



Energy Community Regulatory Board

ECRB

ANNUAL REPORT 2010

This report covers the activities of the Energy Community regulators for the period
1 January 2010 to 31 December 2010.

TABLE OF CONTENTS

PRESIDENT’S STATEMENT	3
1. INTRODUCTION.....	5
1.1 The Energy Community	5
1.2 The Energy Community Regulatory Board	6
1.2.1 Tasks and Role	6
1.2.2 Objectives and Priorities	7
1.2.3 Composition	7
1.2.4 Structure	8
2. ECRB ACTIVITIES 2010	9
2.1 Electricity Working Group	9
2.1.1 Task Force 1 – Congestion Management.....	9
2.1.2 Task Force 2 – Balancing	10
2.1.3 Task Force 3 – Wholesale Market Opening and Compatible Market Rules.....	10
2.1.4 Task Force 4 – Harmonised Licensing	11
2.1.5 Task Force 5 – Cooperation of Regulators in Relation to Cross Border Investment.....	12
2.1.6 Task Force 6 – Market Monitoring	12
2.2 Coordinated Auction Office Implementation Group	14
2.2.1 The 8 th Region.....	14
2.2.2 A Coordinated Auction Office for South East Europe	14
2.2.3 SEE CAO Implementation Group	14
2.3 Gas Working Group	16
2.3.1 Task Force 1 - Regulatory Measures for Realization of the Energy Community Gas Ring	16
2.3.2 Task Force 2 - Implementation of Regulation (EC) 1775/2005	17
2.3.3 Task Force 3 – Cross Border Transmission	18
2.4 Customer Working Group	19
2.4.1 Task Force 1 - Customer Protection	19
2.4.2 Task Force 2 - Quality of Service and Smart Metering.....	19
2.4.3 Task Force 3 – Electricity Tariffs.....	20
2.4.4 Task Force 4 – Gas Distribution Tariffs and Quality of Supply.....	20
2.4.5 Task Force 5 – Billing.....	21
2.5 Communication, Information Exchange and Training.....	22
2.5.1 Activities	22
2.5.2 ECRB Website	22
ANNEX 1 – ECRB STRUCTURE 2010	23
ANNEX 2 – PUBLICATIONS 2010.....	24

PRESIDENT'S STATEMENT

Energy as Key Policy Area

Energy over the last years continued a steady path towards becoming a central policy area both on national and regional level. The reasons are well known and manifold – energy is essential for our economic growth, energy fuels our economy and drives our competitiveness and is a basic need for standard of living. It is therefore only evident that energy more and more moves in the focus of regional and international considerations.



Mirsad SALKIĆ
ECRB President

The Energy Community makes no exception to this global development. A stable energy supply at reasonable prices and based on reliable infrastructure is a core interest of all Energy Community members. New influence factors – such as the integration of production from renewable sources and carbon emission targets – recently add upon well known challenges, such as the need for investments for optimizing cross border electricity flows and promoting gasification as well as a substantial import dependence in the gas sector. Effective liberalization remains the key driver for preparing our markets to meet these challenges.

The Key Role of Regulators

The role of regulators in opening energy markets is fundamental. Sector related competence and independence is the basis for a well designed development of rules that allow all stakeholders to find their individual market needs reflected in the new market framework.

In this context the importance for regulators operating in an independent way can not be underlined enough. The 3rd European legislative energy package puts significant emphasis on this aspect. For the Energy Community one can recognize positive steps towards regulatory independence over the last years. However, there is still substantial room for improvement. Regulators and governments still have to enhance their understanding on the role of regulators in addressing shortcomings of market development – not for highlighting mistakes but for supporting progress. Cooperation between regulators, competition authorities and Ministries has to be seen as one of the core instruments towards success.

Growing Importance of Regional Cooperation

The ECRB as coordination body for national regulators takes a core role for the success of the Energy Community process – a regionally coordinated approach is *the* key challenge for the development of the Energy Community market(s). Only were we act in a streamlined way, we can provide a framework that is able to attract investments, build a competitive market and ensure security of supply.

As much as coordination is required for our legal framework, it is also a challenge for regulators. Aligning regulatory measures and providing a stable regulatory market framework remains a key promoter for a number of core objectives of the Energy Community Treaty – such as market integration, facilitation of investments, competition and security of supply.

Coordination also requires us to streamline our considerations with European targets: when implementing the acquis, streamlining with best practice experience already gained on European level seems not only useful from an efficiency point of view but is also a must when keeping in mind the goal of market integration.

New Challenges on the Horizon

New legislative acts on renewables and the implementation of the 3rd legislative package are envisaged for the Energy Community in 2011. The Energy Community regulators are well prepared for meeting both the challenges and enrichments related to these new tasks. As an institution of the Treaty the ECRB operates in the overall framework of the Energy Community. Active coordination and cooperation with the other institutions of the Energy Community Treaty is therefore not only a must for the ECRB but clearly a necessity for the success of regulatory work: any regulatory activity, both on national and cross-border level, can only start from broader energy policy decisions and build on existing legal powers and framework rules.

It is my very personal pleasure to hereby introduce you to the work of the Energy Community regulators in 2010. It has been a successful year – our Working Groups and members showed tremendous commitment in contributing to an impressive set of deliverables and in assessing and improving the regulatory framework of our Region.

I cannot close without thanking all those who have so actively supported the work of the ECRB with their engagement and enthusiasm. It is the expertise of our members and organizational backup of the Energy Community Secretariat that allows the ECRB to present the successful result of work.

A handwritten signature in black ink, appearing to read 'MS', is positioned above the name of the ECRB President.

Mirsad Salkić, ECRB President

1. INTRODUCTION

1.1 The Energy Community

The Energy Community extends the EU internal energy market to South East Europe and beyond. The Energy Community has been established by the Energy Community Treaty (hereinafter „Treaty“), signed in October 2005 in Athens and entering into force on 1 July 2006¹.

The general **objective** of the Energy Community is to create a stable regulatory and market framework with a view to attracting investments; ensure a stable and continuous energy supply; create an integrated energy market allowing for cross-border energy trade and integration with the EU market; enhance security of supply and competition; and improve the environmental situation.

The **Adhering Parties** to the Treaty are the European Union and the **Contracting Parties** – namely, Albania, Bosnia and Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Moldova², Montenegro, Serbia and UNMIK. Georgia, Norway, Turkey and Ukraine³ take part in the process as **Observers**.

As of December 2009, 14 European Union Member States have the status of **Participants**⁴.

Figure 1: The Energy Community



¹ For more details on the activities of the Energy Community refer to www.energy-community.org.

² Moldova turned from an Observer to a Contracting Party in May 2010.

³ Ukraine signed the Treaty on 24th September 2010 and ratified it in December 2010. Ukraine will turn from an Observer to a Contracting Party status after expiry of the notification period in January 2011.

⁴ Austria, Bulgaria, Czech Republic, Cyprus, France, Germany, Greece, Hungary, Italy, Netherlands, Romania, Slovakia, Slovenia and UK.

By signing the Treaty the Contracting Parties committed themselves to implement the relevant *acquis communautaire* on electricity, gas, renewables, environment and security of supply. In addition energy efficiency and new aspects of renewable energy are discussed.

1.2 The Energy Community Regulatory Board

The Energy Community Regulatory Board (ECRB) is an institution of the Energy Community established by Article 58 of the Treaty. The ECRB acts as a coordination body of the national regulators of the Energy Community for exchanging knowledge and developing common best practice solutions for implementing the Energy Community Treaty in a harmonized way. The key objective of the cooperation of energy regulators within the ECRB is to support the harmonized development of regulatory rules in the Energy Community.

Within the necessary range of national specificities, **streamlining of regulatory measures and providing a stable regulatory market framework** remains a key promoter for market integration, facilitation of investments, competition and security of supply.

1.2.1 Tasks and Role

Based on the provisions of the Energy Community Treaty the ECRB is:

- Advising the MC and the PHLG on statutory, technical and regulatory rules;
- Issuing recommendations to the Parties when so entrusted by the Treaty, and on cross-border disputes involving regulators upon request of any of them;
- Taking measures⁵, if empowered by the MC;
- Facilitating consultation, co-operation and co-ordination amongst regulatory authorities;
- Issuing recommendations and preparing reports regarding the functioning of the energy markets;
- Issuing requests in case of failure by a Party to comply with a Treaty obligation (Art 90, 92).

In performing its task the ECRB actively coordinates with the other Energy Community institutions. This remains of utmost importance given the legal fact that any regulatory activity can only start from broader energy policy decisions and build on existing legal powers and framework rules.

⁵ Under Title II (extension of the *acquis communautaire*), III (mechanism for operation of network energy markets) or IV (creation of a single energy market) of the Treaty.

1.2.2 Objectives and Priorities

The activities of the ECRB are characterized by the following objectives and priorities:

- Development of competitive national gas and electricity markets
- Integration of national markets and development of competitive regional markets in electricity and gas
- Identification and abolishment of barriers for cross border trade and competition
- Protection of customers and social issues
- Regulatory aspects of security of supply
- Network security and quality of service
- Regulatory aspects of renewable energy and energy efficiency

1.2.3 Composition

The composition of the ECRB follows the membership structure of the Energy Community.

Table 1: Composition of the ECRB

CONTRACTING PARTIES	REGULATORY AUTHORITIES
Albania	Energy Regulatory Authority (ERE)
Bosnia and Herzegovina	State Electricity Regulatory Commission (SERC)
Croatia	Croatian Energy Regulatory Agency (HERA)
Former Yugoslav Republic of Macedonia	Energy Regulatory Commission (ERC)
Moldova	National Energy Regulatory Agency (ANRE)
Montenegro	Energy Regulatory Agency (REGAGEN)
Serbia	Energy Agency of the Republic of Serbia (AERS)
UNMIK	Energy Regulatory Office (ERO)
PARTICIPANTS	REGULATORY AUTHORITIES
Austria	Energie-Control GmbH (E-CONTROL)
Bulgaria	State Energy and Water Regulatory Commission (SEWRC)
Cyprus	Cyprus Energy Regulatory Authority (CERA)
Czech Republic	Energy Regulatory Office (ERU)
France	Commission de Régulation de l'Énergie (CRE)
Germany	Federal Network Agency for electricity, gas, telecommunications, posts and railway (BNetzA)

Greece	Regulatory Authority for Energy (RAE)
Hungary	Hungarian Energy Office (HEO)
Italy	Regulatory Authority for Electricity and Gas (AEEG)
Netherlands	Office of Energy Regulation (Energiekamer)
Romania	Romanian Energy Regulatory Authority (ANRE)
Slovakia	Regulatory Office for network Industries (URSO)
Slovenia	Energy Agency of the Republic of Slovenia (AGEN-RS)
PARTICIPANTS	REGULATORY AUTHORITIES
UK	Office for the Gas and Electricity Market (Ofgem)
OBSERVERS	REGULATORY AUTHORITIES
Georgia	Georgian National Energy Regulatory Commission (GNERC)
Norway	The Norwegian Water Resources and Energy Directorate (NVE)
Turkey	Energy Market Regulatory Authority (EMRA)
Ukraine	National Electricity Regulatory Commission (NERC)

1.2.4 Structure

The ECRB is headed by a **Board** of high level representatives from Contracting Parties, Observers and Participants to the Energy Community. The Board in 2010 met three times at its **seat in Athens**. The Board is headed by the ECRB President. The European Commission **acts as Vice-President**.

The ECRB Board in March 2010 elected Mr. Mirsad Salkić, Chairman of the State Electricity Regulatory Commission in Bosnia and Herzegovina, as its new President succeeding to the successful Presidency of Mr. Ljubo Macic 2009-2010.

Three ECRB **Working Groups** focus on regulatory gas, electricity and customer issues. As a fourth group, the South East Europe Coordinated Auction Office Implementation Group (SEE CAO IG), has been set up for supporting the creation of a Coordinated Auction Office in South East Europe. The group brings together regulators, traders, users and network operators. The ECRB's Groups are completed by task forces in charge of specific issues.

The ECRB activities are supported by the **ECRB Section** as part of the Energy Community Secretariat in Vienna.

2. ECRB ACTIVITIES 2010

Within its objectives of facilitating the (development of) harmonized regulatory rules, the ECRB in 2010 focused on three key areas of regulatory responsibilities: gas, electricity and customers. In addition, specific work is dedicated to supporting the setting up of a South East Europe Coordinated Auction Office. The following description provides an overview about the ECRB activities and deliverables in 2010.

2.1 Electricity Working Group

2.1.1 Task Force 1 – Congestion Management

Regulation (EC) 1228/2003⁶ requires the implementation of a regionally coordinated congestion management and capacity allocation mechanism. By decision of the Energy Community Ministerial Council⁷ on establishing the so-called 8th Region, this requirement is applicable in the Energy Community Contracting Parties and neighboring EU Members building the 8th Region.

By signing a Memorandum of Understanding⁸, the TSOs of the 8th Region set the cornerstone for the development of a South East European Coordinated Auction Office (CAO) for implementing the requirements of Regulation (EC) 1228/2003.

In the process of establishing a CAO as instrument for achieving a regionally coordinated congestion management and capacity allocation mechanism in the 8th Region, regulators are responsible for approving relevant CAO related documents (e.g. auction rules). These documents need to be prepared by the Transmission System Operators. Even if the approval of the prepared documents would take place on national level – i.e. by each regulator individually for its national Transmission System Operator – the approach followed by the regulators in the national approval procedure needs to be streamlined throughout the Region. A regional project, such as the CAO, can only operate if the same regulatory rules are applicable in all participating markets.

Task Force 1 is in charge of coordinating the regulatory positions on the CAO related documents that require regulatory approval.

RESULTS 2010

- ▶ So far no CAO related documents have been prepared by the Transmission System Operators. The responsibility of Task Force 1 for coordination of related regulatory positions therefore is **put on hold**.
- ▶ Task Force 1 developed a **model for the regulatory monitoring of cross border flows and a future CAO**. The concept defines both the monitoring approach – taking into account national and regional

⁶ Regulation (EC) 1228/2003 of the European Parliament and of the Council of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity, OJ L 176 of 15.7.2003, p 1 et seqq. The same provision is stipulated for the gas market by Article 22 Directive 2003/55/EC (Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC; OJ L 176 of 15.7.2003, p 57 et seqq).

⁷ Decision of the MC of 27 June 2008 (2008/02/MC-EnC).

⁸ Details see chapter 2.2.

monitoring aspects – and the set of data necessary for a sound monitoring of the CAO activities and performance of the individual Transmission System Operators. To avoid overlappings, the Electricity Working Group by end of 2010 decided to merge the data related deliverables of Task Force 1 with the work of Task Fore 6.

2.1.2 Task Force 2 – Balancing

Balancing of electricity flows is of core relevance for the functioning of electricity transmission systems and – beyond that – develops towards becoming one of the pivotal point for network development and regional market integration: linking the national markets to a regional and more dynamic market will develop strong impact on the load flow situation and might also affect grid stability. The envisaged integration of renewable energy sources – especially the integration of wind energy – additionally creates challenge for system operators.

As the transmission systems within the contracting systems are in most cases depending on one energy source, regional balancing will play an important role in the future.

RESULTS 2010

- ▶ Task Force 2 prepared a **regulatory assessment paper reviewing the (previous-) SETSO⁹ Task Force examination paper on a Regional Balancing Mechanism BETSEE¹⁰ for South East Europe** that has been submitted to ENTSO-E in June 2010.
- ▶ While the development towards a regional balancing market remains a central interest of the Electricity Working Group, it has been decided to first focus on national balancing approaches. A comprehensive **assessment of the national balancing models** in the Energy Community has been prepared by Task Force 2. The report includes recommendations that will be followed up by the Task Force in 2011.

2.1.3 Task Force 3 – Wholesale Market Opening and Compatible Market Rules

An open regional wholesale market is one of the major pylons of a future regional electricity market in South East Europe. In order to establish a regional wholesale market a harmonized regulatory approach is necessary.

With the financial support of the World Bank, a consultancy study on Wholesale Market Opening has been developed and finalized in 2010.

⁹ SETSO – part of former ETSO (European Transmission System Operators; www.etso-net.org) now transformed into ENTSO-E (www.entsoe.eu).

¹⁰ In spring 2006 the South East European Electricity Transmission System Operators (TSOs) initiated a project for designing a regional electricity balancing mechanism model for South East European. The development of a prototype computer platform on which the proposed design could be tested was part of the project. This regional balancing market platform – so-called “BETSEE” – was programmed by a team composed of experts from the consulting companies EKC Ltd. and EPCG and financially supported by the Canadian South East European Electrical Support (SEETEC) program. The first platform version was finalised on 6 December 2006 with a dry run. With the financial support of the Energy Community Secretariat, the software was updated in September 2007 and successfully tested during a dry run in late 2009.

RESULTS 2010

- ▶ Task Force 3 cooperated actively with the consultants in finalizing the Wholesale Market Opening study and provided substantial **input on regulatory aspects**.
- ▶ After finalization of the Wholesale Market Opening study Task Force 3 started developing an **action plan for the implementation** of the study's recommendations. Related work will continue in 2011, based on necessary input from and cooperation and coordination with Ministries and Transmission System Operators.

2.1.4 Task Force 4 – Harmonised Licensing

The Energy Community Treaty allows the Energy Community to take measures on mutual recognition of licensees. A harmonised approach for wholesale trading licenses allowing for their mutual recognition remains a key parameter for the facilitation of new market entries and cross border trading, both core drivers for the success of market opening and the development of a competitive regional market. At the same time fair and non-discriminatory competition requires a certain minimum level of transparency and regulatory oversight.

The Electricity Working Group already in 2009 developed a proposal for a harmonized system of wholesale licensing in the 8th Region. Having in mind the currently ongoing discussions on European level on the same topic, the ECRB decided to identify the 2009 recommendations as preliminary to the extent of a necessary adjustment to the final results on European level.

RESULTS 2010

- ▶ The core work of Task Force 4 – i.e. the preparation of a proposal for harmonisation of licenses – has already been finished in 2009. Potential additional work is related to possibly necessary adjustments of the 2009 recommendations to results on European level. Task Force 4 leader, Mr. Radovanovic, followed and provided input to the ongoing European discussions within the European Regulators' Group for Electricity and Gas. A final approach for Europe, however, so far has not been reached. The work of Task Force 4 is therefore **put on hold**.

2.1.5 Task Force 5 – Cooperation of Regulators in Relation to Cross Border Investment

Attracting investments is of core relevance for market development in SEE. Realization of the necessary infrastructure calls for a stable regulatory and market framework, a common regulatory approach on regional level, the creation of a single energy market¹¹ without internal frontiers, developing competition on a broader geographic scale and exploring economics of scale. Investments in new transmission line projects remain a key requirement for the developing of a liquid and competitive electricity market in SEE. Where bottlenecks exist, market integration and cross border trade can not develop appropriately. Facilitating and stimulating new investments is therefore a core responsibility of both national legislation and regulatory praxis.

RESULTS 2010

- ▶ Task Force 5 analysed the regulatory instruments for stimulating investments in new infrastructure projects and the powers of regulators as regards cooperation and harmonisation of regulatory rules related to projects crossing more than one border of Contracting Parties (“cross border investments”). Based on this the 2010 **report “Regulatory Instruments for Promoting New Investments – Assessment of Existing Mechanisms – Recommendations”** provides recommendations on necessary regulatory and legislative measures for promoting investments.
- ▶ Based on the report’s recommendations, a **study on possible regulatory investment incentives** (both for electricity and gas) has been commissioned by the Energy Community Secretariat in 2010. Substantial input on market related information has been provided by the regulators and Task Force 5. Work will continue in 2011.

2.1.6 Task Force 6 – Market Monitoring

The SEE Market Monitoring project was initiated following an invitation from the 8th Athens Forum in June 2006 to establish a Market Monitoring Pilot Plan. The Pilot Plan became effective in December 2006 with the financial support of USAID and engagement of the consultant Potomac Economics. The ECRB at the 12th Athens Forum in May 2008 recommended continuing the project with a two-year transition phase. In accordance with this recommendation, the 12th Athens Forum requested an extension of the Market Monitoring project and repeated its support at the 13th Forum in May 2009.

The Market Monitoring project defines a set of common market monitoring indicators that – after the finalisation of the project – are expected to be commonly applied by the Energy Community regulators. Such streamlined approach is envisaged to ensure comparability of monitoring results, identification of shortcomings and effective enforcement tools. The project relies on publicly-available data as well as data directly provided by Transmission System Operators.

Most of the TSOs that are contracting parties to the Energy Community Treaty participate by providing such data.

¹¹ Title IV of the Treaty.

RESULTS 2010

- ▶ Potomac Economics developed a common set of monitoring indicators that have been tested with input from the regulators and Transmission System Operators in a **dry run** based on monthly data screens.
- ▶ Based on the dry run's results, the Electricity Working Group agreed on 5 monitoring screens based on which **Market Monitoring Guidelines** are prepared by Potomac Economics. Work is expected to continue in 2011 with the finalisation of the Market Monitoring Guidelines, the development of a market monitoring **database** and a web interface for exercising the monitoring activities.
- ▶ To avoid overlappings, the Electricity Working Group decided to merge the data related deliverables of Task Force 1 with the work of Task Fore 6.

2.2 Coordinated Auction Office Implementation Group

2.2.1 The 8th Region

The 8th Region includes Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova¹², Montenegro, Serbia, UNMIK¹³, Bulgaria, Greece, Hungary, Romania and Slovenia. The territory of the Republic of Italy is included in the 8th Region with respect to the interconnections between the Italian Republic and the territories of the Adhering Parties.

The 8th Region has been established by decision of the Ministerial Council¹⁴ of the Energy Community on 27 June 2008 with a view to implementing a regionally coordinated procedure for electricity capacity allocation and congestion management.

2.2.2 A Coordinated Auction Office for South East Europe

Following its scope defined by the Ministerial Council, the activities of the 8th Region focus on establishing a regionally coordinated electricity capacity allocation and congestion management model as a stepping stone and driver for the development of electricity market integration in South East Europe. The level of cross-border electricity trade and convergence of prices remains a benchmark in this respect. Both continue to be low level in the 8th Region. Together with insufficient transmission interconnection capacity, lack of transparency and different capacity allocation mechanisms this identifies the key challenges that need to be tackled.

With a view to overcome these barriers and implement the requirements of Regulation (EC) 1228/2003 and its annexed Congestion Management Guidelines¹⁵ the 8th Region targets the establishment of a **Coordinated Auction Office** (SEE CAO) for regionally coordinated capacity allocation and congestion management in South East Europe.

2.2.3 SEE CAO Implementation Group

SEE CAO related work is coordinated by a three-layer organisation:

1. *The SEE CAO Project Team Steering Committee* - a coordination body of the TSOs of the 8th Region that committed to set up and co-finance a Project Team¹⁶ under the Chairmanship of the Montenegrin

¹² Moldova turned from an observer status into a member ("Contracting Party") of the Energy Community as of 1 May 2010 following signature of the Energy Community Treaty on 17 March 2010 and its ratification afterwards.

¹³ Pursuant to United Nations Security Council Resolution 1244.

¹⁴ Decision of the MC of 27 June 2008 (2008/02/MC-EnC): On the implementation of Commission Decision of 9 November 2006 amending the Annex to Regulation (EC) No 1228-2003) and the establishment of the so-called "8th Region".

¹⁵ Regulation (EC) 1228/2003 including its annexed Congestion Management Guidelines have been made part of the Energy Community acquis by decision of the Energy Community Council in June 2007 (2008/02/MC-EnC; see fn **Error! Bookmark not defined.**).

¹⁶ The Project Team Company shall be responsible for the organisation setting up of a future SEE CAO.

TSO. The European Commission, International Financing Institutions, the SEE CAO IG Chairman and the Energy Community Secretariat participate in the group as observers.

2. *The ECRB Electricity Working Group* - coordinating regulatory positions on SEE CAO related questions (chapter 2.1.1).
3. *The ECRB SEE CAO Implementation Group*.

The Implementation Group for the South East European Coordination Office (SEE CAO IG) operates as platform bringing together regulators, International Financing Institutions, the European Commission, network operators, network users and traders, bringing together regulators, International Financing Institutions, the European Commission, network operators, network users and traders for agreement of the implementation steps and financing the project.

RESULTS 2010

► Among the ***milestones reached*** since the beginning of the process in particular the 2009/2010 agreement on the organization of a Project Team Company – responsible for the organisation setting up of a future SEE CAO – requires specific attention. The related financial commitment expressed by a number of TSOs of the Region and International Financing Institutions combined with the support of the relevant governmental bodies shows readiness for working towards a regional approach and awareness for the fact that the creation of a framework able to attract investments and contribute to the social development of the Region can only develop in a regionally coordinated way.

► However, the final success of the project is – for various reasons – delayed by lack of commitment of a – minor but size-wise and geographically relevant – group of TSOs. In a framework of pre-dominantly state owned TSOs the existing discrepancy between support for the setting up of a SEE CAO on high political level¹⁷ and its practical pushing forward on Ministerial level has to be identified as ***missing step*** on the ladder to success.

¹⁷ The Energy Community Ministerial Council, Permanent High Level Group and Electricity Forum (“Athens Forum”) have frequently supported and urged progress on the establishment of a SEE CAO.

2.3 Gas Working Group

2.3.1 Task Force 1 - Regulatory Measures for Realization of the Energy Community Gas Ring

The objective of Task Force 1 is to discuss the possible options for the realization of a broader gas infrastructure concept in the Energy Community. This concept is widely known as so-called “Gas Ring”¹⁸ and aims at connecting all Contracting Parties via a ring, considering also the needs of the Region with regard to the electricity sector as well as the (existing or planned) regional pipelines, LNG terminals and storage facilities that could be connected to the Gas Ring. This would not only significantly contribute to further gasification of SEE, but also provide benefits for upstream and downstream countries.

This activity includes an assessment of the existing regulatory framework for promoting investments and – having in mind the necessity of a regulatory framework streamlined across borders for a cross border concept such as the Gas Ring – the level of harmonization of regulatory rules on cross-border basis and investments incentives. In order to move from the theoretical analysis to practical investigation of regulatory requirements for creating Gas Ring, GWG has selected two specific parts of the potential Gas Ring that are to be discussed during the following year.

RESULTS 2010

- ▶ A **discussion paper “Regulatory Framework for the Development of the Energy Community Gas Ring”** has been published in March 2010.
- ▶ Based on the paper’s recommendations, a **study on possible regulatory investment incentives** (both for electricity and gas) has been commissioned by the Energy Community Secretariat in 2010. Substantial input on market related information has been provided by the regulators and Task Force 1. Work will continue in 2011.
- ▶ The Gas Working Group started an **assessment paper “The Energy Community Gas Ring from Theory to Praxis”**. Two dedicated Task Forces for selected Gas Ring routes will continue the work in 2011.

¹⁸ The Gas Ring concept was first presented in SEE Regional Gasification Study (SEE Regional Gasification Study (2008), Economic Consulting Associates/Penspen/ Energy Institute Hrvoje Požar, financed by World Bank and KfW; March 2008, <http://www.energy-community.org/pls/portal/docs/36273.PDF>).

2.3.2 Task Force 2 - Implementation of Regulation (EC) 1775/2005

Non-compliance with the provisions of Regulation (EC) 1775/2005¹⁹, as well as incompatibility of various national approaches to its implementation, could seriously impede the development of a functioning regional natural gas market. Although the Energy Community Secretariat in line with Article 67 (b) Energy Community Treaty is monitoring the proper implementation of this Regulation by the Contracting Parties, it is the task of regulators to perform the impact assessment and identify possible solutions (on national and/or regional level) in order to enhance the investment climate, competitive environment and security of supply.

Against this background the Gas Working Group has undertaken an analysis with a three-fold scope: identifying legal shortcomings related to non-compliance of the existing regulatory models with the *acquis*, providing an overview of the existing regulatory models and identifying barriers to cross-border trade resulting from different regulatory approaches and developing better understanding of the individual regulatory frameworks with a view to facilitate their harmonisation.

RESULTS 2010

- ▶ An assessment paper on “**Gas market models in the Energy Community and their compliance with Regulation (EC) 1775/2005**” has been prepared in 2010. The report does not provide a full compliance assessment of the complete set of requirements of Regulation (EC) 1775/2005, but focuses on the core elements of the regulatory gas market models. Going beyond the Regulation the report on the other hand assesses a number of additional aspects of market framework necessary for comprehensive understanding of the gas market models.
- ▶ With a view to discussing practical implementation of the Regulation in the fields of transmission tariffication, CAM and CMP and balancing procedures a **Workshop on Gas Market Models** was organized in November 2010.
- ▶ The Gas Working group will continue analyzing the functioning of gas markets and implementation of the Regulation (EC) 1775/2005 in the Energy Community in 2011.

¹⁹ Regulation (EC) No 1775/2005 of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks, OJ L 289 of 3.11.2005.

2.3.3 Task Force 3 – Cross Border Transmission

Regulatory experience shows that transmission charges in South East Europe are not always transparent and system users are not always aware if the fees charged for transmission are correct and justified. The spread of cross-border transmission tariffs in the region further indicates that different criteria or cost drivers are used in each single jurisdiction. As in parts of Europe “pan caking” remains an issue that deserves to be addressed on regional level. Having this in mind the Gas Working Group examined the interaction between cross-border transmission and national transmission within the geographic scope of Title III of the Treaty and identified the status quo of regulated Third Party Access to cross-border transmission pipelines in each jurisdiction and in particular with regard to possible different treatment of cross- border transmission and national transmission and its reasoning.

RESULTS 2010

► A report on “*Regulation of Gas Transmission Flows in the Energy Community*” has been developed in 2010. Besides the status review of national and cross- border transmission Third Party Access and tariffication, the report identified distortions to cross- border trade and proposed adequate solutions to be implemented on regional level.

2.4 Customer Working Group

2.4.1 Task Force 1 - Customer Protection

For the development of fair and non-discriminatory conditions on liberalized electricity and gas markets it is crucial for customers to be well represented and that consumer rights are properly defined and defended. Considering and protecting the interests of customers – and in particular household customers – therefore is one of the key challenges for liberalised markets. Customer protection consequently is one of the focal points of the work of the Customer Working Group.

RESULTS 2010

► A *Workshop on ways of improving participation of consumer representations in the regulatory process* was organized in September 2010. The Workshop gathered regulators and representatives of customer protection organizations from EU and Energy Community Contracting Parties and Observers discussing transposition of customer rights and protection instruments as well as responsibilities of both the regulators and customer protection organizations in the energy sector and their communication and cooperation.

2.4.2 Task Force 2 - Quality of Service and Smart Metering

In the Energy Community as well as in many other countries, regulators take care to ensure that liberalization of the electricity market is achieved without any worsening of quality of service. Having in mind that some areas of the Energy Community Contracting Parties feature low level of electricity supply reliability, a study aiming at introducing and improving of the quality of electricity service was launched in 2009 and completed in 2010. The purpose of the study was to assist the regulatory authorities in introducing programmes aiming at improvement of quality of service, to train the regulatory staff and assess the achievements as well as to propose future steps regarding the improvement of quality of electricity supply.

The European Union's 3rd legislative package for electricity and gas²⁰ include provisions regarding the installation of smart meters, with the aim of better informing customers of their consumption and helping to increase energy efficiency awareness. The EU regulators already very actively consider regulatory aspects of smart metering. Against this background, but also following the discussions raised in 2008 smart metering has been included in the Customer Work Program 2010.

²⁰ OJ L 211, 14.8.2009; <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2009:211:SOM:EN:HTML>

RESULTS 2010

- ▶ An Energy Community financed **study on “Assistance to regulators in introducing and improving service quality regulation in the Energy Community”**, launched in 2009, has been finalized in June 2010.
- ▶ In the framework of the study **two workshops** were organized in January and May 2010. Taking into consideration conclusions and recommendations of the study, the Customer Working Group will continue to work in the field of quality of electricity supply in 2011.
- ▶ A **“Review of Smart Meters Roll Out for Electricity in the Energy Community”**, assessing the current status of smart meters implementation in the Energy Community Contracting Parties and Observers has been published in October 2010.

2.4.3 Task Force 3 – Electricity Tariffs

In March 2009 the Energy Community “Study on tariff methodologies and impact on prices and energy consumption patterns in the Energy Community”, prepared by IPA Energy & Water Economics, was published and presented to the 14th Athens Forum. The Forum requested the ECRB to update the Forum on the development with regard to electricity prices and tariffs.

RESULTS 2010

- ▶ A **report on “Electricity Prices and Tariffs in the Energy Community 2008-2009”** has been prepared and presented to the 15th Athens Forum in October 2010.

2.4.4 Task Force 4 – Gas Distribution Tariffs and Quality of Supply

The regulation of tariffs and prices in the gas sector is extremely relevant for the development of the industry and market and has an important social and environmental impact on the Energy Community. In order to effectively achieve those goals, gas pricing regulation should be avoided and – as far as it exists - phased out. Solutions for supporting vulnerable customers other than regulated prices have to be developed for the purpose of allowing the development of a competitive market in natural gas. In the transitional period of phasing out, any temporary price regulation in new and emerging markets should be cost reflective and allow the development of new infrastructure, fostering the entry of new market players and the liberalization of the market.

It was therefore necessary to update and expand the knowledge basis on tariffs available for ECRB and for other Energy Community institutions, with a view to enabling them to evaluate and adopt recommendations and measures on tariff issues, and pursue the goals of the Energy Community Treaty in terms of developing a secure, efficient, competitive and affordable energy supply. Against this background, the study on regulation of tariffs and quality of the gas distribution service in the Energy Community was launched in 2009 and continued in 2010.

RESULTS 2010

► An Energy Community **study on “regulation of tariffs and quality of the gas distribution service in the Energy Community”** has been finalized in August 2010. The study development was coordinated via the Customer Working Group.

2.4.5 Task Force 5 – Billing

Transparent and customer friendly billing methodologies are one of the key requirements for raising customers’ awareness for switching options and making use of their right to choose their energy supplier. Only where bills are understandable and clearly separate between energy prices, tariffs and other costs (e.g. taxes, green energy et al), customers are able to compare offers. The need for transparent billing has been underlined by 3rd EU energy legislative package. European Commission (DG SANCO) has already adopted a best practice recommendation for standard bills.

Having in mind the relevance of the topic, a survey on the status quo of electricity billing methodologies in the Energy Community and recommendations for a best practice approach have been made part of the ECRB Work Programme 2010.

RESULTS 2010

► A “**Survey on the Status Quo of Electricity Billing Practices in the Energy Community**”, assessing the current status of smart meters implementation in the Energy Community Contracting Parties and Observers, has been published in October 2010. Having in mind the relevance of billing practices for the proper functioning of the market, the Customer Working Group will continue monitoring billing practices in the electricity sector, but also extend the work to the gas sector in 2011.

2.5 Communication, Information Exchange and Training

2.5.1 Activities

Upon its establishment in September 2007, the ECRB Section has started the development of a number of initiatives to support information exchange, knowledge sharing and overall cooperation among energy regulators.

The activities include:

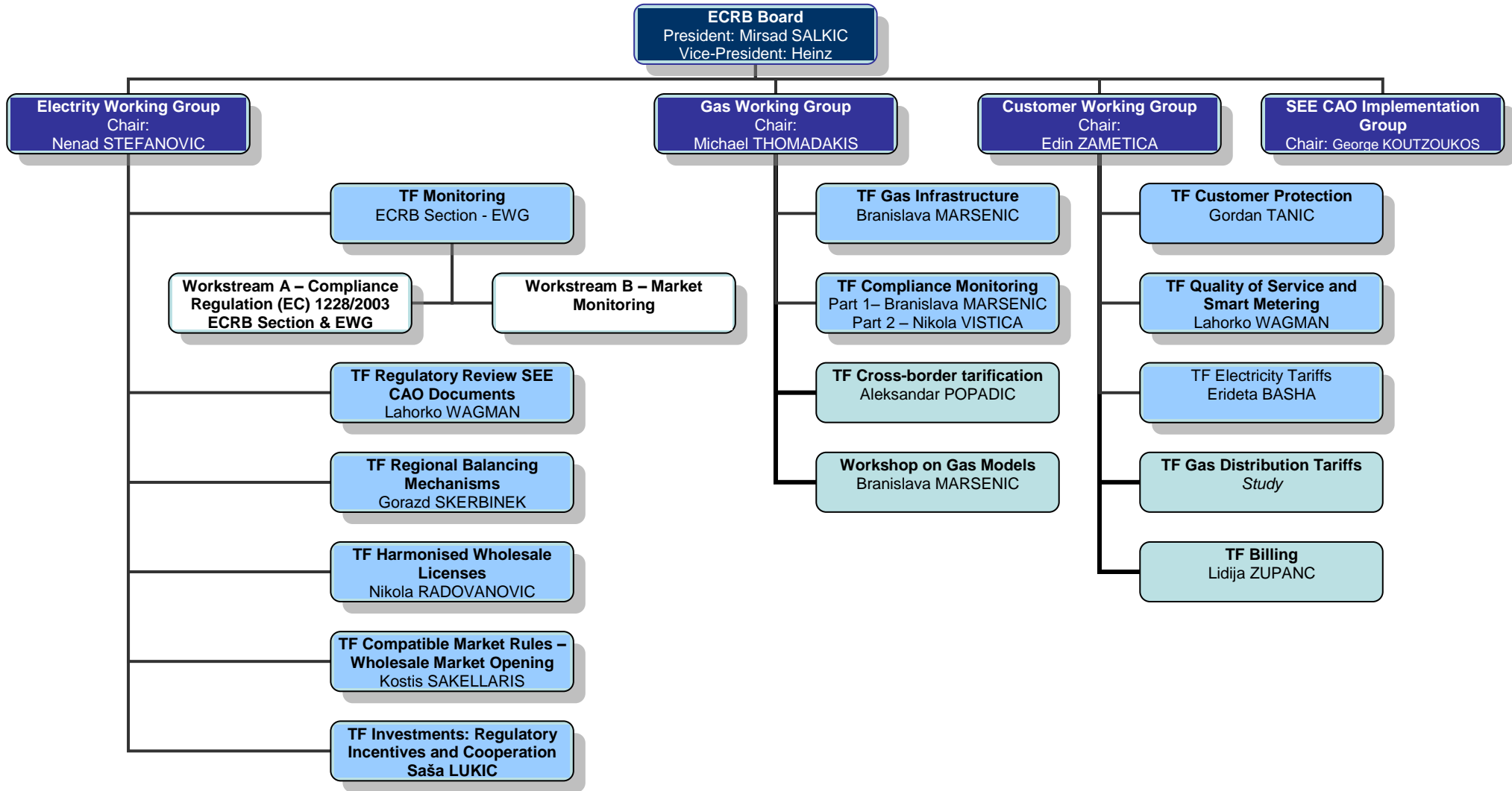
- ▶ The promotion of workshops;
- ▶ The promotion and support of the participation of SEE regulator staff in available training programs.

2.5.2 ECRB Website

The ECRB website has been set up to become the main mean of communication with both the regulators and the general public.

Since the website became fully operational a notification e-mail function informs regulators about relevant events, press releases etc.

ANNEX 1 – ECRB STRUCTURE 2010



ANNEX 2 – PUBLICATIONS 2010

ECRB Deliverables

Regulatory Framework for the Development of the Energy Community Gas Ring

Gas market models in the Energy Community and their compliance with Regulation (EC)1775/2005

Regulation of Gas Transmission Flows in the Energy Community

A Review of Smart Meters Roll Out for Electricity in the Energy Community

Electricity Prices and Tariffs in the Energy Community 2008-2009

Survey on the Status Quo of Electricity Billing Practices in the Energy Community

ECRB Annual Report 2010

Energy Community Studies related to ECRB Activities

Assistance to regulators in introducing and improving quality regulation in the Energy Community

Study on regulation of tariffs and quality of the gas distribution service in the Energy Community

ANNEX 3 – MEETING CALENDAR 2010

The table below provides an overview about the ECRB related meetings held in 2010 – this includes the regular Working/Implementation Group meetings (4 p.a. each) and workshop related to ECRB activities. The ECRB meetings are part of the overall Energy Community event calendar that covers additional workshops, Energy Community Task Forces and Fora (gas, electricity, social aspects and oil) and conferences. The full Energy Community event calendar is available at www.energy-community.org (events).

January 2010	
26 Jan	ECRB Customer Working Group
February 2010	
01 Feb	ECRB Gas Working Group
10 Feb	ECRB Electricity Working Group
March 2010	
10 Mar	Energy Community Regulatory Board
April 2010	
23 Apr	ECRB Gas Working Group
May 2010	
10 May	ECRB Customer Working Group
11 - 12 May	Workshop on Quality of Services Study
18 May	Workshop on Electricity Market Monitoring
19 May	ECRB Electricity Working Group
20 May	Implementation Group for Coordinated Auction Office Meeting
June 2010	
29 Jun	Energy Community Regulatory Board
30 Jun	Joint Energy Community Regulatory Board and Permanent High Level Group meeting
September 2010	
07 Sep	ECRB Customer Working Group
08 Sep	Workshop on Participation of Consumer Representations in Regulatory Process
13 Sep	ECRB Gas Working Group
15 Sep	ECRB Electricity Working Group
16 Sep	Implementation Group for Coordinated Auction Office Meeting

October 2010	
12 Oct	Energy Community Regulatory Board
November 2010	
09 Nov	ECRB Customer Working Group
10 Nov	ECRB Gas Working Group
11 Nov	Workshop on Gas Market Models
17 Nov	ECRB Electricity Working Group

Information on the work of the ECRB is available on our website (www.energy-community.org and www.ecrb-enc.org). The public documents of the ECRB freely available for download from the website or can be obtained directly from the ECRB Section at the Energy Community Secretariat.

ECRB Section Energy Community Secretariat

A – 1010 Vienna, Am Hof 4

T 0043 (0)1 535 2222 0

F T 0043 (0)1 535 2222 10

The Team of the ECRB Section



Head of Section - Mrs. Nina Grall-Edler, nina.grall@energy-community.org



Gas Expert - Mrs. Branislava Marsenic Maksimovic, branislava.marsenic@energy-community.org



Electricity Expert - Mr. Roland Matous, roland.matous@energy-community.org



Coordinator - Mrs. Fania Keintzel, fania.keintzel@energy-community.org