



Electricity Markets in the 8th Region

Compliance with Regulation 1228/2003 and the Congestion Management Guidelines

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Congestion Management in SEE: Compliance with Regulation 1228/03 and CMG



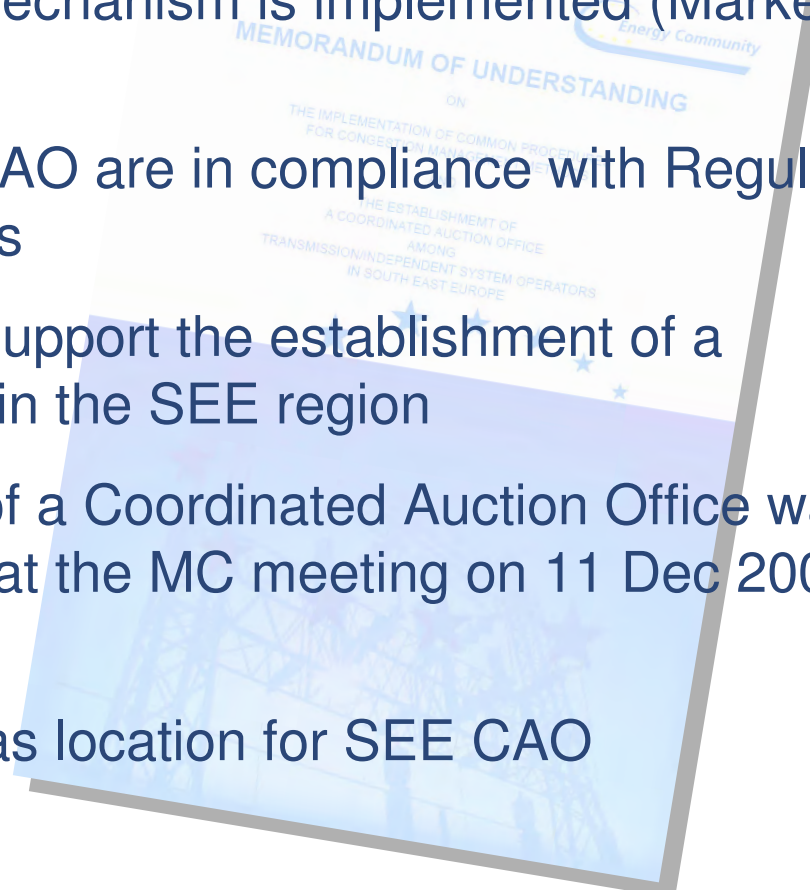
- SEE national transmission systems are faced with a complex international electricity market, transits and a growing number of market participants
- Thus Cross-Border congestions occur and create a barrier for international electricity trade within SEE (North → South)
- Therefore it was necessary to implement proper rules for Market-based Congestion Management
- The Basic principles for Cross-Border Congestion Management are described in the Regulation (EC) 1228/2003 and CMG
- Regulation 1228/2003 is applicable in the SEE Region through the Energy Community Treaty
- SEE Region is working on Flow-base explicit coordinated auction scheme since 2004 (dry-run) involving TSO, regulators and traders

8th Congestion Management Region

- Prerequisite for SEE CAO establishment was creation of the 8th Region and definition of consisting countries
- The so called 8th Congestion Management Region was established according to the approach used within the EU (ERGEG Electricity Regional Initiatives) by MC Decision in June 2008
- The definition of the 8th Region was an important step towards the establishment of a SEE Regional Market for electricity
- SEE CAO Action Plan announced CA full operational implementation in January 2010
- But ... In the meantime ...

SEE Coordinated Auction Office (1)

- CEE and SEE TSOs decided to implement Explicit Flow-based CA mechanism in SEE Region ... vs. CWE, SWE and Nordic Region where Implicit NTC based mechanism is implemented (Market Coupling, Market Splitting)
- Coordinated Auctions and CAO are in compliance with Regulation 1228/03 and CMG provisions
- All EnC contracting parties support the establishment of a Coordinated Auction Office in the SEE region
- MoU for the Establishment of a Coordinated Auction Office was signed between SEE TSOs at the MC meeting on 11 Dec 2008 in Tirana
- MC supported Montenegro as location for SEE CAO



SEE Coordinated Auction Office (2)

- Steering Committee for Project Team (responsible for establishing SEE CAO) was created and three meetings were held (TSOs and donors participate)
- NTC based approach for SEE CAO as the first step
- ECS studies related to SEE CAO (technical and legal study)
→ waiting for the studies' results: Business Plan, Auction Rules, NTC vs. Maximum Flow approach, etc.
- SEE Regulators will have to approve CAO related rules and perform CA and SEE CAO Monitoring
- ECRB established Ad hoc TF CAO Monitoring → working on a proposal for approval of SEE CAO related documents and SEE CAO Monitoring (regional vs. national)

Cross-Border Benchmarking Report in 8th region



- SEE Regulators recognized a need for a detailed overview and benchmarking of current CB mechanisms in SEE as there is a necessity to work on improving Cross-Border modalities in SEE
- Necessary to investigate how EnCT signatories are taking necessary steps in order to meet CMG requirements and analyze their awareness of the progress they have to make in order to fulfill them
- Presented data are based on the findings out of the questionnaires elaborated by ECRB EWG and filled in by the regulatory authorities together with the TSOs from:
 - Albania, Austria, Bosnia and Herzegovina, Croatia, Hungary, Italy, FYRo Macedonia, Romania, Serbia, Slovenia, UNMIK
 - Conclusions were made upon discussions within ECRB EWG
- As UNMIK performs at the moment no auctions for cross border transmission capacities the figures presented in the following slides indicate only the existing legal provisions in case of UNMIK

General Principles for Congestion Management



Regulation (EC) 1228/2003, Article 6:

“...Network congestion problems shall be addressed with non discriminatory **market based** solutions which give efficient economic signals to the market participants and transmission system operators involved...”

“... The **maximum** capacity of the interconnections and/or the transmission networks affecting cross-border flows shall be **made available** to market participants, complying with safety standards of secure network operation...”

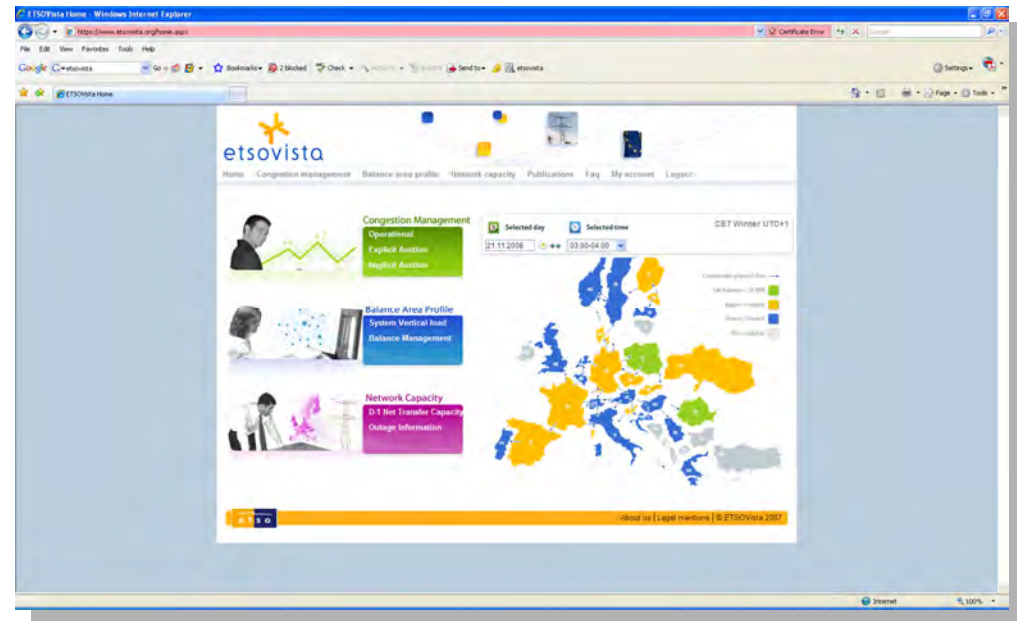
No pro-rata allocation of capacity & No long term contracts

Progress

- Preliminary review regarding actual Cross-Border mechanisms in SEE Region was presented to the 12th Athens Forum ... In the meantime it was completed ...
- The Contracting Parties made significant progress towards reaching full compliance with the Regulation 1228/03 within the last year
- Especially Transparency regarding the Allocation of Cross-Border Capacity was increased within the last year
- Most of the contracting parties introduced a Market-based Capacity Allocation scheme (50/50 split)
- Most of the contracting parties perform no Common Auctions (except MAC-GR, HR-HU, AL-GR), but few SEE TSOs started negotiations (SRB-HU, SRB-CRO, SRB-BUG, ...)

Transparency

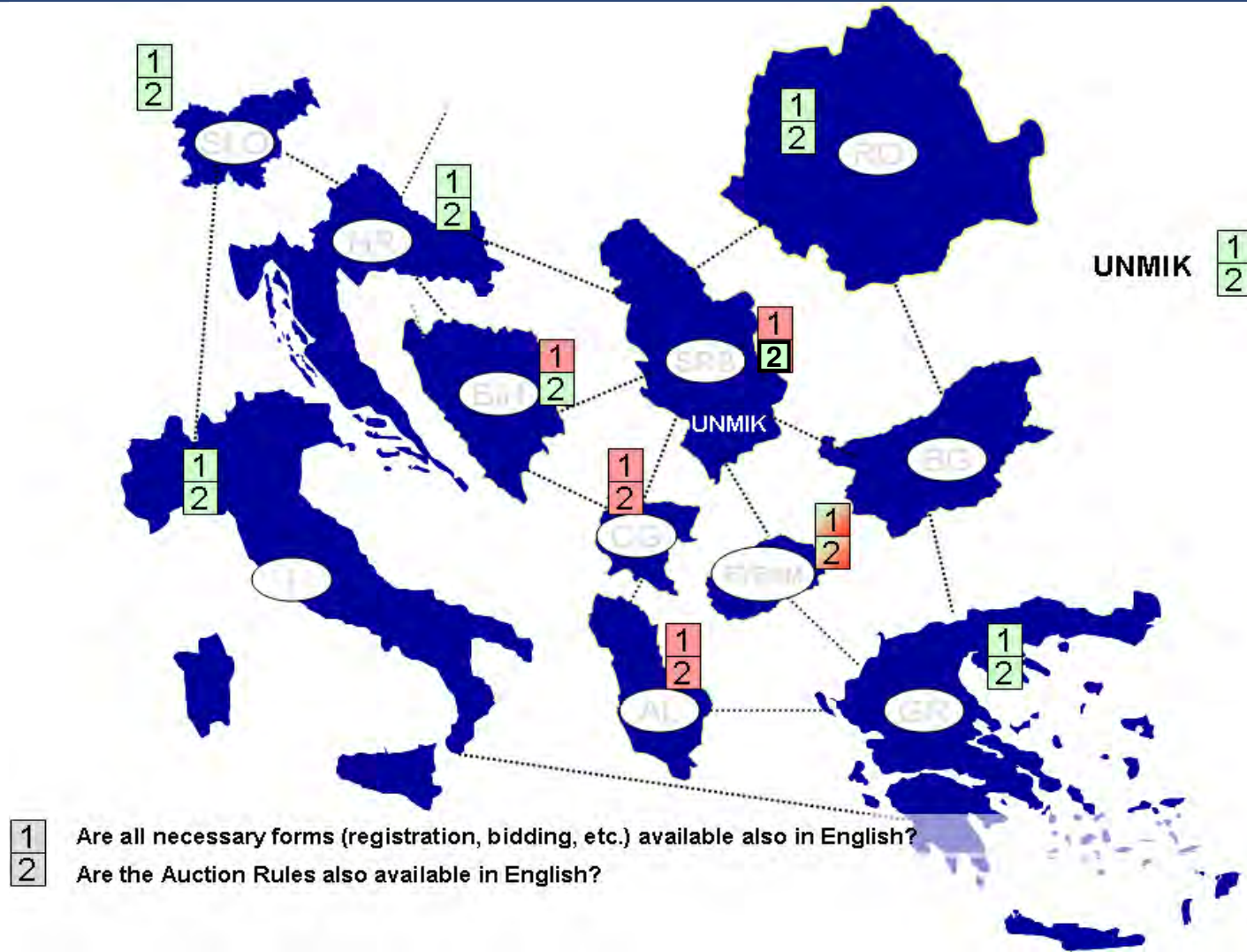
- Increased transparency can be noticed in SEE region
- TSOs of the contracting parties take part in the ETSO Vista project which foresees publication of Auction results, CB flows, available capacities, etc. (according to Regulation 1228/03 and CMG provisions)
- Furthermore, the EnC contracting parties increased the number of documents available in English in their web sites
- Market Rules will be published by all EnCT signatory parties soon (during 2009)



SEE Regulators actions on ERI reporting

- Common structure for reporting by national regulators to feed into overall reporting of ECS was agreed
- Database will be set up on ECRB website including indicators for market development → As part of their monitoring activity, national regulators will fill out this database for their national market
- Such approach follows procedure used by EU regulators for reporting to EC and used as basis for EC Annual Benchmarking Report on development of internal electricity and gas market → Comparability of results will be achieved
- ECRB agreed to follow the transparency monitoring approach applied by ERI
- Transparency Monitoring will be exercised by ECRB-Section
- ECRB welcomes suggestion of ERGEG to include the 8th Region progress report as Annex to ERI/ERGEG reporting but keeping content responsibility with ECRB
- ECRB would welcome the invitation of ERGEG to present the progress made in the 8th Region at the next Annual Regional Initiative Conference in November 2009

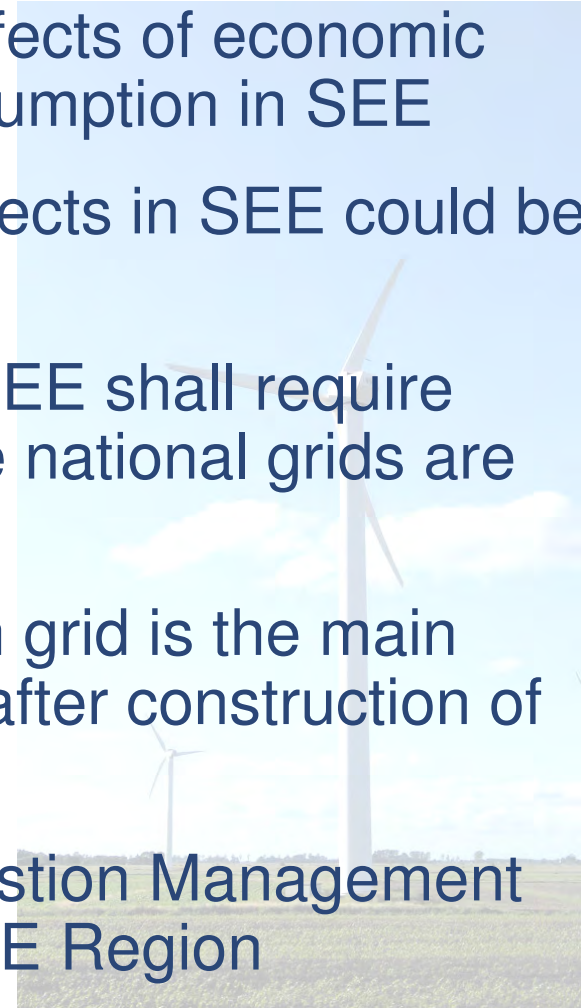
Barriers for International Traders: Documents' Availability in English



Generation Investment vs. Cross-Border Congestions



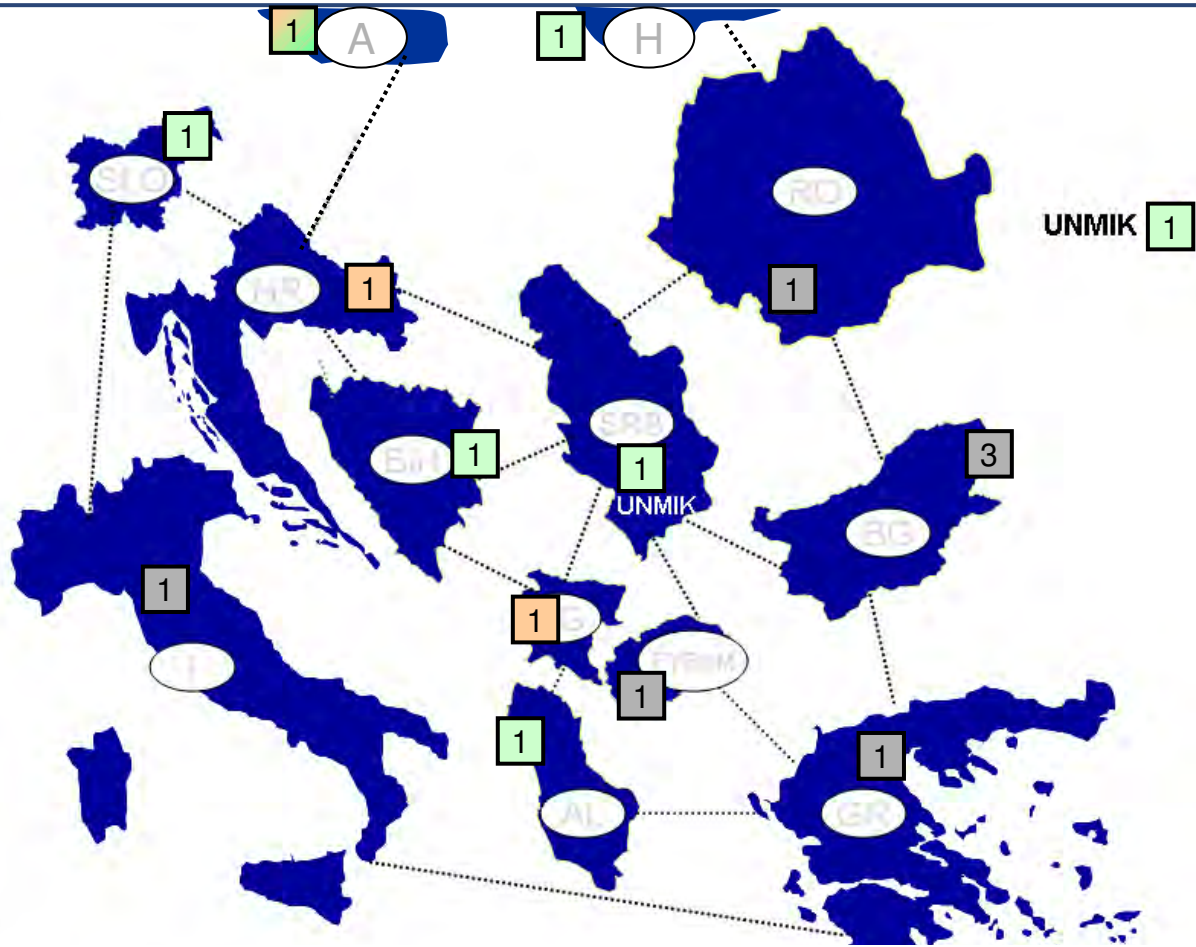
- Electricity prices decreased due to effects of economic crisis and decrease of industrial consumption in SEE
- Increased number of Generation Projects in SEE could be noticed lately
- Increased number of Wind-farms in SEE shall require good regional interconnections as the national grids are very small and weak if isolated
- Stable functioning of the transmission grid is the main goal, but ... Could it be more difficult after construction of Wind-farms in future?
- Thus ... Harmonized Regional Congestion Management schemes have to be developed in SEE Region



Market Rules

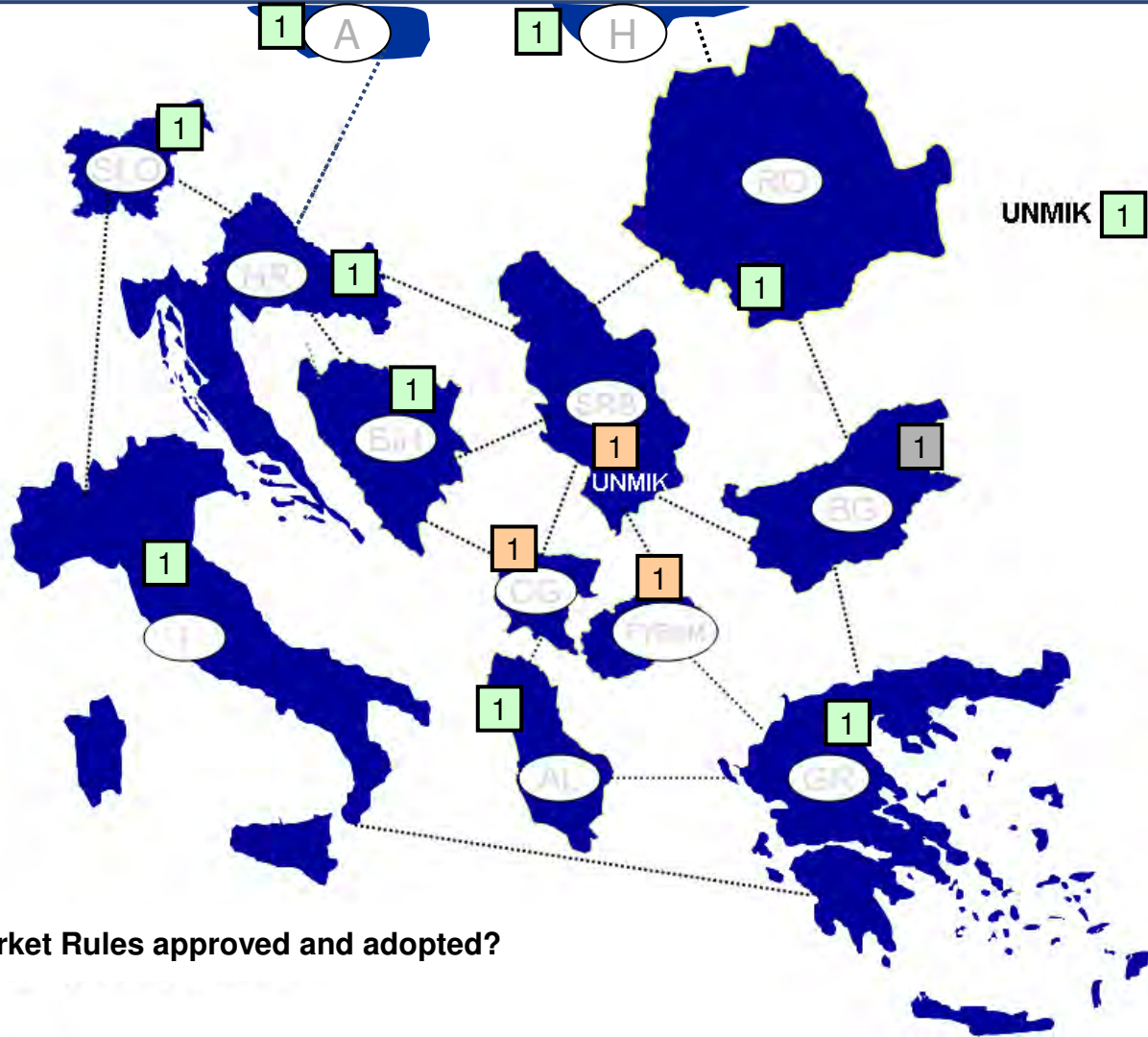
- Market Rules and Rules for Capacity Allocation in SEE are recognized as the backbone of Electricity Market functioning as they describe relationship and responsibilities of market participants
- High importance → Establishment of a regional electricity market
- However, a big variety of approaches in SEE could be noticed regarding implemented Capacity Allocation mechanisms, but ...
- Also regarding SEE Regulators obligations and responsibilities on Market Rules and Rules for Interconnection Capacity Allocation
- SEE Regulators should be empowered to approve Market Rules and Capacity Allocation Rules in order to be able to monitor these TSO/ISO/TSMO/MO functions and thus work and contribute to the implementation of Regulation (EC) No.1228/2003 and CMG

Market Rules and CB Capacity Allocation Rules



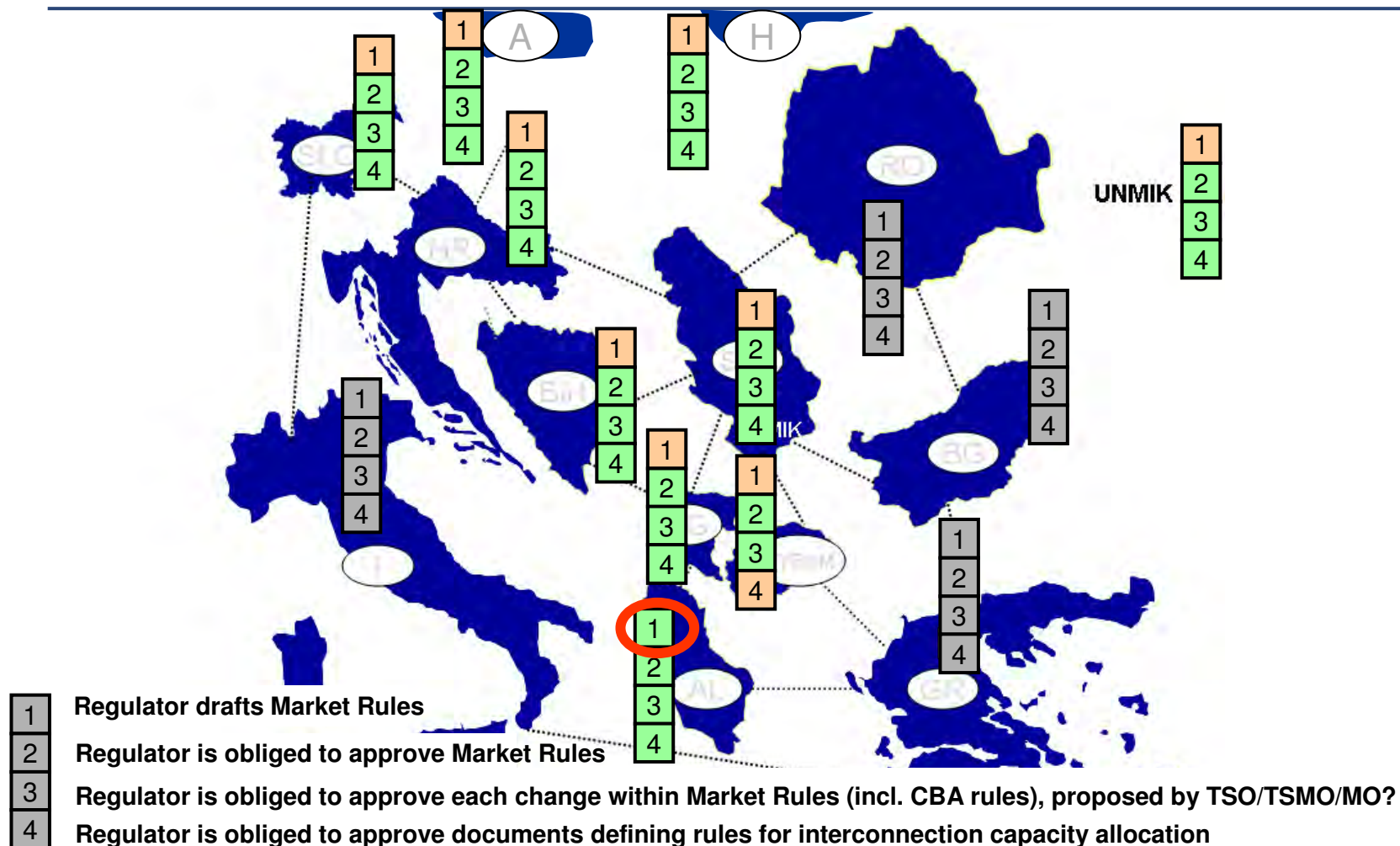
1 Are the procedures for interconnection transmission capacity allocation included within the document of Market Rules or is there a separate document related to this issue?

Market Rules: Implementation Status



1 Are the Market Rules approved and adopted?

SEE Regulators' responsibilities regarding Market Rules



Next steps and further regulatory activities ...



- SEE Regulators will elaborate list of detected deviations from Regulation 1228/03 and CMG, including an explanation/motivation for these deviations and assessing which of them are within the regulatory scope and how and by when to overcome them (roadmaps shall be elaborated-already exist under auspices of EnCS-via the competent ministries, and in collaboration with the TSOs and regulators)
- SEE Regulatory discussions will follow:
 - How SEE regulators should be empowered to approve and monitor Market Rules and Rules for Transmission Capacity Allocation
 - Recognition of each SEE TSOs individual deviations from CMG
 - Define Regulators' role within the process
 - Feasibility to harmonize CB issues with CMG
 - Timeframe for harmonization with CMG

Specificities of SEE Electricity Market (1)

- Absence of full unbundling in SEE region
- Various organization of the electric power sector in particular SEE countries
- Existence of dominant national players in SEE → to be integrated into the wholesale market, paying respect to the obligation of unbundling in line with EU Directives
- Lack of electricity in SEE region: Each national power system is just hardly covering its electricity demand !
- Outcome: High electricity prices in SEE region !
- Implementation of cost-reflective tariff systems in all SEE countries is one of the major prerequisites for WMO, which will enable gradual transition of electricity prices from social to market values !

Specificities of SEE Electricity Market (2)

- Unrealistic low electricity prices for tariff consumers in SEE
 - e.g. in Serbia all non-household consumers, and household consumers consuming over 200,000 kWh annually, are free to choose a supplier
 - **de jure 47% of the market is contestable for new entrants**
 - **due to low regulated retail tariffs de facto degree of market opening is currently zero**
- Outcome: Large industrial consumers are not willing to exercise their eligibility due to low tariff prices and prefer to remain within national regulated tariff → Problem !
- New Draft Energy Law in Serbia: eligibility, creation of SERPEX
- SEE WM Absurd ... WMO is a kind of “Reverse Process” in SEE region: While WMO reduces electricity prices in EU countries, WMO shall increase electricity prices in SEE region !
- WMO is affected by Public Service Obligations (PSO) and national procurements for electricity in SEE
- It is impossible to start WMO in SEE regional market immediately or in a very near future without taking any accompanying measures, according to SEE regulators' opinion

Specificities of SEE Electricity Market (2)

- It is necessary to take an efficient Step-by-step approach when introducing the WMO in the SEE region
 - The first step should be solving cross-border mechanisms via SEE CAO IG
 - Complete Regional Market Design comes at the very end („Mosaïque pieces concept“), whereby the national market designs need to be adjusted gradually, based on the participants' consensus on the desired level of integration
- WMO is mainly driven by political influence and national strategies
 - Regulators could just support WMO and propose, but cannot decide or make strong influence to decisions ...
- WMO issue has to be discussed at political level, after regulators' conclusions and proposals for WMO in SEE region
 - WMO issue should be introduced to the Ministries as well !

WB Study on Wholesale Market Opening

- Study Status of Play: POYRY/NordPool Interim Reports 1-4, 5, 6 (sent to Regulators, TSOs, Ministries, EFET)
- SEE Regulators' (EWG) comments were presented to POYRY/NordPool on their Interim Reports 1-4, 5-6 + discussion between TSOs, regulators, traders and Consultants
- Hopefully WB and Consultant have accepted ECRB EWG proposal to enlarge the scope of WMO study to all 8th Region countries
- Consultants accepted most of regulatory concerns for SEE region
- Consultant's proposal based on gradual transition of big industrial consumers from tariff to eligibility exercising consumers
- WMO Workshop on consumers' role and position announced for September 2009 → all stakeholders will be invited, including EFET and EURELECTRIC

Conclusions

- The Contracting Parties made a progress regarding the compliance with Regulation 1228/03 and the Congestion Management Guidelines
 - However, more harmonization of the regulatory framework is needed in SEE
 - It is necessary to define the next steps in order to meet Regulation 1228/03 and CMG compliance in SEE
 - Establishment of SEE CAO will be an important step and should help establishing a SEE Regional Electricity Market without barriers for traders
- Outcome: SEE CAO Auction Rules as SEE regional document approved by SEE Regulators, but also ...
- Harmonization of Market Rules in SEE Region is needed
 - Outcomes of WB study on WMO in 8th Region could be supported by SEE stakeholders and Ministries



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