



E-Distribuție Dobrogea Budget 2022 Proposal

June, 2022

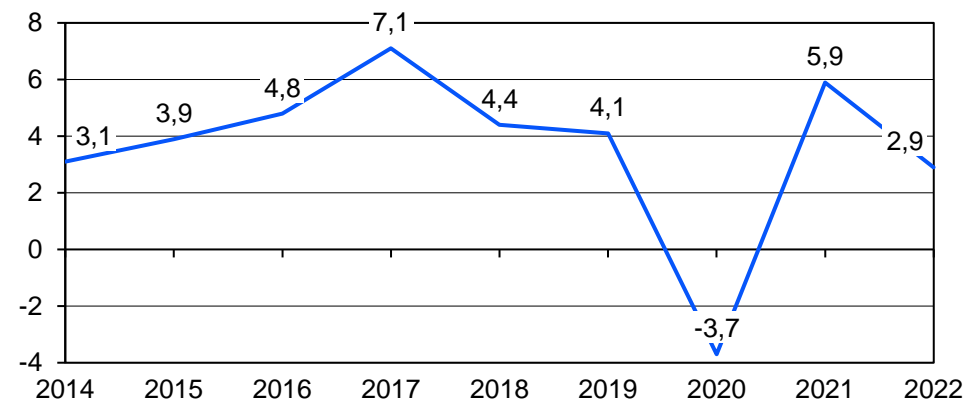
The logo for e-distribuție, featuring a stylized 'e' in red and orange, followed by the word 'distribuție' in blue.

Romania – Macroeconomics

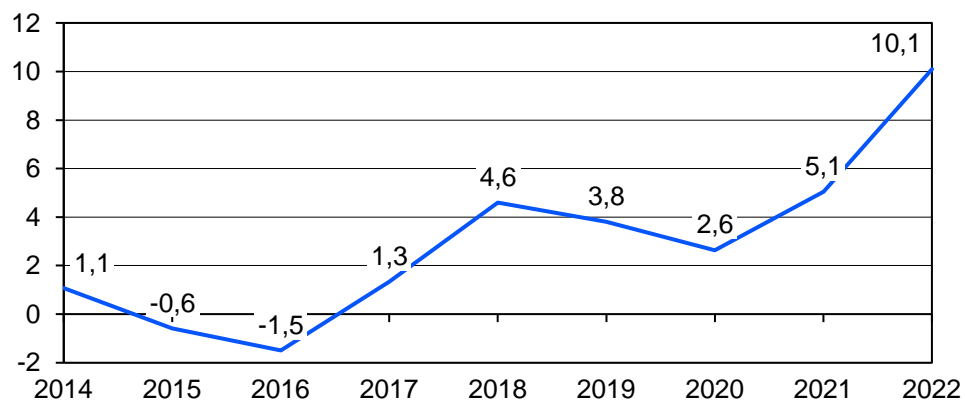
General

GDP per capita (PPS) (****)	69
Population (Mil) (*)	19.33
Rating (Moody's)(**)	Baa3
Income tax rate	16%
Member EU from	2007

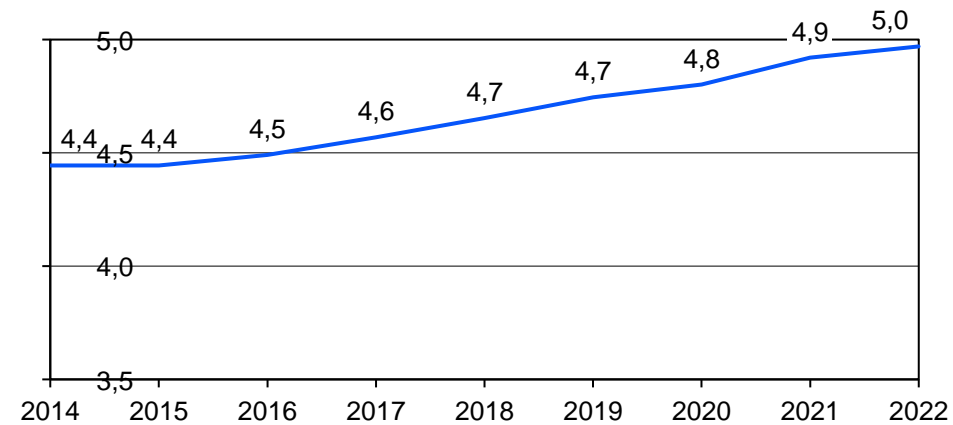
GDP evolution (%) (***)



Inflation rate (%) (***)



Average exchange rate RON/EUR (***)



* Source: Eurostat last estimation

** Source: Moody's rating Baa3 stable from 18 October 2021

*** Source: Average from National Commission of Strategy and Prognosis last estimation Spring 2022

**** Source: National Commission of Strategy and Prognosis last estimation Spring 2022 amounts of 2022 in purchasing power standards

EDD - BP 2022 – Regulatory assumptions

Distribution

- Annual update of distribution tariffs in line with the current methodology:
 - 2020 – Increase of distribution tariffs by 7.3% for HV, by 7.6% for MV and by 6.3% for LV vs the approved tariffs as of January 2019.
 - 2021 – Decrease of distribution tariffs by 0.2% for HV, increase by 3.6% for MV and by 2.9% for LV vs the approved tariffs as of January 2020.
 - 2022 – Increase of distribution tariffs by 24.5% for HV, increase by 30.1% for MV and by 24.5% for LV vs the approved tariffs as of January 2021.
- ANRE order 114/2014 modified by Order 169/2018 establishes the parameters for 4th regulatory cycle (2019-2023):
 - ✓ Network losses target 2019-2023: 8.80% >>8.26%
 - ✓ Network losses ex-ante reference price: actual average price between all DSOs and TSO considering 12 months analysis; ex-post reference price: min (DSO actual price, average actual price of all DSOs and TSO); BM +/- 5% of total losses volumes
 - ✓ RAB reduced for assets disposed/not used
 - ✓ Yearly investments rule: RAB IN=RAB OUT
 - ✓ OPEX: Personnel, Safety and Maintenance costs pass-through up to the approved value
 - ✓ Other OPEX: max 5% efficiency allowed, sharing mechanism 60-40%
 - ✓ ICO Costs under ANRE Checking for RC3, introduced more constraints for RC4
 - ✓ OPEX not recognized (e.g. monopoly tax, penalties)
 - ✓ 95% profit of other activities to be shared
 - ✓ In 2022 tariffs, ANRE has included 2021 network losses annual corrections (volume and price) of 86MRON
 - ✓ OUG 27 issued in March 2022 allows (for the period April 2022 - March 2023) the recognition of the capitalization for 5 years, at a rate of return of 3.2% (50% of the RRR of the 4th regulatory cycle) of the differences between the approved price ex-ante and the recognized price, amounts financed from bank loans of 187MRON. ANRE will issue an order for the application of OUG 27 based on which the Ministry of Finance will issue an order for the local recognition of capitalized revenues on GAAP.
- The new regulations in force regarding the connection of household and non-household customers:
 - ✓ DSO has no obligation to finance the design and execution of the connection for non-household customers
 - ✓ For household customers DSO has obligation to reimburse the applicant - household customer - the effective value of the connection design and execution works, up to an average value of a connection, established according to a methodology approved by ANRE. The costs will be recovered in the distribution tariff. These assets are recognized by ANRE as part of the regulated assets base (BAR) if the date of full reimbursement coincides with the date of PIF (acc. with GEO no. 143/2021). In addition, ANRE's proposal is for DSO to reimburse this amount to the customer within a time frame agreed with the user, which may not exceed 5 years from the date of PIF.
 - ✓ The applicant (household or non-household) has the right to freely choose any economic operator authorized by ANRE for the design and execution of the connection, in which case the user concludes directly with the certified economic operator the design and execution contract of the connection
 - ✓ Industrial customers must pay the entire connection tariff (as before the changes in the energy law of 30.07.2020). The assets resulting from the connection works enter the patrimony of the distribution operator from the moment of PIF, without being recognized by ANRE as part of the regulated assets base (BAR).
- ANRE Order 60/2019 for setting Regulated Rate of Return:
 - ✓ RRR = 6.39% real pre-tax for existing RAB at 31.12.2018 and 7.39% for new investments 2019-2023

Regulatory Scenario E-Distribuție Dobrogea



	2nd RC						3rd RC					4th RC			
							8,52%	8,5%			7,7%	121 days - 6.9%; 12 days - 5.66%; 233 days - 6.39% + 1% for new investments		6.39% + 1% for new investments	6.39% + 1% for new investments
WACC	10%											Q1 - 5.66%; Q2-Q4 - 6.9%			
Distribution tariffs evolution	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Average increase annual	-1,71%	10,42%	2,24%	4,89%	6,36%	8,04%	-0,25%	-0,18%	-12,63%	-6,35%	2,05%	2,61%	6,51%	2,89%	25,29%
CPI	4,40%	3,00%	5,30%	3,74%	5,06%	1,40%	3,00%	2,20%	-0,37%	-0,83%	0,26%	3,82%	3,00%	2,72%	3,76%

Regulatory / Institutional/Legal updates 2022



Regulatory & Institutional

- On 21.06.2022, the proposal to amend GEO 27/2022 that was sent through ACUE, referring to the inclusion of Q1 losses deficit, the quarterly capitalization of all losses costs regardless if they are financed from banking loans or not and the recognition of the assets resulted from the losses price difference (actual vs recognized) in the annual financial reports of the DSOs, **was not voted in the Energy Commission** due to time constraints.
- On 30.06.2022 – Government meeting where a new GEO on CPT topic was confirmed. The officials took commitment to include in the new GEO, Q1 2022 losses deficit, recognition in financial statements and the extension also to loans from other sources than banks. The text will be finalized and agreed between ANRE, ME and ACUE by July 15th. From next week a working group will be established with ANRE, ME and ACUE in order to clarify and simplify the flow. In the same meeting, the topic of installments payment towards state owned power producers was raised – it had support from ANRE and Prime Minister’s advisor but less from ME (allegedly due to corporate governance).
- Meeting with ACUE on 30.06.2022 to comment and define a common position among DSOs on the draft of ANRE’s “capitalization procedure”. Further discussions will be held in ACUE to identify the best suited proposals.
- On 04.07.2022 a Task force was officialized by Prime-Minister as a follow-up to the meeting held previous week – June 30th (official name: Inter-institutional working group dedicated to the best implementation of measures applicable to final customers in the energy market, and to the betterment of the regulatory framework for energy distribution, in the context of increasing wholesale prices). The task force is going to be coordinated by Secretary of State George Niculescu, with the participation of ANRE representatives, Ministry of Finance, and operators. Relevant items for DSOs: clarify capitalization (including Q1 2022 and finance other than bank loans) of additional costs incurred by DSO; aggregator: clarify the option for aggregated acquisition for the energy necessary for CPT; state guarantees;

Operational Actions

- For the acquisition of energy for losses all Dx are following 3 main directions, prioritized as follows:
 - 1.Mandate Transelectrica to facilitate the conclusion of bilateral contracts between Dx and the state-owned producers.
 - 2.Utilize PMC (a platform dedicated to energy acquisition by the large customers >70 GWh/year, managed by OPCOM). Status: the platform is functional → registration process completed;
 - 3.Bilateral contracts for energy acquisition from the main producers. Contracts concluded up to date for all companies:
 - HIDROELECTRICA - 40GWh @ 714 RON/MWh the acquisition contracts have been signed (includes also 0.7GWh energy mandated through Transelectrica)
 - NUCLEARELECTRICA - 44 GWh for H2’22 @ 700 RON/MWh; - 53 GWh for H2’22 @ 950 RON/MWh (9GWh mandate from Transelectrica); - 44 GWh for Y’23 @ 1.190 RON/MWh
- Notifications sent to all our investment (works & materials) contractors – suspending all works and orders in accordance with the new approved version of the investment plan. - Reduce of the investment plan with 16 MEUR
- Insourcing activities – smart meter installation, gestione utenza, preventive maintenance, mobile mapping and readings.
- Working capital optimization - recovering customer debts, renegotiating payment terms with most service providers and investment works, analyzing and reducing the company's expenses to what is strictly necessary in order to overcome this crisis period.
- Bank loans to assure the operational business continuity ,the energy acquisition/payment for 2022 (20 M€ from ERSTE BANK, 15 M€ from ING BANK and and 40 M€ previously contracted from BRD BANK and INTESSA SANPAOLO BANK)

Legal

- Administrative litigation filled in court on 29.03.2022 against the Romanian Government, Ministry of Finance and ANRE for damages incurred in 2022 by the non-recognition of the real cost of CPT in the tariffs or alternatively to oblige ANRE to issue an order for tariffs that includes the real cost of CPT, Modification of ANRE Tariff methodology and an Unconstitutional Plea against provision of GEO 27/2022.
- Administrative litigation filled in court on 20.04.2022 against ANRE, challenging the new distribution tariffs issued by ANRE for 2022, asking for the annulment of the tariff order and the issuing of a new order containing tariffs that include the real cost of CPT for the period 01.01.2021- 31.03.2022.
- Preliminary complaint filled with ANRE asking for the suspension of ANRE Order 143/2022 for the approval of tariffs and monetary contribution received by ANRE for the duration of the applicability of GEO 27/2022 - an action that will lead, if approved, to the suspension of the payment towards ANRE by Dx companies of the 0,2% tax from total revenue.
- Consultancy Contract with Deloitte & Reff Law firm to support the legal analysis of OUG 27/2022 and its impact on CPT recovery in order to identify solutions for implementing a state guarantee mechanism to support the financing of CPT acquisition from banks and recognition in the financial statements and IFRS & Local GAAP. Status: concept paper on state guarantee mechanism to be delivered.
- Preliminary analysis of a ICC Arbitration against the Romanian state - based of the provisions of the Privatization Agreements and Concession Agreements and timeline for an eventual the ICC Arbitration drafted.

EDD - Distribution strategy - main pillars:



	Under Implementation
QUALITY PLAN	<ul style="list-style-type: none">▪ Continuation of refurbishment program for HV/MV primary stations which are important for Dobrogea area▪ Remote control program continuation and refurbishment of the MV/LV secondary substation;▪ Focus of the MV network for quality improvement;▪ Focus of the LV network for quality improvement
HV Network Improvement	<ul style="list-style-type: none">▪ Installation of OPGW on existing 110 kV lines (also for insuring communication with TRANSELECTRICA stations)
LOAD INCREASE	<ul style="list-style-type: none">▪ Replacement of 110kV power transformers in transformer stations to improve the voltage level and increase the connection capacity of new consumers in the tourist area of Mamaia - Navodari and Medgidia
SMART METER PROGRAM -Losses Reduction	<ul style="list-style-type: none">▪ Further implementation of Smart Meter Project, including also own personnel;▪ Focus on meter centralization outside the household premises targeting to detect and prevent frauds and to read the customers not read for a long time.
Commercial Service Quality	<ul style="list-style-type: none">▪ Improving of commercial and technical systems

EDD - Focus on Distribution strategy (1/2)

e-distribuție

Under Implementation

QUALITY PLAN - Remote-control

- Already introduced, with the support of Enel know-how and with visible results (average interruption period per customer/per year, reached the lowest value ever);
- One of the primary benefits of the remote-control system is that it allows Enel to restore power supply rapidly from distance, in case of failures affecting large areas;
- Will help us improve our operational activities through remote maneuvers for all HV/MV primary substations, MV/LV secondary substations, MV overhead disconnector IMS, diminishing the need for the field interventions and increasing simultaneously the safety of our personnel;
- Lower operative cost for utility companies, which mean savings for their customers;
- Focus MV, LV network refurbishment in order to improve quality of service and reduction of corrective maintenance cost following incidents;
- Reduction of MV and LV failure rate and improvement of the behavior of the network.

HV NETWORK IMPROVEMENT

- Replacement of transformer no.2 110kV / MT 16 MVA with one of 25MVA in Medgidia 1 transformer station
- Replacement of transformers 1 and 2 110 / 20kV 25 MVA with 40MVA transformers to increase the connection capacity of new consumers in the Mamaia-Navodari tourist area
- Installation of OPGW type guard wire on 110kV LEA Gura Ialomitei - Slobozia Sud

SMART METER PROGRAM

Using the technologies of Global Infrastructure & Network - Enel Group, this program:

- Offers a better control of energy consumption to clients;
- Having a better overview of their consumption needs, clients will make informed decisions on how they can optimize their consumption and reduce bills;
- Helps environment by reducing the need to build electrical installations and decreasing the use of lower efficiency old ones since clients reduce their electricity demand;
- Smart meters one step to smart grid in Romania. This will help the network to detect what is happening with the transit of energy, to balance it, to increase safety and make it more resistant to network disruptions and other problems;
- Lower operative cost for utility companies, which means savings for their customers.

EDD - Focus on Distribution strategy (2/2)

Under Implementation

Instruments

- Commercial – Front Office and Back Office Development.
- ERP – New and Evolutive Improvement
- GRID – Evolutive Improvement
- METERING & FIELD – New and Evolutive Improvement

Description

- Continuous upgrade of newly implemented commercial applications which will bring efficiency in our distribution activity (systems AIRE and CROS)
- Continuous upgrade of SAP technical modules (PM, MM) with new functions which will bring efficiency in our distribution activity
- Upgrade of SMART applications including AUI-Sired-Sired Web, Atlante, Sigraf – SIGRAF Web, AIRE, Geinte, ARIA and start functional analysis for introducing of mobile apps.
- Continuous convergence with the ICT Global Systems

Benefits, leveraging on Enel Global know-how

- Operational efficiency;
- Alignment to the local regulation requirements and to the global reporting inside the group;
- Improvement of the commercial quality of service for the customers.

E-Distributie Dobrogea

Highlights 2022 Budget assumptions



Performance indicators	2021 Actual	2022 Budget proposal
Distributed energy (TWh)	3.8	3.8
Distributed clients (no/000)	678	688
SAIDI	111	98
SAIFI	3.3	3.4
Network losses	8.5	8.2
CAPEX (MRON)	184	114
Net profit (MRON)	12	15

Profit and loss

2022 Budget assumptions



e-Distributie Dobrogea		ACT 2021	Budget proposal
Profit and Loss			
REVENUES - TOTAL	Mil RON	555	846
Operating revenues	Mil RON	504	614
Energy revenues	Mil RON	475	588
Connection fees	Mil RON	29	26
Other income	Mil RON	50	232
COST of purchased power	Mil RON	248	512
MARGIN	Mil RON	307	334
Personnel expenses	Mil RON	84	84
Services and materials costs	Mil RON	111	131
Materials costs	Mil RON	18	21
Services costs and other operational costs	Mil RON	93	110
OPEX	Mil RON	195	215
EBITDA	Mil RON	112	119
Depreciation and Amortization	Mil RON	96	88
Bad Debt	Mil RON	5	5
EBIT	Mil RON	11	25
Financial income and expenses	Mil RON	(0)	(7)
Financial income	Mil RON	8	0
Financial expenses	Mil RON	8	7
EBT (Earning before taxes)	Mil RON	11	18
Income taxes	Mil RON	(1)	3
NET INCOME	Mil RON	12	15

OPEX

External Opex and materials

e-distribuție

e-Distribuție Dobrogea		ACT 2021	Budget proposal
Materials and Services Costs			
Materials and consumables	Mil RON	18	21
Services	Mil RON	93	110
Intercompany Services	Mil RON	23	24
Maintenance and repairs	Mil RON	23	26
Taxes and commissions	Mil RON	15	17
Property costs	Mil RON	14	16
Other services	Mil RON	1	0
Other costs related to personnel (e.g. travel)	Mil RON	2	2
Telephone, post office and data transmission exp	Mil RON	2	3
IT services	Mil RON	5	5
Advertising, promotional services, canvassing and	Mil RON	0	1
Insurance premiums	Mil RON	1	1
Technical services	Mil RON	1	3
Services - Others	Mil RON	2	5
Meter readings	Mil RON	3	3

PERSONNEL

e-Distributie Dobrogea		ACTUAL 2021	Budget proposal
Number and cost of labour			
Average number - total	nr.	633	621
Number at the end of the period	nr.	623	614
Manager/ Executive	nr.	2	2
Middle management	nr.	38	38
White collars	nr.	262	259
Blue collars	nr.	321	315
Total Employment cost	Mio RON	84	84

CAPEX

e-distribuție

CAPEX Own Funds

e-Distributie Dobrogea		ACTUAL 2021	Budget proposal
High voltage	Mil Ron	17.9	16.6
Medium voltage	Mil Ron	40.0	18.4
Low voltage	Mil Ron	65.6	30.8
Total network	Mil Ron	123.6	65.8
Others	Mil Ron	13.2	8.3
TOTAL	Mil Ron	136.8	74.1

CAPEX connections 47.1 40.2

CAPEX total 184 114

Balance Sheet

e-Distribuție Dobrogea		ACT 2021	Budget proposal
ASSETS	Mil RON	1,819	1,840
Net tangible assets	Mil RON	1,784	1,805
Net intangible assets	Mil RON	18	18
Other non current assets	Mil RON	17	17
Net working capital	Mil RON	(120)	(77)
Inventories	Mil RON	4	14
Trade receivables	Mil RON	87	135
Other current assets	Mil RON	23	0
Trade payables	Mil RON	173	165
S/t financial payables	Mil RON	0	0
Other current liabilities	Mil RON	62	61
		0	0
Invested Capital	Mil RON	1,699	1,763
Provisions and deferred revenue	Mil RON	541	515
TFR (staff leaving indemnity) provisions and o	Mil RON	33	32
Deferred tax liabilities net advanced tax asset	Mil RON	0	0
L/t future risks and charges	Mil RON	12	20
Deferred revenue	Mil RON	497	463
		0	0
Net invested capital	Mil RON	1,157	1,249
Cash and cash equivalents	Mil RON	78	(250)
L/t net financial debt	Mil RON	0	372
Cash and cash equivalents	Mil RON	78	123
Equity	Mil RON	1,236	999
Group equity	Mil RON	1,236	999