

**STRATEGIES APPLIED, BY CEZ FOR THE REORGANIZATION OF THE  
COMPANY “ELECTRICA OLTENIA S.A.” FROM ROMANIA, IN UNBUNDLING  
REALIZATION**

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## SUMMARY

*New mentalities occur all over the world under the conditions in which the electricity branch has been facing deep reorganizing changes.*

*From the moment, while the Rumanian has intended to enter in European Union, European Norm nr. 54/2003, regarding the common regulations of the electrical internal market, has represented an important indispensable guide because of fundamental principles. This has generated the privatisations in electrical domain and, more recent, the unbundling realisation. We can to say that the costs was not between the smaller and the consequently will be pushed in the next periods thanks to theirs importance.*

*It must to specify that from starting with 1998, the Romanian Government policy has focused on the electric energy system liberalization. The liberalization process was supported by legislation and consequently the domestic legislation for the electric energy system in Romania consists at present of diversified types of instruments such as:*

- + primary legislation: Laws, Government Decisions (HGs), and Government Urgent Ordinances (UGs),*

✚ *secondary legislation: Transportation, Distribution, Measurement and Commercial Codes issued in accordance with HGs and UGs together with the other regulations issued by ANRE (National Authority for Energy Regulations) and with the granted licenses by ANRE.*

*Consequently at present there have been accomplished the following: the major restructure of the system, the liberalization of the segments which are fit to competing, that is electricity producing and delivery, natural monopoly segments regulating, that is transportation, distribution and privatization where competing was desired.*

*The acquisition by the Czech Company Group CEZ of the Company Electrica Oltenia S.A., in 2005 year, from Company Electrica S.A. Romania, has represented a long reorganization process of the all structures, in the acquisitioned company. At present this reorganization is not finished.*

*Organizing restructure using unbundling, that is separating electricity delivery activity from the distribution activity, which is planned to start functioning on July 1, 2007, should obey the obligations settled for the electricity deliverer by the specific legislation; the competent Authority plays a decisive part in enforcing new regulations or updating the older regulations so that the unbundling to become functional.*

*The Romanian electricity market reforms consequences made Romania to be mentioned in the European mass-media as a leader of the European south-east electricity regional market, taking into consideration both the rhythm of reform enforcement and the level of its evolution.*

*So that, the selected models in the applied reforms in Romanian electrical market can be considered to represent a enough important source in reorganization analysis for electrical markets, in countries with smaller and shorter experiences, in this direction.*

**Key words:** unbundling by CEZ Romania

## 1. INTRODUCTION

In order to obey the 54/2003 UE Direction standards, Romania has chosen the privatisation option for the MT, JT power energetic segment. The Romanian MT, JT segment includes the energetic plants which work under 0.4 kV to 110 kV tension.

The first privatisations were made in 2004. The buyer that is ENEL Italy bought the major share pack (51%) belonging to 2 electricity providing and distributing branches, branches included in SC Electrica SA Romania at the time. SC Electrica SA included in 2004 8 (eight) branches. In 2005 E.ON Germany and CEZ Tcheckia bought the major share packs (meaning also 51%) belonging to other two branches. In 2006 ENEL Italy was intended to buy the major pack (67%) belonging to another branch.

It is possible that the 3 remaining branches, which belong to the state, not to be privatised.

After being privatised and bought by CEZ Tcheckia, the ex Electrica Oltenia branch became Electrica CEZ Oltenia in March 2007. At present this branch reorganising is almost finished and it is a constitutive part of CEZ Romania group. It includes new structures according to unbundling request, which is mentioned in the 54/2003 UE Direction.

## 2. PREVIOUS UNBUNDLING STRUCTURES

In 2005 when CEZ Tchekia took it over, Electrica Oltenia Branch was structured according to the typical structure of al branches forming SC Electrica SA Romania.

Figures no. 1 and 2 shows the structure which was taken over by CEZ Tchekia when Electrica Oltenia was privatised:

- One regional centralising component, that is the branch (fig.no.1), managed by a general manager; the branch had a superstructure which on one hand was coordinating the activities of the smaller branches, and on the other hand it centralised their activities.

- 7 county executive components, that is the smaller branches (fig.no.2); the smaller branches, in their turn, had the same structures like the branch, only for the local level; they were both executing the activities and at the same time they were subordinated to the branch. The executive activity was mainly performed by local centres, each smaller branch having a different number of these kinds of centres.

The structure hierarchy levels are shown in detail in fig.no.1 and fig.no.2.

FIG.1

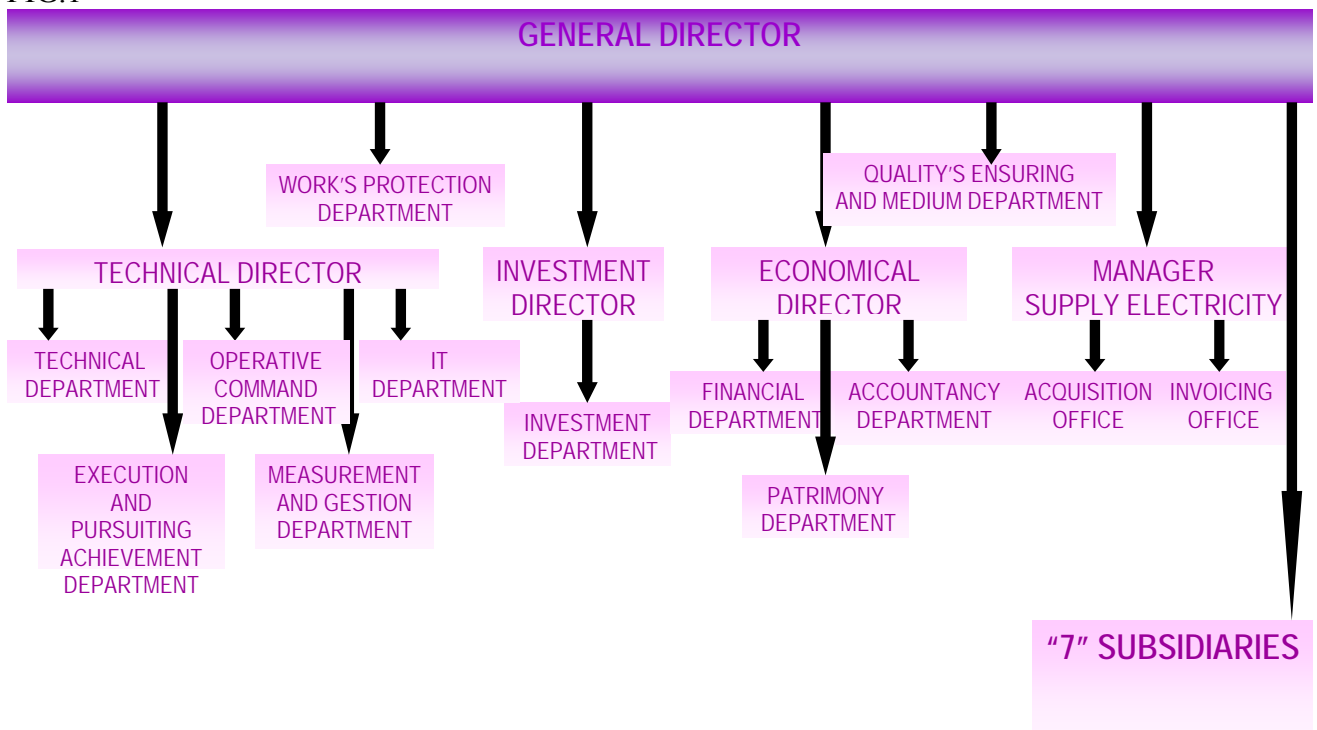
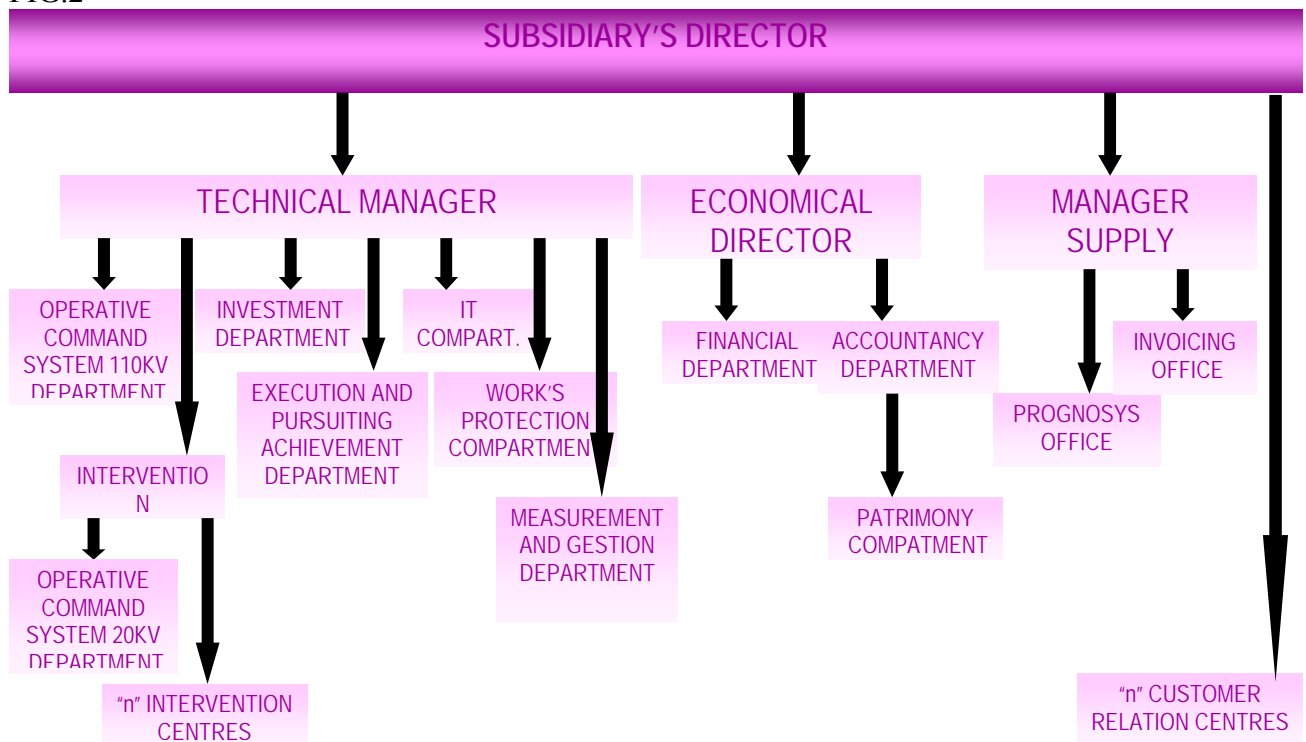


FIG.2



### 3. POST UNDBUNDLING STRUCTURES

At the beginning of 2006, CEZ's first action in Romania was to create a management entity, which developed itself together with the reorganising of the newly taken over electric energy company.

Parallel to this, in March 2006, more projects were made and launched. Their aim was to analyse the real existing status and the possible options to be used in order to improve the activities, later on intermediate reorganising stages to be implemented and to find out their proficiency.

The electric energy supplying system was aimed at in the beginning. This activity was chosen the first because it was wished it to become more efficient, as competition within the Romanian electricity market was increasing; the market was relatively largely opened at the time (about 83,5%) and included in fact all economic agents which had already started to look for new electric energy suppliers with whom to negotiate favourable prices.

The final aim of beginning the activity using project shapes was also meant to conclude some serious analyses which could finally led to implement the unbundling. The Government Decision no. 890/2003 to approve „the Romanian energy route” as well as the new electric energy law no 13/2007 introduced the obligation of separating the activities in the Romanian legislation. The international practice shows that the separation implementation takes between 6 months and 3 years.

The consequence was that after about a year, on March 1, 2007, the supplying activity could be partially separated from the electric energy distribution activity, and CEZ Sales appeared. The final separation took place on July 1, 2007, when a new company, CEZ Services, separated itself from the electric energy distribution company. This event took place at the same time with the total opening of the electric energy market in Romania, when also the domestic consumers became eligible.

Consequently, on July 1, 2007, the majority share holder CEZ Romania could report the unbundling implementation, that is the distribution operator's separation from the other activities which are not related to distribution from legal, functional and accounting points of view. Under these circumstances the ANRE must adapt the specific legislation to the new conditions functioning within the energy field.

For instance, the existing electric energy supply and distribution licenses were needed to be changed, so that the new companies could work. Another example is the electric energy distribution concession Contract concluded by Electrica Oltenia and the Commerce and Economics Ministry which had to be changed by an additional document in order to let the newly founded companies, that is CEZ Distribution and CEZ Sales, to take over all the stipulations.

There must be underlined that CEZ was the first commercial agent which implemented the unbundling in Romania.

At present, Romania CEZ group has 4 companies and their structure is shown in fig. no.3.

Three of these companies derive from the previous electric energy supply and distribution company, that is:

- CEZ Sales which used to supply electric energy for the top consumers, clients of the previous electric energy supply and distribution company (clients with a high level of electric energy consuming); but it also used to provide necessary activities for getting new clients (see fig.no.3),
- CEZ Services (see fig.no.4) which covers other activities performed by the previous electric energy supply and distribution company such as: accounting-financial, human resources, IT calculations, and electric energy supplying for the small clients, that is those clients consuming low levels of electric energy (the so-called economic agents and domestic consumers); this type of activity was concessioned by CEZ Sales, CEZ Services and
- By CEZ Distribution (see fig.no.5) whose main activity was headed only to electric energy distribution.

The fourth company of the CEZ Romania group is CEZ Trade Romania and was founded in March 2004. Principal Activity of CEZ Trade Romania is constitution trough the sale and the buying for electricity on en-gross market. This society can to sell electricity also by retail market but only standard produces and in big volumes. CEZ Trade Romania has contracts by electricity acquisition with suppliers from Romania, Hungarian and Serbia.

The fifth company belonging to CEZ Romania group, which is SC CEZ Romania SRL (fig.no.3), previously mentioned, is used to provide the management system for the other 4 companies.

Whereas the reorganising processes were concluded for the first 2 companies that are for CEZ Sales on March 1, 2007 and for CEZ Services on July 1, 2007 the reorganising process for CEZ Distribution has not been concluded yet; its bottom line was settled for the end of December 2009.

FIG.3

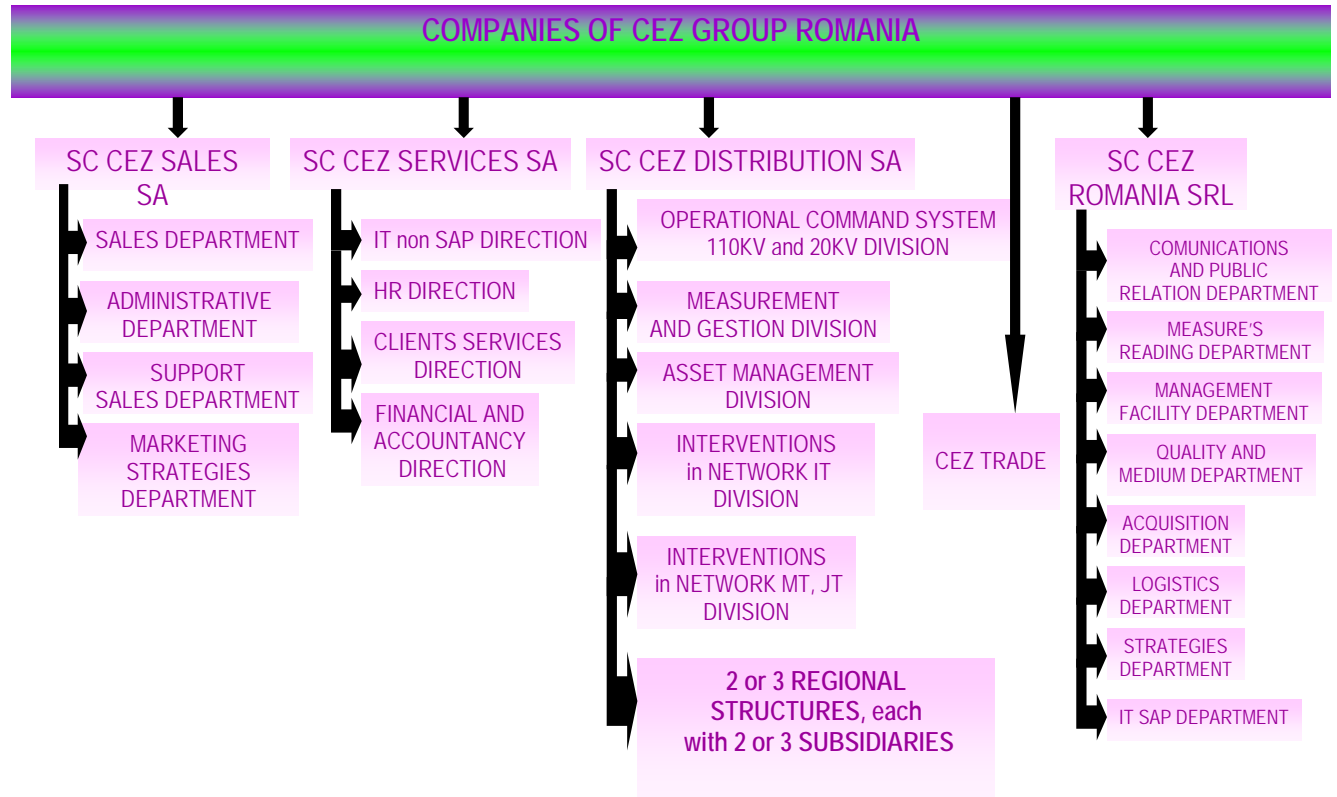


FIG.4

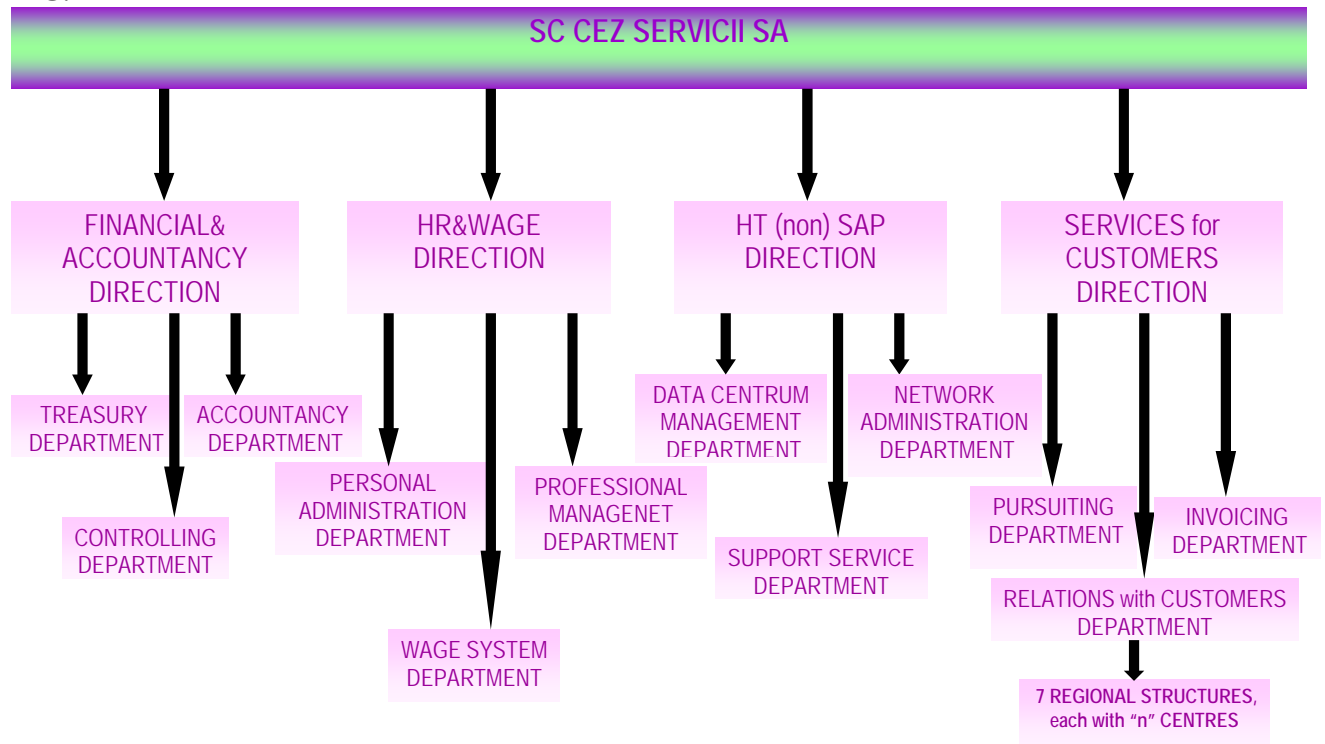
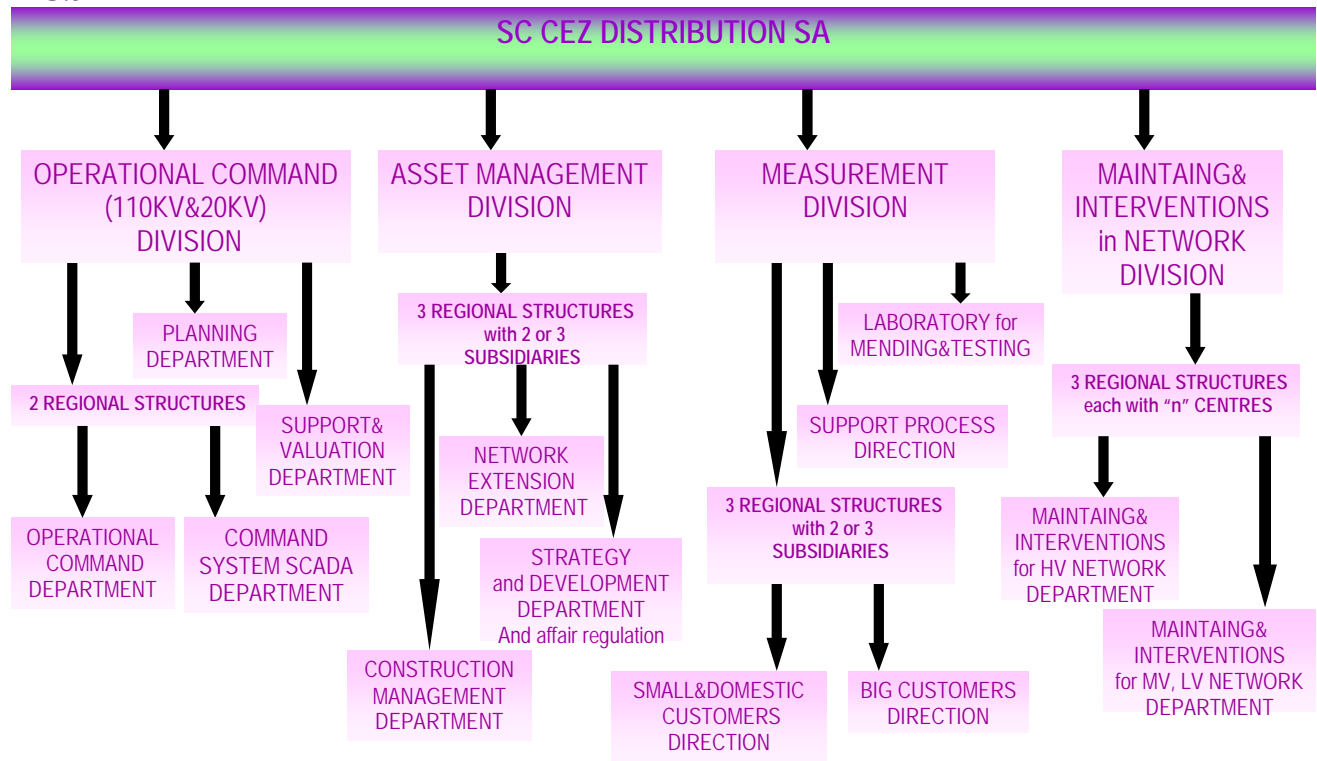


FIG.5



#### 4. FUTURE PURPOSES

Future purposes are:

- new projects will be started for the company's strategic direction in order to make all the activities performed by the group companies be more efficient
- the integrated IT application development will be watched, SAP for instance, in order to develop the existing modulus or to implement new ones,
- an own base for personnel's training will be developed in order to provide employees competence and the development of their career's management,
- the investment level will be watched so that the network should satisfy both the technical requirements and the clients' wishes,
- a campaign for regaining lost clients and finding new ones will be started,
- the tariffs for electric energy supply will be reanalysed, both the regulated ones and the negotiated ones, so that they would become the most competitive within the Romanian (for the time being) electric energy market,
- the cooperation with ANRE will be increased in order to improve and make some costs be accepted, thus the company would be able to offer attractive tariffs to the consumers.

Analysing the working systems one can see that the maintenance activity is not provided within CEZ company group; it has been performed by outside companies. Consequently, for the future, CEZ group intends to analyse the opportunity of providing this kind of activity itself.

## 5. CONCLUSIONS

When analysing the privatisation and the following actions interesting conclusions can be drawn:

- 54/2003 UE Directive becomes interesting only when capital infusion is wished for, as it does not compel to privatise
- The reorganising implemented by CEZ within the branch bought in Romania intended to turn a so-called geographical structure into a functional one,
- The feasibility study concerning the activity separation within Electrica Oltenia was made by Arthur D.Little („ADL”) international consulting company; this company had exclusiveness in designing and developing an ampler programme for CEZ Group. The feasibility study purpose was to analyse different scripts for separating the activities within SC Electrica Oltenia SA in order to find the right solution which should be implemented (both operational and financial) and to provide directions and counselling when implementing the right script,
- The privatising reorganising costs are not low and they do not always have favourable consequences for the employees or the consumers of privatised services. Consequently the activity reorganising process enforced both personnel relocation actions and/or personnel re-evaluation thus leading (after long negotiations) to solutions accepted both by patently and the employees; thus, a social programme for the fired employees was also developed,
- Reorganising and unbundling allowed a motivating salary system for employees, in accordance with the market economy requirements,
- While privatising CEZ has always had the priority to get a mutual agreement with the Romanian authorities as CEZ is interested in implementing major investments in Romania; this interest must not be neglected as CEZ is a company having one of the best managements within Central Europe,
- At the same time the unbundling moves the electric energy consumer from the distribution process and the consequences have not been very favourable to the client. The phenomenon was also shown on different international events and occasions by other European countries where this separation within the energetic branch took place.
- For the time being the privatisation consequences in Romania can not be evaluated for long terms, either for making the supply and distribution activities more efficient or to satisfy the consumer; these consequences monitoring will be made on longer terms, so that the results and the conclusions should be as unbiased as possible.

## 6. BIBLIGRAFIE

[1] Law no. 13, 2007, “The Electricity Law”,

[2] Dir. 2003/54/EC regarding the common regulations of the internal electricity market.