Regional Electricity Market in SOUTHEAST EUROPE

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EVOLUTION OF THE ELECTRICITY MARKET

ENERGY COMMUNITY – SCOPE and STRUCTURE (September 2013)

Contracting Parties (8):

- Albania
- Bosnia and Herzegovina
- Kosovo*
- FYR of Macedonia
- Moldova
- Montenegro
- Serbia
- Ukraine

On 1 July 2013 Croatia acceded EU and acquired the status of Participant
In 2012 Georgia applied for a membership status
ENERGY COMMUNITY — POLITICAL INTERESTS

- **Energy security and safety** *(common interest of the SEE countries)*
  - **Electricity supply** in former Yugoslavia, Albania, Bulgaria, Romania - perceived and treated without any market considerations
  - **Disconnection** from the European electricity network (UCTE) in 1993
  - **Disintegration** of the unified electricity system of former Yugoslavia and fragmentation of the supply resources
  - **Power insufficiency** – growing dependence on electricity imports (Albania, Kosovo, Macedonia)
  - **Deteriorated infrastructure** - needs for investments

- **Energy trade and infrastructure development** *(interest of the EU)*
  - **Reintegration** of the region – more stable and reliable network operation, system safety
  - Access to diverse **energy resources** - independence, energy security
  - Access to the (SEE) **energy markets** - competition, increased liquidity
  - New **transmission corridors** - long-term security, diversification, new investments
  - Political and economic **stability** – prerequisite for sustainable development

- **Accession to the EU** – a common political denominator of all SEE countries
Initial steps toward regional energy cooperation in SEE

- Promotion of a Regional Electricity Market (Study – 1999)
- Regional initiatives of the donor community - Stability Pact (EU), SECI, SEETEC
- Bilateral support – USA, Austria, Italy, Germany, UK, France, Spain, Norway, Netherlands
- Energy Community Treaty (2005) – a legally binding platform for regional energy cooperation

Role of the Energy Community

- A Model mechanism for mutual cooperation on regional level in the
- Applicable assistance for effective EU integration of the aspiring countries
- Development of coherent legislation (EU compatible)
- Platform for establishment of a regional energy market (EU compatible)
- Framework for energy security (availability, accessibility) and safety (assistance)
Three main objectives

- sustainability
- security of supply
- competitiveness

Establishment of an EU Internal Energy Market

Energy Policy of the SEE countries

The same objectives - in a more demanding environment

- no common legal platform
- no regional legal enforcement
- deteriorated energy infrastructure
- limited own investment potentials
- fragmented political environment
- economic and social disadvantages
- perception of political instability

A common policy asset:

- accession to the EU as a basic priority

Establishment of a functional REGIONAL Energy Market
MAIN POLICY DRIVERS for regional power market (1)

- **Small and fragmented markets**
  multiple borders, diverse sets of rules, administrative barriers, fragmented demand

- **Inefficient state policies**
  dominance of public service, overregulated production and supply, public procurements, diverse sets of rules, administrative barriers to exports or imports, fragmented demand, state subsidies

- **Concentrated and bundled generation**
  dominance of incumbents in the market, lack of transparency, no locational signals, no transfer of investment costs, no cost-reflectivity for energy services

- **Exclusive access to supply and infrastructure**
  exclusive rights and priorities of supply, reserved transmission capacities, long-term PPA, restricted access to consumers, tariff schemes, curtailments, cross-subsidies

- **Fragmented legislation**
  inadequate and/or incompatible legislation for efficient trading
MAIN POLICY DRIVERS for regional power market (2)

- **Diversification of electricity trading**
  OTC (futures) as a traditional trading form – need for introduction of spot market, power exchanges, balancing market, transmission capacity trading

- **Compatible regulatory rules**
  dispute settlement, reciprocity in the restrictions, mutual recognition of licenses

- **Security of electricity supply**
  adequacy of generation portfolio, energy efficiency, sustainable development measures, quality of service, protection of customers

- **Safety and mutual assistance**
  coordinated measures in disruption or sudden crisis of supply, transparency,

- **Investment in large infrastructure**
  large scale electricity transmission corridors, large power generation / storage facilities, new renewable generation
Installed generation capacity:
- 70,615.43 MW, out of which:

**ELECTRICITY TRADING ENVIRONMENT**

**ENERGY COMMUNITY (2012)**

**LOCAL ELECTRICITY BALANCE**

Total domestic production [GWh]

Local gross consumption [GWh]
ELECTRICITY PRODUCTION

Installed generation capacity:

- 70,615,43 MW

Generation structure:

- Dominant role of coal-fired TPP
- Progressing: Gas-fired, Hydro, Renewables
- Security constraints – deteriorated (UA, KS)
- Environmental constraints
- Adequacy constraints

New generation (2012):

- Hydro: 300 MW
- Other RES: 300 MW
ELECTRICITY TRADING ENVIRONMENT

ENERGY COMMUNITY (2012)

ELECTRICITY SUPPLY

Electricity produced:
- 259.808 GWh

Electricity supplied:
- 268.736 GWh
  - Community is net importer

Supply structure:
- Domestic production is generally insufficient - most countries are net importers
- Bosnia and Herzegovina and Ukraine are net exporters
- Retail and end-user supply are still applied under regulated costs
- Network loses must be covered from the market
- Cross-border wholesale and supply of large customers are market-based
**Demand structure:**

- Significant level of losses (15%)
- Dominant influence of Ukraine on the market share (excluding UA approximately equal shares of residential (38%) and commercial (39%) customers in gross consumption)
CROSS BORDER TRADE

Cross border electricity flows:

- Main exporting countries are Bulgaria, Romania, Bosnia and Herzegovina and Ukraine
- Main importers are Albania, Kosovo, the FYR Macedonia and Montenegro
- Large transit flows toward Greece and Italy

Trading arrangements:

- Bilateral OTC contracts from tendering for base load (on annual basis)
- Bilateral exchange of surplus production (accidentally - continuously)
- balancing and ancillary services are provided locally or in bilateral arrangements
- Nearby power exchanges (BSP Southpool and Opcom) are accessible but not used
- New renewable and gas-fired production is pushing for new liquid trading platforms
Part of synchronous area
Continental South East (CSE)
- Albania (not a member of ENTSO-E)
- Bosnia and Herzegovina
- Kosovo* (not a member of ENTSO-E)
- FYR of Macedonia
- Montenegro
- Serbia
- Turkey (Energy Community Observer)

Outside synchronous area CSE and not members of ENTSO-E:
- Moldova (except for part of production)
- Ukraine (except Burstyn island)

SEE electricity networks inherently belong to UCTE network (now part of the ENTSO-E)
UA and MD networks dominantly belong to UES (United Electricity System of the Russian Federation)
41 TSOs from 34 countries are members in ENTSO-E, the European Network of Transmission System Operators for Electricity.

Source: ENTSO-e
Main criteria for PROJECT RESILIENCE:

- New grid components must at least maintain and possibly improve the high standards to which European end-users are accustomed, applying new types of generation units and transmission equipment (with specific behaviour and possible design constraints).
- Investments must positively address the social welfare, to this aim:
  - Cost-benefit analysis are undertaken by TSOs
  - Consistent and mature market frameworks are implemented
  - Harmonization concerns addressing accommodation of structural differences between countries
  - Overall consistency of the interconnected system is considered through new technological advances to optimize grid development (FACTS, PST, HTLS conductors, HVDC connections etc).
- Grid planning anticipates long-run perspectives – the future European power grid will probably be connected to neighbouring systems at its Southern and Eastern borders, with closed offshore networks, large amounts of climate-dependent RES etc.

FIRST REPORT for TYNDP:

TSOs evaluated the RESILIENCE of their investment projects in order to avoid stranded costs and to meet grid user’s expectations over time with appropriate solutions, according to FOUR main criteria:

PROJECTS OF EUROPEAN SIGNIFICANCE (2015-2020)
ELECTRICITY TRADING ENVIRONMENT

ENERGY COMMUNITY and ENTSO-E TYNDP (2012)

DRIVERS FOR SYSTEM EVOLUTION IN CSE

Source: ENTSO-e
ELECTRICITY TRADING ENVIRONMENT

ENERGY COMMUNITY and ENTSO-E TYNDP (2012)

TEN-YEAR NETWORK DEVELOPMENT PLAN - CSE

Up to 2015

After 2016

Source: ENTSO-e
CLUSTERING OF PROJECTS IN CSE

Source: ENTSO-e
CLUSTERING OF PROJECTS IN CSE

- Main PROJECT CLUSTERS

- **Project 28** is associated with submarine HVDC interconnection IT-ME - to serve for RES integration, SoS in the region and a new path from production centres in BA MN later in HR, to IT

- **Project 51** is related to Corridor 8, connecting the BG coast on the Black Sea with the AL coast on the Ionian Sea – increase of power transfer capacity between TY and BG, GR, MK, AL.

- **Project 95** comprises construction of 2 x 400 kV SS and 3 lines in BG to accommodate RES penetration

- **Project 52** comprises extension of 400 kV network in Peloponnese (GR) aimed to increase SoS and considerable amount of RES to be integrated

- **Project 27** is aimed to increase transfer capacity SI – IT, SI – HU, SI – HR and HR – BA, improving SoS and diversifying SoS increasing resilience and flexibility of the network.

- **Project 49** is related to Corridor 10 and aims to increase transfer capacity and SoS in MK, AL and GR from the direction of RO, BG and RS

- **Project 50** aims to increase power transfer from RO and BG as main exporters in the area towards RS and HU, also enforcement for the N-S corridor from UA and RES integration in RS, RO

- **Project 53** comprises investment in RO to accommodate integration of RES and conventional generation but also as transfer capacity from UA

- **Project 108** is also purely RO cluster, to allow integration of new pump-storage HPP of 1000 MW aimed to assist the safe operation of RO system and integration of RES in the area
ORGANIZATION OF THE REGIONAL ELECTRICITY MARKET

ENERGY COMMUNITY TREATY

INSTITUTIONAL SETUP

- The Ministerial Council
- The Permanent High Level Group
- The Regulatory Board (ECRB)
- The Fora
  - Electricity Forum *(Athens, Greece)*
  - Gas Forum *(Maribor, Slovenia)*
  - Oil Forum *(Belgrade, Serbia)*
  - Social Forum *(presidency)*
- The Secretariat *(Vienna, Austria)*

- The Energy Community meetings are co-chaired by the European Commission and the Presidency in Office represented by one Contracting Party for a period of one year, on revolving principle.

- The Energy Community actively cooperates with investors *(EC, WB, EBRD, EIB, KfW, USAID and others)* as well as with the EU energy bodies and associations *(ENTSO-e, ENTSO-g, ACER, EURELECTRIC, EFET, etc.)*, and the energy industry of the EU and the Parties.
Title II

Extension of the EU Energy Laws

Contracting Parties

EU LEGISLATION on Energy Markets (Electricity, Gas)

EU ACQUIS on Access to Networks (Electricity, Gas)

EU ACQUIS on Security of Supply (Electricity, Gas)

EU ACQUIS on Competition Environment Renewable Energy Energy Efficiency

Generally Applicable Technical Standards

The provisions and measures under Title II of the Treaty apply to the territories of Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Ukraine and Kosovo*

By a proposal of the European Commission

MC decision brought by Simple Majority

* This designation is official in accordance with United Nations resolution 1244/99 and the EU Orders on the Kosovo declaration of independence.

** All of the EU Member States: EU 28

*** Pre-accession and candidate countries: EU 28

**** NIS: the globe

***** Candidate countries: EU 28
Title III

Operation of the Network Energy Markets

Contracting Parties
+A +BG +EL +HU +IT +RO +SL + HR

Single Mechanism for Cross-Border Transport of Energy

Statements on Security of Supply (Electricity, Gas)

Support for Provision of Energy to Citizens

Measures for Market Harmonization

Support for Renewable Energy Energy Efficiency

Safeguard Measures for sudden crisis

The provisions and measures under Title III apply to the territories referred to in Title II and to the territories of Austria, Greece, Hungary, Italy, Slovenia, Romania, Croatia and Bulgaria

By a proposal of EC / CP / ECS

MC Decision by 2/3 Majority (EU Positive Vote)
Title IV

Creation of a **Single Energy Market**

Contracting Parties

+28 EU Member States

- Alleviation of Barriers and Restrictions to Trade

- Creation of a **Single Energy Market without frontiers**

- Equivalent access for Import / Export with Third Countries

- Mutual Assistance in case of disruption

- The provisions and measures under **Titles IV** apply to the territories referred to in **Title II** and the territories to which apply the Treaty of the European Community

- By a proposal of **EC / CP**

- MC Decision brought by **Unanimity**
Title VII

**Dispute Settlement mechanism**

Contracting Parties
+28 EU Member States

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Submission of a claim for a **breach of any provision of the Treaty**

ECS is eligible to open and conduct a **Dispute Settlement Procedure**

The Procedure is conducted **against the responsible authority**

**Enforcement** is applied by the **Ministerial Council**

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» The provisions and measures subject to the **Dispute Settlement** apply to the territories referred to in the chapter under which the breach is reported

By a proposal of **EC / CP / ECS / energy industry**

MC Decision depending on the **Title in breach**
SAFEGUARD MEASURES

Applicable in case of “sudden crisis” - refer to measures supposedly imposing limitations in the competitive market operation

- **Conditions**
  - the Measures are temporary and necessary
  - applied on the local territory only
  - applicable only for events “where the physical safety or security of persons, apparatus or installation, or system integrity is threatened”

- **Limitations**
  - cause the least possible disturbance on the market
  - not to be wider in scope than is strictly necessary to remedy the difficulties
  - not to distort competition or adversely effect trade against common interest

- **Notification** of the Measure to other parties is required

- **Non-compliance** of the Measure could be decided by the Energy Community
MUTUAL ASSISTANCE IN SUDDEN CRISIS

Complementary to the Safeguard Measures in addressing supply crisis on regional level.

- **Obligation** - extends over the Parties to “get actively involved” and seek for an “expeditious resolution” in the event of disruption of energy supply of another Party

- **The Ministerial Council** is entitled to react upon request of a party

- **A Procedural Act** is adopted for mutual assistance. The SoS CG is established by such a Procedural Act
FINANCING THE ENERGY COMMUNITY

- Financing is provided **by the Parties**
  - **No direct financing** of infrastructure or investment projects in the Parties
  - The **budget** is approved by the MC and administered by the Secretariat
  - **Funding** is provided by the Contracting Parties and the EU
  - **Financial participation** is based on the rate of energy consumption and the GDP
  - Funds are **used for** regional studies (outsourcing), costs of events (including reimbursements) and operation of the Secretariat
**ENTSO-E Electricity Market Target Model**

- **EU** targeted deadline is **2015**

- **Energy Community** countries adopted the Target Model and aim to fully comply and integrate

Source: ENTSO-e
ENTSO-E Network Codes

- **Network Codes** are set of rules related to:
  - **Connection** to the network (Generation, Consumption, HVDC)
  - **System Operations** (Operation Security, Planning & Scheduling, Load Frequency Control)
  - **Market Operations** (Capacity Allocation and Congestion Management, Forward Capacity Allocation, Balancing)

- Aimed to facilitate completing of pan-European internal energy market in a systematic manner

- To be enforced *in the EU* through Regulations issued by the European Commission – targeted deadline is 2015

- To be enforced *in the Energy Community* (for adoption and implementation) upon a Decision of the PHLG – on a proposal from the European Commission and Opinion from the ECRB

Source: ENTSO-e
POWER EXCHANGE INITIATIVES

- **CROATIAN** power exchange initiative:
  - Achieved *internal consensus* among Croatian stakeholders that Croatian power exchange is needed not only as a precondition for market coupling but also for further market development
  - **Legal framework** established by the new Electricity Market Law (2012)
  - **Tasks** - the market operator (HROTE) to take lead in preparatory activities while the TSO (HOPS) focused on ITO certification
  - HROTE gained membership in EUROPEX as of May 2013
  - Croatia is expected to join the PCR (Price Coupling of Regions) Project
  - PEX establishment and its market coupling with neighbouring EU countries (Slovenia & Hungary) - individually or simultaneously
  - Transition from preparatory & design phase into implementation phase expected by the end of 2013
POWER EXCHANGE INITIATIVES

- **SERBIAN** power exchange initiative (SEEPEX):
  - Legal framework established by the Energy Law
  - Activities of the Ministry and the TSO (EMS) on **defining basic principles** for the establishment of an organised electricity market are in the final phase
  - **SEEPEX project** is envisaged as partnership with regional TSOs, service providers (European PX’s), market makers (main regional production companies) and IFI’s
  - Nucleus for **Price-based Market Coupling** in the SEE region and further integration with neighboring regions and pan-European market
  - FYR of Macedonia and Montenegro expressed interest to join SEEPEX
  - Athens Forum (2012) supported the proposal to use the SEEPEX project as a pilot project for setting up a power exchange in the SEE region
  - SEEPEX is envisaged to be established **in 2014** and to become operational in Q4 2014
LOCAL WHOLESALE MARKETS

- Bilateral market
  - Regulated (public supply)
  - Non-regulated (cross-border trading)

- Cross-border trade by using explicit capacity allocation on interconnections
  246 electricity trade licenses issued

- Wholesale trading environment characterized by:
  - Lack of power exchanges
  - Lack of reference market price
  - Fragmented markets with dominant players
  - Need for obtaining license for wholesale and cross-border trade (except Montenegro)
LOCAL BALANCING MECHANISMS

- Provision of balancing services:
  - Regulated (dominantly)
  - Market-based (Serbia only)

- Balancing market is characterized by:
  - Lack of market-based mechanisms
  - Limited scope of balancing service providers
  - Lack of reference price for imbalance settlement
  - Socializing and netting-off the costs of imbalances
  - Lack of transparency on rules and prices
  - Missing to provide incentives for accurate nominations
8-th REGION

- **Aimed at** facilitating the implementation of a common procedure for electricity transmission capacity allocation and congestion management on regional level, and

- facilitating the integration of national electricity markets

- **Significant progress** has been achieved on establishing and harmonizing capacity allocation and congestion management mechanisms

- **Ukraine** and **Moldova** are physically separated but expected to organize common mechanisms on their borders
TRANSMISSION SYSTEM ACCESS
SOUTH EAST EUROPE

CAPACITY ALLOCATION MECHANISMS

- **Explicit NTC-based** auctions only applied
- **Yearly** and **monthly** auction on all borders
- **Weekly** and **daily** auctions at several borders
- **Joint** (coordinated) auctions only on EU borders and some borders of Croatia and Serbia
- **Intraday** allocation (secondary market) available on several borders, “first come - first served” applied

Source: ENTSO-e
CAPACITY ALLOCATION MECHANISMS

- **SEE CAO** establishment of a Coordinated Auction Office
  - Central office for cross border capacity allocation in the region
  - Application of one single set of auction rules and one single allocation platform for the whole region, coordinated calculation of ATC and congestion management
  - **June 2012** - Project Team Company (PTC) SEE CAO established by 10 TSOs (Albania, Croatia, Bosnia and Herzegovina, FYR of Macedonia, Greece, Montenegro, Romania, Slovenia, Kosovo* and Turkey)
  - **September 2013** – PTC SEE CAO published draft version of the Auction Rules for public consultation until 27th September 2013
  - Yearly, monthly and daily auctions are envisaged
  - **Target**: SEE CAO expected to become functional no later than 1 July 2014 as initial step for centrally coordinated bilateral forward capacity allocation
  - **Serbian** TSO EMS, not being a member of SEE CAO, expressed readiness to enter into joint bilateral auctions, as a first step, with the SEE CAO
  - Commitment by the **Bulgarian** network operator (ESO) is still missing
FINANCIAL SETTLEMENT

- Public sector
  - Wholesale settlement practices (State-owned generators)
  - Public debt and bad debt (budgetary / non-budgetary institutions)
  - End-customer debt settlement (collection rate, payment discipline)

- Competitive market
  - Settlement agent (Commercial Bank, conflict of interest)
  - Financial guarantees (standard rules, impartiality)

- Regulatory aspects
  - Dispute settlement procedures (transparency, publicity and efficiency)
  - Penalties and regulatory powers (regulatory independence)
  - Appeals
REGULATORY FUNCTION – NATIONAL POLICY

- **Regulatory powers**
  - *DEFINED* and *ENFORCED* in the *domestic legislation*
  - *APEAL* procedures *defined* and *legally enforced*
  - *PENALTY POWERS* enforced and *effectively implemented*

- **Regulatory authorities** (commissions, agencies)
  - *ESTABLISHED* and their work *ENFORCED* through the *domestic legislation*,
  - *FINANCING* is mainly *outside the state budget* (not controlled by the Government),
  - *REPORTING* is addressed to the *Parliamentary bodies* (not to the Government)
  - *APPOINTMENT* of commissioners is approved by the *Parliamentary bodies*

- **Regulatory independence**
  - *CONFLICT OF INTEREST* in the operation of *state-owned* utilities and companies
  - *PUBLIC INTEREST* in regulation of *end-user prices* (tariffs) in the public sector

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**STATUS of regulatory authority in the SEE Countries (Energy Community)**

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<thead>
<tr>
<th>Country</th>
<th>Website</th>
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<tr>
<td>BOSNIA AND HERZEGOVINA</td>
<td>DERK (<a href="http://www.derk.ba/en">http://www.derk.ba/en</a>)</td>
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<td>ERO (<a href="http://www.ero-ks.org/">http://www.ero-ks.org/</a>)</td>
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REGULATORY AND MONITORING FRAMEWORK

ENERGY COMMUNITY

REGULATORY FUNCTION – SCOPE OF COMPETENCES

- Regulation of tariffs (cost of service)
  - ACCESS TO NETWORKS (TRANSMISSION, DISTRIBUTION)
  - ELECTRICITY GENERATION (in the public domain – state owned companies)
  - ELECTRICITY SUPPLY to final customers (in the public sector)

- Imposition of obligations (LICENCES)
  - QUALITY OF SERVICE (of delivered products and services)
  - PERFORMANCE of regulated companies (Network Operators, public sector)
  - DISPUTE SETTLEMENT between market participants, operators and customers

- Monitoring
  - MARKET CONCENTRATION in the competitive activities (generation and supply)
  - CROSS-BORDER CAPACITY (calculation, allocation), congestion amnagement
  - FREE TRADE (trade agreements, PPA, subsidies, state aid, administrative barriers)
  - TRANSPARENCY (regulated operation, public services, access to information, rules for confidentiality, conflicts of interest)
REGULATORY FUNCTION – REGIONAL COOPERATION

- Regional recognition of licences (trading, generation, supply)
  - RECIPROCITY (no preferences, free establishment) in the national legislation
  - INTEGRATION (ECRB project for common rules for licencing – EU compatibility)
  - DISPUTE SETTLEMENT on regional level

- Regional market Monitoring (project)
  - SCOPE OF DATA relevant for market monitoring (agreement with operators)
  - MONITORING PLATFORM under development (ENTSO-e compatibility)

- Regional Balancing market (project)
  - IMBALANCE SETTLEMENT procedures on local level
  - CROSS-BORDER BALANCING under development (ENTSO-e compatibility)

- Compatible Rules (projects)
  - ENTSO-e NETWORK CODES under development (ACER, ENTSO-e)
  - COMPATIBLE MARKET RULES (Energy Community)
  - REMIT - REgional Market Integrity and Transparency (ENTSO-e)
OBSTACLES in ELECTRICITY PRODUCTION

- Mandatory provision of energy to an incumbent supplier (single buyer)
  - restrictions in the production (energy available to the market / independent supply)

- Imposition of Public Service Obligation to a producer (public producer / wholesale supplier)
  - restriction in the consumption (customers available to the market / independent supply)

- Regulated generation prices / bundled costs of production / subsidies
  - disturbances in the price signals, lack of transparency

- Dominance in the production environment and abuse of market power
  - lack of liquidity, difficult entry of competition, market power concentration

- Excessive use of incentives for new capacity (RES), extremely heavy PPA
  - lack of competitiveness and sustainability, restriction of resources and foreclosure of the market


CONCLUSIONS AND BEST PRACTICES

ENERGY COMMUNITY

OBSTACLES in ELECTRICITY CONSUMPTION

- Mandatory / default supply by a single provider (public supplier)
  - difficult entry of new independent suppliers

- Imposition of Public Service Obligation - covering eligible customers (availability of regulated supply, universal service, Supplier-of-Last-Resort)
  - restrictions in the consumption (customers exposed to the market / independent supply),

- Regulated supply prices, cross-subsidies, customer protection tariff measures
  - disturbances in allocation of costs of supply and transfer of production costs, lack of transparency

- High level of losses and low payment discipline
  - disturbance of cost-reflectivity and price signals, less efficient market

- Dominance of the incumbent companies in the supply
  - lack of liquidity, difficult entry of competition, market concentration

SARI/EI: South Asia International Conference on Cross Border Electricity Trade – New Delhi, 4-5 October 2013 (ECS) Simon Uzunov – REGIONAL ELECTRICITY MARKET IN SOUTH EAST EUROPE
CONCLUSIONS AND BEST PRACTICES

ENERGY COMMUNITY

OBSTACLES in ELECTRICITY MARKET STRUCTURE

- Eligibility (switching) threshold not enforced or not applied
  - no incentives for switching from incumbent supplier

- Regulated supply prices set very low (including prices of transitional services)
  - no incentive for entry of new, independent suppliers

- Switching rules not developed / non fully applied
  - no possibility or no initiative for switching the supplier

- Network losses socialized or provided under low, regulated prices
  - no cost reflectivity, no sustainability, no economic behaviour

- Single buyer model of the market to be fully abandoned
  - good only for transitional market operation, lack of liquidity, lack of transparency, difficult entry of competition

- Balancing mechanisms must be market-based, with effective settlement
  - or competitive balancing market to be established, no sustainability

- No market operator or liquid trading platforms (Day-Ahead Market)
**OBLIGATIONS UNDER THE TREATY and recommendations**

- **UNBUNDLING OF ACCOUNTS**
  Formally almost accomplished – accounts must be also unbundled between regulated generation / supply activities and those performed under market conditions.

- **UNBUNDLING OF COSTS**
  Unbundled accounting is needed (and missing) in a (regulated) generation facility for the sake of transparency of costs between different production units and between different electricity products (as applicable) in order to ensure cost-reflectivity.

- **UNBUNDLING OF VERTICALLY INTEGRATED UTILITIES**
  Enforcement rules against conflicts of interest are mostly provisional (if any) – few serious cases of applied Compliance programming – applied regulatory powers and transparency in such cases are also mainly provisional.

- **LOCAL MARKET MODEL**
  In most cases a SINGLE BUYER MODEL is still enforced and/or applied (a regulated wholesale amebrella for public supply) applied through typically annual contracts (including imports) along with incumbent balancing mechanisms – any short-term trading is mainly seasonal but gradually growing on some borders – no liquid and reliable day-ahead or other kind of spot market is implemented.
OBLIGATIONS UNDER THE TREATY and recommendations

- **TPA TO TRANSMISSION AND DISTRIBUTION NETWORKS**
  - formally transposed and legally enforced – **transparency** is generally deficient and/or not monitored, cases of **capacity reservation** or **priority of access** still persist
  - **exemptions** (merchant lines) are not always sufficiently addressed

- **TECHNICAL RULES**
  - In most cases **network code** is applied (driven by ENTSO-e) for **TRANSMISSION** and in not so comprehensive way for **DISTRIBUTION** networks, **market rules** are provisional and interpret mainly obsolete models, **rules for supply** of electricity to end-customers remain the most regularly applied technical rule - usually short of significant elements of compliance, supplier **switching rules** are very rare (Croatia) and not substantial, **cross-border capacity allocation rules** are recently brought to common attention and quickly progressing although still on bilateral basis

- **ELIGIBILITY OF CUSTOMERS**
  - all customers who comply with specified criteria – must not be made short of their legal rights to exercise eligibility (to switch their supply) – **some classes of customers** (households and S.M.E.) may be given **exceptional rights** to be supplied under regulated conditions for a limited period of time – such benefits can not be made **available at large** (any such measures must be treated as a form of state aid)
  - **eligibility** is vastly implemented through **conservative criteria** – either with lack of compliance or of implementation or both
**OBLIGATIONS UNDER THE TREATY** and recommendations

**PUBLIC SERVICE**

Imposed to (public) utilities as obligation for supply of end-customers under regulated tariffs, generally applied as default supply or justified by provisional interpretation of the right for universal service – to be treated as exemption rather than a rule.

**CUSTOMER PROTECTION**

- transposition done in a relatively moderate way although usually short of compliance – improvement of scope and transparency is needed along with adequate monitoring

- implementation reflects a HISTORICAL MISSINTERPRETATION of the electricity supply -
  - confused with the Public Service and justified through broad public interest
  - reduced to universal service and/or commercial criteria of the supply
  - applied to broad scope of customers in a non-critical manner
  - socialized via implicit subsidies with no transparency and often including state aid
  - adverse influence on cost-reflectivity and entry of competition in the supply

- protection of socially VULNERABLE CUSTOMERS is not sufficiently implemented including lack of
  - effective identification of beneficiary customers
  - sustainable source of funds and transparent reimbursement
  - demand-side measures and energy efficiency
OBLIGATIONS UNDER THE TREATY and recommendations

- **SECURITY OF SUPPLY**

  - Imposed mainly through enforcement of annual *Energy Balance* and administrative competences for *strategic planning documents* (energy policy, development plan, investment program etc) – short of substantial compliance with *monitoring obligations* and reporting, applied measures dominantly relate to forms of *state aid* or *curtailment* of supply (load-shedding)

  - Planning aspects such as *generation adequacy* and sufficiency, demand forecast, long-term *investment planning* for generation and transmission capacities etc. *slowly progress* and remain short of realistic approach to *sources* for the required funding and the *role of market* on the future supply

- **AUTHORIZATION AND TENDERING PROCEDURES**

  - *formally addressed* (often insufficiently) less often implemented in a sufficiently transparent and sustainable manner – *predictability* and sustained tendering criteria still need to be applied

  - several cases of appointment of *authority responsible* for tendering new capacity, tendering rules often not appropriate (public procurement Law or concession Law)
THANK YOU FOR YOUR KIND ATTENTION

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