



INTERVIEW

CE OLTENIA'S TRANSFORMATION, WITH A BALANCED, LOW CARBON AND PROFITABLE PORTFOLIO OF GENERATION CAPACITIES, IS OF STRATEGIC IMPORTANCE FOR ROMANIA

LACRAMIOARA DIACONU-PINTEA, *Member of the Board of Directors, CE Oltenia*

1. **The global economy seems to experience challenges we have not seen in decades: very high inflation, the prospects of synchronized recession, higher and higher interest rates, and even increased geopolitical conditions. In this context, how do you deal with such challenges in your business sector?**

It is indeed a challenging period, especially as CE Oltenia is undergoing a restructuring and decarbonisation process aimed at restoring the company's viability and profitability, while respecting the measures which limit the distortion of competition. But we have a business plan for the period until 2030, including the restructuring

period until 2026, under which CE Oltenia is the beneficiary of a state aid authorised by the European Commission in January 2022.

We are at the point where we have started to implement the measures set out in the Restructuring Plan and, at the same time, we are sensitive to the need in the Romanian energy system. This is because CE Oltenia conducts its activity in accordance with national policies to maintain the safety and adequacy of the National Energy System. This need implies exceeding the targets included in the business plan and, hence, the challenge to ensure that we meet our commitments and respect the deadlines included

in the Restructuring Plan, as well as the associated obligations in Romania.

We are in dialogue with the Government and the European Commission and have managed to reach a common ground. We have agreed, as a matter of principle, that we can implement a number of temporary measures, such as an increase in production or some of the expenditure that this increase will involve. But any change in the structure of the business plan can be made temporarily and to the extent that additional state aid is not necessary. Thus, CE Oltenia was able to supplement the production of electricity, to increase coal production by 1 million tonnes/year in 2022, temporarily employing 600 people. We have also established temporary measures concerning the closure programme for mining sites or fossil fuel power generation capacities.

In the medium term, as I mentioned, we are implementing the measures set out in the Restructuring Plan: closure or temporary conservation of some production capacities on lignite; a gradual reduction of our employees; a gradual reduction of CO2 emissions, including investments in sources that pollute less or do not pollute at all.

2. What is the to-do list for the Romanian energy sector in such an environment?

The safety and the adequacy of the National Energy System are a priority for Romania, especially in the current geopolitical context. The good news is that Romania has a balanced energy mix and each source in this mix can be the solution. In the short term, coal can be one of the solutions. That is why the closure of certain production capacities will be at the disposal of the National Company "Transelectrica", the Transmission System Operator, and these will be maintained as a technical reserve.

However, I don't think that coal can be the only solution, given the technical limitations regarding the production. There is flexibility for everyone, but in the end it will be a combination of solutions. It's a bit more difficult in what concerns the natural gas availability regionally and globally. For renewables, if there is an installed capacity, then it also increases the chance that when it's sunny and windy we will have additional production. I think we should be very much concerned, beyond temporary solutions, on how we accelerate the commissioning of new generation capacities. It is

true that at the moment we are facing challenges in the energy field, but we must not postpone or forget to accelerate those projects that will ensure an energy mix.

3. Environment, Social and Governance (ESG) is "the new trend of the trends" in sectorial investing and business. How do you deal with sustainability, environment, social, and governance?

The restructuring of CE Oltenia also means a decarbonisation process, in compliance with European environmental regulations. In addition, CE Oltenia is a vital company for the National Energy System, with responsibilities towards customers and business partners, employees and shareholders, but also towards the community. Thus, the implementation of the Restructuring Plan will ensure a low carbon energy mix - emissions are expected to be reduced by about 38% - and a significant photovoltaic component, which will contribute to achieving the targets Romania has set for 2030 in terms of decarbonisation and the increase in the share of renewable energy.

As far as the number of employees is concerned, the reduction undertaken in the Restructuring Plan will be achieved mainly through retirement and voluntary redundancy, and also through professional conversion in order to operate the new production capacities.

As you know, the Ordinance on the decarbonisation of the energy sector has been adopted by the Parliament and will go to the President for promulgation. This regulates the closure and conservation of lignite and hard coal power units, the closure of lignite open pits and hard coal mines, as well as support measures for the closure and conservation of lignite and hard coal power generation capacities. There are also provided measures in order to mitigate the social consequences of the closure and preservation of lignite and hard coal power generation capacities and related open pits and mines. By Government Decision, qualification and retraining programmes are established to ensure the highest possible level of employment for the redundant workforce. This legal framework is very important for mitigating as much as possible the social impact of restructuring and decarbonisation policies. Employees who will become unemployed as a result of the implementation of the provisions of the emergency ordinance will benefit from social protection

measures and vocational training courses in line with the requirements of the labour market and, particularly in this case, in line with the requests of economic operators in the counties most affected by the decarbonisation process, such as Gorj county, where CE Oltenia is located. In addition, individuals who have been made redundant can benefit from non-reimbursable financing for the purchase of photovoltaic systems, from European funds, in accordance with the provisions of the Just Transition Operational Programme.

An important financing source for these programmes is the Just Transition Fund 2021-2027. Romania has an indicative allocation of around €1.947 billion - the third largest after Poland and Germany.

4. What are your expectations from PNRR regarding the energy sector? Do you see private alternatives in the near term for financing the energy sector investment needs?

As regards the impact on the activity of CE Oltenia, the National Recovery and Resilience Plan foresees the entry into force of the Law on decarbonisation of the energy sector. The Ministry of Energy is responsible for drafting the legislation and for the implementation of its provisions. As I said, the Ordinance has been adopted by the Parliament and states that the production of electricity from lignite and hard coal will be ceased by 31 December 2032 through decommissioning, closure and conservation of the total installed lignite and hard coal power capacity of 4,920 MW. The closure of certain power units will be at the disposal of Transelectrica, the Transmission System Operator, and these will be maintained as a technical reserve. The transfer to the technical reserve shall be made by order of the relevant Minister, at the request of the National Transmission System Operator, and shall be used at its order to ensure the adequacy of the National Energy System in various situations of need or crisis. With regard to the energy sector, the National Plan for Recovery and Resilience provides funding for cogeneration and renewable energy power plants, which will increase the adequacy of the National Energy System. However, I believe that private investment will continue to come in because power generation is an attractive and secure business.

5. What are the limitations of PNRR on your company, and what might we expect? Is it wise/safe to limit coal energy production? What should be the alternative?

As I mentioned, we can adopt temporary measures in difficult times, but to the extent that additional state aid is not necessary. So there is flexibility, and now the discussions have been around the use of coal in the context of the energy crisis. CE Oltenia will operate with its seven power units on a commercial basis in 2023 as well. The Restructuring Plan envisaged the closure of Power Unit No. 3 within Rovinari Thermal Power Plant and Power Unit No. 7 within Turceni Thermal Power Plant. But it was decided to place these groups in technical reserve. In other words, these will be kept in operational condition and, at Transelectrica's request, these can be put back into service. As long as the company does not request an increase in the restructuring aid, CE Oltenia can operate these power units on commercial terms.

As regards the alternatives to coal, the Restructuring and Decarbonisation Plan involves diversifying the energy mix by introducing renewable energy and natural gas into CE Oltenia's portfolio. Eight photovoltaic parks will be developed with a total capacity of 725 MW and an equivalent installed capacity of 109 MW at an average annual use factor of 15%. Two natural gas-fired power plants will also be developed: a 475 MW power unit within Turceni TPP, which will replace an existing 330 MW lignite capacity, and a 850 MW power unit within Işalnița TPP, which will replace power units No. 7 and No. 8, each of them having an installed capacity of 330 MW, on lignite. This will enable the transition from coal to natural gas and renewable energy sources. The adequacy of the National Energy System will be ensured by matching the commissioning of the new capacities with the retirement and reduction of installed coal capacity of CE Oltenia.

6. How do you see the transition from coal energy to solar energy and energy produced from natural gas? What is CE Oltenia plan for this switch?

The decarbonisation of the energy system is essential in order to reach the 2030 climate targets and the EU's long-term strategy for climate neutrality by 2050. The energy sector remains the largest source of greenhouse gas emissions, accounting for 66% of total emissions. In Romania, changing the current energy mix is the key to achieving environmental targets.

In this context, the implementation of the Restructuring and Decarbonisation Plan of CE

Oltenia has an important role in achieving a realistic and sustainable transition towards low carbon electricity generation. Thus, the total installed capacity of electricity generation will reach from 3,570 MW in 2020 to 3,094 MW in 2026, the share of lignite generation capacity being reduced to 53% of the total capacity. The photovoltaic parks will have an installed capacity of 725MW and natural gas will have an installed capacity of 1325 MW.

Natural gas has been accepted by the EU as a transitional fuel. CE Oltenia's future gas-fired generation capacities will contribute to ensuring continuity of supply and security of the National Energy System, as production based on wind and photovoltaic sources is intermittent. The gas-fired power unit within Işalniţa TPP will support an additional installed renewable energy capacity of about 330 MW for wind energy or about 566 MW for photovoltaic energy. And the gas-fired power unit within Turceni TPP will support an additional installed renewable energy capacity of about 369 MW for wind or about 633 MW for photovoltaic energy.

The natural gas power units will also be hydrogen ready, being able to use natural gas in combination with renewable hydrogen as fuel. During the transition period, the blend will contain, by volume, 20% renewable hydrogen, which will significantly reduce carbon emissions.

The retirement and the reduction of the installed coal-fired capacity of CE Oltenia will be carried out in conjunction with the commissioning of the new capacities, without affecting the adequacy of the National Energy System. The final objective is for CE Oltenia to have an energy mix with approximately 38% lower carbon emissions and a market share of 18-20%, in conditions of economic performance.

The National Recovery and Resilience Plan has an estimated allocation of €1.62 billion with an implementation period until August 2026. Of this amount, €460 million are allocated to support photovoltaic and wind generation capacities and €300 million are allocated for gas-fired cogeneration power units.

In this context, I would mention the relevance of the Modernisation Fund in the implementation of the Restructuring and Decarbonisation Plan. This Fund represents a valuable instrument for financing large projects, such as those of CE Oltenia.

With the approval of the restructuring aid for the company, CE Oltenia had the possibility to access financing from the Modernisation Fund that would not have been available through the National Recovery and Resilience Plan. Thus, CE Oltenia benefits of 70% financing for photovoltaic parks and 50% for natural gas-fired power plants.

7 What will the new partnerships with OMV and ALRO Slatina bring for the company and the energy market in Romania?

Partnerships with OMV Petrom and ALRO are key to the success of the Restructuring and Decarbonisation Plan and cover five projects. CE Oltenia will build, in partnership with OMV Petrom, four photovoltaic parks with a total capacity of ~450 MW. The project will be developed through four separate legal entities in a 50%-50% shareholding structure. The intention is that the electricity produced will be sold by these entities to the two partners in equal proportions. According to current estimates, the parks will supply electricity to the national power system starting from 2024.

ALRO has been selected by CE Oltenia to jointly build the 850 MW natural gas-fired power plant within Işalniţa TPP. CE Oltenia's equity share of 59.9% represents a contribution of €65 million. The selected investor, Alro SA, will participate with an equity share of 40.1%, representing a contribution of more than €43.5 million. The total value of the project is estimated at €506 million. The Işalniţa natural gas-fired power plant is scheduled to be commissioned in 2026.

Both projects are attractive to investors, as we have already identified financing from banks and the Modernisation Fund for their implementation. And, very important, both projects contribute to Romania's energy transition. The construction of new, less polluting power generation capacities is of strategic importance for Romania and the projects for the conversion of CE Oltenia, including these two, have been included in the National Integrated Energy and Climate Change Plan, as well as in the National Energy Strategy.

8 How will you implement the new partnerships? What other partnerships do you have in mind?

CE Oltenia aims to conclude partnerships for all new projects included in the Restructuring Plan. The partnerships already concluded and those to

follow - for the construction of photovoltaic parks and gas-fired power plants - will lead to the creation of SPVs - project companies that will be the basis for the development of new projects. The setting up of SPVs was a mandatory part of the Restructuring Plan of CE Oltenia to avoid distortion of competition and to ensure its own contribution to the total restructuring cost of €3.94 billion.

The new partnerships will be implemented in accordance with the provisions of the Shareholders' Agreements and current legislation applicable to companies. We are confident that each shareholder will work in good faith towards the implementation of the projects and allocate the necessary resources. I have already talked about partnerships with OMV Petrom and ALRO. After the transaction documents for the joint venture between CE Oltenia and Tinmar Energy were not approved by the General Meeting of Shareholders of CE Oltenia, we are in a bit of a standstill regarding the Turceni power plant and the four photovoltaic parks. If this continues to be the position of the shareholders, all that remains is to restart the selection process and I hope that we will receive new offers for this project.

9 What is your main message to your clients/partners in terms of challenges and opportunities for the short and medium term beyond 2023?

Romania, like many other countries, is currently facing a steep rise in energy prices, mainly due to the increasing demand for energy - in particular for natural gas - all over the world in the context of

economic recovery. The situation is exacerbated by the difficult context caused by the armed conflict in Ukraine, which is affecting the security of energy supply in Europe. Prices will remain high even beyond 2023.

As main challenges I would mention:

- ensuring the safety of the National Energy System, where CE Oltenia will have an important role to play by commissioning new capacities and by maintaining the coal fired capacities in technical reserve;
- the increase in energy efficiency
- the changes that will be made to the electricity market model at the European Union level;
- the increase in domestic natural gas production through the exploitation of Black Sea natural gas reserves

As for opportunities under this context, I would mention:

- the acceleration of the green transition, which will reduce emissions and dependence on imported fossil fuels, providing protection against price increases;
- the use of hydrogen - hydrogen from renewable sources will be essential in replacing natural gas, coal and oil in hard-to-decarbonise industries and transport sector

In this context, the Restructuring and Decarbonisation Plan of CE Oltenia is a response to the challenges, contributing to the energy transition by replacing coal with natural gas, and prepares the use of hydrogen mix and photovoltaic energy, while ensuring the security of the National Energy System.