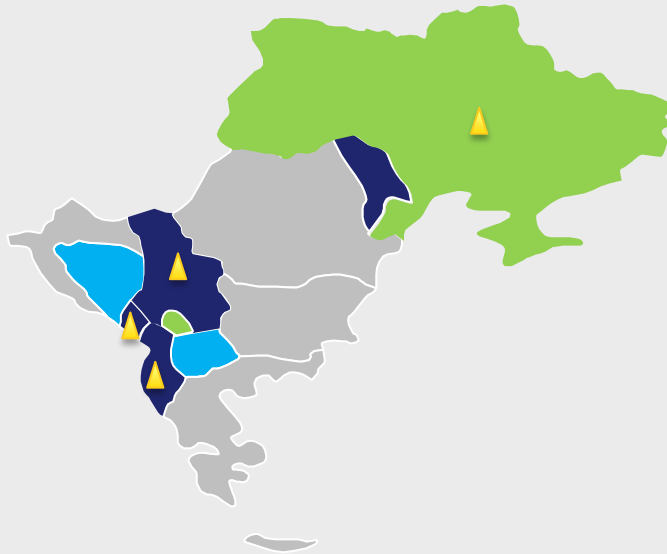




Electricity Trading in South East Europe - conclusions and priorities (AF Day1 summary)

Simon Uzunov

Energy Community Secretariat



- Third Package compliant Law adopted
- Third Package Law in the Parliament
- Draft law for 3rd package implementation existing
- ▲ 3rd package related 2ndary legislation under development

□ Local Market implementation to be completed

- **Third Package** - transposition / implementation, development of secondary legislation
- **TSO / DSO** – unbundling and functional independence (certification / compliance)
- **Price deregulation** – generation and supply prices, support schemes, cross-subsidies, VAT and public procurements laws



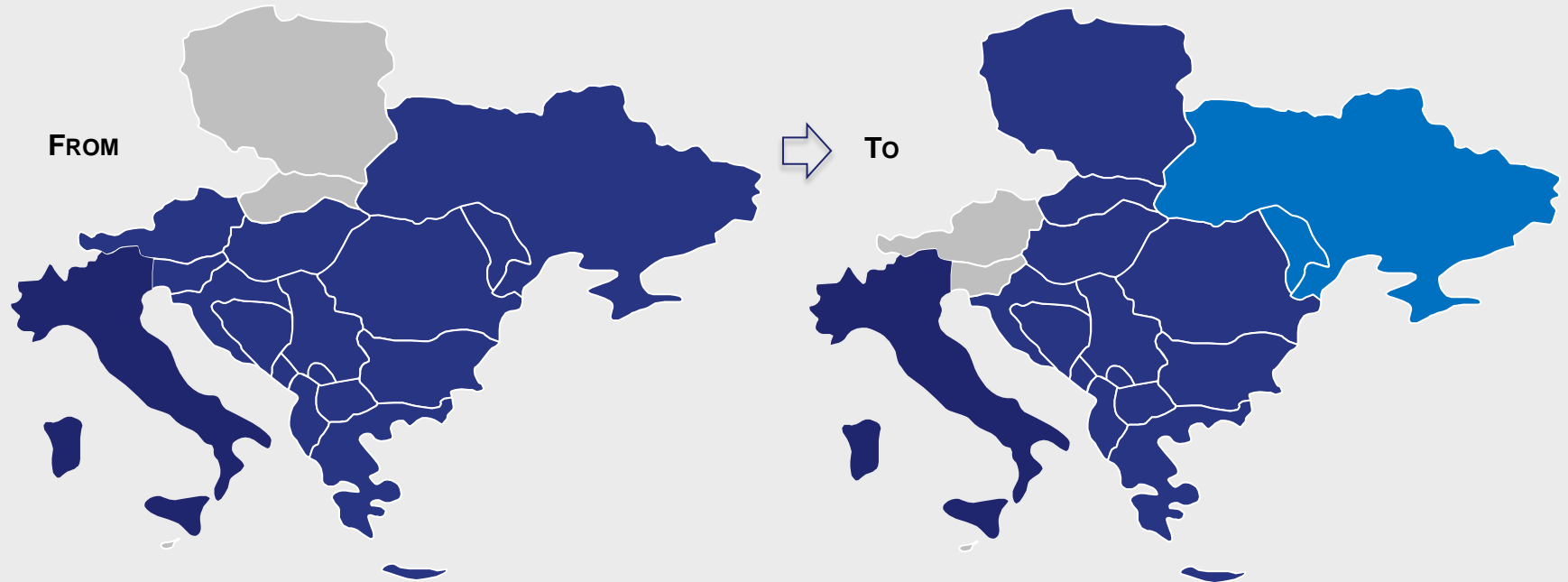
- ❑ **Alignment with the EU is required both for the EU and Energy Community countries**
- **New acquis** – Network Codes, REMIT
- **Reciprocity** – borders between EU-MS and EnC-CP, treatment of interconnectors
- **Legal gaps** – cross border cost allocation, dispute settlements, TPA exemptions, treatment of priority projects (PECI - PCI)

■ **CACM can hardly be implemented in EU if not implemented in the EnC as well**

❑ **Methods to overcome discrepancies suggested by ECS**

- **“Switch-On clause”** to be applied – for Network Codes, REMIT (or Treaty - Title III / IV)
- **“Third Country” reference** to be excluded (in the context of EnC-CPs reciprocity)
- **ACER Regulation** to be amended – compensating the regulatory / legal gaps
- **Treaty** to be amended – NC direct applicability, reciprocity, dispute settlement
- **Trading region** – to be re-established (including EnC-CPs)

























































❑ Trading region proposed by ECS










MC DECISION 2008/02

TITLE III ENERGY COMMUNITY TREATY

Energy Soft Measures Implementation

Measure	Albania	Bosnia and Herzegovina	Kosovo*	FYR of Macedonia	Montenegro	Serbia
Primary Law(s)						
Complementary Legal Acts						
Organised Day-ahead Market						
National Balancing Market						
Regional Capacity Allocation						
Price Deregulation						
DSO Unbundling						
TSO Unbundling						
NRA Independence						
Implementation of Inter-TSO Agreements	/	/		/	/	

 Critical
  Significant delay
  Insufficient progress
  Pending
 Progress on track
  Significant progress
  Accomplished

❑ Challenges (local)



- **TSO unbundling** – provisions not transposed in the energy laws of **Bosnia and Herzegovina, Kosovo***, and **FYR of Macedonia**
- **DSO unbundling** – Legal provisions exist however **implementation is missing**
- **Price deregulation** – cross-subsidies prevent fast deregulation in **Albania, Bosnia and Herzegovina, Kosovo***, **FYR of Macedonia**
- **Spot markets** – legal and institutional **framework is missing** in all countries (except in Serbia)

■ Progress in implementation of the WB6 “soft measures” is lagging behind expectations

❑ Challenges (regional)

➤ Tasks (focus):

- **Day-ahead market coupling**
 - Market Coupled with at least one neighbouring (WB6 or EU) country >> **July 2018**
 - Implementation agreements >> **Nov 2016**
- **Cross-border balancing**
 - Balancing mechanism in place >> **Dec 2018**

➤ Obstacles:

- Fragmented legal / regulatory environment
- Multiple authorities (NRA, Min, TSO, PX)
- Uneven / delayed national market reforms
- Voluntary approach / complex objectives
- Stringent deadlines



❑ Implementation methodology

- Program management (top-down priority program objectives) – WB6 Annex
- Project management (voluntary bottom-up project execution)

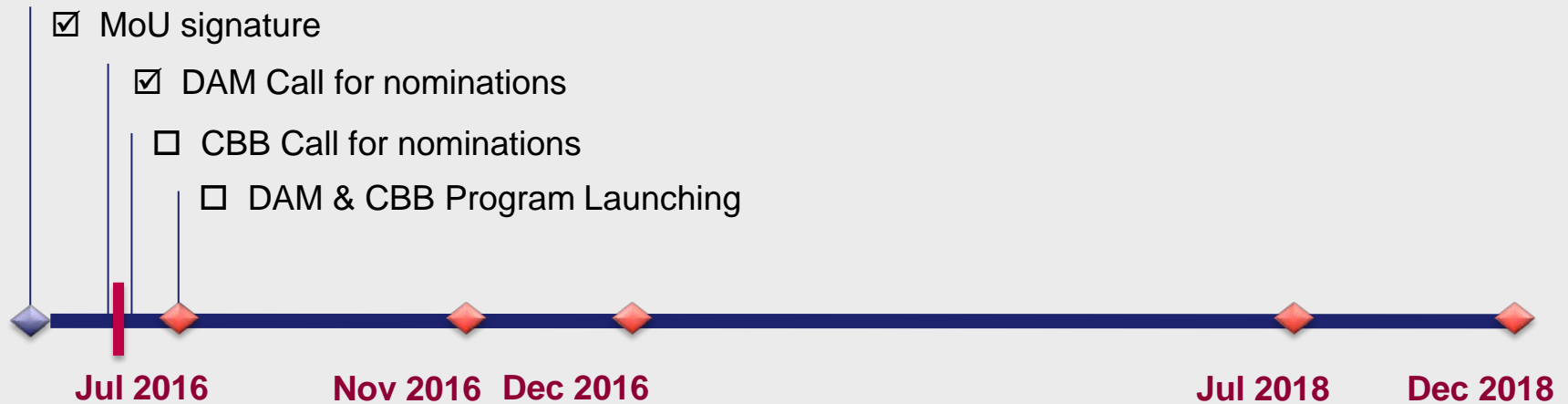
▪ Program management is doing the right projects ...

➤ Regional actions:

- Preparatory phase – identify the activities, draft the plans
- Decision phase – gap analysis, FS, consultations (e.g. SEEPEX-4MMC project)
- Implementation phase – establish a WB6 PX (initiative for MC, working procedures)
- Timing – signatories to **respond to the call for nominations in SC by 17.6. 2016**

▪ Take into account the work and solutions adopted in EU

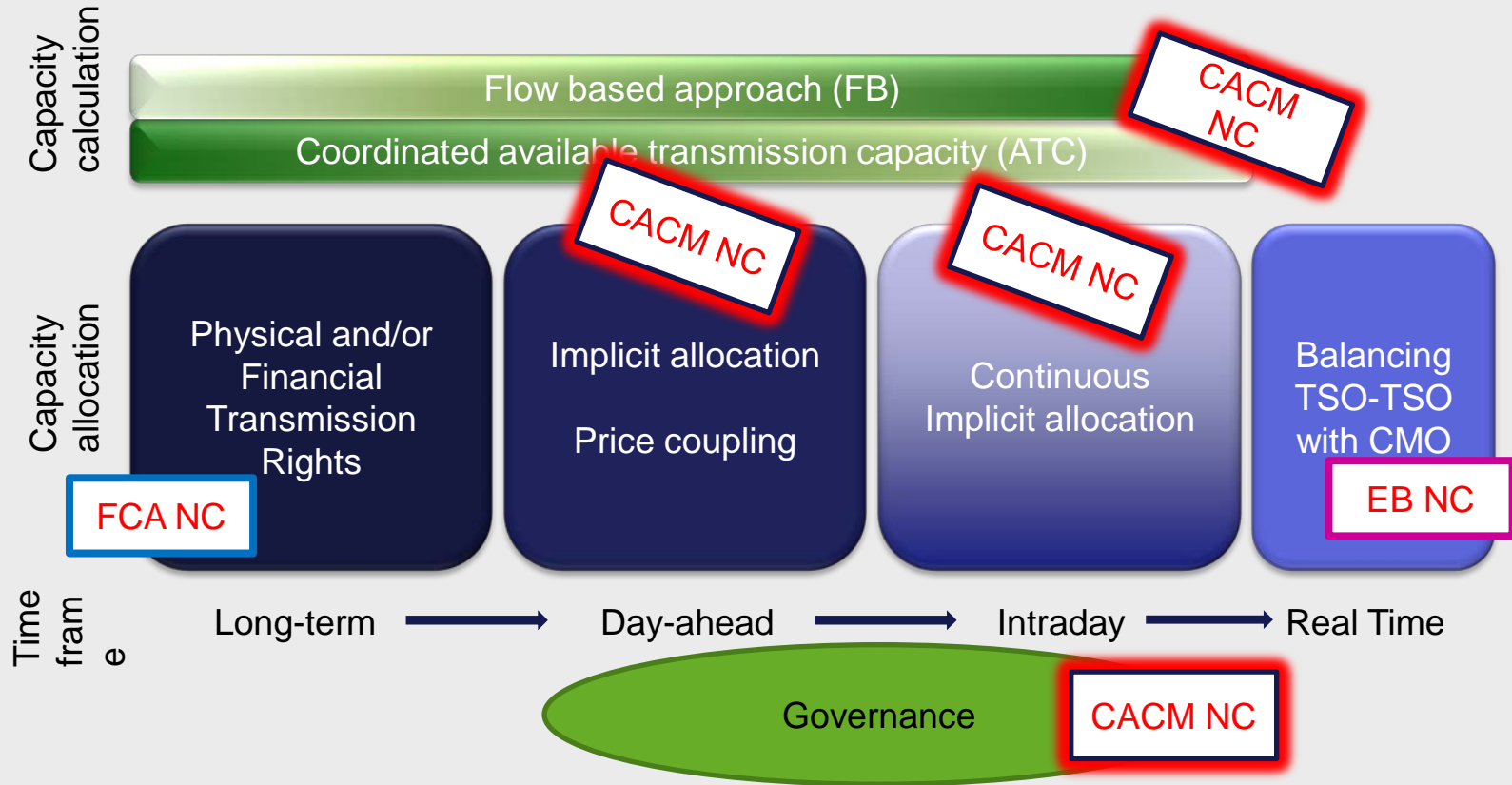
☐ Milestones



Establishment of
strategy execution
framework

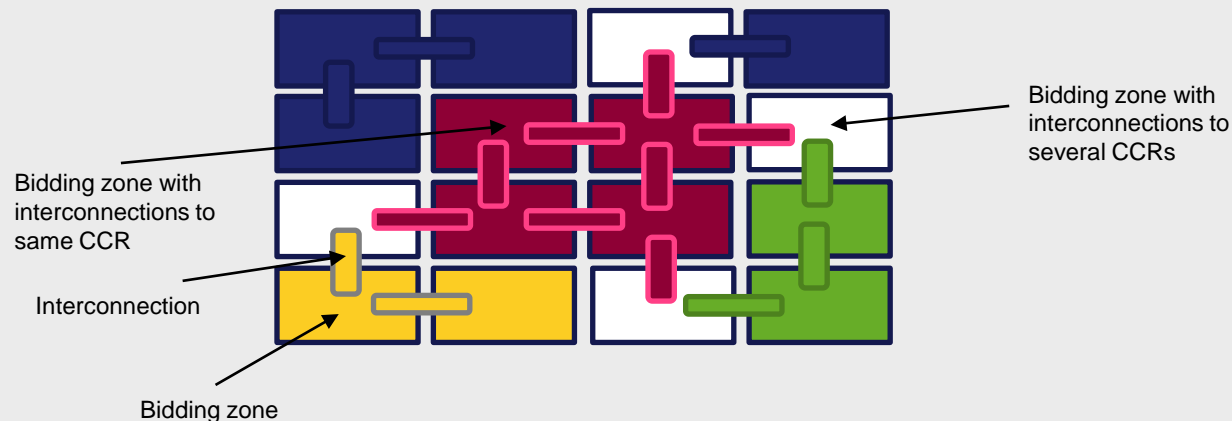
Intermediate milestones

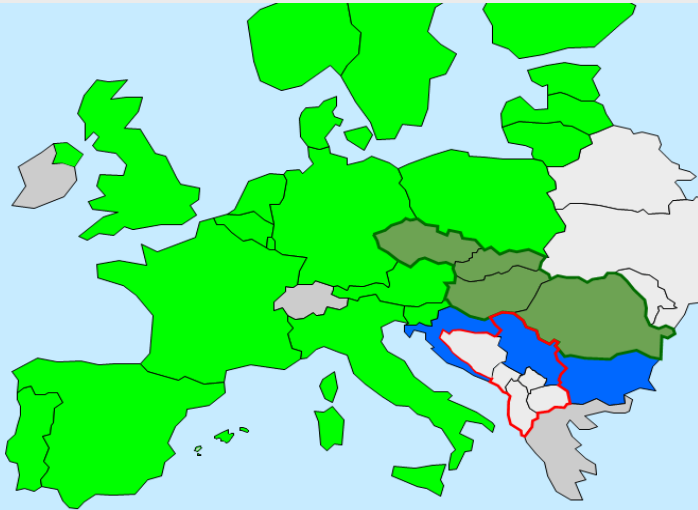
Final achievements



□ Capacity calculation concept of the CACM Regulation

- European target model applies cross-zonal intraday capacity allocation and energy trading based on implicit continuous allocation
- Each Bidding Zone border is attributed to only one Capacity Calculation Region (CCR)
- There are 10 basic CCRs in EU – 11th is the SEE (now only RO, BU and GR, the rest will be included upon implementation of CACM Regulation)





Market Coupling

- As many as 19 countries in the EU are coupled under Multi-Regional Coupling (MRC), standing for 85% of the EU electricity consumption
- Another 4 countries belong to 4MMC area (RS has expressed interest to join the 4MMC)
- Benefits (maximizing social welfare) – every GW of cross-border capacity allocated provides annual social welfare gain of 12.5 Million EUR.
- ENTSO-E draft indicative plan for extension of MRC to the neighbouring region (including SEE) **by 2022**

Borders	Target time	Remarks
ELES – APG, ELES – Terna	July 2016	
50 Hertz – CEPS, APG – CEPS, APG – Mavir, CEPS – Tennet (DE), ELES – HOPS, HOPS – Mavir	July 2017	NTC-based for 4MMC if CBA verified, else July 2018 - verification or correction of CBA needed by June 2016
Eirgrid – NG/SONI – NG	Oct. 2017	Part of I-SEM project
IPTO – Terna	Dec. 2017	Greek legal and regulatory reforms for DA market foreseen in Q2 2016
50 Hertz – PSE, CEPS – PSE, SEPS – PSE, swissgrid – APG/DE-TSOs/RTE/Terna	July 2018	Flow-based coupling with merger CWE and CEE CCRs, s.t. development+testing going well; swissgrid coupling s.t. EU political agreement, could also be earlier with NTC once politically solved
EMS – HOPS, EMS – Mavir, EMS – NOS BiH, EMS – Transelectrica, HOPS – NOS BiH	July 2020	Possibly faster if fewer new PXs are founded (see above)
CGES – NOS BiH, CGES – OST, EMS – ESO, EMS – KOSTT, EMS – MEPSO, ESO – IPTO, ESO – Transelectrica, IPTO – MEPSO, KOSTT – MEPSO, KOSTT – OST	July 2022	Possibly faster if fewer new PXs are founded (see above)

□ EU proposal

- Problem of establishment an EU-EnC region and coupling across the borders between EU and EnC
- Legal solution is proposed for implementation of CACM (as alternative to WB6 MoU initiative) and mandate to a decision-body



□ EU proposal

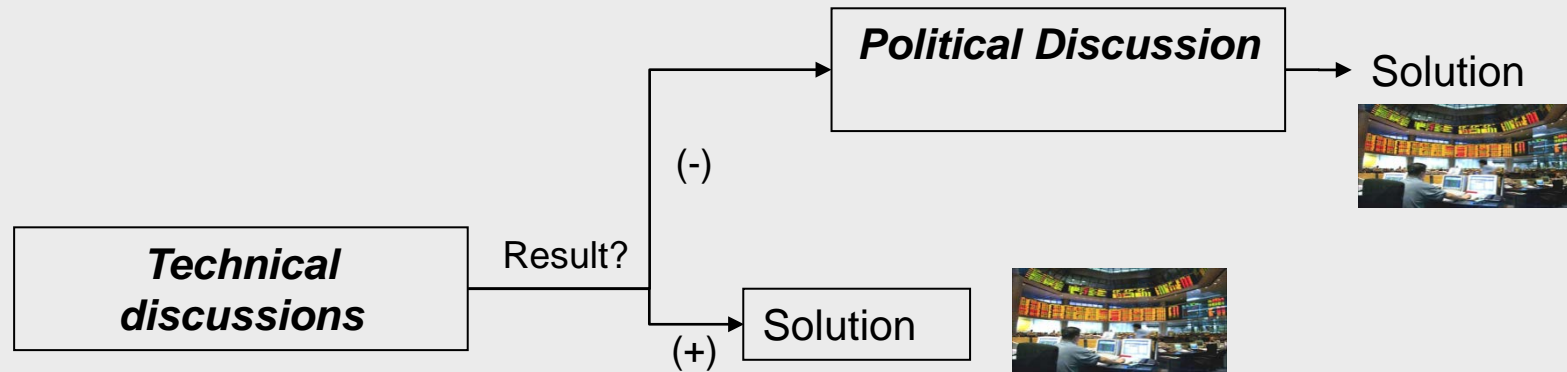
- Integrated coupling in SEE is considered as the only reasonable approach after the successful integration of 85% of the market
- Simple implementation of CACM cannot solve everything – methodology proposed

11. Capacity Calculation Region 11: South-east Europe (SEE)



□ EU methodology

- Iteration of technical and political meetings (CESEC model) to prepare CACM implementation
- Identification of key problems on technical level and solution
- Solution of selected problems on political level
- Early implementation – extensive coordination is required (integrated roadmap)



□ ECS methodology



- **De facto reciprocity** - Involvement of WB6 stakeholders in ongoing EU CACM implementation discussions
 - “early implementation” ensuring *de facto* reciprocity on CP-MS IPs

- **De jure reciprocity and legal bindingness**
 - Formal adoption of CACM Regulation in the EnC
 - Formal reciprocity on CP-MS IPs
 - No duplication of CACM Regulation methodologies

❑ **ENTSO-E methodology**

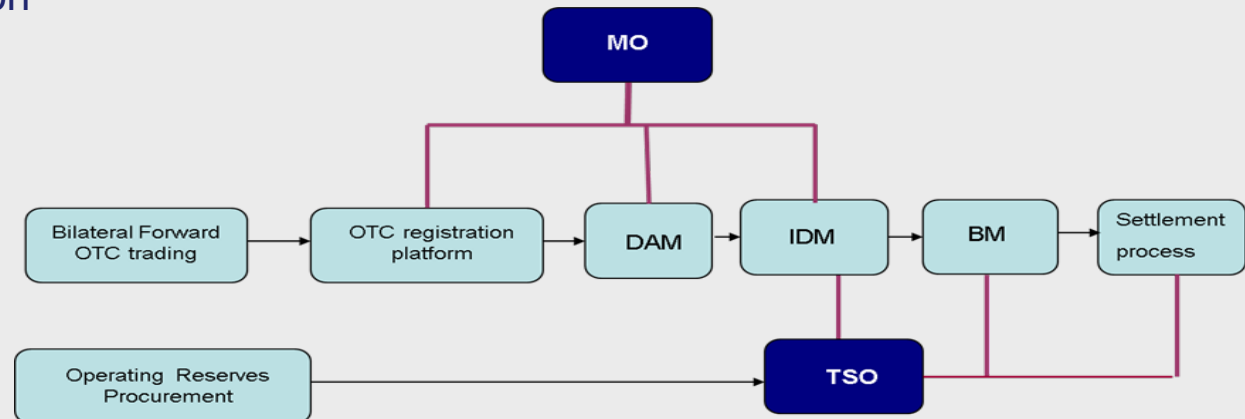
- TSOs are currently facing multiple workflows that address similar topics under different conditions (legal, geographical...)
- ENTSO-E and the TSOs are generally welcoming engagements of EC and ECS to support the coordination of other actors – there is a need to gain better understanding of what the EC and EnC SEE trading region initiatives actually cover (CACM and its early implementation is only a part)
- Need to keep all workflows consistent and simple – work on synergies
- ENTSO-E pan-European DAM coupling plan is the way forward for the MRC extension

□ Advantages of Market coupling

- Market coupling is advanced, efficient form of day-ahead electricity trade
- Instead of two steps (buying first the capacity and then trading via the exchange or otherwise), parties are able to trade in one step in an automatically coupled international market
- Market coupling will soon be a single pan-European day-ahead solution
- For the SEE region...
 - *On short term horizon, the goal is to establish the liquid DAM with market coupling mechanism in place*
 - *On mid term horizon, the aim should be to examine bidding zones configurations as well as potentials for implementing FB solution in order to increase benefits and maximize social welfare*

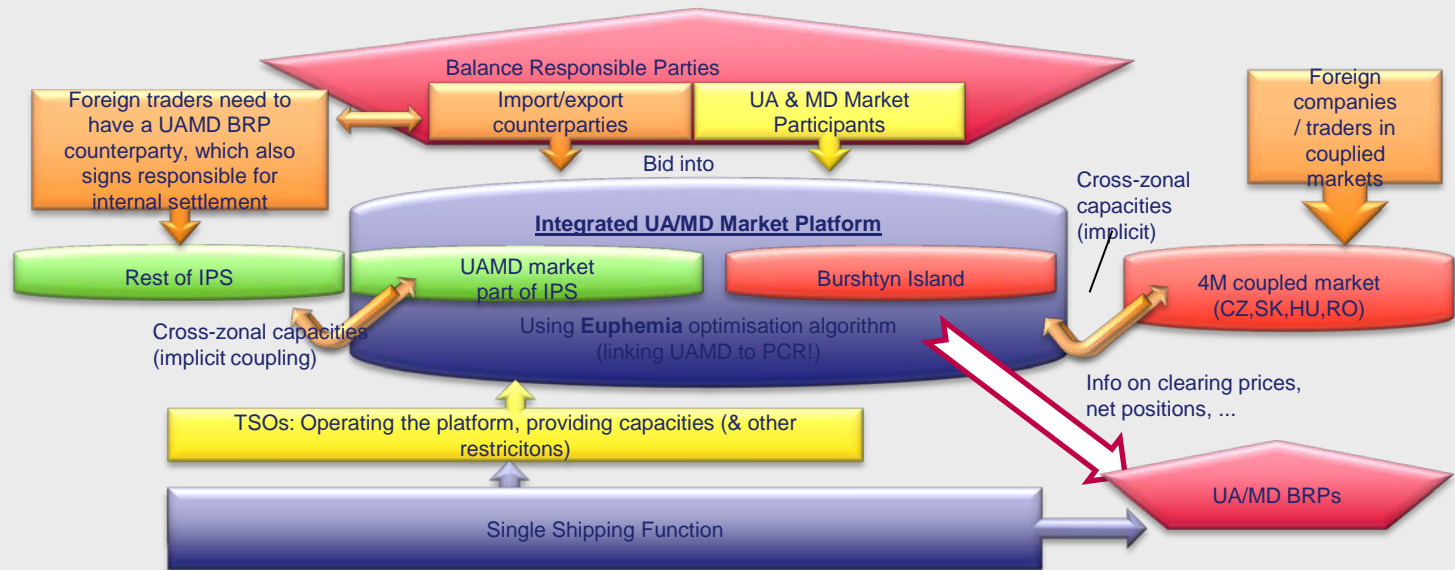
❑ Market reforms

- **The Electricity Market Law – today (02-06-2016) in the Verkhovna Rada**
- Electricity TSO restructuring (OU model of unbundling)
- Market model (concept design approved by NEURC), transitional provisions
- Secondary legislation



❑ Market integration

- Double coupling principle is proposed for market integration of Ukraine
- Synchronization with ENTSO-E – additional studies are needed, technical requirements to be fulfilled





□ TSO response (1)

- Optimal use of Interconnection capacities:
 - there is regulatory framework
 - no optimal calculation (NTC, bilateral harmonization)
 - no optimal allocation (e.g. explicit auctions on DA level)
- Improvement potential:
 - CACM, FCA and SO NCs full implementation
- TSOs as traders in the electricity markets (for network losses) – contribution to liquidity vs. conflict of interest
 - Conflict of interest:
 - TSOs do have better insight in potentially commercially sensitive information (system state)
 - minimise losses vs. maximize trade
 - Obvious contribution to liquidity

□ TSO response (2)

- RSS will contribute to the more efficient utilization of the capacities – considered as a big step
- Introducing flow-based capacity calculation for a day-ahead market time-frame will increase the offered capacity
- Number of bidding zones shall be reviewed in the SEE region:
 - Once we have clear price signals and harmonised conditions
 - Data transparency and sufficient info level
 - It is a high level political question in SEE at the moment

❑ PX response (1)

- Increase liquidity and trust in the **price signals** from the SEE local and regional markets
 -
- Introducing flow-based capacity calculation for a day-ahead market time-frame will increase the offered capacity
- Number of bidding zones shall be reviewed in the SEE region:
 - Once we have clear price signals and harmonised conditions
 - Data transparency and sufficient info level
 - It is a high level political question in SEE at the moment

