



# **E-Distribuție Banat Budget 2022 Proposal**

June, 2022

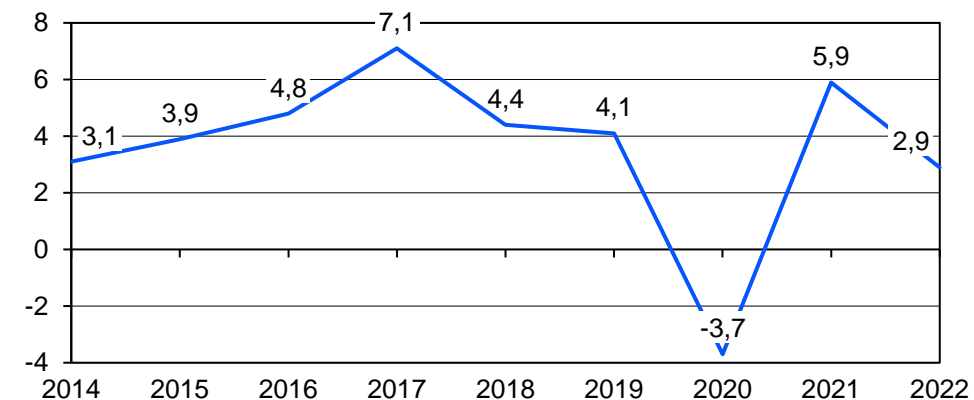
 e-distribuție

# Romania – Macroeconomics

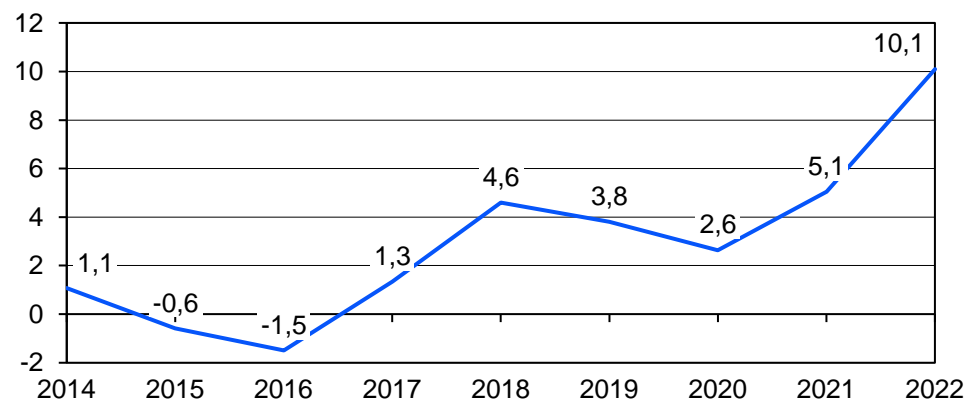
## General

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

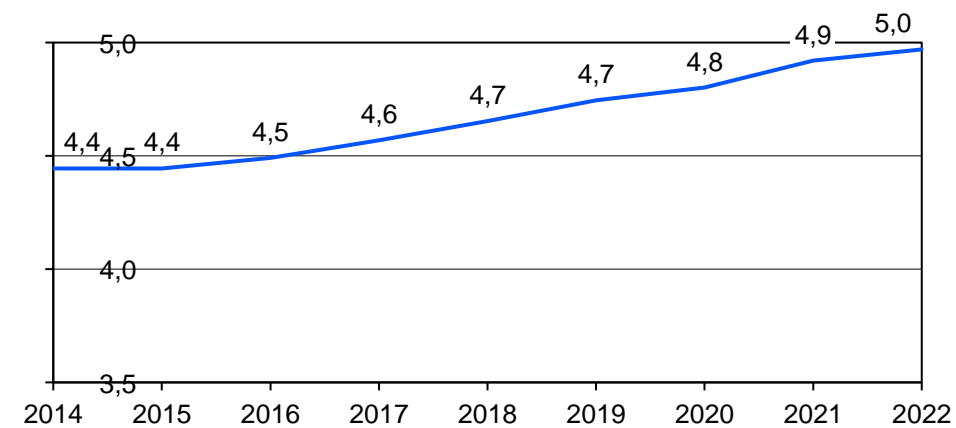
## GDP evolution (%) (\*\*\*)



## 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

# EDB - BP 2022 – Regulatory assumptions

## Distribution

- Annual update of distribution tariffs according with current methodology :
  - 2020 – Decrease of distribution tariffs by 4.4% for HV, increase by 0.1% for MV and by 1.1% for LV vs the approved tariffs as of 1st January 2019.
  - 2021 – Decrease of distribution tariffs by 0.8% for HV, increase by 4.5% for MV and by 1.6% for LV vs the approved tariffs as of 1st January 2020.
  - 2022 – Increase of distribution tariffs by 12.4% for HV, increase by 23.4% for MV and by 27.4% for LV vs the approved tariffs as of 1st January 2021.
- ANRE order 114/2014 modified by Order 169/2018 establishes the parameters for the 4<sup>th</sup> regulatory cycle (2019-2023):
  - ✓ Network losses target 2019-2023: 8.79% >>7.96%
  - ✓ 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 constrains for RC4
  - ✓ OPEX not recognized (e.g. monopoly tax, penalties)
  - ✓ 95% profit of other activities to be share
  - ✓ In 2022 tariffs, ANRE has included 2021 network losses annual corrections (volume and price) of 83MRON
  - ✓ 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 182MRON. 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 Banat



	2nd RC						3rd RC					4th RC			
	10%					8,52%	8,5%	7,7%				Q1 - 5.66%; Q2-Q4 - 6.9%	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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Distribution tariffs evolution															
Average increase annual	-3,03%	8,65%	4,93%	1,20%	3,83%	7,04%	-1,78%	-2,58%	-15,24%	-9,07%	-1,08%	2,35%	0,76%	2,11%	26,36%
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 15<sup>th</sup>. 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 30<sup>th</sup> (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 – 48GWh @ 704 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; - 35 GWh for H2’22 @ 950 RON/MWh (4GWh 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 19 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 (35 M€ from ERSTE BANK, 20 M€ from ING 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.

# EDB - Distribution Strategy - main pillars:



	Under Implementation
QUALITY PLAN	<ul style="list-style-type: none"><li>▪ Continuation of refurbishment program for HV/MV primary stations which are important for Banat area</li><li>▪ Remote control program continuation and refurbishment of the MV/LV secondary substation;</li><li>▪ Installation of MV reclosers and remote-control overhead disconnectors;</li><li>▪ Focus of the MV network for quality improvement;</li><li>▪ Focus of the LV network for quality improvement</li></ul>
HV Network Improvement	<ul style="list-style-type: none"><li>▪ HV lines refurbishment;</li><li>▪ Installation of OPGW on existing 110 kV lines (also for insuring communication with TRANSELECTRICA stations)</li></ul>
LOAD INCREASE	<ul style="list-style-type: none"><li>▪ Continuing works for the construction of a new HV/MV primary station (Covaci).</li><li>▪ Realization of new transformation stations, in order to increase the connection capacity for new consumers in LV network and to improve the voltage level</li></ul>
SMART METER PROGRAM -Losses Reduction	<ul style="list-style-type: none"><li>▪ Further implementation of Smart Meter Project, including also own personnel;</li><li>▪ 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.</li><li>▪ Measuring systems to be done in Primary Stations to allow management of energy balance on MV.</li><li>▪ Installation of balance measurement systems in MV/LV substations;</li></ul>
Commercial Service Quality	<ul style="list-style-type: none"><li>▪ Improving of commercial and technical systems</li></ul>

# EDB - Focus on Distribution strategy (1/2)



## Under Implementation

### QUALITY PLAN - Remote-control

- Already introduced, with the support of E-Distribution know-how and with visible results
- 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

- Focus on HV network refurbishment in order to improve quality of service and reduction of corrective maintenance cost following incidents;
- Modernizing HV lines for increase reliability of the network.

### 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.

# EDB - 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 (CROS, AIRE )
- Continuous upgrade of SAP technical modules (PM, MM) with new functions which will bring efficiency in our distribution activity
- Upgrade of SMART applications including the continuation of functional analysis for introducing of mobile apps (NETNAV).
- 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 Banat

## Highlights 2022 Budget assumptions



<b>Performance indicators</b>	<b>2021 Actual</b>	<b>2022 Budget proposal</b>
<b>Distributed energy (TWh)</b>	<b>4.6</b>	<b>4.6</b>
<b>Distributed clients (no/000)</b>	<b>940</b>	<b>950</b>
<b>SAIDI</b>	<b>132</b>	<b>121</b>
<b>SAIFI</b>	<b>3.2</b>	<b>3.3</b>
<b>Network losses</b>	<b>8.7</b>	<b>8.5</b>
<b>CAPEX (MRON)</b>	<b>254</b>	<b>152</b>
<b>Net profit (MRON)</b>	<b>(33)</b>	<b>(13)</b>

# Profit and loss

## 2022 Budget assumptions



e-Distributie Banat		ACT 2021	Budget proposal
<b>Profit and Loss</b>			
<b>REVENUES - TOTAL</b>	<b>Mil RON</b>	<b>594</b>	<b>893</b>
<b>Operating revenues</b>	<b>Mil RON</b>	<b>531</b>	<b>656</b>
Energy revenues	Mil RON	502	629
Connection fees	Mil RON	28	27
<b>Other income</b>	<b>Mil RON</b>	<b>63</b>	<b>237</b>
<b>COST of purchased power</b>	<b>Mil RON</b>	<b>248</b>	<b>523</b>
<b>MARGIN</b>	<b>Mil RON</b>	<b>345</b>	<b>370</b>
<b>Personnel expenses</b>	<b>Mil RON</b>	<b>101</b>	<b>99</b>
<b>Services and materials costs</b>	<b>Mil RON</b>	<b>153</b>	<b>163</b>
Materials costs	Mil RON	17	19
Services costs and other operational costs	Mil RON	136	144
<b>OPEX</b>	<b>Mil RON</b>	<b>254</b>	<b>263</b>
<b>EBITDA</b>	<b>Mil RON</b>	<b>92</b>	<b>107</b>
Depreciation and Amortization	<b>Mil RON</b>	111	108
Bad Debt	<b>Mil RON</b>	17	5
<b>EBIT</b>	<b>Mil RON</b>	<b>(36)</b>	<b>(6)</b>
<b>Financial income and expenses</b>	<b>Mil RON</b>	<b>3</b>	<b>(8)</b>
Financial income	Mil RON	5	0
Financial expenses	Mil RON	2	8
<b>EBT (Earning before taxes)</b>	<b>Mil RON</b>	<b>(34)</b>	<b>(13)</b>
<b>Income taxes</b>	<b>Mil RON</b>	<b>(0)</b>	<b>0</b>
<b>NET INCOME</b>	<b>Mil RON</b>	<b>(33)</b>	<b>(13)</b>

# OPEX

External Opex and materials

e-distribuție

e-Distribuție Banat		ACT 2021	Budget proposal
<b>Materials and Services Costs</b>			
<b>Materials and consumables</b>	<b>Mil RON</b>	<b>17</b>	<b>19</b>
<b>Services</b>	<b>Mil RON</b>	<b>136</b>	<b>144</b>
Intercompany Services	Mil RON	28	27
Maintenance and repairs	Mil RON	41	34
Taxes and commissions	Mil RON	24	33
Property costs	Mil RON	21	24
Other services	Mil RON	1	0
Other costs related to personnel (e.g. travel)	Mil RON	2	3
Telephone, post office and data transmission exp	Mil RON	2	3
IT services	Mil RON	6	6
Advertising, promotional services, canvassing and	Mil RON	1	1
Insurance premiums	Mil RON	2	2
Technical services	Mil RON	1	1
Services - Others	Mil RON	4	6
Meter readings	Mil RON	4	4

# PERSONNEL

e-distribuție

e-Distribuție Banat		ACTUAL 2021	Budget proposal
<b>Number and cost of labour</b>			
<b>Average number - total</b>	<b>nr.</b>	<b>757</b>	<b>730</b>
<b>Number at the end of the period</b>	<b>nr.</b>	<b>747</b>	<b>726</b>
Manager/ Executive	nr.	-	1
Middle management	nr.	40	50
White collars	nr.	319	301
Blue collars	nr.	388	374
<b>Total Employment cost</b>	<b>Mil RON</b>	<b>101</b>	<b>99</b>

# EDB - CAPEX

e-distribuție

## CAPEX Own Funds

e-Distribuție Banat		ACTUAL 2021	Budget proposal
High voltage	Mil Ron	36.2	25.2
Medium voltage	Mil Ron	51.5	21.8
Low voltage	Mil Ron	83.8	43.6
<b>Total network</b>	<b>Mil Ron</b>	<b>171.5</b>	<b>90.6</b>
<b>Others</b>	<b>Mil Ron</b>	<b>17.5</b>	<b>10.2</b>
<b>TOTAL</b>	<b>Mil Ron</b>	<b>189.0</b>	<b>100.8</b>

CAPEX connections	65.2	50.9
<b>CAPEX total</b>	<b>254</b>	<b>152</b>

# Balance Sheet

e-Distribuție Banat		ACT 2021	Budget proposal
<b>ASSETS</b>	<b>Mil RON</b>	<b>2,097</b>	<b>2,137</b>
Net tangible assets	Mil RON	2,058	2,095
Net intangible assets	Mil RON	23	25
Other non current assets	Mil RON	17	17
<b>Net working capital</b>	<b>Mil RON</b>	<b>(180)</b>	<b>(148)</b>
Inventories	Mil RON	3	3
Trade receivables	Mil RON	94	114
Other current assets	Mil RON	23	0
Trade payables	Mil RON	220	203
S/t financial payables	Mil RON	0	0
Other current liabilities	Mil RON	80	61
		<b>0</b>	<b>0</b>
<b>Invested Capital</b>	<b>Mil RON</b>	<b>1,917</b>	<b>1,989</b>
<b>Provisions and deferred revenue</b>	<b>Mil RON</b>	<b>625</b>	<b>592</b>
TFR (staff leaving indemnity) provisions and o	Mil RON	39	39
Deferred tax liabilities net advanced tax asset	Mil RON	0	(0)
L/t future risks and charges	Mil RON	15	2
Deferred revenue	Mil RON	572	551
		<b>0</b>	<b>0</b>
<b>Net invested capital</b>	<b>Mil RON</b>	<b>1,292</b>	<b>1,398</b>
<b>Cash and cash equivalents</b>	<b>Mil RON</b>	<b>236</b>	<b>(118)</b>
L/t net financial debt	Mil RON	0	265
Cash and cash equivalents	Mil RON	236	146
<b>Equity</b>	<b>Mil RON</b>	<b>1,528</b>	<b>1,279</b>
Group equity	Mil RON	1,528	1,279