Lessons Learnt: from Physical to Financial Public Service Obligations

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Non-exhaustive list / MS discretion
- customer protection, including USS & SoLR
- regularity, quality, price, SoS
- environmental protection including EE & climate protection

Comply with energy acquis + ECJ case law – principle of proportionality

What is PSO?
Sector-specific tool for providing SGEI
Derogation from market rules in order to address national interest

Criteria for PSO (price regulation) as exceptions
- Pursue general economic interest & not go beyond necessity
- Clearly defined, transparent, non-discriminatory and verifiable
- Limited in time & scope
- No additional cost

Impose them if really needed!
Exception – not a rule!

In the EU - review & proposal for end-date of price regulation 2025

Become “fashionable” but not new:
Second energy package;
TEP applicable to EnC CPs
New rules in CEP

End
PSOs in Energy Community
Work in progress - electricity

Albania PSO of 2016
No PX, no compliant PSO

- Exclusive KESH-OSHEE relationship for USS, SoLR, DSO losses
  + KESH compensates OSHEE

Before PX – offer vol. of for HH & SMEs
After - offer vol. 90%, 60%, 30% for USS + increase sale on PX
Financial contract to compensate, no direct physical contracts

Ukraine PSO of 2019
Transit to financial PSO

- NPP (80%) & HPP (35%) sell to GB (regulated)
- GB sells to USS (regulated)
- GB compensates USS
- USS sell to HH (regulated)
- GB offtakes RES & sells on DAM
- Cross-subsidies between PSOs
- Financial problems
- Low subsidized end-users’ tariffs

On DAM: Physical sales at market prices
Service contract for compensation

Georgia Electricity
market concept design of 2020

- Plan for deregulation of generation plants and customers till 2026
- Wholesale Public Service Organisation’s PSOs for: RES, Guaranteed producers, USS, Abkhasia

- Risk for single buyer - one state-owned undertaking being tasked with many PSOs
- BUT plan for CfD from start + many safeguards
- Strong monitoring by NRA required
- Energy exchange established, plan for organized markets

Compliance Note CN 03/20
ECS proposal for transition to financial PSO in UA electricity sector

NPP (65-75%) HPP (30-35%)

Selling @marginal cost => no below cost sales, no SA issues Demand side dominance / abuse addressed

Why only?

Improve bilateral market Not >10% to one buyer

Redistributing windfall profit => compensation via service contract DAMp – FWp for actually sold vol. to HH

GB: no PSOs cross-subsidies RES offtake & compensation

Gradual! Compliant! Address national concerns!

USS efficiency & hedging

Reform of HH prices is a must! Reach USS levels & cover costs

The Energy Community Secretariat I ATHENS FORUM 2020
Lessons learnt
ECS proposal

What did not work?
- Low end-users (HH and beyond) price of supply & no price reform
- Cross-subsidies (between prices and PSOs) & lack of transparency
- Dominant / monopoly incumbent on supply / demand side
- Or single buyer in place (difficult to replace)
- Financial problems in the sector, state-owned companies
- No organised market, new market model, strong regulation

What to change in order to work?
- Option to be given to RES, regulated producers, USS to sell / purchase on market
- All undertakings - responsible for imbalances from start
- No cross-subsidies between PSOs, accounting unbundling
- Establish organized market, bring transparency
- End-users price reform, ensure prices that cover costs
- Institutional cooperation (NRA, Gov, ECS…)

Service / financial / CfD

No physical delivery (that is on DAM at market price)
Difference between market price & fixed price (administratively set at start) multiplied by the vol. of procured electricity for HH

Transfer economic welfare from state-owned generators to consumers with least possible impact in the market

Physical sales @ market price – not below cost
Compensate USS for actual supply – incentivize efficiency