CfDs - the new funding scheme is here!

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On April 10, the long-awaited CfD support program for the production of renewable energy ("**CfD Program**"), approved by Government Decision 318/2024 ("**RB 318**"), came into force in Romania.

It provides a mechanism for securing certain electricity prices on the market in the long term.

European context

Government Decision 318 was developed in the broader context of the proposals to amend several EU legal acts on the energy market, published by the European Commission in February 2023, in particular the amendments to Regulation (EU) 2019/943 on the internal electricity market. The latter introduces a new chapter that provides for the two-way contract for difference mechanism as a special incentive for investments in new electricity generation plants to achieve the Union's decarbonization targets.

National context

Romania is currently witnessing a new wave of investment in energy projects: the steadily growing interest of global investors (private equity funds, infrastructure funds, institutional investors, project developers everywhere and utilities) has once again granted the country an important spot on the map of renewable energy investors with more than 40 GW of projects under development.

Key points of the CfD program

The CfD program includes a reciprocal support payment that depends on the **exercise price** *(pret de exercitare, "striking price")* for electricity and the **market reference price** *(pret de referinta)*.

The exercise price is determined by auction or, if necessary, direct negotiation and set out in the CfD contract - it should be around EUR 91/MWh for solar plants and EUR 93/MWh for wind turbines. The market reference price is determined by ANRE on the basis of the average prices on the day-ahead market.

If the market reference price falls <u>below the strike price</u>, the CfD beneficiary receives the difference to the strike price from the CfD counterparty for each MWh of electricity produced and introduced into the grid. <u>If the market reference price exceeds the</u> exercise price, the CfD beneficiary pays the CfD counterparty the difference.

- **What is funded:** Onshore wind and photovoltaic projects with a total capacity of 5,000 MW, split into two auctions: (i) 2,000 MW in 2024 and (ii) 3,000 MW in 2025.
- **Who can participate:** only *new capacities* are eligible;
- **Project capacity:** between 5 and 250 MW;

- **Obligation to sell electricity:** CfD beneficiaries must sell all energy generated under the CfD programme on organized markets (non-compliance can lead to exclusion);
- **Duration:** 15 years, which can be shortened in certain cases;
- **Negative prices:** no CfD payments are made for intervals with negative prices;
- **Estimated total budget:** EUR 3 billion, secured from the modernization fund. In the event of foreseeable or actual exhaustion of the funding provided, the Ministry of Energy will identify options for covering the CfD deficit and inform the EU Commission of any changes to the existing aid;
- **Operator of the CfD program** - Transelectrica S.A.;
- **CfD counterparty** - OPCOM S.A. - the operator of the electricity and gas market.

Some red flags:

Some questions regarding the parameters of the CfD program are still unanswered to date, so caution is still advised when participating in the CfD program:

- **Budget**: What happens if there are no funds in the CfD liquidity fund? How and when would CfD beneficiaries receive their money in this case?
- **Capacity limit:** Does the 250 MW limit per beneficiary or per group of companies apply??
- **Sale of projects that are CfD winners:** are asset deals, share deals or both permitted?
- **Close eligibility:** The definition of new capacities is unclear and subject to restrictions under the forthcoming secondary legislation;
- **Proof of specialist knowledge:** The criteria are subject to further clarifications and restrictions to be defined in the forthcoming secondary legislation;
- **Disputes:** There is a lack of information on the resolution of disagreements and disputes in connection with the tendering process.

Conclusion

The upcoming first CfD auction is eagerly awaited by the entire energy market. Its outcome will influence the structuring of renewable energy investments in the future; it is hoped that investors will gain the confidence to invest in large-scale renewable energy projects in Romania independently of *corporate PPAs*.

Even if many open aspects still need to be clarified in the coming weeks, the CfD program is very welcome as an opportunity to make Romania the go-to destination for renewable energy investments in the region.

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