
ROMANIAN ENERGY MARKET MONITOR

[Analysis](#) | [Market Data](#) | [Policy & Regulation](#) | [Companies](#) | [News from the Region](#) | [EU](#) | [EPG](#)

Western Sanctions and Arbitration Awards Against Russia

On July 29, the European Council announced a new round of economic sanctions against Russia in response to its support for the pro-Russian rebels in eastern Ukraine, widely believed to have downed the MH17 Malaysia Airlines flight.

The EU has managed to override national and corporate concerns about deep economic ties with Moscow and joined the U.S. in imposing constraining bans along several lines: restrictions on access to capital markets for Russian banks with over 50% public ownership or control; prohibition of military equipment trade by EU companies and individuals with Russia; restrictions of exports to Russia of certain types of advanced oil and gas technology.

The list is not without its own contorted caveats, such as the exemption of existent military contracts. Thus, France is allowed to complete a \$1.2bn deal to supply Russia with two Mistral-class helicopter attack ships.

The financial restrictions have been strengthened through the addition by the U.S. Department of State of three banks to the Sectoral Sanctions Identification List: Bank of Moscow, Russian Agricultural Bank, and VTB Bank. American citizens and companies are banned from dealing in new debt of longer than 90 days maturity or new equity, as well as in other property of these financial institutions.

Moreover, the U.S. Bureau of Industry and Security has imposed a ban on technology transfers “intended for exploration or production from deepwater (greater than 500 feet), Arctic offshore, or shale projects that have the potential to produce oil or gas in Russia.” EU’s dependence on Russian gas explains why Gazprom has not been targeted by the embargo.

Since Russia is the world’s second biggest oil producer after Saudi Arabia and second biggest gas producer after America, the very notion of isolating it from the global oil markets is unrealistic. Besides, any perceivable success of such a strategy would be self-defeating: the oil prices would swiftly jump up by tens of dollars per barrel, which would probably resend the industrialized world back into recession, while allowing Russia to recover its losses on alternative markets. In fact, the oil markets already exhibit nervousness: on August 4, mainly because of continuing turmoil in Libya and intensifying fighting in Iraq, the U.S. benchmark WTI for September delivery gained 41 cents to \$98.29/bbl on NYMEX, while the European Brent benchmark gained 57 cents to \$105.41/bbl on the London Exchange.

The U.S. sanctions against Rosneft (Russia’s largest integrated oil and gas company) and Novatek (the country’s largest independent natural gas producer) have cut them from the long-term (more than 90 days) U.S. capital markets. This will inevitably put pressure on projects such as Novatek’s Yamal LNG or Rosneft’s partnerships with Exxon Mobil in the Kara Sea, and the development of the Bazhenov oil field in Western Siberia.

Not only Exxon but also BP, Total, Royal Dutch Shell, ENI, and Statoil have signed or are negotiating various oil and gas contracts in Russia. Total, owner of 18% of Novatek, desisted from raising its holding in the Russian company the day the Malaysian aircraft was shot down, but it has not stopped operations on the Yamal LNG project.

The Yukos arbitration awards: PCA and ECHR

On July 28, another blow was dealt to Moscow, when a decision of the Permanent Court of Arbitration (PCA) in The Hague was made public. PCA ordered the Russian state to pay \$50bn in damages to former shareholders of the Yukos oil company. The decision was unanimously taken on July 18 by a panel of three judges, of which one was appointed by Russia. The amount is 20 times as large as the second biggest arbitration award that PCA has ever made and comes to about 10% of the Russian state budget.

The panel ruled that Russian authorities carried out “politically motivated” attacks against Yukos and that “Russian courts bent to the will of Russian executive authorities to bankrupt Yukos, assign its assets to a State-controlled company, and incarcerate a man who gave signs of becoming a political competitor.”

In 2003, Yukos was the country’s largest oil company, with a production of almost 2m bbl/day. Mikhail Khodorkovsky, Yukos CEO and Russia’s richest oligarch at the time, was arrested in October 2003— a couple of months after he had publicly antagonized Putin – and charged with tax fraud. He was sentenced to nine years in prison in 2005 and served his sentence until December 2013. The company’s shares were frozen under tax charges and the state demanded \$27bn as back payments. As this was not paid, the company’s assets were confiscated and put on auction. Yuganskneftegas, the most lucrative subsidiary, was sold in December 2004 for \$9bn to an obscure entity that was shortly afterwards acquired by state-controlled Rosneft.

The claimant was GML (Group Menatep Limited), the former Yukos holding company. GML’s main shareholder (70%) is Leonid Nevzlin. Khodorkovsky signed off his shares to Nevzlin in 2005, as he was facing criminal charges.

Nonetheless, confirming widespread suspicions, the arbitrators found that Yukos had been less than candid in the way they accounted for their fiscal dues: “as a result of the material and significant misconduct by Claimants and Yukos (which they controlled), Claimants have contributed to the extent of 25% to the prejudice which they suffered as a result of Respondent’s destruction of Yukos.” Accordingly, PCA removed a quarter from the value attributed to the seized assets.

Moscow must pay by January 15, 2015, lest interest be charged for the outstanding amount. The PCA ruling is final and cannot be appealed, yet Moscow can open a new case in a Dutch civil court, in the attempt to cancel the award. This, again, can take several years.

A default on the award would open to the claimants the legal way of seizing Russian assets abroad. In reaction, Western assets will probably be seized in Russia. Among the IOCs, BP’s 19.75% stake in Rosneft renders it particularly exposed.

On July 31, yet another arbitration decision concerning Yukos was made against the Russian Federation, this time by the European Court of Human Rights (ECHR) in Strasbourg. The shareholders were this time awarded €1.9bn, out of the €38bn they originally claimed in 2004. The ECHR award is of unprecedented magnitude in the human rights field. The Court judged that the Russian government acted to diminish the value of Yukos by imposition of arbitrary and onerous tax burdens, and by a rigged auction of Yuganskneftegas.

Expectedly, the Russian government criticized the ECHR ruling. The Justice Ministry dismissed the decision as “no example of fair and unbiased fact assessment.” And they may well have a point, considering that in September 2011 the Court ruled that there were no indications of unlawful conduct by the Russian government in the Yukos case. The ECHR judgment of 20 September 2011 in the case of Yukos v. Russia stated that the company’s tax debt had resulted from the Russian government’s “legitimate aim” of combating corporate fiscal evasion. But that previous decision did not rule on compensation claims.

The Yukos arbitration awards may set an ominous precedent for other claims to come. On July 28, Yuriy Prodan, the Ukrainian minister of Energy and Coal Industry, stated that Russia’s annexation of Crimea caused \$300bn worth of loss to Ukraine, “taking into account all the energy assets in Crimea”. Prodan’s rough calculation includes 2 billion cubic meters of gas lost by Ukraine when Chornomornaftogas was seized by Russian authorities, gas production volumes in Crimea at the date of annexation, as well as signature bonuses, investment pledges and estimated future production from offshore Black Sea blocks. All in all, the \$300bn figure seems far-fetched, yet if Kiev takes the issue to arbitration and wins even a fraction of that, the implications can be significant.

Russian reactions

Russian foreign minister, Sergei Lavrov, said Moscow does not intend to impose tit-for-tat measures or “fall into hysterics” over the Western sanctions. But the Western sanctions have already placed a heavy burden on the Russian economy. The ruble has fallen 9% against the dollar this year, the Russian assets keep falling, the capital flight since the outbreak of the Ukraine crisis reached tens of billions of dollars, and FDIs are virtually frozen.

On July 30, Russia announced a ban on Polish fruit and vegetable exports to Russia. Moscow decided to implement the interdict as of August 1, allegedly because of “unacceptable levels of pesticide residues and nitrates in the Polish produce.”

In other sectors, retaliation developed out of unintended consequences: under the new EU sanctions, the leasing agreement and insurance contract of the Russian low-cost carrier Dobrolyot (an Aeroflot subsidiary) were cancelled, as Dobrolyot has been flying from Moscow to Crimea’s Simferopol. The carrier announced it had to suspend all of its flights as of August 4. In response, Russia is said to consider restricting or banning European airlines from flying over Siberia on Asian routes.

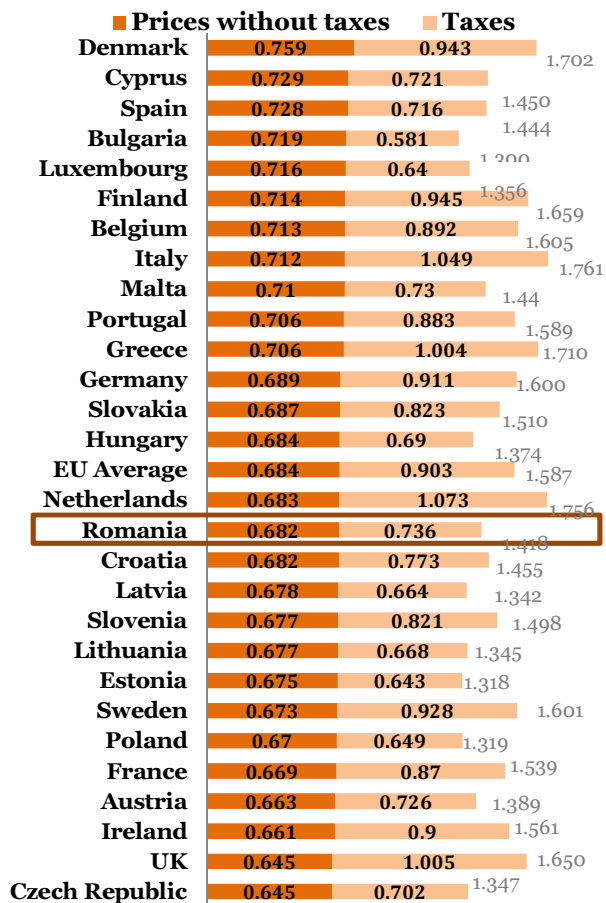
Yet the larger concern has to do with the possibility that the increasingly efficient Western economic sanctions be answered with military power. Over the last few weeks, Russia has amassed about 20,000 troops – infantry, armor, artillery, and air-defense forces – within a few miles from Ukraine’s border. NATO officials fear that given Kiev’s successful incursions against the pro-Russian separatists, the Kremlin may choose to intervene more directly under the guise of a “peacekeeping operation.” There seems to be a correlation between the recent advances of Ukrainian forces and Moscow’s willingness to escalate.

Indeed, a touch-and-go situation has been arrived at, with major security, economic, and strategic stakes. Wisdom, responsibility, and diplomatic skill are needed in order to allow de-escalation in a face-saving manner.

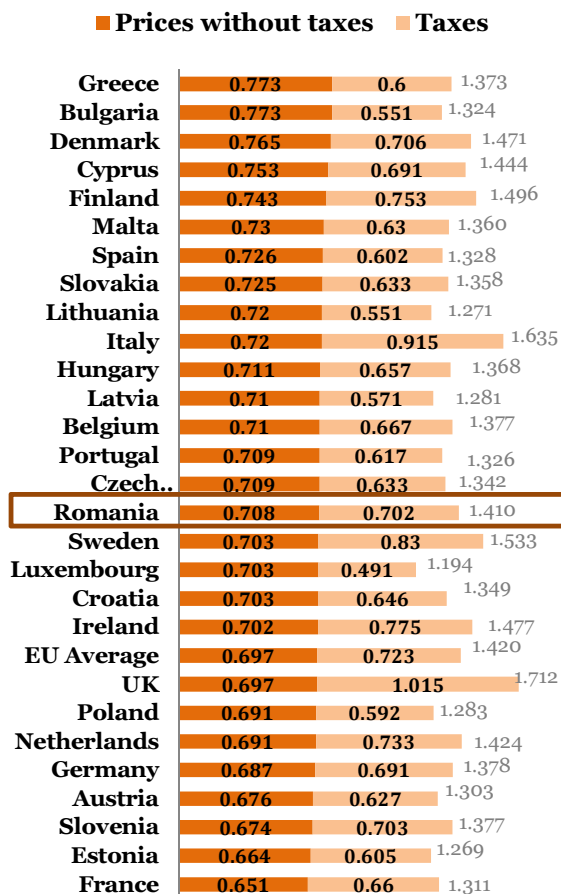
Radu Dudău
EPG Director

MARKET DATA

Euro-super 95 (I)

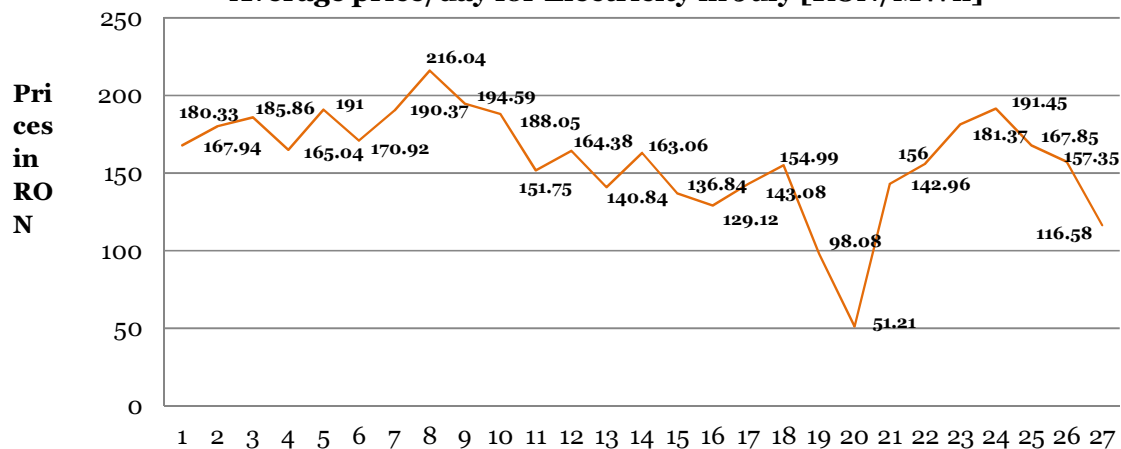


Diesel



Data: DG Energy Weekly Oil Bulletin – weighted average of prices in force on: 7/07, 14/07, 21/07

Average price/day for Electricity in July [RON/MWh]*



Data: OPCOM, July 2014

POLICY & REGULATION

Natural gas producers must trade 20% of their output on the exchange

In line with efforts to fully liberalize the Romanian gas market by the end of the year for non-household consumers and to encourage transparent and liquid transactions, the Department for Energy within the Romanian Ministry of Economy imposed, via Emergency Ordinance 35/2014 completing the Energy & Natural Gas Law 123/2012, an obligation for natural gas producers to trade a minimum quantity of natural gas on the commodity exchange between 15 July 2014-31 December 2015.

Natural gas distributors will also become subject to this decision beginning with 1 March 2015, for both domestic and imported gas. By Order 62/2014 of the National Authority for Energy Regulation (ANRE), the minimum quantity to be traded between July and December 2014 was set at 20% of the quantities of gas intended for the regulated market – left available after deduction of technological consumption – for storage obligations, and for consumption at gas producers' own power plants. The obligation set by ANRE for Romanian producers to export gas to the Republic of Moldova during the winter months was also taken into account.

The caveat of ANRE's mandate is that if gas producers had already concluded sales agreements and so do not have left the 20% required for trade on the exchange, they are obliged to sell the remaining quantities.

Following this decision, trading saw a slow start with many failed bids in July. Romgaz offered a package of 318.000 MWh at RON98.4/MWh, but the narrowest counteroffer was RON4/MWh lower. Natural gas supplier E.ON Energy offered to buy a quantity of 31,800 MWh, but this transaction did not close either.

According to the Romanian Commodity Exchange (RCE), the market players' interest picked up by the end of the month and the price difference between the sale and purchase offers began to narrow. The first transaction was concluded on 24 July by OMV Petrom, which sold a total of 180,200 MWh on RCE at an average price of RON 85.33/MWh with delivery between 1 August-1 September 2014. The total gas volume that Petrom offered on the exchange in July was equivalent to 318.000 MWh. According to RCE, this transaction came as a market breakthrough after several months of deals completed solely between gas suppliers and final consumers.

Renewable Energy market in 2013: monitoring results

ANRE released in July a monitoring report of the functioning of the support scheme for electricity from renewable energy sources (E-RES) in 2013. Figures show that the total installed electricity production capacity in approved RES units was 4,349 MW, with 2,594 MW installed in wind farms, 1,158 MW in photovoltaic plants, 531 MW in hydropower stations, and 66 MW in biomass plants. Total electricity produced from RES (including large-

scale hydro) was 22,362 GWh, which accounted for a share of 40% of Romania's total gross electricity consumption in 2013.

The RES support scheme backed an energy production of 6,279 GWh, for which 10,133,040 green certificates (GC) were issued for trading. The average trading price was €42.66/GC on the centralized market, and €46.23/GC on the bilateral contracts market. RES electricity producers reported total revenues of €376 m from GC sales, while the impact on the final consumers' bill was, on average, of €8.92/MWh.

The Romanian E-RES support scheme is based on the allocation and trade of GCs that are issued by the TSO (Transelectrica) to E-RES producers, and then acquired by electricity suppliers according to obligation quotas imposed by ANRE. Trading is done competitively, either on the GC centralized market, or on the GC bilateral contracts market (both operated by market platform OPCOM).

Law 220/2008 for the promotion of E-RES in Romania was one of the most generous schemes in the EU. Its implementation norms were released in late 2011, and resulted in an extraordinary – but short-lived – period of RES sector development. However, less than two years later, the government decided by Emergency Ordinance 57/2013 to postpone issuing of a number of green certificates until 2017-2018, against complaints by industry and the population that GCs' share in the energy bill is unsustainably high. As of 1 January 2014, following an overcompensation analysis by ANRE, the number of GCs attributed to each new RES project (wind/solar/biomass) was also reduced. Additionally, on 26 March the government decided to reduce the annual RES quota in the total electricity consumption, backed by the support scheme, from 15% originally provided by Law 220/2008 for 2014, to 11%.

At the beginning of 2014, investments in RES were adding up to €6 bn in some 4,225 MW installed capacity. But since the bulk of RES business revenues come from the sale of GCs, the sudden legal changes described above are already sending many projects into insolvency, or forcing investors to put them up for sale.

And as if the RES sector was not under enough pressure, the government introduced another regulatory measure likely to hit hard the RES businesses: a state aid scheme was set up in June to partially exempt energy-intensive industrial consumers from their obligation to buy GCs. Depending on their power-intensity profiles, big industrial groups will pay up to 85% less for their GC obligation. In 2013, according to ANRE's RES market report, out of 128 companies obliged to acquire GCs, 15 have partially or totally failed to meet their quota. Among these companies, Swiss cement producer Holcim failed to buy 3671 GC, for which it will have to pay €117.646/GC.

COMPANIES

Oil & Gas

OMV Petrom: fresh oil discovery, Domino-2 exploration well drilling initiated & Petrobrazi refinery upgrade completed

July was a big month for Romanian oil & gas producer OMV Petrom. The company announced the success of an offshore exploration well drilled in Istria XVIII Black Sea shallow water perimeter (about 50 meters deep), where it discovered a new oil reservoir. The find is 60 km from shore, at a depth of about 2,150 m below seabed. The cost of drilling the exploration well amounted to some €19 m and, depending on whether the reservoir proves commercially viable, a further €100 m investment will be required to develop it. Production could start in 3-4 years, at an estimated 1,500-2,000 bbl/d.

The Romanian Black Sea offshore is an important segment of development for OMV Petrom. On July 21 the company also announced the start of deep-water drilling at the Domino-2 well in the Neptun Block. This drilling program will provide further data necessary to evaluate the size and commercial viability of the gas field discovered, in 2012, by the Domino-1 exploration well, estimated to hold between 42 and 84 bcm of natural gas. The Domino-2 well is located approximately 200 km offshore, at a depth of about 200 m in the Neptun Block deepwater sector that covers an area of 7,500 square km and is operated jointly by OMV Petrom and Exxon Mobil, with 50% stake each.

But the company's downstream business also came in the spotlight in July. Petrom revealed the completion of a €600 m four-year modernization program that the Petrobrazi refinery underwent. Following the upgrading process, the share of diesel went up to 45% in the products yield structure, ensuring a better response to the Romanian market that saw an increase in diesel demand over the recent years. Diesel production capacity increased from 900,000 tons/year in 2009 to 1,500,000 tons/year in the present. After the modernization program, OMV Petrom can now process its entire Romanian crude oil production in one refinery. Another major success of the modernization program is that the refinery's total energy consumption was reduced by 25% compared to the 2009 level.

ADX Energy to invest in Romania but hits land access barriers

ADX Energy, an Australian oil & gas company with operations in Europe and North Africa, is planning to invest up to €100 m for the exploration and potential development of the Parta perimeter in Timiș County where it has a 50% operating interest, acquired from the Romanian state in November 2012. Austrian firm Rohöl-Aufsuchungs Aktiengesellschaft (RAG) owns the other 50%. The 1,221 square km Parta block is located in western Romania, close to the Serbian border and contains 7 oil and gas fields that have been only superficially operated so far. Previous exploration activity was halted during the 1980s. According to the Romanian ADX branch administrator Mr. Paul Fink, the company's strategy is to find, using modern technologies, oil stockpiles that weren't noticed in the past. Following seismic acquisition

conducted in 2013, ADX identified prospective resource potential of 47 m bbl of oil and 13.6 bcm of gas at depths between 800 and 2000 m.

The drilling phase of the exploration is planned to start in late 2014, but raising the necessary investment capital is not easy and depends on building investors' confidence that Romania is able to provide support for productive and cost-efficient oil & gas activities. In order to meet contractual obligations set by the Romanian state, the company plans to drill two exploration wells before May 2015. However, land-access problems are delaying the preparation of operation. Farmers and landowners deny the company access to their lots out of fear of expropriation, although, according to the legislation, property rights are not threatened by hydrocarbons E&P activities.

ADX Energy is not the only company whose investment program is delayed by inconsistencies in the Romanian legislation. The upstream industry has signaled a series of recurrent issues hindering the normal development of O&G operations. Land access problems often arise because of lack of harmonization between the Petroleum Law and the construction and environmental law, allowing local authorities to arbitrary interpret the law based on their local "customs". This leads to situations where local authorities may demand, for instance, urbanism certificates for seismic data acquisition, although these are not formally required by the law.

Also, the Petroleum Law establishes a servitude right over the land necessary for concessions titleholders to conduct their E&P activities. However, the titleholder must agree with the landowner on the amount of rent due for the exercise of that right to conclude an agreement in this respect. If the parties do not agree on the amount of the rent, the issue must settle in Court. Disputes settle after long periods of time and, in the meantime, the servitude right cannot be exercised. Obviously there is a strong need for legislative clarifications and for the simplification of land access procedures, in order for Romania to attract and maintain necessary investments in its oil & gas sector.

Electricity

Enel to sell off Romanian electricity business

As part of a group-level €6 bn asset sale program launched in 2013 in attempts to reduce financial debt, Italian utility company Enel made public at the beginning of July the intention to divest of its energy sales and distribution assets in Romania, as well as its generation assets in Slovakia. In Romania, the company intends to sell the majority stakes it holds in 5 sales, distribution & services companies, including Enel Energie Muntenia that supplies the city of Bucharest. These companies were acquired in 2005 and 2008 as part of a privatization program pursued by the government.

In 2013, Enel distributed 14.6 TWh and sold 9 TWh of electricity to 2.4 million residential customers and 200,000 industrial customers, representing a total market share of 38% worth €1.1 bn in revenues. According to London-based Sanford C. Bernstein Ltd. analyst Cosma Panzacchi, cited by Bloomberg, the success of state-owned utility Electrica's privatization through an IPO of 51% stake which raised €435 m is an indication that investors are interested

in regulated power assets. Therefore ENEL could rise up to €2 bn by selling its Romanian business. Potential buyers might include Electrica, the State Grid Corporation of China, Germany's RWE AG (which recently decided to expand its energy supply activities in Romania), Electricité de France, as well as investment funds and the Romanian state, which has a preemptive right to Enel's units.

Recent negative trends with direct impact on the electricity business could possibly explain Enel's decision to divest. First, internal electricity consumption is following a downward path that is expected to continue at least up to 2018. According to the National Institute for Statistics (INS), in 2013 final electricity consumption decreased to 49.78 TWh – 6% lower than the previous year – while industrial consumption fell by almost 10%.

Second, the fiscal framework for energy proved unstable and unpredictable in recent years. For instance the over-taxation of energy profits, the special construction tax suddenly introduced this year, and the changes brought to the RES scheme weighted heavily on the companies' balance sheets in the electricity businesses. But, according to the Association of Electricity Suppliers in Romania (AFEER), there have been positive developments as well, meant to improve and support the energy supply business. Such developments include the creation of the intra-day electricity market, the Over-the-Counter (OTC) trading platform, the elimination of the co-generation tax for electricity exports, as well as the market coupling with Hungary, Slovakia and the Czech Republic in the near future.

By the end of July, the Romanian government announced that it plans to open an arbitration case against Enel at the International Court of Arbitration in Paris, asking the company to act on its contractual obligation dating back in 2007 to buy a remaining package of 13.57% shares that Electrica still owned following the privatization into Enel Energie Muntenia. A Government decision from 2012 set the selling price of the shares package at approximately €522 m, an amount deemed too high by the company, so the transaction never closed. According to analysts, this arbitration case, along with older divergences between Enel and the Romanian state concerning the company's alleged failure to meet privatization obligations, might delay Enel's plans to leave Romania.

Canadian Candu Energy signs agreement to build nuclear reactors 3&4 at Cernavoda plant

On July 24, Canadian SNC-Lavalin Group Inc.'s Candu Energy signed an agreement with CGN subsidiary China Nuclear Power Engineering Co. for building reactors 3 and 4 at Cernavoda nuclear power plant, where Romania already operates two Candu 6 nuclear reactors since 1996 and 2007 respectively. These account for 20% of Romania's electricity supply.

Romania is looking to build another two 700 MW Candu 6 reactors, the engineering of which, according to the Canadian company, will include enhanced safety measures required after the Fukushima disaster in 2011. Candu Energy owns the intellectual property for the Candu technology and will be involved in the design and engineering work of the Cernavoda project.

This heavy-water technology is able to run on spent fuel from other reactors, which reduces both the radioactive waste and the quantities of uranium required. The first stages of the work will be conducted in Canada. According to the company, the deal is worth \$1-1.5 bn.

Earlier this year, Romanian Nuclearelectrica and Chinese company General Nuclear Power Corporation signed an addendum to extend the term of validity of the Letter of Intent that established in November 2013 the cooperation framework for the development of the project. According to Nuclearelectrica, this extension reinforces both the Chinese company's interest in the Cernavoda reactors 3 and 4, as well as the project's technical and economic feasibility. As stated by Candu Energy, the Industrial and Commercial Bank of China has agreed in June to provide \$9 bn in financing for reactors 3 and 4 at Cernavoda, while the Canadians are looking to finance their portion of the deal with Export Development Canada.

News in the Region

Former Yukos shareholders awarded \$50bn in arbitration case, aggravating Russia's isolation from the West

On July 28, former leading shareholders of Yukos, Russia's largest oil company, were awarded the biggest compensation ever seen in an arbitration case – \$50bn – by the Permanent Court of Arbitration in The Hague. The decision was unanimously taken by a panel of three judges, of which Stephen M. Schwebel, former president of the International Court of Justice, was appointed by Russia.

The panel ruled that the destruction of Yukos in 2003 by Russian authorities was politically motivated. After jailing the former Yukos CEO and majority shareholder, Mikhail Khodorkovsky, on corruption charges Russia imposed multibillion-dollar tax claims and penalties, which eventually bankrupted the company, leading to expropriation of its assets.

These assets are now mostly owned by state-controlled company Rosneft, Russia's biggest oil producer, in which the UK major BP holds a nearly 20% stake. Rosneft is currently subject to sanctions imposed by the US over Russia's interference with Ukraine. However, Rosneft denies that any claim could be brought against it as a result of this Hague ruling, saying that its acquisition of the former Yukos assets was entirely legal.

The arbitration case against Russia was brought to The Hague in 2005 under the Energy Charter Treaty (that sets the rules for cross-border energy co-operation) by shareholding subsidiaries of the former Yukos holding company, GML. The biggest beneficiary of the \$50bn compensation will be the former Yukos vice-president, Leonid Nevzlin, who owns 70% of GML. The rest would go to four other Russian citizens and to a pension fund that covers 30,000 employees. Mikhail Khodorkovsky does not have any claim over damages, since he sold his stake to Leonid Nevzlin in 2005.

According to analysts cited by the *Financial Times*, this ruling is likely to exacerbate tensions between Russia and the West. Its announcement came just one day before the US and EU imposed on Russia the toughest economic sanctions since the Cold War, over its support of separatists in Ukraine.

The sanctions target Russia's financial, energy and defense sectors. With international reserves of \$470bn, of which \$175bn are government reserves, Russia is able to pay the damages, although it is expected to refuse to meet its obligation. If this happens, the

claimants' lawyers could pursue Russian sovereign and commercial assets in the 115 countries that are part of the 1958 New York Convention of enforcing arbitration awards.

IOC operations in Russia under threat by EU sanctions

July came with two rounds of far-reaching sanctions against Russia. On July 17, the U.S. imposed sanctions against four Russian companies, denying them access to capital markets and Western financing. On July 29, the EU announced a set of drastic and extensive measures against the Russian economy, in a radical attempt to make Kremlin cease its support for Russian separatists in Ukraine. The EU sanctions will prohibit Russia from acquiring from Western companies the advanced technology needed to develop its ambitious energy projects including Arctic oil, shale oil or deep-water plays. The technology embargo covering satellite image equipment and subsea laser technology is completed by a ban on new investments in the energy and natural resources exploitation sector in Crimea and Sevastopol. Other restrictions target Russia's finance and defense sectors, and include measures to prevent Russia's state owned banks from issuing stock or bonds on European markets.

International oil companies with significant operations in Russia have begun to voice fears over the sanctions' consequences on their businesses. BP is one of the most exposed western major, given it 19.75% stake in Rosneft and fears that the embargo will impact its strategic and business objectives including income, production levels and reserves. Statoil, Eni and Exxon Mobil also operate ventures with Rosneft, whose shares had already fell 5.7% on Moscow trading following US sanctions' announcement on July 17.

Another hard-hit European oil & gas company is French major Total who had been acquiring stakes in independent Russian gas producer Novatek, another company listed under sanctions. In June, Total's stake stood at 18%, but plans to increase it were postponed indefinitely as of July 17 when the Malaysia Airways flight 17 was shot down in Eastern Ukraine.

EPG July Activity

Analysis: [US Climate Change Policy in Light of the EPA Draft Regulation on Fossil Fuel Power Plants](#) – by EPG contributor Anca Elena Mihalache

In many ways, the draft regulation proposed by the United States Environmental Protection Agency (EPA) on June 2, 2014 is an historic feat. The scope of this article is to explain what this new piece of regulation entails and to highlight its pros and cons, as seen from a European perspective, however, without separating it from its domestic context. The article also looks into the impact that the EPA regulation could have, both on a national and international level, concluding that, if the US Presidential Administration plays its cards right, this could be the first significant step towards the United States joining international efforts towards fighting climate change.

Analysis: [*A Strategic Proposal for the Natural Gas Transportation System \(Romanian\)*](#) – by EPG Affiliated Expert Dumitru Chisăliță

Romania's natural gas transportation system was conceived in the 1950s and designed and built in the 1960-70s. It was originally based on the needs of a centralized economic system, of vertical economic integration, of single dispatchability and of low fluctuation demand. Today, most of the pipelines have exceeded their amortization period. Our National Gas Transportation System has become unique in the world due to its low-pressure functioning and its large number of exit points. It is important to take these elements into account in order to be able to achieve strategic development objectives such as ensuring energy security, competitiveness and modernization, sustainable development of the society and compliance with the national and European regulatory framework for natural gas transportation. A new approach is necessary when discussing the role, structure and functions of the National Gas Transportation System.

Policy Paper: [*The Need to Update the Romanian Oil & Gas Legislation for Exploration and Production \(English version\)*](#)

On 12 June 2014, Energy Policy Group, in partnership with the law firm Pachiu & Associates and PricewaterhouseCoopers (PwC), organized the roundtable discussion “Is it Necessary to Revise the Romanian Oil & Gas Legislation?” The event hosted representatives of the Government, the National Agency for Mineral Resources (NAMR), companies from the upstream sector (exploration and production), and relevant industry associations. The discussion was meant to identify the main obstacles hindering the development of hydrocarbon operations (prospecting, exploration, development and production) in Romania. Following the discussion, the Energy Policy Group elaborated a policy paper proposing solutions and recommendations to eliminate the legislative barriers that hinder oil & gas development activities in Romania. The document is addressed to the relevant authorities able to initiate and implement legislative solutions, but also to the wider public.

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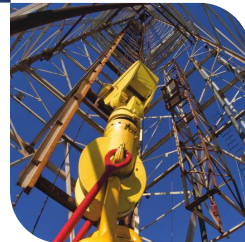
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