

A one day Workshop:

# Opening Up the West Balkans Energy Market

Organized jointly by IENE and AERS

Belgrade, Serbia, March 7<sup>th</sup>, 2012

## Panel Discussion:

# Electricity Traders' view on SEE electricity market

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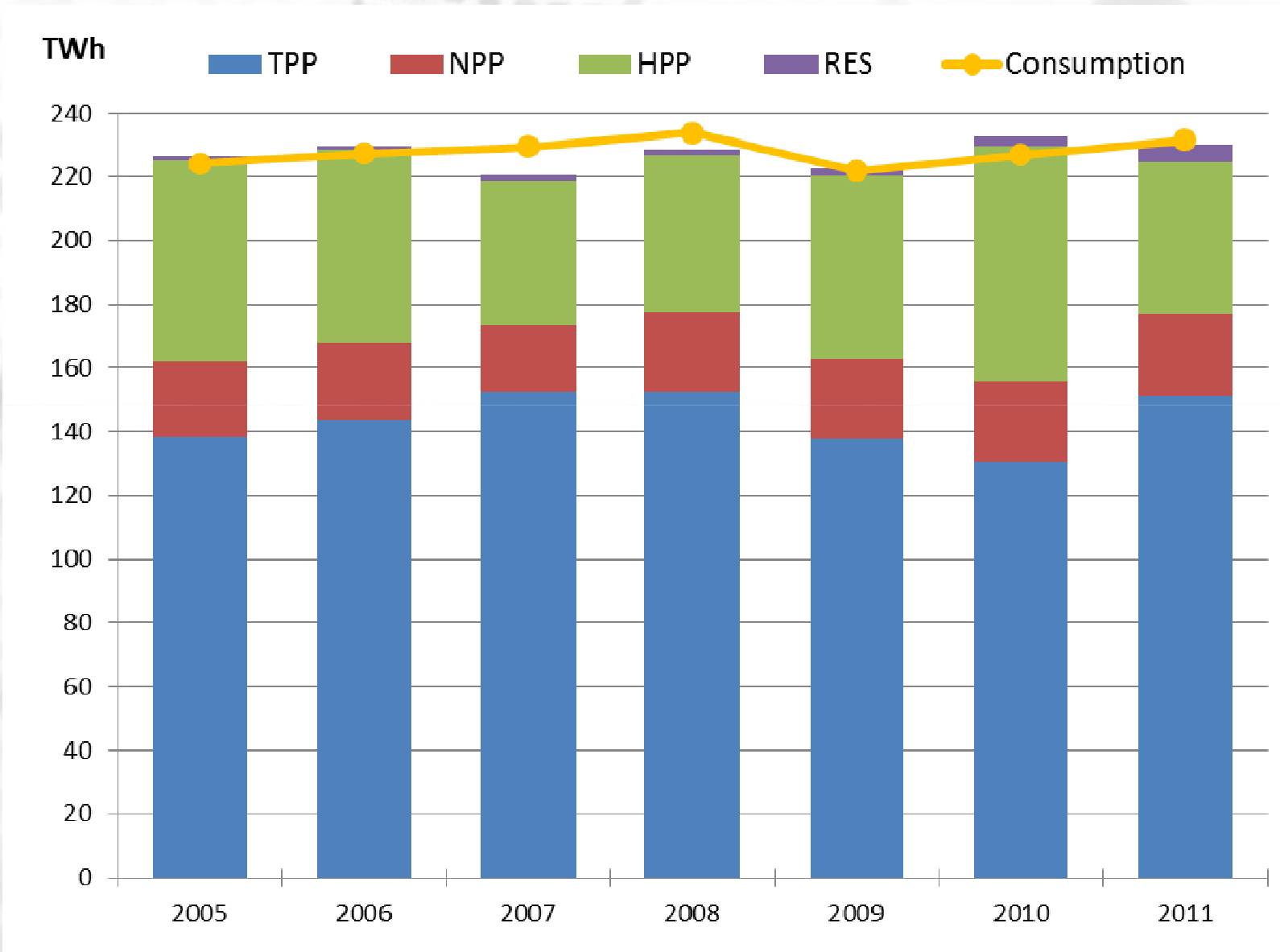


# EFT Group in brief

- Privately owned energy investment and trading company with over a decade of successful operation throughout the Europe:
  - from Germany on West to Turkey on East, and from Lithuania on North to Greece on South
- Business in **20** countries with **150** partners, coordinated and mainly conducted from:
  - the **first** and the **largest** Trading Floor for power trading in Southeastern Europe
- Turnover in year 2011: 40 TWh & 2.2 billion €
- Ongoing power project investments:
  - 300 MW thermal power plant “Stanari”
  - 35 MW hydro power plant “Ulog”
- One of the 100 EFET members, active participant in a number of regional and local initiatives, conferences, workshops and other projects

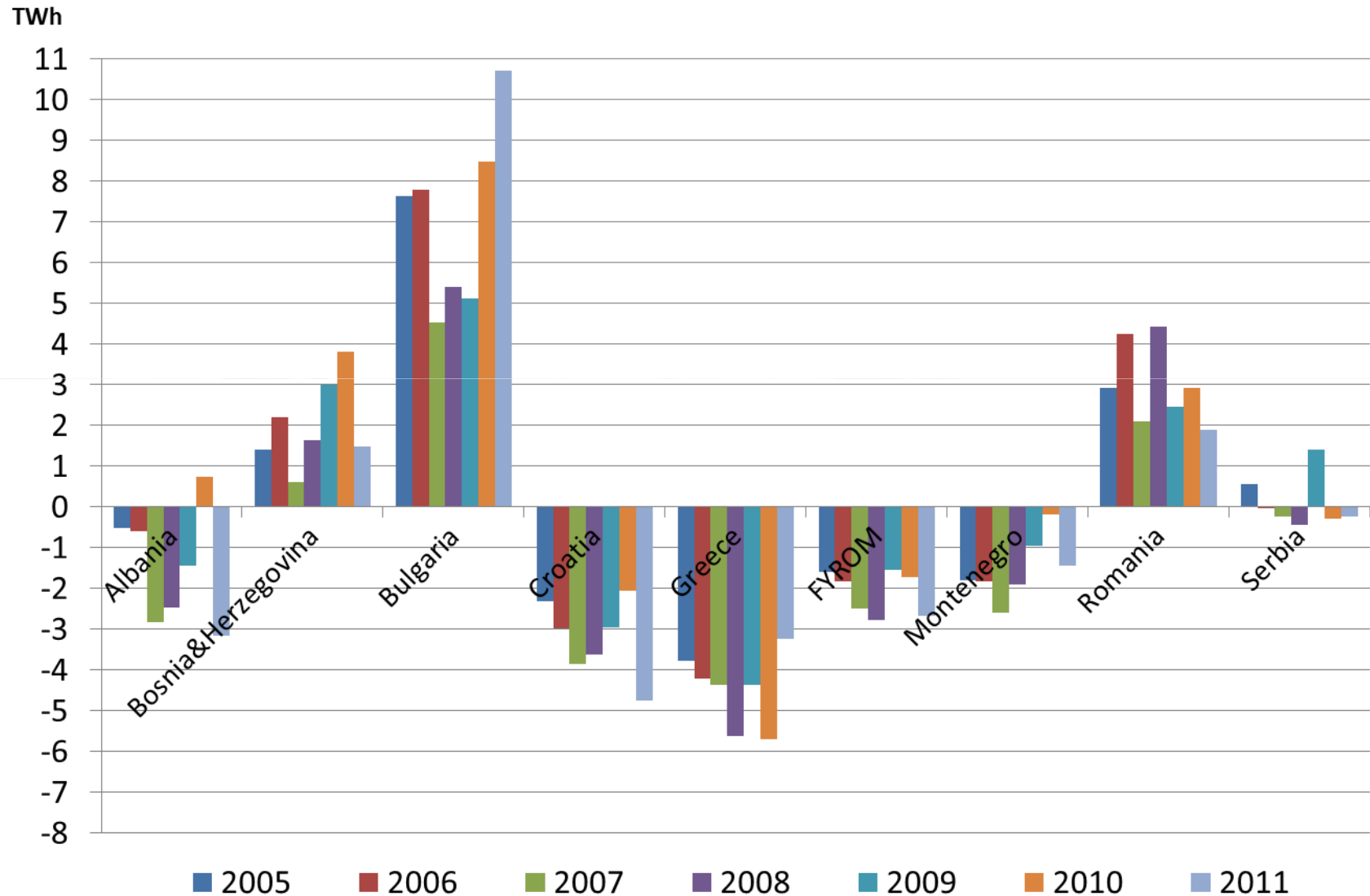
# Electricity data about West Balkans region (1)

Yearly data (2005-2011) about production (by fuels) and consumption



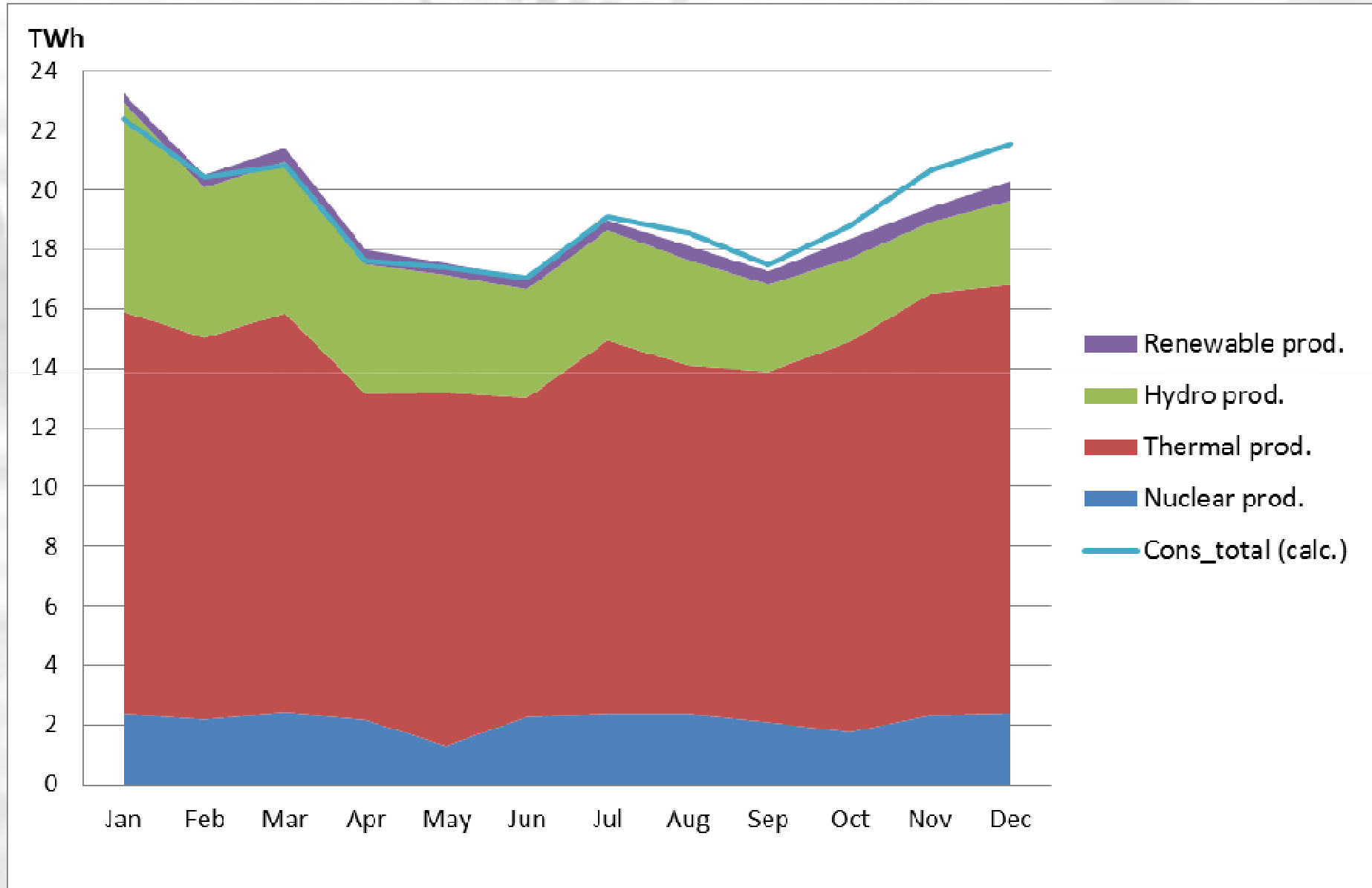
# Electricity data about West Balkans region (2)

Yearly data (2005-2011) about power balances by countries



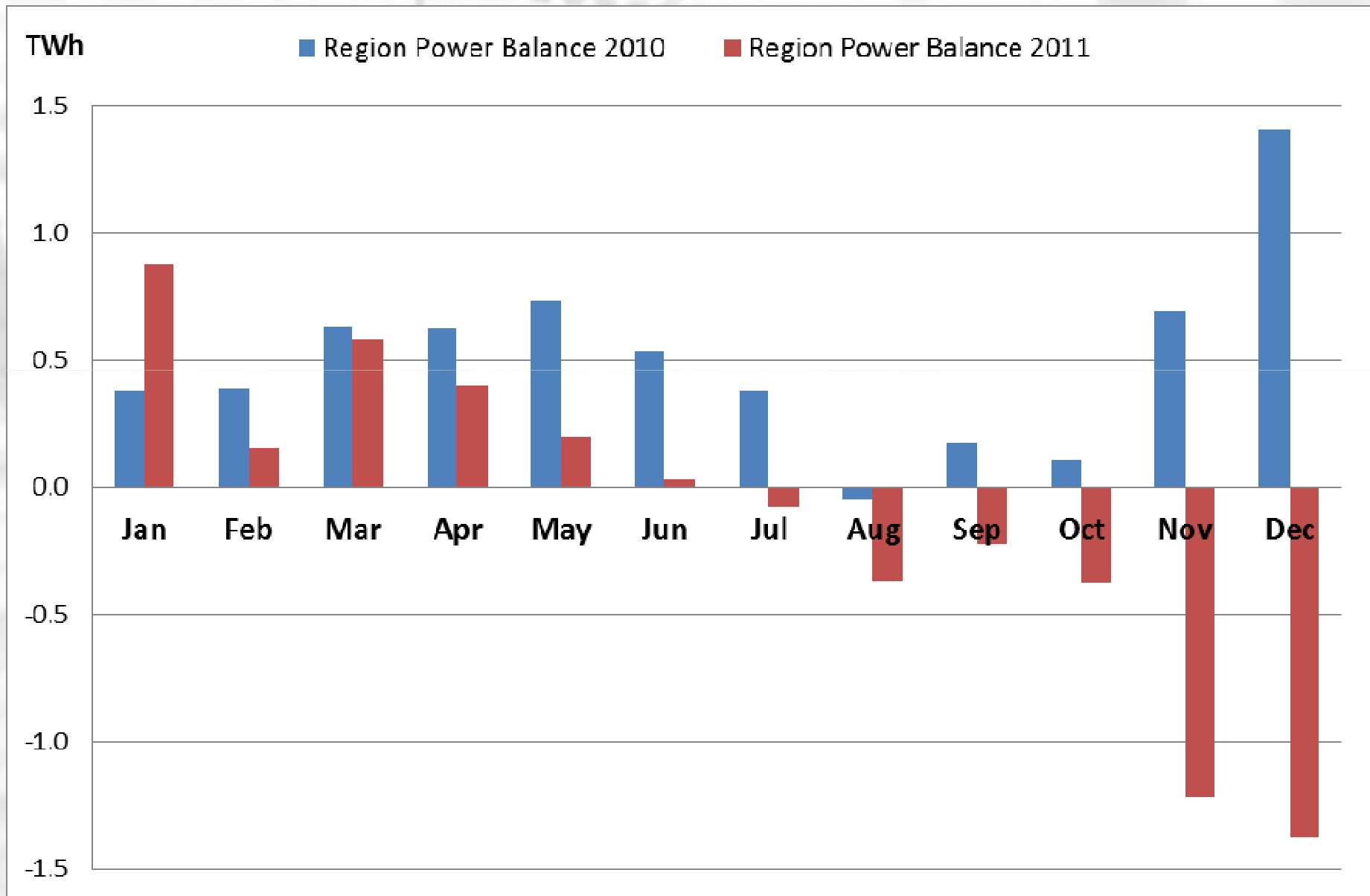
# Electricity data about West Balkans region (3)

Monthly data (2011) about production (by fuels) and consumption



# Electricity data about West Balkans region (4)

Region Power Balances for year 2010 & 2011



# Legislative framework of the regional market

- EU - **Third Energy Package**, with implementation through Energy Community
- **Energy Community** - Treaty (8<sup>th</sup> region within EU Regional Initiatives)
- **ACER** - Framework Guidelines on Capacity Allocation...:
  - ...and Congestion Management for **Electricity**, July 2011
  - ...Mechanisms for the European **Gas** Transmission Network, August 2011
- Energy Community Regulatory Board (**ECRB**) & **ENTSO-E's** Market Regional Group SEE:
  - REGIONAL ACTION PLAN FOR MARKET INTEGRATION IN SOUTH EAST EUROPE, August 2011



# Regional market - via integration of national ones

This Regional market have:

- 230 TWh of yearly consumption,
- Plausible generation mix:
  - 30% from hydro power plants, and
  - the rest mostly from thermal and nuclear power plants, with expansion of RES in last couple of years,
- some 30 TWh/year of (free) cross-border electricity trade,

and may be established by integration of national markets, but this should be preceded by:

- Developed/open national (internally) markets, **with or without** national Power Exchange applied in this market opening, and
- Improved regional cooperation on different levels

and eventually followed with one regional power exchange.

# Capital investments in infrastructure projects

## Transmission

Recently built interconnection overhead lines:

- Hungary-Romania, 400 kV Bekescsaba-Nadab-Arad, December 2008
- Bulgaria-FYROM 400 kV Chervena Mogila-Štip, year 2009
- Hungary-Croatia, 400 kV Pecs-Ernestinovo, November 2010
- Montenegro-Albania, 400 kV Podgorica-Tirana/Elbasan, May 2011

## Generation Capacities

In last 3 years only couple of mid-size hydro power plants was commissioned (~100 MW), a number of wind farms (~1000 MW), but main investments was in gas-fired power plants (some of them are CHP). Installed capacity of CCGT plants built since 2009 is:

- 1700 MW in Greece,
- 100 MW in Croatia,
- 220 MW in FYROM,
- 860 MW in Romania,

but gas supply (redundancy of supply route) and (long-term) price issues remains open...

❖ **Excess of Generation Capacity is absolute prerequisite for the competition and functional (regional) market(s) !**

# Ongoing regional projects

- Within **Energy Community** Area of work, among others:
  - Security of Supply > TREATY MEASURES / STATEMENTS; S.O.S. for Security, it should be addressed a.s.a.p.
  - Regional Energy Strategy > TOWARDS THE STRATEGY; The mandate of the Regional Energy Strategy Task Force will be to elaborate a comprehensive strategy, covering:
    - i. Demand for **new power generation capacity** to cover the increasing electricity demand
    - ii. Maintaining the level of **security for electricity supply** in view of the need for decommissioning of obsolete and polluting power units;
    - iii. The drive for decarbonisation of the energy supply in the Energy Community
    - iv. Increasing energy efficiency and incorporating this response in demand planning
    - v. Potential for development of RES, support schemes and realistic investment plans.
    - vi. Potential for **larger gas penetration** in the Western Balkans due to the construction of new pipelines.
  - Electricity > Regional Market > Coordinated Auction Office
    - Project officially started in May 2007
    - Action Plan in May 2008
    - Definition on the 8<sup>th</sup> Region in Jun 2008
    - Memorandum of Understanding on the establishment of CAO in December 2008
- European Commission > Energy infrastructure: North-South Interconnections in Central-Eastern Europe (covering Romania, Bulgaria and Croatia)

## Further unbundling needed

- MO (Market Operator) from TSO (Transmission System Operator)
- GenCo/DisCo/Supplier within (state owned) Power Utilities
- ITSO → ISO → ITO (in accordance with Third Energy Package), but:
  - ❖ The real question is **funding**, effective planning and construction of transmission network

# Rules and Procedures (R&P) - improvement and development (1)

Progress so far achieved (only?) on implementation of **Cross-Border Capacity (CBC) AUCTIONS** on all borders within the region. Standardization and harmonization is needed on the operational level for effective functioning of the market.

## Improvement of the existing R&P:

- ✓ Day-Ahead and Intraday CBC auctions to be introduced on all borders, with standardized **continuous** (without only 4 or 6 sessions daily) procedure with minimal announcement time
- ✓ CBC allocation on a joint principle (one border, one allocator), which will also remove:
- ✓ Problem of different intra-month product definitions for month ahead CBC allocation (inefficient use of capacities)
- ✓ To standardize region-wide Scheduling nomination rules and deadlines
- ✓ To implement UIOSI (Use it or Sell it), instead UIOLI (Use it or Lose it)

# Rules and Procedures (R&P) - improvement and development (2)

## Development and implementation of new R&P for removing evident obstacles

- ❖ Introduce concept of Firm, Uninterruptible and UIOSI Cross-Border Capacities,
- ❖ Abolishing export (and import) taxes; interesting to notice that only 3 net exporting countries (Bulgaria, Romania and Bosnia&Herzegovina) are at the same time the ones with export taxes, together with Greece, which in turn has also an import tax, as Romania do,
- ❖ Introduce much more **transparent** ATC (commercially **A**vailable **T**ransmission **C**apacity for auctioning by market participants) calculation and harmonization between neighboring System Operators; need for **supervision** by regulatory bodies or other relevant (inter)national institutions

# Lessons to be learnt from February 2012 (1)

- ❖ In **February 2012**, after we had:
  - Severe draught (empty reservoirs)
  - Heavy snowfalls
  - Low temperatures
  - Increased consumption
- ❖ Extreme measures took place in most of the countries, by referring to declared *Force Majeure* due to bad weather conditions :
  - **Ban of export** (disabling execution of existing trade contracts)
  - Already allocated and paid **import CBCs takeover**
- ✓ One have to exploit all available market based measures before distorting the regional market by taking radical moves, such as Force Majeure declaration, which should be used only as a last resort.

## Lessons to be learnt from February 2012 (2)

- ❖ Security is costly = fact
- ❖ What are acceptable risks?
- ❖ Imposing costs to other parties = wrong
- ❖ What is the cost of undelivered kWh?
  
- ✓ Short-term measures:
  - ✓ Better (co-ordinated) planning and securing reserves
  - ✓ Revision of abovementioned plans by independent (regulatory) body
  - ✓ Better regional co-operation
  
- ✓ Long-term measures:
  - ✓ Regional rules about mutual help in such situations
  - ✓ New generation capacities
  - ✓ New inter-regional interconnection lines



## Instead of conclusion

- ✓ There is obvious (urgent) need for Generation Capacities investments in the region.
- ✓ Further upgrade and modernization of transmission network will contribute not only to increased SoS, but also to efficient operation of (regional) electricity market(s).
- ✓ Well-interconnected and well-functioning internal electricity/energy markets are prerequisite for establishment of regional one.
- ✓ Work further on improving internal/national markets with intensifying regional planning and cooperation in parallel -> for mutual benefit.

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# **Thank you for your attention !**

### **Panel Discussion: Electricity Traders' view on SEE electricity market**

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