

# Risks and benefits of the liberalization of the electricity market in Romania

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**Abstract:** *The electricity market is going through some major changes. This article aims to analyze and bring forth both the positive and the negative results of these changes. It also addresses the liberalization of the energy market from the consumers stand point of view and the risks that arise from the alignment of the Romanian market to the standards of the EU market.*

**Key words:** electricity market; consumers; the production of electricity.

## 1. Introduction

The liberalization of the electricity market in Romania and the gradual alignment to the economical and price standards of the European Union is undoubtedly a plus towards a more effective production, marketing and consumption of electricity. In this sense the role of OPCOM is essential, as the effective functioning of this institution is essential.

In a purely theoretical framework, the electric energy market should be governed, as any other free market, by the invisible hand principle, as it is stated in the economical principles of Adam Smith. The supply and demand should be the ones that determine the price and the level of production should be strictly correlated with the level of need on the market.

The electric energy however is not a simple product, a good that can be treated as any other good on the free market. The dependency on electricity, the social aspects that are implied by the provision or lack of electricity supply, make the rules of maximum freedom regarding this product not to be strictly applied. Likewise, neither is energy production something that can calibrate its quantity based on the immediate need on the market, that is if we take into consideration at least the hydro and nuclear power production.

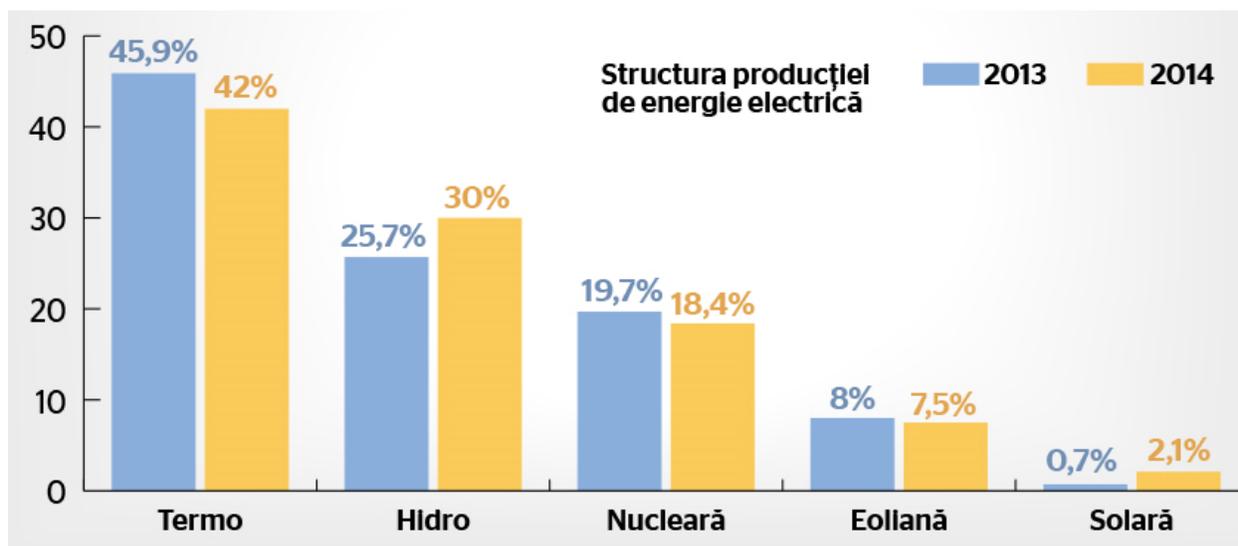


Figure 1. The structure of the electric energy production (source: The National Institute of Statistics)

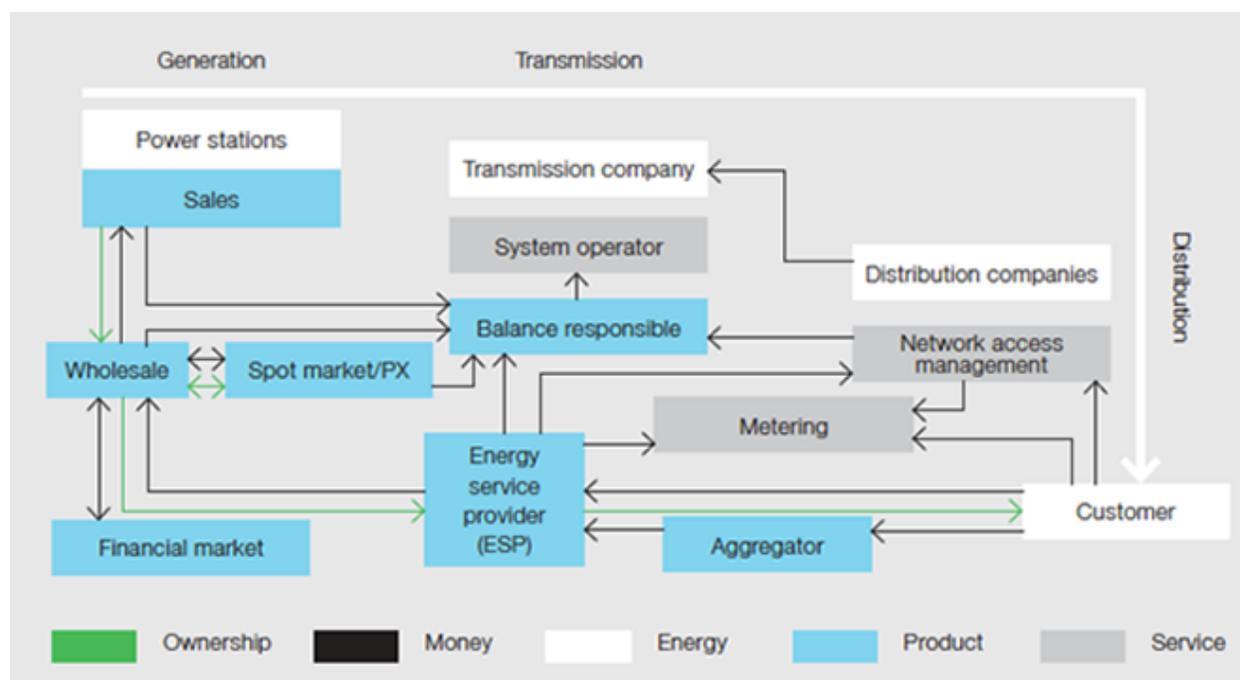
Due to the social aspects, such as those related to strategic objectives and national security, the electricity cannot be treated as a simple commercial product. The 123 Law from 2012 states that the household consumer is a vulnerable consumer and it divides him in three categories of vulnerability, for which the policy of liberalization of the electricity market follows a special framework. Likewise, the strategical industrial consumers enjoy a special framework, for which the rules of the free market cannot be applied strictly according to the theory. Therefore, the liberalization of the electricity market is a process which takes several years, a process that has to be seen as part of the alignment and integration of Romania in the free market framework in the community.

Another law, the 213 law from 2012, sets this whole process, and the National Agency of the Electric Energy Regulation (ANRE), which currently functions as a regulator of prices in electricity, will only stop regulating the electricity price for the household consumer in 2017.

The household consumer, defined as a vulnerable consumer, is protected by the legislation. However, the liberalization of the electric energy market won't just bring him benefits but also the associated risks which come with these possible benefits. The regulated price for this type of consumer will be eliminated starting in 2017, and the estimations made by several analysts show that the price, after the cascade increase, imposed by the European Union legislation and agreements, will be by 2018 at a level almost double to the one in 2012. On the other hand, the gradual increase in the price of the housing sector, coupled with the income growth and gross/net per family, will make this price increase not felt in such a radical way, especially when the electric energy costs are related to the average income. In addition, the liberalization of the market for the domestic suppliers will make the prices, to a certain amount, be regulated by the free market. In a competitive market, the suppliers will have to come up with ever more competitive prices, which will lead to a real and optimal price for the consumer.

However, there are also risks concerning the supply of electricity for the household consumer. There are risks associated with any change of electricity supplier. The Association of Electricity Suppliers in Romania (AFEER), through its president, Ion Lungu, has been warning since July about some traps that the contracts offered by different suppliers can hide. It warns that there are already all sorts of offers on the market that contain all types of artifices through which bills will seemingly decrease, but which are, in fact, untrue. In this regard, in July AFEER launched a campaign dedicated in informing electricity consumers.

In a study done by the European Institute in Romania [1], in 2013, on the gradual liberalization of the market of gas and electricity in Romania, the authors point out that the internal market model of electrical energy is a very complex one.



**Figure 2.** Technical and commercial roles in an electricity market 2015

From this complexity we can extract both benefits and risks, such as the fact that “Romania may be faced with the situation of not fully implementing this model by the planned deadlines, including the implementation of the implicit allocation of the cross-border capacity in view for the next day, through the mechanism managed jointly by the exchanges and transport and system operators and known under the name of “coupling mechanisms of the electricity market”. This situation can attract risks of violation of the European legislation, such as the risk of self-exclusion from the energetic European Community.”[2]

On the other hand, the economical European market is not perfect either, but once aligned, Romania would eliminate the problems at once. In addition, some malfunctions of OPCOM, in relation to the European Union and the norms that are applied were already reported in the previous years. In 2014, Expert Forum [3] showed how OPCOM was accused by a dominant

position, only letting internal traders for transaction, something which encouraged the appearance of so called “smart boys” of cheap electricity.

Also, a study published this year on the 18th of May by Jim Hanley and Lucia Morales from the Dublin Institute of Technology [4] highlights the risks and the volatility of the European electricity market concerning futures transactions. Although the study was realized by only taking into consideration the three main markets of electricity in the EU, namely Nordpool, APXUK and Phelix, the risks presented by the stock exchange, the futures acquisitions and the hedging strategies can be extrapolated on the entire EU market.

And as a proof of the fact that the European Energetic market is a perfect one, in which the risks which the producers, the traders and the final consumers are exposed to, whether industrial or domestic ones, have to be taken into consideration. The European Commission has launched a public consultation concerning a new design of the future EU energy markets [5].

## 2. Conclusions

In these conditions, in order to minimize the risks the Romanian economy is exposed to, concerning both the production of electricity and its trade or the impact on its consumers, the governmental policies in the domain should be correlated not just with the existing situation on the market, but the trend should also be followed, the direction in which the European institutions wishes to push the whole EU market of electricity.

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