

## **A Cold Shower Over Boiling Heads**

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*Clearly, a country with no indigenous energy resources faces difficulties buying it from other countries. This problem is particularly intensified by high and constantly increasing energy prices.*

Unfortunately, Moldova is one of those countries which has no indigenous domestic energy resources. However, the population should not fear because the “candle epoch” is unlikely to return ever again. Finally, the state feels compelled to provide its citizens with the essentials by exploring all possible power resources. Certainly, the constant changes of the international energy market leave the consumers with diminished purchasing power, and their wallets end up nearly empty by the end of the month. For these very reasons, Moldova’s energy complex has often suffered from crisis, which in fact is manifested through incomplete payments for consumption of natural gas. The consequences are alarming: partial functioning of energy enterprises’ capacities, reduction of parameters of supplied product, interrupted supplies, and consequently, insufficient renovation of fixed assets.

A strong consideration not to be forgotten is the interdependence of the energy complex, which means that problems at one enterprise are permeated throughout and influence the entire energy cycle. Due to various reasons which are in large part subjective, during the last 5 years Termocom, JSC<sup>1</sup>, has been a vulnerable node in the energy chain, destabilizing the functioning of the entire energy complex. However, Termocom’s destabilization of the energy sector was caused by external factors, independent from the activity of Termocom.

A key factor in the destabilization process was the method of calculation of optimal tariff for supplied thermal power. The tariff, which was to be based on the minimal costs and, at the same time, would cover these costs. Otherwise, if the costs were not covered, the debts would sprout like mushrooms after the summer rains. In reality, this is exactly what happened. The internal factor was in the enterprise’s obligation to fit the limits of minimal costs, envisaged in the tariff, and to guarantee collection of all bills for supplied energy.

Since 1999, “Termocom” had accumulated losses on principal items. For instance, tariff for thermal power has not been correlated with the necessary minimum of costs; available resources have been consumed aimlessly; and in 2001, the level of bill collection for supplied thermal power decreased to 63%. As a result, the enterprise’s annual losses could reach 100-150 million lei. Simultaneously, debts to suppliers of energy resources would grow, accumulating up to 500 million lei. To cap the misery, in 1999 “Randet” enterprise, burdened by the State Association “Moldenergo” with another half a billion lei in debts, was affiliated to “Termocom”. Therefore, the debts of “Termocom” grew to exceed billions of lei.

Under such conditions, the consequences were ghastly, and on November 29, 2001, the economic court declared the enterprise bankrupt. Now, we can only ask ourselves where there was any chance to avoid this fatal destiny. Many specialists believe that indeed it was possible to turn circumstances another way. The primary method for doing so could have been through a tariff - always a vulnerable topic which arouses ardent discussions within the energy system. As thermal power is the

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<sup>1</sup> Joint Stock Company, which supplies thermal power to Chisinau

most expensive communal service, state administrative and municipal authorities have to show prudence when it comes to increased prices for thermal agents. All the more so, as shifting of tariffs from economic category to the political one will sooner or later fatally lead to economic crisis in the branch or, at least, to economic crisis of enterprise. This is what happened to Termocom, JSC.

The crisis started in 1997-1998, when the heat supply was centralized and managed by the Government of the Republic of Moldova. Yet, leadership of Chisinau municipality strongly insisted that Termocom should be transferred to its ownership, promising the city's residents that the thermal power tariff would be reduced to 100-120 lei per Gcal (almost two times). This was without doubt a risky decision, but the mayor's office achieved the goal. Therefore, since 1999 Termocom has been under Chisinau's municipal ownership. However, the reality turned out to be tougher than the mayor's office could have imagined.

The mere attempt to calculate a tariff, which should have been adjusted to inflation, was like a cold shower on boiling heads. The same year, in December, ANRE (National Regulatory Energy Agency) increased the tariff to 267 lei/Gcal, based on impartial and justified grounds. This was a 'salt-on-wound' situation for consumers, and the Government cancelled the tariff. This is not to say that the issue of price for consumed thermal power was eliminated from the agenda. As compared to prices for other communal services, the price of 267 lei per Gcal is not at all high. For example, in apartments with electric stoves, consumption of electric power is approximately two times higher than consumption of thermal power. Also, we should take into account the international experience, which shows that in general, the price of thermal power is half of the price paid for communal and non-communal services altogether.

This can convince those who support the shift of debate regarding the tariff from the economic sphere into the political one that this move can be dangerous, as well as unjustified. Thus, any attempt to correlate tariffs for thermal power with the cost of product unit in Moldova finally fails, at least for time being.

Undoubtedly, the energy sector crisis is also caused by several internal factors. First, Termocom consumed too much of its own resources. As a result, on December 1, 2001, Termocom had outstanding debt to CHP-2 in the amount of 445 million lei, to CHP-1 in the amount of 146 million lei; to "Moldova-Gaz" in the amount of 58 million lei. Also, owed Union Fenosa 45 million lei, commercial banks 11 million lei, and the state budget 10 million lei.

This is the reason that shortly before the heating season of 2001-2002, Union Fenosa, supplier of electric power, disconnected Termocom. Certainly, some measures were implemented, and neither the mayor's office, nor the management of Union Fenosa let its citizens freeze during the winter of that year, or any other for that matter. This, however, does not mean that the crisis has been eliminated for good. The threat of shutting-off heating has not fully subsided.