

The Energy Community
Treaty
Four years in Force

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The SEE Energy Community

- The Energy Community Treaty was signed the 25th October, 2005 by the EU and all western Balkans (the Contracting Parties)
- Entered into force the 1st 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

EnC Treaty Objectives

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

- Natural 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 ¹³

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 down stream 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

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