The Energy Community Treaty

Four years in Force

G.E. Koutzoukos
RAE
The SEE Energy Community

- The Energy Community Treaty was signed the 25\textsuperscript{th} October, 2005 by the EU and all western Balkans (the Contracting Parties)
- Entered into force the 1\textsuperscript{st} July, 2006
- Contracting Parties are legally bound to implement EU energy acquis, also that for competition and certain environmental Directives
- A major step in connecting Southeast European countries and bringing them together closer to the EU
The core objectives of the Treaty, include:

- the creation of regional markets for electricity and gas and their integration with the EU energy market,
- facilitation of investments, competition and enhanced energy security for all participants through their co-operation and growing trade,
- harmonization of market rules and operating principles, including harmonised standards of environmental protection.
Institutional structure

• The Ministerial Council
• The Personal High Level Representatives Group (The PHLG),
• A separate Energy Community Secretariat in Vienna,
• The Energy Community Regulatory Council, the ECRB,
• The Athens Forum for Electricity, and
• The Maribor Forum for Gas
Expectations

- The SEE regional energy market and its integration with the EU energy market strengthens energy security for all participants through their co-operation and growing cross-border trade.
- Harmonization of market rules and operating principles, including standards of environmental protection, stimulates flow of goods, services and capital and improves investment security.
- The Energy Community is gaining importance also as a link between the EU and producing countries of Central Asia.
Issues and constraints

• Compatibility of energy market reforms, e.g. tariff policy, market organization, regulation and operation,
• Environmental and nuclear safety standards,
• Poor financial condition of energy enterprises, governance and institutional capacity,
• Highly depreciated and inefficient infrastructure,
• Lack of financing, particularly for infrastructure supporting cross-border trade
Progress

• The reform process in CPs develops in line with the Treaty requirements
• But key issues remain open

While work on primary legislation is well advanced the practical implementation of provisions transposed is lagging
Progress

• Need to align sector specific regulation with progress in competition issues
• While Anti Trust acquis transposition is satisfactory, that for State Aid rules is lagging
• As for energy not effective implementation and enforcement
• Regulatory Authorities established in all CPs for both electricity and gas Regulation
Electricity

• Small but in many cases fast growing markets
• Mixed hydro-thermal generation
• The EC Region as also the whole of SEE is net importer of electricity
• Some countries suffering from severe shortages

According to the 2008 World Bank Survey: Firms with concerns about electricity 48% compared to 26% in 2005
Electricity (ii)

- Market opening initiated in all CPs but with different levels of progress,
- Competition and transparency in its infancy,
- One dominant generator/supplier in most countries
- Low Regulated tariffs, not sufficient to cover new investments
- Lack of wholesale market price penetration to final customers a major barrier for an efficient market
Electricity (iii)

• Limited fulfillment of
  - TSO unbundling,
  - Customers eligibility,
  - Balance responsibility and
    Market mechanisms for Balancing,
• Lack of Transparency, e.g. reference prices are not published (in most cases) and generally not trusted
• Market concentration
Electricity (iv)

- Issues developed with focus the Regional Electricity Market
  - The Wholesale Market Opening study (WMO)
  - A Balancing energy trading platform BETSEE)
  - The SEE Coordinated Auction Office (the SEE CAO)
  - The Mutual recognition of trading licenses,
  - Energy statistics following the IEA and EUROSTAT methods
Natural Gas

• Naturals gas markets of CPs non existent or much less developed compared to electricity
• Most CPs are supplied by single external source, only Croatia has indigenous gas
• In CPs there are no LNG terminals and gas storage are not adequately developed.
• Dominant companies control national markets
• Cross-border transactions limited to transit flows
• Cross-border capacity booked by long term contracts, No short term cross border trade
Natural Gas (ii)

- Lack of distribution infrastructure to bring gas to end users,
- Lack of cross-border infrastructure impedes market liberalisation, supply diversification
- Regulatory development important to create a well functioning market environment that shall also attract much needed infrastructure investments
Natural Gas (iii)

- All CPs have developed national investment plans,
- List of Energy Community Priority Infrastructure Projects,
- The Energy Community Gas Ring Group to streamline work on gas infrastructure investments
- Bulk gas transportation projects planned or existing offer additional gas supply options
Natural Gas (iv)

- The regional market approach offers benefits for the SEE (competition, economies of scale, security of supply),
- The Gas Ring to connect all CPs via a ring,
- Contributes to gasification of CPs but also benefits upstream suppliers and downstream EU consuming countries.
- Bottom-up gradual implementation seems preferable
- However its efficient regionally cooperated functioning is also of great importance,
CONCLUSIONS

• National commitment to the regional energy markets
• Progress in legal and regulatory framework but still lagging implementation,
• Independent Regulators exist but their independence needs to be assured in practice,
• Great potential for the development of the gas markets
• EC gasification is also important for the EU,
• Regulatory cooperation through the ECRB is important to support broader considerations,
• The ECRB to promote focused Regulatory harmonisation
Thank you for your attention

koutzoukos@rae.gr