Background

According to Article 3a of the Treaty establishing the Energy Community (the Treaty), the activities of the Energy Community (the EnC) shall, among others, include the implementation by the Contracting Parties of the Acquis Communautaire on energy, environment, competition and renewables. Under the Treaty, the Acquis Communautaire on energy is represented by the Directive 2003/54/EC, the Directive 2003/55/EC, and the Regulation 1228/2003/EC (Article 11 of the Treaty). The timeline, as specified in the Treaty’s Annex I, asked for this activity to be implemented by July 2007 (within twelve months of the entry into force of the Treaty). The Treaty also sets out the timetable to adopt the necessary measures to open the market to non-household customers by January 2008, and to all customers by January 2015.

Purpose

The implementation of the Acquis Communautaire on energy, and the adoption of necessary measures to open the electricity and gas markets for competition are supported by the development of tailor-made Road Maps (Action Plans), by each Contracting Party. These are based on electricity, and respectively gas templates prepared by the Energy Community Secretariat and agreed with major stakeholders in the process, including the Permanent High Level Group members.

Electricity Road Map

(1) Adoption of the acquis communautaire

- Development and adoption of market rules by mid 2007 aiming to minimise distortion of competition through the introduction of transitional market arrangements.
- Development and publication of the technical rules, i.e. the transmission and distributions grid codes by mid 2007.
- Ensure compatibility and synergies between the market rules and technical rules under preparation.
- Review the timetable for legal unbundling between distribution and supply activities.
- Monitor the account unbundling within the electricity undertakings.
- Include legal provision granting eligibility status to all non household customers as from 1 January 2008 (according to the EnC Treaty – Annex I, Para 2).
- Address market based capacity allocation mechanisms in the future market rules.
(2) **Market structure**

- Monitor the effective unbundling in EPS between its generation activities, wholesale supplier and distribution activities.
- Monitor the effective account unbundling between distribution and retail supply activities within EPS. Clarify the timetable for legal unbundling between distribution and supply activities in EPS.
- Start up practice of an independent audit and publishing of the accounts of all electricity undertakings. Analyse the need for more detailed guidelines on accounts unbundling.
- Continue developing the transmission grid code for its adoption within 2007. The code should address among other aspects the operation of the system, connection to the grid and the planning of the network.
- Develop a distribution grid code.

(3) **Wholesale market**

- Development and adoption of market rules by mid 2007 which shall cover at least a description of the market participants, nomination and scheduling procedures, gate closure, the balancing mechanism and the provision of ancillary services. As transitional arrangements are envisaged, the rules should aim to minimise the level of distortion to the market.
- Introduce capacity allocation and congestion management mechanisms into the market rules. Envisage an evolution from the current temporary capacity allocation mechanism based on pro rata to a market based approach using explicit or implicit auctions. Explore the possibility to coordinate with neighbouring TSOs the allocation of capacity using market based mechanisms.
- Adopt the market code by mid 2007, which foresees three phases for opening the market.
- Develop a timetable to evolve from the Transitional market provisions foreseen in phase 1 of the market rules, where generation and retail prices are regulated to a market in competition.
- EMS to continue developing the required infrastructure to ensure the effective implementation of the future market rules and grid code.
- Follow up the decisions adopted at the Athens Forum regarding market transparency and upload the relevant data onto the EMS website.
- Extend cooperation between the Regulatory and Competition Authorities.

(4) **Retail market**

- Decrease current eligibility threshold (25 GWh/ year) by the end of 2007 to make sure that all non-households consumers may become eligible from 1 January 2008 as given by the timetable set out in the Annex I of the EnC Treaty.
- Continue the programme for improving collection rates by EPS following the objectives of its business plan and continue upgrading the transmission (EMS) and distribution (EPS) metering systems.
- Implement customer switching mechanisms by the end of 2007, which shall non-household customers to choose supplier by the end of 2008. The customer switching provisions are intended to be part of the distribution grid code.

(5) Tariff reform and affordability
- Approve tariffs using the recently developed methodology on the basis of cost-reflectivity before the end of 2006.
- In case adopted tariffs are not cost reflective, adopt a plan and timetable for the gradual increase of the tariffs until cost reflectivity is reached.
- Develop and implement as soon as possible a scheme to subsidise the supply of electricity to vulnerable customers. The proposed scheme should avoid cross subsidies between customer groups.

Gas Road Map

(1) Adoption of the acquis communautaire
- Developing of legal provisions and implementing of provisions regarding legal, organisational and decision making unbundling of transmission activities by July 2007.
- Developing of legal provisions and implementing of provisions regarding legal, organisational and decision making unbundling of distribution activities by July 2007.
- Developing of legal provisions for derogation possibilities in relation to take-or-pay commitments and derogation possibilities regarding emergent and isolated markets by July 2007.
- Developing legal provision granting eligibility status to all non household customers as from 1 January 2008 (according to the EnC Treaty – Annex I, Para 2).

(2) Market structure
- Establishing a market structure and defining a clear role for each market players (service providers and traders) especially effective unbundling of transmission and distribution system operators.
- Planning a strategy for removal of the dominant position of the incumbent company Srbijagas gradually. Reducing Srbijagas share in imports will be necessary for the successful market liberalisation and further development of competition.
- Implementing the technical rules and standards (network code/s, for transmission, distribution and storage) for operations of natural gas infrastructures within 2007.
- Developing a set of analytical and monitoring tools for long term supply and demand perspective.
- Promoting the development of gas infrastructure taking into account the exemptions.
Developing and creating a methodology for promotion of gasification of cities taking also into account the results of the Gasification Study carried out under lead and auspices of World Bank/KfW (first results expected at the end of 1st quarter 2006).

Establishing electronic bulletin boards for transparent and non-discriminatory capacity allocations and trade.

Expanding the dialogues with third countries for transit transmission and regional projects.

Completing the implementation of the account unbundling between gas activities by July 2007.

Completing the technical rules required for facilitation of cross-border trade and improving the functioning of gas market flexibility by January 2008.

(3) Wholesale market

- Ensuring and implementing transparent and non discriminatory rules on gas markets including capacity allocation, balancing rules.
- Monitoring of the proper functioning of market in terms of prevention, restriction and distortion of competition (acquis on competition Annex III of The Treaty establishing Energy Community).
- Creating a mechanism for long term market monitoring (data base for each company and each activity)
- Removing all the technical and legal barriers for export and import of gas trade including technical obstacles as well.
- Diversifying supply sources and increasing the security of supply standards (storage, multiple import sources, multiple supply companies, interconnections etc.) including management of crisis situations for short and long term.
- Developing and implementing an international licensing/authorisation mechanism in order to attract foreign investments and allow the presence of foreign investors and operators in the Serbian gas market.
- Extend cooperation between the Regulatory and Competition Authorities.

(4) Retail market

- Decrease current eligibility threshold (50 Mm$^3$/ year) by the end of 2007 to make sure that all non-households consumers may become eligible from 1 January 2008 as given by the timetable set out in the Annex I of the EnC Treaty.
- Developing and facilitating customer switching mechanism and providing transparent and non discriminatory switching rules for each customer (without any additional costs or consequences).
- Improving the collection rate through technical (such as prepaid meters) and legal framework (penalties and cut off gas etc.).
- Improving of procedures for dealing with customer complaints and improvement of customer connection to the gas system.
- Preparing and implementing the terms of reference on support schemes for the protection of vulnerable customers.
(5) Tariff reform and affordability

- Implementing and improving the cost reflective tariff system submitted to Government to be approved by end of 2006 in order to be in force by 1 January 2007.

- Completing and implementing the cost reflective and transparent Third Party Access (TPA) tariffs including transit transportation end of 2006.

- Making natural gas prices cost-reflective for all consumer groups. Eliminate cross-subsidies between different customer groups and different activities.

- Developing and implementing gas sale prices in line with EU standards.