IMPLEMENTATION REPORT

ENERGY COMMUNITY

Skopje, 23 September 2010
IMPLEMENTATION – GENERAL (I)

IMPLEMENTATION AND INVESTMENT

THE STATE OF ENERGY REFORMS

– Transposition of most elements of the *acquis*
– Increased comparability and transparency
– Limits of sector-specific approach and need for implementation

REMAINING STRUCTURAL PROBLEMS

– Foreclosed wholesale markets
  - Market opening delayed / eligibility unduly made conditional
  - Market structure, including long-term contracts
  - Wrong concept of public service obligations, incl. universal service and price regulation
  - State aid distorting competition (structural and individual)
IMPLEMENTATION – GENERAL (II)

REMAINING PROBLEMS

– No regional market
  - Cross-border issues (import/export fees, cross-border capacity allocation)
  - Market structure
  - Statutory preference for domestic electricity generation
  - Lack of regional cooperation

– No strong and proactive watchdogs
  - Regulatory authorities
  - Competition authorities
  - State aid enforcers

– Authorization and tendering procedures

WHAT NEEDS TO BE DONE?

– Improve communication
  - Information to the Secretariat
  - Focus discussions on specific topics
  - Including with governments, authorities, donors and companies
WHAT NEEDS TO BE DONE?

– Develop concepts/strategies dealing with energy poverty
– The role of the Secretariat
  - Continue compliance reviews
  - More specific monitoring
  - Enforcing and negotiating

IMPLEMENTATION CHALLENGES AHEAD

– Third Energy Package
  - New elements on top of existing ones
  - Strengthening the regulatory authority
– Environmental *acquis*
  - Impact of LCP Directive on security of supply may hardly be overestimated
  - Strategies to be developed now
  - Secretariat proposes a Task Force
LEGAL FRAMEWORK in the Electricity sector

- Croatia / Montenegro – has shown recent progress
- FYR Macedonia / Moldova / Serbia / UNMIK – report ongoing activities
- Albania / Bosnia and Herzegovina – further developments ahead

THIRD PARTY ACCESS to electricity networks

- **ALL Contracting Parties** have legally unbundled **Transmission System** operation – Bosnia and Herzegovina and UNMIK still need to improve

- **Distribution System** Operation is legally bundled with supply activities in **ALL Contracting Parties** – only Croatia applies compliance programs

- **Network tariffs** for both Transmission and Distribution are applied in **ALL Contracting Parties** – cost reflectivity entails costs of investments and adequate returns
Electricity MARKET

− **Public Service** is applied as a default framework for electricity supply in ALL Contracting Parties – eligible *customers’ rights* are not adequately enforced (except in Croatia) – *collection* and *losses* could be better in Albania, the Former Yugoslav Republic of Macedonia and UNMIK

− **Market opening** is formally supported by ALL Contracting Parties but corresponding effects are registered only in Croatia – the eligibility criteria in the Former Yugoslav Republic of Macedonia are not in compliance

− **Market rules** (wholesale) are comparatively developed and applied only in Croatia – *balancing* should be properly addressed

− **Customer switching** rules are generally missing in ALL Contracting Parties (save Croatia) – voluntary switching of supplier is close to zero

− **Cross-border** capacity is allocated through bilateral auctions by ALL Contracting Parties except UNMIK – *regionally coordinated* congestion management mechanism is required in the *acquis*
SECURITY of Electricity SUPPLY

– Available **Generation capacity** is not sufficient or not adequate to sustain the security of electricity supply in Albania, the Former Yugoslav Republic of Macedonia, Montenegro, Moldova and UNMIK

– **Balancing** between supply and demand is not adequately ensured in Albania, Moldova and UNMIK

– **Transmission system** capacity is less than sufficiently developed / available to comply with Operational Network Security criteria in Albania, Moldova and UNMIK – **regulatory frameworks** must support the needed investments in the networks

– **Monitoring**, annual demand forecast and **planning** of the supply are more or less implemented by ALL Contracting Parties – a coherent development **strategy** for Bosnia and Herzegovina is missing

– More effective **authorization** procedures, **transparency**, consistent **tendering** and obligations for **reporting** are needed in ALL Contracting Parties – and **cooperation mechanisms** on Energy Community level
Directives 2001/77/EC and 2003/30/EC

– The Treaty obligation is formally fulfilled by ALL Contracting Parties – but full implementation is still missing or inadequate

– Legal enforcement and regulatory frameworks are not sufficient and the process is not completed

– Both Directives are basis for implementation of the new acquis on RES


– Still NOT an obligation (a Recommendation for implementation of relevant provisions has been proposed to the MC) – activities continue

– Renewable Energy Task Force mandate is extended (proposal)

– Biomass study has been launched on 22 September 2010
LEGAL FRAMEWORK in the Gas sector

– Contracting Parties in all sectors established legal frameworks

– Croatia – advanced implementation

– Albania, Montenegro and UNMIK almost fully implemented Internal market Directive, sufficient basis at this stage

– Moldova, newcomer, almost fully in compliance

– Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia still missing some of the crucial provisions of the basic Directive 2003/55/EC (unbundling requirements and third-party access exemptions for the new infrastructure)
Gas MARKET and REGIONAL DIMENSION

- **Network tariffs** or the regulatory approval of **methodologies** for tariff calculation are defined in **ALL Contracting Parties**…

- …except **Bosnia and Herzegovina**, where they exist only in one entity, but not on state level.

- **Market opening** is not defined in line with the acquis in **Albania, Bosnia and Herzegovina** and the **Former Yugoslav Republic of Macedonia**.

- Further implementation of **Regulation 1775/2005** will be progressing with the gas market emerging…

- …yet, its unsatisfactory level of implementation is obvious in the case of **Bosnia and Herzegovina** and **Serbia** (for example, treatment of cross-border transmission flows - “transit”)
SECURITY of Gas SUPPLY

– Provisions on security of supply are implemented in line with Art 5 of Directive 2003/55/EC, which describes the security of supply basically at the monitoring level.

– However, existing legislation remains far from being in line with the requirements of the Directive 2004/67/EC.

– Further efforts needed for: definition of major supply disruptions, measures to ensure security of supply for specific customers, emergency measures and procedures, reporting obligations, cooperation mechanisms on Community level…

– …remain to be made by ALL Contracting Parties – except Croatia and MN

– Energy Community participates to the EU Gas Coordination Group

After the expiry of the deadlines for the implementation of all three parts of the acquis the overall compliance is still not satisfactory