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Briefing

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NEW ELECTRICITY TRADING RULES FOR THE CENTRALISED BILATERAL CONTRACTS MARKET IN ROMANIA

Given the view of the Romanian Energy Regulatory Authority ("**ANRE**") that electricity sale and purchase agreements with flexible prices and/or indicative quantities should not be concluded on the centralised electricity bilateral contracts market ("**Market**") operated by OPCOM S.A. ("**OPCOM**"), a new regulation ("**New Regulation**") regarding the methods of entering into electricity sale and purchase agreements by extended auction and continuous negotiation and processing contracts was approved by ANRE through Order No. 78/2014. The New Regulation will enter into force on 1 January 2015 and will repeal the current regulation on the organised framework for trading electricity bilateral agreements approved through ANRE Order No. 6/2011.

1. GENERAL INFORMATION ON THE MARKET

1.1. Market Trading Methods

The entry into electricity sale and purchase agreements on the Market will be carried out based on the following methods: (i) the trading method whereby electricity is traded through extended auction ("**PCCB-LE**"), (ii) the trading method whereby electricity is traded through continuous negotiation ("**PCCB-NC**") and (iii) the method for concluding fuel processing agreements ("**PCCB-PC**").

1.2. Registration as Market participant

Registration as Market participant and execution of the standard market participation contract are prerequisites to trading electricity on the Market. Participants to the Market will pay the market administration fee to OPCOM as well as a trading tariff.

1.3. Electricity sale and purchase agreements

Electricity will be traded based on (i) agreements proposed by the initiating bidder in compliance with a framework contract prepared by OPCOM, or (ii) standardised agreements, prepared by OPCOM. Agreements based on the framework contract may be proposed by the initiating offeror on PCCB-LE and PCCB-PC, specific or supplementary clauses being allowed only with respect to payment terms and methods, guarantees and financial penalties. On PCCB-NC only standardised agreements will be permitted.

The New Regulation expressly prohibits the insertion of specific clauses which (i) modify the framework contract and the fixed character of the hourly quantities and price, as well as the delivery date, (ii) allow the subsequent amendment of the agreement, by mutual consent of the parties or based on formulas, altering the other characteristics of the offer, including the price, or (iii) add other services.

OPCOM will be in charge with verifying the conformity of each offer with the applicable rules and will have to reject those offers which are not in compliance with the New Regulation.

1.4. Guarantee replaced by penalty

The New Regulation no longer provides for the obligation of the participants to pay a financial guarantee to OPCOM for participating in the auction, but such guarantee has been replaced by the payment of penalties. As such, in case a participant on PCCB-LE or PCCB-PC withdraws its offer, refuses to enter into the electricity sale and purchase agreement or submits an agreement which is not in compliance with the applicable rules, the respective participant has to pay a penalty to OPCOM. Participants on PCCB-NC have to pay penalties to

OPCOM in case of refusal to enter into the electricity sale and purchase agreement or submission of an agreement which is not in compliance with the applicable rules.

1.5. Withdrawal, suspension and revocation from the Market

Any participant to the Market is free to withdraw by sending a notification to OPCOM. OPCOM may suspend or revoke a Market participant in certain situations, e.g. (i) the participant ceases to fulfil the conditions for registration as Market participant, (ii) failure of the participant to comply with its obligations under the New Regulation, (iii) noncompliance with the standard market participation contract.

2. TRADING PROCEDURES

The New Regulation establishes specific trading rules for each of the three trading methods on the Market, i.e. PCCB-LE, PCCB-NC and PCCB-PC.

2.1. Trading on PCCB-LE

2.1.1. Submission of initiating offers

Each initiating offeror has to define its sale or purchase offer, which has to contain the following firm characteristics: (i) the delivery duration (minimum one month), (ii) the total quantity and hourly quantity of electricity/daily delivery profile (base, peak, off-peak delivery), (iii) the minimum price, for sale offers, and the maximum price offered, for purchase offers (the price shall include the transportation tariff), (iv) the option between full trading with one participant or partial trading and/or with more participants, and (v) the specific provisions of the proposed agreement (i.e. payment term and methods, guarantees and penalties).

In case of hourly power exceeding 10 MW only partial trading/with more participants is allowed. Partial trading means trading of tranches of constant power lower than the requested power, while maintaining the proposed delivery profile and duration of delivery. The choice of partial trading/with more participants does not exclude the possibility of full trading with one participant, if that results from the application of correlation rules.

2.1.2. Submission of co-initiating offers

After submission of the initiating offer, OPCOM will verify its compliance with the applicable rules and schedules a trading session for each accepted sale or purchase initiating offer. The offer, together with the proposed agreement, will be published on OPCOM's website and the identity of the initiating participant is disclosed.

Prior to the date when the trading session is scheduled other participants may submit coinitiating offers to OPCOM. Such offers will be analysed by OPCOM and, if accepted, published on its website. OPCOM will then receive and verify the response offers which will not be made public until opening of the trading session.

2.1.3. Modification/withdrawal of offers

Between the last date for submission of co-initiating offers and the opening of the trading session, initiating and co-initiating participants are allowed to modify the offer price one time only (by raising it, in case of purchase offers or by decreasing it, in case of sale offers) and by no more than 5 % compared to the initiating/co-initiating offer having the best price. Offers may be withdrawn only until the opening of the trading session and withdrawal shall trigger the payment of a penalty.

2.1.4. Correlation of offers

The New Regulation details the procedure by which the initiating and co-initiating offers are collated with the response offers.

The sale offers are ranked upwards, and the purchase offers are ranked downwards, based on price, and in case of offers with the same price, in chronological order, based on the date and hour when they were submitted / amended.

Successively, the initiating / co-initiating sale offer with the lowest price, or in the case of an offer with partial trading, a portion of its quantity (if the intersection between the demand and offer curves triggers the apportionment of the total offered quantity), will be correlated with the response purchase offer with the highest price and which is higher or equal to the price in the initiating / co-initiating sale offer, or in the case of a response offer with the option of partial trading, a portion of its quantity (if the intersection between the demand and offer curves triggers the apportionment of the total quantity). A similar correlation process applies for initiating / co-initiating purchase offers, except that in such case the purchase offer with the highest price is correlated with the sale offer with the lowest price and which is lower or equal to the price in the purchase offer.

Participants having submitted winning response offers are under the obligation to enter the sale and purchase agreement in the form proposed by the initiating participant, for the quantity resulted from the correlation and the closing price.

2.1.5. Determination of the closing price

The closing price of the trading session is determined based on the sale offer and purchase offer curves. As such, in case there is only one intersection point between the two curves or there are several intersection points but the price is the same, this shall be the closing price. Where there are more intersection points, with different prices, the closing price is the arithmetic average between the minimum and maximum price corresponding to the intersection points.

2.2. Trading on PCCB-NC

2.2.1. Standard sale and purchase products

OPCOM will have to define standard electricity sale and purchase products having the following firm characteristics: (i) average hourly power per contract - 1 MW, (ii) duration of delivery – one week/month/quarter/ calendar year (commencement and termination date shall be expressly indicated) and (iii) daily delivery profile (base, peak, off-peak delivery), clearly defined in terms of hourly intervals.

2.2.2. Mandatory standard agreement

The use of the standard electricity sale and purchase agreement prepared by OPCOM is mandatory for all participants on PCCB-NC.

The standard agreement may be terminated provided that a termination compensation is paid by the party requesting termination.

The termination compensation is determined as the difference between the value of the remaining not-delivered electricity calculated at the contract price and the value of the remaining not-delivered electricity calculated at the respective product price or price of equivalent product(s) available on PCCB –NC. If such products were not traded in the last 12 months on PCCB-NC, the price of products available on the centralised market with continuous double negotiation (PC-OTC market, organised based on ANRE Order No. 49/2013) on the date which is closest to the termination date in the last 12 months will be taken into account.

The following situations apply: (i) if the difference is positive and the purchaser initiated the termination, the compensation will be paid by the seller to the purchaser; (ii) if the difference is negative and the seller initiated the termination, the compensation shall be paid by the seller to the purchaser; and (iii) in all other situations the agreement may be terminated without payment of a compensation.

2.2.3. Trading procedure

Participants may initiate electricity sale or purchase offers for any of the products defined by OPCOM, specifying the number of contracts and the proposed price (which shall contain the transportation tariff), by inserting the offers in the PCCB-NC trading system.

OPCOM will organise daily online trading sessions where participants are allowed to place both co-initiating offers and response offers. Participants may place, modify, suspend/activate and/or cancel their sale/purchase offers and view all existing offers throughout the entire duration of the trading session. However, the identity of participants to the trading session shall not be disclosed during the session.

All offers will be ordered based on the price value and the time when they were placed and will be automatically correlated following the rules detailed by the New Regulation.

2.3. Trading on PCCB-PC

2.3.1. Processing contracts

The conclusion of fuel processing contracts is part of the safeguard measures set out in the Law No. 123/2012 on electricity and natural gas. Processing contracts may be concluded only in case of crisis situations on the electricity market, after the issuance of a government decision for the application of safety measures. The duration of deliveries cannot exceed the duration of the crisis situation.

2.3.2. Initiating offers

Initiating offers may be placed only by Market participants holding an electricity supply license issued by ANRE.

The initiating offer, equivalent to a firm electricity purchase offer, will have the following characteristics: (i) the type and characteristics of the fuel to be processed, (ii) the total quantity and hourly quantity of electricity to be delivered into the national system following fuel processing/daily delivery profile, (iii) (optional) the limit of the total quantity of fuel available for processing, (iv) the price of the processed fuel (fixed throughout the duration of the contract), (v) the highest price for the electricity resulting from processing that the initiating participant would be willing to pay, (vi) the duration of delivery and (vii) the specific clauses of the proposed agreement.

2.3.3. Trading procedure

After acceptance of the initiating offer, OPCOM will schedule a public trading session for each accepted initiating offer.

Response offers may be placed only by Market participants holding an electricity generation license issued by ANRE. A response offer will contain the following firm characteristics: (i) the average hourly quantity of processed fuel necessary for delivery of the hourly quantity of electricity and (ii) the requested processing tariff (which shall include all related costs, including the transportation tariff).

The winning response offer is determined by choosing the lowest value of the equivalent price of electricity resulting from fuel processing, out of those calculated for each response offer, based on a formula[1] provided under the New Regulation, and which is lower than the maximum equivalent price the initiator is willing to pay.

3. TRANSPARENCY

After completion of each trading session on PCCB-LE, OPCOM will publish on its website the following information: (i) the characteristics of the initiating offer[2] (ii) the closing price of the auction,

(iii) for each closed transaction, the name of the seller and purchaser, the hourly and total traded electricity quantity, (iv) the price and quantity corresponding to each offer (including for non-traded offers).

After completion of each trading day of a trading session on PCCB-NC, OPCOM will make available on its website, for each traded product, the following information: (i) the characteristics of the traded product and (ii) the characteristics of each transaction: number of traded contracts, name of the seller and purchaser and price of the transaction.

Once a trading session on PCCB-PC is completed, OPCOM will publish on its website the following information: (i) the name of the initiating participant, the type of fuel and the total available quantity limit, (ii) the total quantity of electricity and daily profile of deliveries, (iii) the delivery period (processing), (iv) the proposed contract, (v) the name of the responding participants and (vi) certain information on the wining offer[3] and losing offers[4].

OPCOM will have to prepare the trading procedures for all three trading methods on the Market and corresponding framework market participation contracts and submit them for approval to ANRE by mid November 2014.

In addition, OPCOM has to set up working groups with the participation of relevant market players for the purpose of analysing and preparing the framework contracts and standardised contracts to be used on the Market for each of the mentioned trading methods. Such contracts will also be subject to public consultation.

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[1] Total quantity price [lei/MWh] = processing tariff [lei/MWh] + average hourly quantity of processed fuel [MWh/MWh] X price of processed fuel [lei/MWh];

[2] Such characteristics refer to: the name of the initiating participant, the type of offer (sale or purchase), the initiating offer code, the hourly quantity and daily profile of deliveries, the full/partial trading option, the delivery period, the opening price and the proposed agreement;

[3] For the winning response offer: the name of the participant, the processing tariff, the price of processed fuel and the price of the electricity obtained;

[4] For the losing response offers: the processing tariff and the average hourly fuel quantity processed.