



SESSION VI: Integration and Competition in the SE European Electricity Market

Regulatory measures for enhancing liberalization of the electricity market in the 8th Region

Nenad Stefanović, ECRB EWG Chairman, Electricity Expert AERS

4th South East Europe Energy Dialogue

Thessaloniki, 3-4 June 2010

Contents

- **Congestion Management:** Establishment of SEE CAO
- **Interconnection Capacity Allocation and ITC:** Compliance to Regulation 1228/03 and CMG
- **Balancing:** Actual Review of National Balancing Models and RBM prospects
- **Market Monitoring:** USAID MM Project, MM Guidelines and Regional MM
- **Regulatory incentives for promoting new investments in transmission infrastructure:** Analysis and Study
- **Wholesale Market Opening:** Proposal for next regulatory steps on implementing the World Bank Study recommendations
- **Harmonization of Wholesale Licenses:** ECRB Proposal



Congestion Management: Establishment of SEE CAO

Congestion Management: Establishment of SEE CAO ⁽¹⁾



- ECRB concerns about evident discrepancy between the high level of political support already given at several occasions by MC and lack of practical implementation on the level of Ministerial services and by regulatory authorities
- SEE Regulators could propose, recommend and advice Ministries and TSOs, but cannot make force on the process as it was driven by TSOs
- Mostly organizational issues in place regarding SEE CAO:
- Steering Committee for Project Team for establishment of SEE CAO – created by TSOs
- TSOs' readiness to financially contribute to Project Team budget – SEE regulators shall approve costs for it
- Requirements by International Financing Institutions for a necessary critical mass and link of markets involved
- Identify alternative or interim steps

Congestion Management: Establishment of SEE CAO ⁽²⁾



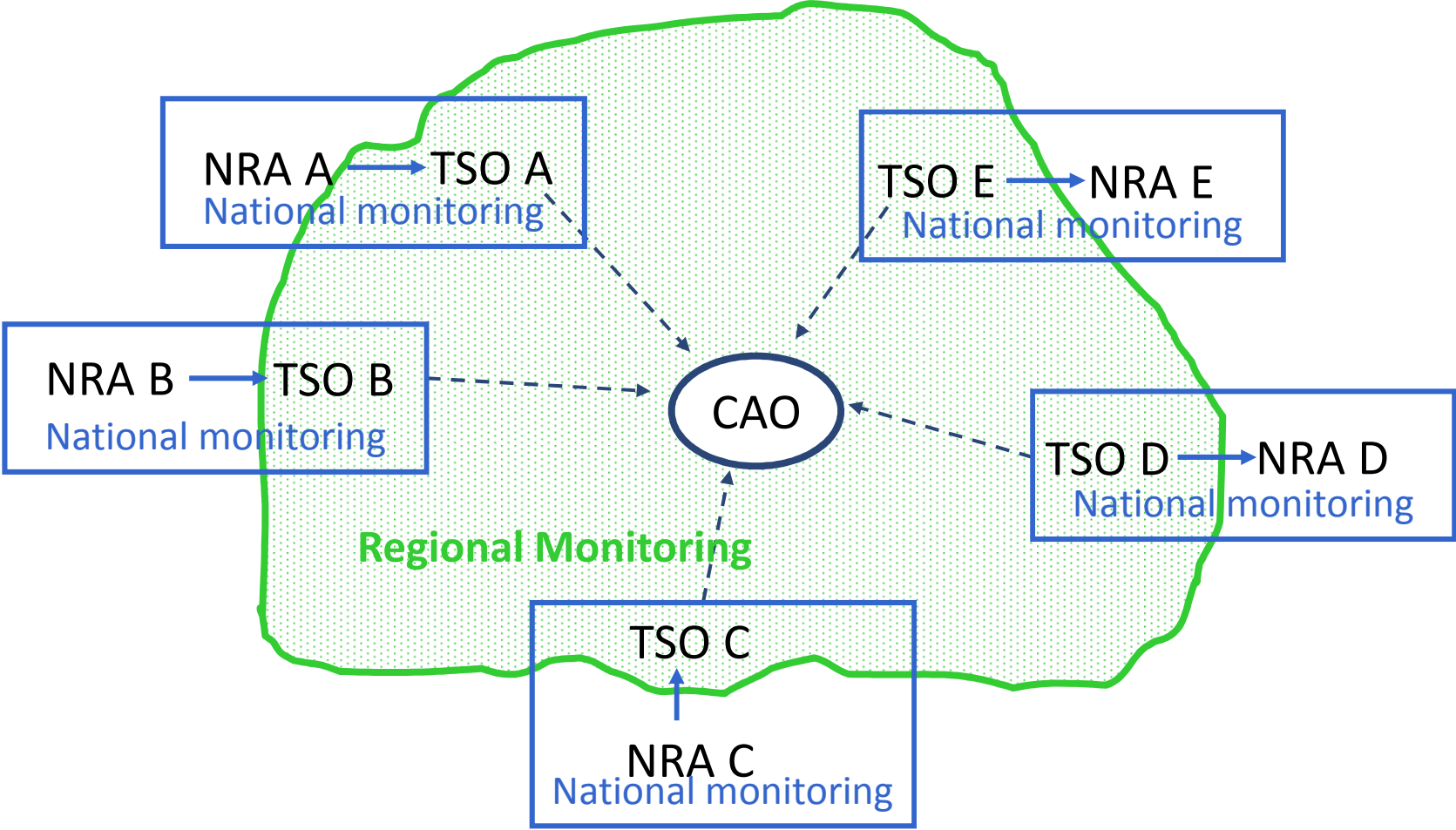
- ECS circulated declaration by signature to TSOs - TSO declare their agreement on Project Team Company to be established and operated under the concept and within the budgetary limits as described in ToR for Project Team Company
- So far feedback has been received from TSOs of Slovenia, Hungary, Montenegro, Albania, UNMIK, Serbia, Romania and Greece → Croatia, BiH and FYR of Macedonia announced to reply soon
- Necessary for CPs to make their legal obligation and introduce coordinated CM approach (Regulation 1228/CMG)
- Political support has been expressed so far by Ministries
- Action Plan given to SC PT to make an update and present it
- First phase: NTC based approach

Congestion Management: Establishment of SEE CAO ⁽³⁾

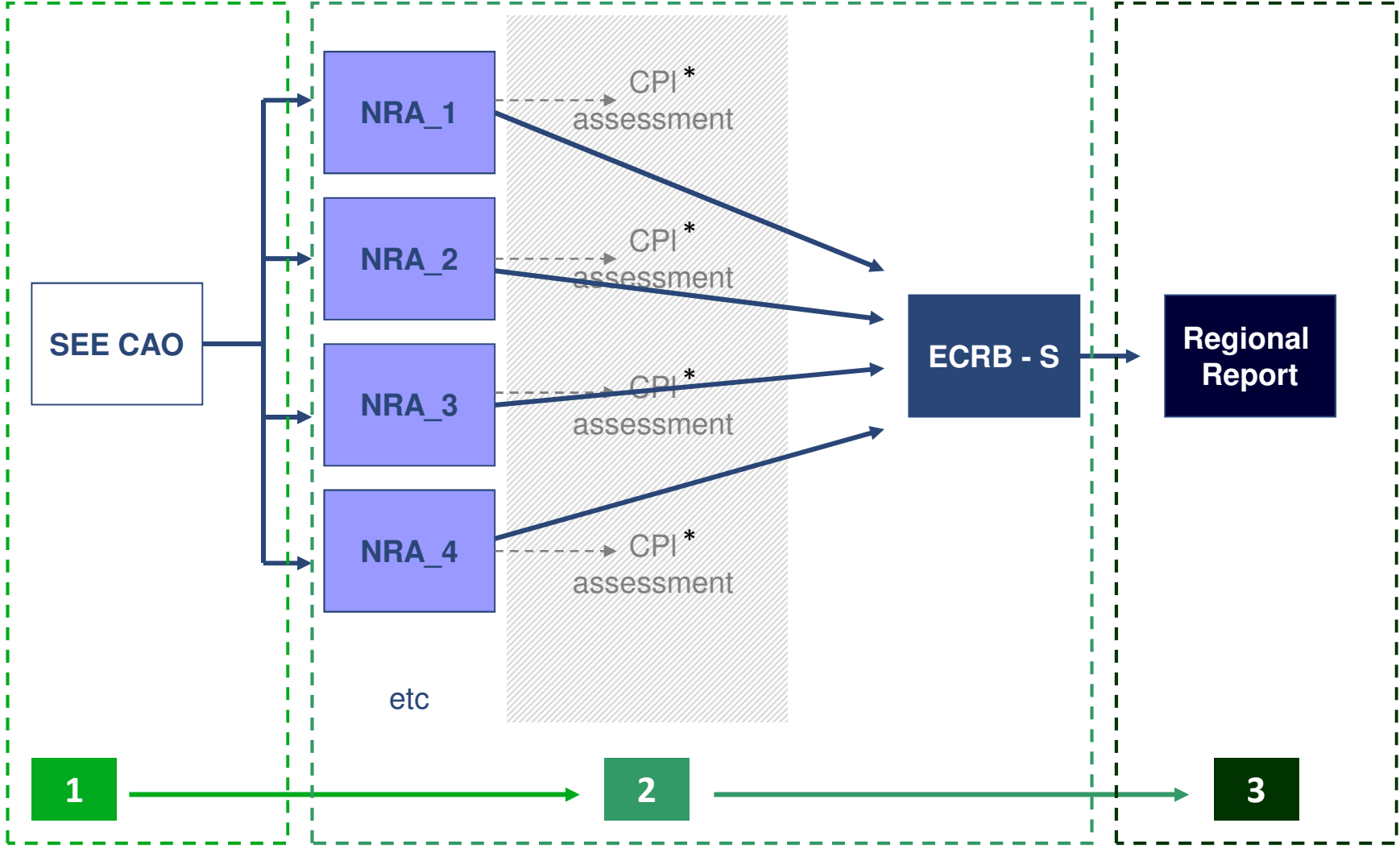


- ECS studies related to SEE CAO finalized (Technical and Legal Study)
 - Project Team shall draft: Business Plan, Auction Rules
 - SEE Regulators shall approve CAO related rules → TSOs on the move, regulators are waiting for SEE TSOs input
 - SEE TSOs also discuss SEE CAO issues within newly established ENTSO-E Regional Group South East Europe (RG SEE)
 - Constant cooperation and exchange of experiences and information between SEE and CEE regulators regarding CEE CAO
 - SEE regulators are recently discussing CA and CAO
- Monitoring approach ...
-

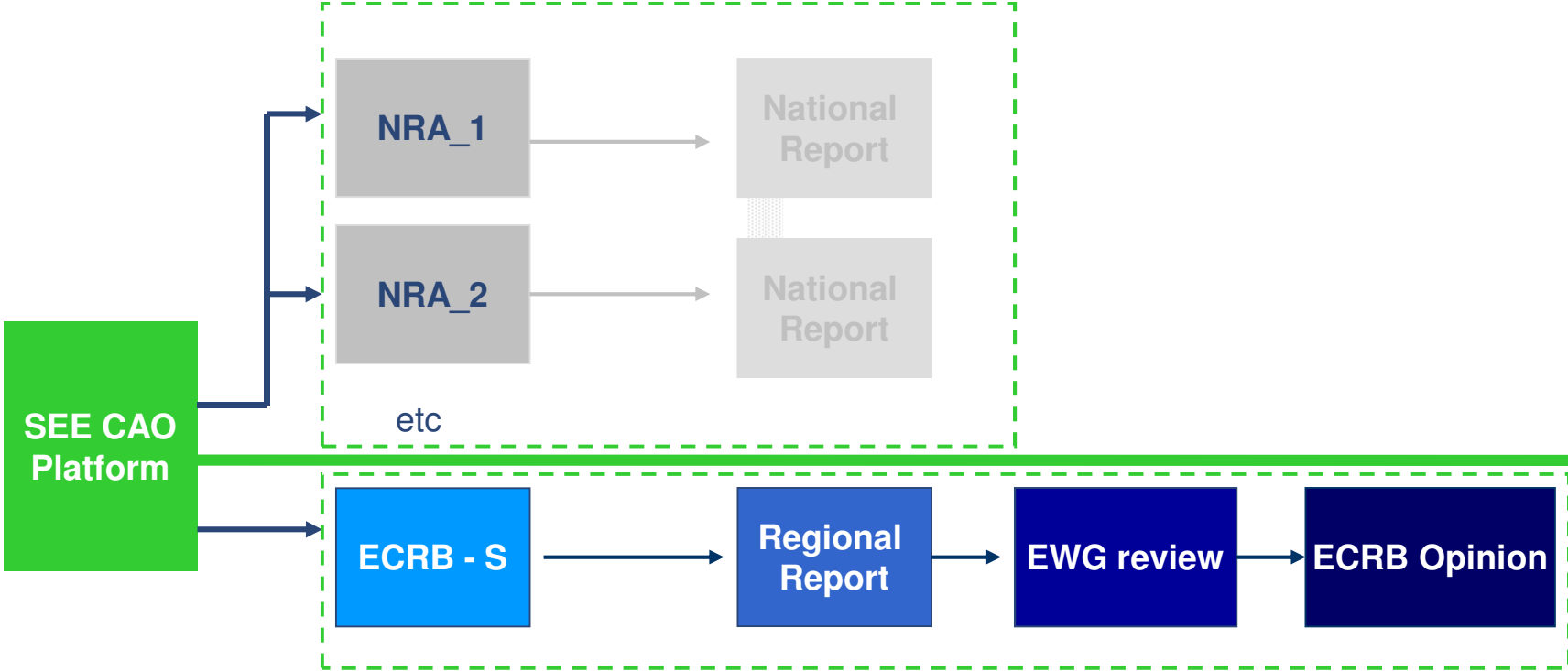
SEE CAO Monitoring: ECRB Position: 2 layers – national & regional



SEE CAO Monitoring: How to undertake regional CAO monitoring?



SEE CAO Monitoring: Option discussed by ECRB



SEE CAO Monitoring: Details of CAO Monitoring model under discussion



- **FORMAT/PROCEDURE**

- **SEE CAO to establish a data platform**

- **Access for:**

1. NRAs → national monitoring of compliance with rules approved by NRA according to powers

2. ECRB Section → regional monitoring report ([1] quarterly reports, [2] weekly tables?) → ECRB/ECS?

- **WHICH DATA?**

- a. *IMPLEMENTATION AUCTION RULES*

- National and regional monitoring

- b. *MARKET PERFORMANCE*

- Regional report to assess independently (→ ECRB/ECS?)

- Not beyond powers of NRAs !

- Beyond powers of NRAs → left to NRAs to cooperate to competition authorities etc.

SEE CAO Monitoring: Next Steps

- CA/CAO Monitoring mostly **concentrated** on **procedural** issues in this phase
- **Indicator definition** and **explicit data requirements** shall be **postponed** as EWG **cannot define** or discuss it before SEE TSOs issue Draft SEE CAO Auction Rules
- Should **regulators/EWG** be **included** in the work on drafting SEE CAO Auction Rules **from the very beginning**, or wait for the final draft version of the document, drafted by PT?
- SEE CAO and Regional CA/CAO Monitoring entity, e.g. ECRB-S or ECS, shall require an **advanced data electronic base and software** which would **enable producing** all kind of raw CA/CAO Monitoring data in table format upon explicit **request** at all time horizons: daily, weekly, monthly, etc.
- **More detailed reports** which would include comparisons and analysis in written form could be **produced on longer time period**, e.g. monthly level

Interconnection Capacity Allocation and ITC:

Compliance to Regulation 1228/03 and CMG

Market Rules in SEE - overview (1)

- **Market Rules** are **still missing** in FYROM and Serbia → expected to be approved till the end of 2010
- **Market based** explicit capacity **auctions** recently introduced in BiH → now **all SEE TSOs** applied market based capacity allocation mechanisms, but still **no common auctions** and **no coordinated approach** !
- Several SEE TSOs are negotiating introduction of common auctions
- Still no enough **Transparency** in SEE according to Regulation 1228 requirements
- Ongoing **discussions on EU level** regarding a Regulation laying down **Guidelines relating to Inter-Transmission System Operator Compensation (ITC)** mechanism and a common regulatory approach to transmission charging → **Draft foresees** that:

Market Rules in SEE - SEE overview (2)

- TSOs and **transit flows** from third countries shall be **equally treated** to EU Member States in **ITC** mechanism → In this respect particular reference is made to **third countries** that made **agreements with EU** whereby they have adopted and are **applying EU law** in the field of electricity and even more specifically to **Energy Community**
- **EU legislation** in the field of electricity:
 - Does **not only** have to be **adopted** but also **applied** !
 - For the purpose of calculating transits of electricity the **amount of imports and the amount of exports** at each interconnection between national transmission systems shall be **reduced** in **proportion** to the share of capacity allocated in a manner which is **not compatible** with Point 2 of **Congestion Management Guidelines** annexed to Electricity Regulation
- Second point would in praxis mean that **transit flows to/from the Energy Community jurisdictions will not be taken into account** in case **no regionally coordinated capacity allocation** and congestion management mechanism was set up

Balancing in SEE Region: Actual Review of National Balancing Models and RBM prospects

Balancing

- ECRB EWG agreed that **existing balancing models** in single jurisdictions of the 8th Region shall be assessed before drawing conclusions for the regional level → produce **regulatory review**
- **Questionnaire** has been prepared for completion by the regulatory authorities of EnC:
 - **CPs** (Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Moldova, Montenegro, Serbia and UNMIK),
 - **Observers** (Georgia, Norway, Turkey, and Ukraine) and
 - **Neighbouring Participants** (Greece, Italy, Romania, Slovenia)
- **Q Contents:** Legal basis, Balancing Model, Monitoring, Statistical Data
- **Preliminary results** on Balancing presented on the following slides:

Q1: Where is the Balancing Model / are Balancing Rules Defined? CPs



- **Nowhere defined (Serbia):**
 - Serbia → Energy law contains obligation of TSO to procure system services
- **Law defines general market model (e.g. market based, TSO based...) and stipulates that detailed balancing rules have to be set by the regulator (Moldova):**
 - Moldova → Balancing rules have to be set by the regulator after consultation with TSO
- **Law defines general market model (e.g. market based, TSO based...) stipulates that detailed balancing rules have to be set by TSO (BiH, FYROM):**
 - BiH → to be defined by TSO and approved by regulator
 - FYROM → detailed balancing rules have to be set by MO operator in Market rules for approval by the regulator

Q1: Where is the Balancing Model / are Balancing Rules Defined? CPs



- **Law does not define the model, but defined the secondary legislation by which it has to be defined (Croatia, UNMIK):**
 - Croatia → Electricity Market Rules, Rules on Balancing the Electric Power System, Methodology on Providing Balancing Energy Services in the Power System, passed by: MO, HEP-OPS, HERA and regulatory approval required
 - UNMIK → Market Rules and Grid Code (Balancing Code), passed by TSO and regulatory approval required

Q1: Where is the Balancing Model / are Balancing Rules Defined? Participants



- **Law defines general market model (e.g. market based, TSO based...) and stipulates that detailed balancing rules have to be set by the regulator (Greece):**
 - o Greece → After consultation with the TSO
- **Law defines general market model (e.g. market based, TSO based...) stipulates that detailed balancing rules have to be set by the TSO (Italy):**
 - o Italy → approval by regulator
- **Law does not define the model, but defined the secondary legislation by which it has to be defined (Romania, Slovenia):**
 - o Romania → Commercial Code, approved by ANRE
 - o Slovenia → Rules on balancing market; MO passes it; Consultation with TSO and approval of regulator are required

Q2: How is balancing energy provided by the responsible body? **CPs**



- **By advance contract** (Moldova and Serbia):
 - Moldova → Bilateral negotiations, a contract with a third party is concluded in advance for provision of balancing energy
 - Serbia → It is the incumbent that contracts in the name and for the account of generating companies that are within its holding structure
- **Exclusively** provided by one entity (BiH, Croatia, FYROM, UNMIK):
 - BiH → BE is exclusively provided by three incumbent power utilities
 - Croatia → BE is provided by HEP Generation; Relevant exclusive provider is defined in Rules on Balancing the Electric Power System and Methodology on Providing Balancing Energy Services in the Power System
 - FYROM → Regulated generation company defined by law
 - UNMIK → Generation company is responsible for balancing through TSO instruction; Due to lack of generation Load shedding is used; Defined by Transitional Market Rules

Q2: How is balancing energy provided by the responsible body? **Participants**



- **Market based, i.e. balancing energy is bought on the balancing market whenever needed** (Greece, Italy, Slovenia):
 - Greece → Auction based / clearing price
 - Italy → Auction based / Pay as bid
 - Slovenia → Auction based / Pay as bid
- **By advance contract** (Slovenia):
 - Slovenia → Tender: contract with a third party concluded in advance for exclusive provision of balancing energy for a predefined period; third party is defined by tender. Tertiary reserve from the sources outside Slovenia is provided by a provider who is selected by an auction. Potential providers are invited to the auction by a tender. The provider is (are) chosen for the period of one year. Bilateral negotiations: a contract with a third party is concluded in advance for provision of balancing energy for a predefined period following bilateral negotiations. The providers of tertiary reserve with the sources of energy from Slovenia are selected on the basis of bilateral negotiations. The provider is (are) chosen for the period of one year.

Q3: Is it possible to use balancing energy from abroad? CPs



- **Can provide BE from abroad** (BiH, Moldova, Serbia, UNMIK):
 - BiH → Explicit auction based approach using pay as bid by using the Transmission Reliability Margin (TRM) – by using “residual” capacity (if it occurs at the shortest time horizon))
 - Serbia → Emergency exchange (help) with neighbouring TSOs by using residual capacity
- **Cannot provide BE from abroad** (FYROM)

Q3: Is it possible to use balancing energy from abroad? Participants



- **Can provide BE from abroad** (Greece, Italy, Slovenia):
 - o Greece → for emergency exchange (help) with neighbouring TSOs by using residual capacity
 - o Italy → using the Transmission Reliability Margin (TRM)
 - o Slovenia → Auction with clearing price
- **Cannot provide BE from abroad** (Romania)

Regional Balancing Mechanism: RBM Dry-Run



- **BETSEE Dry-Run** performed on 18 Nov 2009 with broad participation of SEE TSOs and regulators (almost all EWG members participated!)
- **Main goal of Test Run was:** sharing experience, witnessing many interesting situations as well as some unexpected occurrences → not only to learn how to drive, but also to detect where are the limitations and the room for further improvements
- **After Dry-Run, SEE TSOs addressed technical comments** on software usage and **EWG members** sent their own **comments**
- **Next steps:** SEE TSOs made the final report (including gained experiences, some open issues clarification) → SEE TSOs shall discuss possible future steps (organized within new ENTSO-E structure)
- **Gratitude to:** EKC BETSEE team for taking a remarkable role in the process of BETSEE creation and testing, and EnC Secretariat for providing financial resources for these activities

Regional Balancing Mechanism: Main goals



- Based on SEE TSOs concept, the **final aim** of **RBM** is:
 - To **increase** margins of balancing **resources** for SEE TSOs
 - TSOs obtain Balancing Energy (BE) in **short period** and under **competitive** market **prices**
 - To help TSOs to **provide** necessary **tertiary reserve** (fast and slow) easily (emergency help)
 - To **ensure safe** and secure **system operation**
 - To **reduce** TSOs **costs** for providing **BE**
 - To **give opportunity** to national **market players** to offer their short-term **electricity surpluses** via BETSEE/TSOs platform with lower prices

SEE regulators' views on RBM Implementation: National BM vs. Regional BM



- **Coexistence** of national balancing mechanisms and RBM
- TSOs **keep long-term** balancing contracts (reservation of production capacity/power)
- RBM/**BETSEE** represents **actual state of play** of market participants offers for BE depending on momentarily situation, introduced on BETSEE internet platform
- RBM itself **cannot be a reliable source of BE** for TSO needs on continuous basis
- Regulator's obligation is to check if TSO is buying BE at the **lowest market price**, and TSOs obligation is to chose BE offer at lower price
- RBM is **voluntarily** based

SEE regulators' views on RBM Implementation: Cross-border capacities for RBM



- **Residual** cross-border capacities are available for RBM → **remaining** capacities, **not wanted** by any other market participant just before the real time (have no value) → **free** for RBM
- Residual cross-border capacities are assigned on “**first come-first serve**” basis to involved TSOs at RBM
- To ensure that **TSO do not act as “trader”** and make profits out of the system (mediator between market participant and other TSOs)
- Could be achieved through **close cooperation** between involved **Regulatory authorities**

SEE regulators' views on RBM Implementation: Time-frames for border-capacities and RBM



- **Present** situation: transmission capacities are allocated on **monthly** level in SEE (most of SEE) vs. BE is used in **real time**
- **Question:** How RBM will manage to treat monthly allocations and derive/detect residual free capacities on intra-daily level?
- **Non harmonized** procedures of capacity allocation (for RBM and monthly allocation)
- **Possible only** if functional and **fast software for automatic check scheduling** of traders' nominated transactions after harmonized gate closure could be put in place, on daily and intra-daily level for the whole SEE region. It is priority condition for considering possibility for RBM implementation at the moment

SEE regulators' views on RBM Implementation: Legal Issues



- For balancing purposes, national regulation should **remove limitations** and **enable TSOs** to **buy/sell** electricity on the RBM and to exchange needed information
- **Overall legislative benchmarking**, including analysis of market rules, is needed to assess feasibility of RBM implementation
- Need to **consider** further **development** of the **RBM** and its **fitting** into the **present and future concept** of the **regional electricity market** in SEE
- **Implications** of the **voluntary nature** of the proposed RBM must be **further examined** to **ensure** that cross-border transmission **capacities** for the intra-day time frame are **maximized**

SEE regulators' views on RBM Implementation: RBM Influences



- **National regulations** may need to be **developed or adapted** to deal with the **relations between the TSO and the local BEPs** acting on the RBM
- **Compatibility** between **RBM** at the **international and local levels** should be **ensured** by the technical and regulatory framework
- **Behaviour** of the **TSOs** on RBM should be **clear and transparent** in relation to other partners → Regulatory framework shall **prevent RBM to be abused** for electricity trading
- **Influence** of **RBM** on **local markets** or **imbalance settlement** has to be controlled by the regulation
- **Participation** of **local generators** on the RBM may in **no way influence the imbalance price**

SEE regulators' views on RBM Implementation: RBM Centralized Office



- Regulation must ensure no discrimination between TSOs and traders in their access to the Intra-day cross-border capacities
- Even if such mechanism introduce TSOs **service costs**, any TSOs additional fees are **not acceptable**, as it is part of TSOs basic activities, financed by tariffs
- Q: It is not confirmed if RBM Office is needed? ECRB relation?
- Q: Which entity would perform role of internet RBM mediator? Is there a need for Centralized RBM Office?
- Host RBM **web site BETSEE**; constant checking of bidding procedures, software performance for executed BE transactions; evidence of payments; special contracts upon which BE transactions will be send to certain TSOs, etc.

SEE regulators' (EWG) Conclusions

- Develop the regional automation scheduling software which could obtain day-ahead residual capacities after the commercial nominations (harmonization of gate closures)
- To further elaborate coexistence of RBM and national balancing mechanisms
- Step by step approach to introducing RBM
- Overall legislative benchmarking is needed for assessing feasibility of RBM implementation in SEE countries
- Present EU experiences with regard to regional balancing energy market implementation – ERGEG Best practice Balancing Guidelines
- Additional organizational questions: need for Centralized RBM Office, relation with ECRB?
- Proposal for transitional period for RBM, through Dry-run, in order to gain experience, define obstacles and thus give time for practicing and preparing each system for RBM full implementation

Regional Balancing Mechanism: Next Steps



- Balancing modalities, especially Regional Balancing in the 8th Region, should be fully in line with **ERGEG** experiences on Regional Balancing → “**Final Revised Guidelines of Good Practice on Electricity Balancing Markets Integration**”, published by ERGEG
- Unfortunately, not all SEE TSOs are in favor to continue the work on RBM project stating that **it is not a priority for SEE region**
- SEE TSOs are working on the organizational issues regarding **setting up Subgroup within ENTSO-E RG SEE** (draft ToR)
- SEE regulators prepared **regulatory review** of ex-SETSO BM SGs **Examination Paper on RBM** based on ECRB EWG discussions
- RBM could be **implemented only after SEE CAO is fully established** in the 8th region (implementation of day-ahead auctions)

Market Monitoring in SEE Region: USAID MM Project, MM Guidelines and Regional MM

Market Monitoring

- Market Monitoring activities are **necessary** for each national electricity market in order to provide its well functioning based on non-discrimination and transparency
- As the regulators are entities which approve Market Rules and give guidelines for Market Design, they should also **develop Market Monitoring tools** in order to **check** if these rules and recommendations are fully respected and implemented
- There is **no active and liquid electricity market in SEE** which could be fully monitored by regulators, using and implementing usual Market Monitoring schemes, indicators and approaches
- **Only Cross-Border activities in SEE Region** could be fully and broadly examined and monitored by regulators at the moment
- SEE Regulators need to timely acknowledge and **learn how to monitor** all performances within electricity markets in order to provide non-discriminative and transparent participation for all participants in the electricity markets

USAID Market Monitoring Project in SEE Region (1)



- **MM Project** was initiated after invitation from the 8th Athens Forum in June 2006 to establish a market monitoring Pilot Plan, which became effective in December 2006
- 12th Athens Forum (May 2008), ECRB and ECRB EWG **recommended continuing MM Plan** under a two-year **transition phase** that would lead to sustainable operations within ECRB, including extension of MM project - CAO Monitoring modalities and education of SEE regulators on general MM activities
- **Primarily** involves **Cross-Border transmission capacity market** - ensuring maximum capacity is available on the interconnections and that this capacity is allocated and used in a non-discriminatory manner
- **MM Project** is designed with **goals**:
 - 1) to ensure accurate estimates of cross-border transfer capacity
 - 2) to ensure proper utilization of reserved capacity (i.e., no hoarding or over-scheduling)

USAID Market Monitoring Project in SEE Region (2)



- Until today: **Cross-Border Monitoring** – USAID/PE produced **Quarterly Reports** and various templates due to the importance of maximum and non-discriminatory access to interconnectors
- ECRB EWG recommended changing Quarterly Report format and starting more operational phase: **learning phase** for **regulators** and **direct cooperation** between **TSOs** and **regulators** on **data collection** and **analysis**
- USAID/PE recently presented its **proposal for MM indicators** within MM general work-stream:
 - **Seven monitoring screens** to accomplish the objectives for **monitoring Cross-Border** transmission capacity market
 - Market Monitoring proposal was **agreed and supported by ECRB EWG**, based on PE Screens proposal
 - **MM Dry-Run** has **started successfully** with Screen 1 in **November 2009** as part of Transitional phase

USAID Market Monitoring Project in SEE ⁽³⁾



- The MM Project **includes** the **entire 8th Congestion Management Region**
- Project introduces a **single Screen (1-7) each month** and asks **NRAs** to **request** from TSOs very specific **data** to calculate very specific screens in order to be able to make conclusions regarding Screen analysis outcomes
- USAID **MM Workshop** was organized on **18 May 2010** in ECS premises in Vienna with support of ECS
- SEE regulators (EWG) were invited to participate this Workshop in order to **discuss MM Screens**, make **analysis**, pose **questions and comments** and try to **define an appropriate MM procedure in the 8th Region on common template basis**, respecting **ERGEG** monitoring experiences
- **SEE TSOs** representatives were also **invited** to participate MM Workshop as they are important for **MM cooperation** between regulators and TSOs

USAID Market Monitoring Project in SEE (4)



- These **Screens** have focused **only on cross-border transmission capacity** as first phase of MM Dry-Run
- Later phases will focus on other aspects of the market, e.g. generation (as electricity market evolves)
- With respect to each individual Screen, **NRAs** and **TSOs** aimed to **determine** whether:
 - There is agreement on the technical correctness of the Screen?
 - There are clear benefits from Screen implementation?
 - Regulators should implement the Screen
- After examining all four Screens for which Dry-Run experience was available, all NRAs and all TSOs attending concluded the **Screens are desirable** and **beneficial** for **removing obstacles** to market competition in the 8th region
- It was also concluded that EWG will **propose** to and seek **ECRB approval** in June 2010 **to draft MM Guidelines for the 8th Region** based on Screens accepted at the Workshop (This task would be undertaken by USAID/Potomac Economics)

USAID Market Monitoring Project in SEE: MM Dry-Run ⁽¹⁾



- It was concluded that, upon ECRB approval, **Market Monitoring Guidelines** would be the **minimum set of MM Screens** (for cross-border issues) for all NRAs of the 8th Congestion Management Region
- Consultant was asked to **reconsider** certain **aspects of Screens** and Dry-Run Process
- The conclusions with respect to each individual Screen is as follows:
- **Base Case Exchange (BCE) Screen**
 - This Screen is intended to monitor **accuracy** of the **assumptions of Network Model** used to calculate net transfer Capacity (NTC)
 - NRAs and TSOs **accepted** this Screen
 - **TSOs** should **cooperate strongly** among themselves to **harmonize process** of establishing **BCE values**
 - Dry-Run Reports should report BCE values (for each NRA), thus facilitating comparison of BCE values used by different TSOs

USAID Market Monitoring Project in SEE: MM Dry-Run (2)



- **Already Allocated Capacity (AAC) Screen**
 - o This Screen is intended to monitor **usage** of cross-border transmission **reservations**
 - o NRAs and TSOs **accepted** this Screen
 - o This Screen should be **enlarged** to show the reservation and scheduling data on the basis of individual participants

- **Critical Facilities Screen**
 - o This Screen is intended to monitor **accuracy** of the **output of the Network Model** used to calculate NTC
 - o NRAs and TSOs **accepted** this Screen
 - o **Follow-up measures** specified for this Screen need to be clarified

USAID Market Monitoring Project in SEE: MM Dry-Run (3)



- **Load Forecast Screen**
 - This Screen is intended to monitor **accuracy** of the **inputs** to **Network Model** used to calculate NTC
 - NRAs and TSOs accepted this Screen
- **In addition** to Screen-specific conclusions, Workshop participants also concluded that Consultant should:
 - Pursue an **improved approach to collecting data and calculating screens**
 - EWG suggested possibility of an “**on-line**” **interactive approach** whereby, NRAs/TSOs can enter data directly to the interface-data base (on an internet/intranet basis), access individual screens and regional screens; thus enable participants viewing MM reporting summary tables on various time horizons (monthly, weekly, daily ...), **to be able to detect eventual anomalies due on time** (main task of MM)

USAID Market Monitoring Project in SEE: Consultants' tasks defined by regulators



- Identify and propose to EWG all further cross-border Screens and identify data requirements in order to consider harmonizing with ERGEG data requirements (ERGEG Template for MM indicators)
- Propose design for a software tool for collecting and storing MM data (on an internet basis) in order to automate MM process
- Present final detailed proposal on Regional Market Monitoring mechanism/procedures in order to enable NRAs to define appropriate entity for this task on regional level; proposal to be checked with ECS where involvement by ECS would be foreseen
- To change the reporting process to ensure reports are reviewed by NRAs for data errors (any error on input TSOs data validity could be detected after outcomes' analysis/reports and it should be reported ASAP by all: TSOs, NRAs and the consultant/PE)
- Include Standard Deviation with Mean Forecast Error
- Need to address NRAs staff resources for monitoring
- Dry Run Screens could be used in future Coordinated Auction → Especially with respect to NTC model within the SEE CAO first phase, but also flow-based model in later phases

USAID Market Monitoring Project in SEE: Regional Monitoring proposal



- **Regional Monitoring** can be beneficial and can be conducted through “cooperation” among NRAs:
 - In a transition to a sustainable function in the region, NRAs can conduct national/control area MM through issuing **standardized minimum Screens**
 - Regional MM requires an **entity** to facilitate “cooperation” among NRAs
 - NRAs should have an **explicit role** in **detecting anomalies or deviations** to Market according to MM reporting, and react accordingly (reporting to competition authorities or reacting by themselves in line with their authority)
 - ✓ SEE regulators (EWG) shall decide on the structure of a Regional MM when Consultant offers additional details on proposals

USAID Market Monitoring Project in SEE: Next Steps



- **SEE regulators (EWG) proposes** to and seeks approval from ECRB (June 2010) to **draft Market Monitoring Guidelines** based on the four Screens accepted at MM Workshop
- If ECRB gives approval, Draft MM Guidelines are to be drafted by PE, reviewed and amended by EWG, and afterwards submitted for ECRB approval
- **NRAs** consider **adding data** from ECRB-approved MM Guidelines to **Information Codes** or other appropriate policy document in order to ensure and **provide frequent and continuous collection** of TSOs **data** for **MM purposes**
- **Determine a structure** within which ECS or ECRB facilitates **cooperation among NRAs** and EWG for monitoring and contributes **regional analysis** for periodic reports
- MM Dry-Run continues to develop further additions to MM Guidelines that will be reviewed by EWG and supported/approved by ECRB
- Through USAID, the Consultant (Potomac Economics) continues transition support to ECRB-S and EWG

**Regulatory incentives for promoting
new investments in transmission
infrastructure:
Analysis and Study**

The main goal of WMO in SEE Region: Investments in infrastructure - role of regulators



- Contracting parties agreed to **implement** the *acquis communautaire* on electricity, gas, environment, competition and renewables with a view to **realize** the **objectives** of the **Treaty** and to **create** a **regional gas and electricity market** within SEE capable of **attracting investment**
- **Harmonized regional approach** for EnC energy market remains the **key requirement** for the **promotion of investments** in the **SEE Region** – in comparison with small size of the national markets
- **Realization** of necessary **infrastructure** calls for **stable regulatory and market framework**, a **common regulatory approach** on regional level, **creation** of a **single energy market** without internal frontiers, **developing competition** on a broader geographic scale
- **Investments** in **new transmission line projects** remain a **key requirement** for **developing a liquid and competitive electricity market** in SEE → thus eliminate bottlenecks enabling market integration
- **Facilitating** and stimulating **new investments** is a **core responsibility** of both **national legislation** and **regulatory praxis**
- **Need** for **coordinated project planning** was also recognized by proposal for new legislative measures for EU gas and electricity internal market (“3rd Package”)

Cross-Border cooperation of regulators: Investment projects of regional dimension



- ECRB/EWG Paper “**Cooperation of Regulators with Regard to Cross Border Investment Projects**” (March 2010):
 - Regulatory Instruments for Promoting New Investments
 - Assessment of Existing Mechanisms
 - Recommendations
- **Regulatory instruments** for stimulating investments in new infrastructure projects
- **Powers of regulators** as regards cooperation and harmonization of regulatory rules related to projects crossing more than one border of Contracting Parties (“cross border investments”)
- **Improvements** of related regulatory and legislative provisions are **necessary** in order to define possible regulatory options for promoting investments
- **Pure regulatory instruments** and mechanisms could provide **facilitation of investments** based on best practice solutions from European experience

Possible regulatory instruments and responsibilities



- **Tariff incentives** without or within Article 7, Regulation (EC) 1228/2003 exemptions (regulatory rules harmonized across borders)
- For **regulatory tariff setting** Article 3, paragraph 6 (EC) Regulation 1228/2003 requires that
“The costs incurred as a result of hosting cross-border flows shall be [...] taking into account investment in new infrastructure”
- **Coordination of regulatory activities** is a key requirement for facilitation of the investments for projects crossing national borders

Cross-border investments: Two key challenges for regulatory systems



1. **Harmonization of regulators rules:** especially if a single market models is to be applied to the whole infrastructure (this might involve a “one stop shop” for capacity bookings)
 2. **Non-domestic investments:** CB projects sometimes exceed the infrastructure necessary for covering national demand. National investments plans do not necessarily include interconnections to other markets from/to which they do not expect imports/exports - NRAs will typically not accept to including (interconnection) costs, which are of benefit only for customers of neighboring markets, only in the national RAB
- From the investors´ point of view there are basically two approaches to grid investments:
 - **Fully regulated approach** - addresses a core principle of market liberalization, namely that it is the responsibility of TSOs to meet reasonable market demand and eliminate congestion by adding new capacities
 - **Contract´ approach** - in some cases investment is required which is of benefit for network users and consumers outside the network where the investment is made → This question is widely known as discussion of “non-domestic investments” and links to the so-called “regulatory gap” – NRAs powers are typically limited to the national boundaries of their market-3rdPac

Regulatory investment incentives: Review



Regulatory Instruments		Applied by
Regulatory investment incentives without exemption	Higher rate of return for new investments	FYR of Macedonia
	Deposit for capacity expansion/capacity agreement	No
	“Negative incentive” – revenues used for tariff reduction if not re-invested	FYR of Macedonia
	Others	No
Regulator has the power to recognize non-domestic investments in RAB		No
Tariff investment scheme		No
Others		No

Regulatory investment incentives: Outcomes



- For assessing the possible future measures for improving regulatory promotion of new infrastructure projects, **currently existing instruments** have to be **analysed** related to:
 - Regulatory investment incentives used for promotion of investments *without* Article 7 Regulation (EC) 1228/2003 (Article 17 Regulation (EC) 714/2009 – 3rd Package) respectively Article 22 Directive 2003/55/EC
 - Competences as regards non-domestic investments
 - Competences as regards investment planning – both on national and regional level
- Based on the results summarized in Table, it concludes that for the Energy Community jurisdictions:
 - **Regulatory investment incentives for promotion of investments** *without* Article 7 Regulation (EC) 1228/2003 (Article 17 Regulation (EC) 714/2009 – 3rd Package) are **only applied in FYR of Macedonia**
 - **Regulators do not have the power to recognize non-domestic investments in RAB**
 - **Tariff regime does not provide any specific tools for promoting investments**

Existing models in Contracting Parties

- Regulatory investment incentives – regulatory competences as regards non-domestic investments
 - Regulatory gap also exists for EnC
- National and regional competences regarding investment planning
 - Regulators of the SEE region do not have harmonized responsibilities in relation to investment projects
 - Some regulators do not have power with regard to cross border transmission line investment plans at all
 - Cooperation of regulators regarding cross border transmission investments in SEE region so far is insignificant
- Cooperation of SEE TSOs + Investors which invest in generation invest in transmission grid simultaneously (e.g. Albania)

Overview of regulatory competences: Review



	Is the regulator legally obliged to approve the transmission network investment plans?	Are cross border transmission line investments approved within the transmission network investment plans?	Did the regulator have bilateral cooperation with neighbouring markets regarding cross border investments?	Did the regulator participate in multilateral regional activities regarding cross border transmission line investments?	Are there any finalized cross border transmission investment projects that the regulator participated in?
Albania	yes	yes	no	no	no
Austria					
Bosnia and Herzegovina	yes	yes	no	no	no
Bulgaria					
Croatia	yes	yes	no	no	no
Greece	no	yes	yes	no	yes
FYROM	yes, indirectly	yes	no	no	yes, indirectly
Hungary					
Italy					
Montenegro	yes	yes	no	no	no
Romania	yes	yes	yes	yes	yes
Serbia	no	yes	no	no	no
Slovenia	no	yes	no	no	no
Turkey	yes	yes	no	no	no
UNMIK	yes	yes	no	no	no

4th South East Europe Energy Dialogue, Thessaloniki, 3-4 June 2010

Overview of regulatory competences: Outcomes



- In order to **evaluate the present role of SEE region's regulators in relation to investment projects**, a short Questionnaire has been prepared and circulated by EWG
- Outcomes of the survey shows that:
 - Regulators of the SEE region **do not have harmonized responsibilities** in relation to investment projects
 - Some regulators **do not have power** with regard to cross border transmission line investment plans **at all**
 - **Cooperation of regulators** regarding cross border transmission investments in SEE region so far **is insignificant**

SEE regulators'

Conclusions and Recommendations (1)



- **Full implementation** of the *acquis* as minimum set of a harmonised regulatory framework
- **Harmonisation** of regulatory **market rules**
- **Introduction** of **regulatory investment incentives** promoting investment **on national basis**
- **ECRB should develop** best practice **recommendations** on **regulatory incentives for promoting investment** (Proposal for ToR for a study assessing options)

SEE regulators'

Conclusions and Recommendations (2)



- **Regulators** to assess other **options** of facilitating investments, namely to develop regulatory investment incentives:
 - **Incentive tariff models** supporting the promotion of new investments
 - **Capacity agreements** (deposits)
 - **Higher rate of return** for new investments for a specified period of time or a shorter depreciation schedule to mitigate the volume and the revenue risk
 - **“Negative incentive”** using congestion revenues which are not re-invested for system expansion for tariff reduction or others
 - For the purpose of incentivizing investment, national regulators should commit themselves to a certain **tariff methodology** for a **long-term**

SEE regulators'

Conclusions and Recommendations (3)



- Overcoming the “**regulated gap**” related to **non-domestic investments** requires legal adjustments:
 - 1) **National regulators** should be **empowered to recognize extra-territorial costs in their RAB** as far as beneficial for the national customers – regulatory gap (ITC helps up to the certain extent)
 - 2) **Regional investment planning requirement:** Where not so far, **national TSOs need to be made responsible for developing investment plans** → TSOs are responsible for sorting out congestion related to reasonable demand increase (Article 2 lit 4 Directive 2003/55/EC and Article 2 lit 4 Directive 2005/54/EC)
 - 3) **NRAs** need to be **empowered to approve the reasonability** of these **investment plans** → This approval of the national regulator has to link to a **guarantee of recognition of related investment costs in the RAB** → 3rd EU Energy Package can be used, requiring TSOs to develop 10 year EU wide investment plan for review by the newly introduced Energy Regulatory Agency (ACER)

SEE regulators'

Conclusions and Recommendations (4)



- **Introducing Coordination of regional investment planning is needed:**
 - 1) To ensure **appropriate dimension** of interconnection and national capacity taking into account requirements of neighbouring and further linked markets
 - 2) To allow NRAs to **properly assess the cost of foreign investments** realized for the benefit of their national consumers
 - As an **example**: 3rd EU Energy Package **Mechanisms require TSOs to develop a 10 year EU wide investment plan** (suggestion for the EnC TSOs to take part of ENTSO-E/G planning; for gas already practiced), and for review by ACER
 - **ECRB** might be **empowered to approve EnC Investment Plan**, developed by national TSOs and approved by NRAs of the Eight region
 - **Cooperation of TSOs** regarding their coordination of regional investment planning
 - The recommendations should be in line with related recommendation on EU level (3rd Package)
-

ECRB Study: Recommendations on regulatory incentives promoting infrastructure investments



- **Consultancy demand for developing recommendations on regulatory investment incentives** has been identified for 2010 (EWG work: cooperation of regulators with regard to cross-border investments)
- **EWG will be responsible for guiding *Study for the development of the best practice recommendations on regulatory incentives promoting infrastructure investments*** - from a content related point of view (comments, input, cooperation with consultants, etc.)
- GWG suggested to extending the scope of Study also to gas (so far only the electricity sector was covered)
- Discussions and recommendation papers of both EWG and GWG (overlapping of content) currently go in parallel on questions of cooperation of regulators on cross-border projects and how to address the “regulatory gap” and non-domestic investments → Both papers in parallel argue the necessity of regulatory investment incentives
- **Draft ToR was approved** by ECRB
- Consultant was selected (E-Bridge); Waiting for the first output

**Wholesale Market Opening:
Proposal for next regulatory steps on
implementing the World Bank Study
recommendations**

Specificities of SEE Electricity Market

- **Absence** of full **unbundling** in SEE region
- **Various types of organization** of the electric power sector exist in particular SEE countries
- Existence of **dominant national players** (“Champions”) 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 in last years, but recently decrease due to the world economic crises !
- **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 !

MARKET OPENING IN SEE: NOVEMBER 2009



Contracting Party	Electricity Threshold	Switching
ALBANIA	All non-household	One large customer
BOSNIA AND HERZEGOVINA	All non-household	Two large customers
CROATIA	All customers	All non-household customers
The Former Yugoslav Republic of Macedonia	Connected on 110 kV (those who do not perform public service activity)	Only the customers connected to the transmission network (110 kV) - 9 out of 10
MONTENEGRO	All non-household	One large customer
SERBIA	All non-household	No switching reported
U N M I K	All non-household	Two large customers

Next Steps for WMO in SEE

- 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** solutions, 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 discussed at the Ministries' level !

WB Study on Wholesale Market Opening: Status of Play



- SEE Regulators' cooperated very closely with the Consultants POYRY/NordPool on their Interim Reports + discussions with TSOs, Regulators, Ministries, Traders and Industry
- WMO Workshop on consumers' role and position held in September 2009 → all stakeholders were invited, including EFET and EURELECTRIC
- Final version of the WMO Study was submitted to SEE Regulators (EWG) in late April 2010 and posted at ECRB web site
- 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

Implementation phase of WB WMO Study outcomes



- o WB provided Consultants' further support to EWG within Implementation phase
- o EWG comments document – discussion with consultants
- o Recognize possible subjects/issues within Preparatory phase
- o Detect regulatory comments which were not respected by the Consultant; Inform the Consultants about it
- o Analyze proposed CPs Action Plans (EWG)
- o Further Cooperation between SEE Regulators and WB/Consultants
- o Regulators'/EWG role, ECRB role, MC role- in implementation
- o Feasibility of the Consultants' proposal
- o Realistic deadlines for implementation

Harmonization of Wholesale Licenses: ECRB Proposal

Proposal for a Harmonized System of Wholesale Trade Licensing in the 8th Region



- **Article 34** of the **Treaty** allows the Energy Community to take Measures concerning **mutual recognition of licences**
- ECRB prepared a **Discussion Paper on the possibilities of establishing a harmonized system of licensing in the 8th Region**
- **Focus** has been put on **licensing of wholesale traders**, with the need to **make difference between wholesale trading and the supply activities** of the market participants → Supply is assumed to be of national character and subject to national licensing requirements
- **Two Work-streams** were established in order to make the work on licensing issues more efficient:
 - SEE CAO Work-stream
 - General Work-stream

CAO Work-stream

- ECRB assumed that **SEE TSOs will follow the concept adopted in the CEE region - outcome of the investigation:**
 - No licensing issues have been raised in **CEE region** and **licenses are not a prerequisite for participation in the allocation mechanism** that is conducted presently within Prague office, nor is it envisaged as a prerequisite for the participation in the allocation scheme that will be conducted by Freising CEE CAO
 - **Nominations remain within the competences of the national TSOs**, and licensing requirements might be in place for the actual nominations, but this issue has not been further investigated by ECRB EWG

General WS: Survey results 8th Region

- Regulatory proposal was elaborated **using experiences** of the **work** already conducted under the **Licensing and Competition Committee of ERRA** as a starting point
- Based on the survey results on current licensing regime of wholesale traders, **two basic models of licensing regimes were identified in the 8th Region:**
 1. **Explicit request for license** with *4 sub-models dependant on the request for national or wider presence and differentiation between trade and transit:
 - National presence (trade & transit)
 - National presence (only trade)
 - Wider presence (only trade)

*Only national companies (trade & transit)
 2. **No licensing requirements**, but other specific solutions apply

General Work-stream: Available options (1)

1. HARMONISATION OF LICENSING PROCEDURES

- Underlying question behind this approach is: **what would be the potential benefits** of its implementation?
- **Implementation would require** changes to the individual legal frameworks within the 8th Region, which could be lengthy, and only result in giving the licenses the same “weight”, without resolving burning issues
- **Legal enforcement** of this option would require a Measure of MC of EnC (Decision or Recommendation) based on the presence of political will and support

2. ABOLITION OF LICENSES

- **The most recommended by EFET** and traders in general, as it would mean taking this topic off the agenda
- **Regulatory oversight over traders** is conducted via the **administrative relation** established between the traders and the regulator by **issuing a license**
- Although necessary regulatory supervision could also be established by other means, **this would still not be a sufficient means of efficiently ensuring fair market conduct**
- **Legal enforcement** of this option would require a Decision of MC of EnC, in order to ensure that all jurisdictions involved will implement the requirement for abolition

General Work-stream: Available options (2)

-
- 3. FADE OUT OF LICENSING IN EACH JURISDICTION COMPLEMENTED WITH OTHER MEASURES ENSURING A LEVEL PLAYING FIELD FOR TRADERS WHILE ENSURING FAIR MARKET CONDUCT**
- It means the **abolition of licenses for wholesale traders, but gradually**
 - **It ensures: proper conduct from traders via contracts and other mechanisms**, such as bank or other financial guarantees, established **between TSO/MO and market participants** (including traders), on the other hand
 - **It means: traders would not be licensed, but their proper market conduct is ensured primarily through contractual and financial responsibility**
 - **Licenses obsolete under the following Assumption: regulatory oversight over traders is ensured in another manner set out in relevant legislation**, such as the possibility of the regulator to **seek the relevant data** from the traders themselves or Balance Responsible Party, and be **equipped with the necessary legal instruments to ensure fair market conduct**
 - In order to be fully set up, this model assumes that **all of the abovementioned mechanisms are fully in place before the final abolition of wholesale trading licenses** can take place
 - **Decision of MC of EnC to set up necessary mechanisms ensuring proper market conduct of the traders**, both in terms of **setting up their financial responsibility** and **their susceptibility to regulatory oversight**, which would be followed by verification of the full implementation in the 8th Region
-

General Work-stream: Available options (3)

4. ONE LICENSE VALID IN THE REGION

- Often mentioned **as an ideal solution**, but one that is **the hardest (if not impossible) to implement**
 - **Problems lie** both in the **issuing procedure** and the **enforcement**, mainly **legal nature**: in the 8th Region it is generally not possible to issue a license to a foreign entity as national regulators do not have administrative powers over foreign entities
 - Requires the absolute same conditions for **issuing a license** and the exact same monitoring rights of all the regulators involved, in order to ensure a level playing field
 - Regarding the **enforcement**, the situation is much more **complex**, e.g. in case trader makes an infringement in a jurisdiction, and it requires revocation of trading license.
 - **Very heavy legal requirement** to give possibility for all regulators to **sign legally binding multilateral international agreements** with other regulators, by which they could regulate monitoring functions, rights and obligations of regulators in the “one license valid in the whole region” concept
 - Fact that **there are jurisdictions** in the region **without licensing requirements** (Italy, Austria, Slovenia) - **hard to justify the need to (re)introduce licensing** requirements for wholesale traders
-

ECRB recommendation on Licensing Options



- ECRB discussed and analyzed presented four Options taking into consideration:
 - Advantages and disadvantages
 - Scope of facilitating trade across borders
 - Reduce the barriers for new market entrants
- ECRB concluded that the **preferred option** which should be pursued in the 8th Region is the **Option 3**:
 - ✓ **FADE OUT OF LICENSING IN EACH JURISDICTION
COMPLEMENTED WITH OTHER MEASURES
ENSURING A LEVEL PLAYING FIELD FOR TRADERS
WHILE ENSURING FAIR MARKET CONDUCT**

Next steps ⁽¹⁾

- Given that the same issue is being discussed on European level and a **Study** (results expected in mid 2010) will be commissioned based on discussion results of **ERGEG** and in cooperation with the European Commission, **the recommendations of ECRB paper therefore remain preliminary** to the extent of **possible alignment with the result of the ongoing discussions on European level**
- **ECRB will continue cooperation with the EC and ERGEG** in this respect and **develop a final position** after finalisation of the EU study
- SEE regulators (EWG) produced Draft document on elaboration of possible requirements for enabling fading out of the wholesale licenses in the eight region, including a list of specific questions

Next steps (2)

- It is suggested that the **PHLG, based on the final ECRB recommendations** – expected to be presented to PHLG in **Q2-Q3 2010** – and in preparation of the work of the MC, **will develop a position on:**
 - **Whether Measures** under Art. 34 **should be taken**
 - **Which approach** should be **implemented**
 - Task ECRB to **elaborate legislative steps** that need to be taken in the 8th Region
- Based on the advice of the PHLG, the **MC might take a final decision on Measures** in line with Article 34 of the Treaty

Conclusions

Conclusions (1)

- 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 the 8th Region could be supported by SEE stakeholders and Ministries – entering implementation phase
-

Conclusions (2)

- Harmonization of rules and regulations between SEE Contracting Parties
- Transparency of relevant market information and prices
- Equal market access to all
- Co-existence of bilateral and exchange trading
- Implementation of Balance Responsibility for wholesale market participants
- Generator – Supplier unbundling, at least removal of traditional Full Supply Contracts between Generators and Suppliers/Eligible Customers
- Introduction of regulatory investment incentives promoting investment on national basis



Contact:

Nenad Stefanović
ECRB EWG Chairman
Senior Expert for Electricity
Energy Agency of Republic of Serbia (AERS)
Terazije 5 / V
11000 Beograd-Serbia
Tel: +381 11 3037 253
Fax: +381 11 3225 780
E-mail: nenad.stefanovic@aers.rs
URL: www.aers.rs