services to TSOs in the served regions, that regional centres' revenues are entirely consisting of overwhelming proportion from services paid by the respective TSOs. In case of SEE regional centre, all revenues are obtained from its shareholders, in their capacity of clients benefitting of services provided by the regional centre, with no prospect to enlarge the client base beyond the TSOs found within the region. In other words regional centres' shareholders are at the same time clients of such regional centres and thus provide quasi-total operational revenues of such entities. Under such circumstances regional centres operate with minimum profit margins, and have no prospect of a notable dividend flow providing financial justification of maintaining the existing investment, and even less of investment increase by supplementing the already invested capital.

Proposal

Taking into account this presentation summarised as follows:

- The participation in the SEE regional centre is at present no longer a legal obligation for Transelectrica,
- In case it stays among the shareholders of SEE Transelectrica's decision-making capacity as shareholder of such centre will be significantly limited according to the provisions of the specific European legislation in electricity,

- In case of remaining among the shareholders of SEE, in the short- and mid-term considerable commitments are imminent for individual support of each shareholder, requiring the collective shareholders' effort to finance the centre development, when Romania's regulatory framework does not permit recovering financial investments by the transmission tariff, and profit margins applied by the regional centre are minimal, taking into account centre revenues are totally obtained from served TSOs that are also centre shareholders,

Transelectrica's exit from the shareholders of SEE regional centre Selene CC is proposed, with full recovery of the capital Transelectrica invested in this company to date (50,000 Euro).

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