Energy Community - Wholesale Electricity Market Development

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Topics

• World Bank Technical Assistance Project on SEE Wholesale Market Opening
• Electricity Shortages threaten the Energy Community
• Next Steps in Electricity Market Opening
• Regional Day-Ahead Market (DAM)
• Action Plan – Preparation and Implementation of a Regional DAM; Improvements to Bilateral Trading Practices
• Summary of Market Development Actions (to be taken country-by-country)
World Bank Project on SEE Wholesale Market Opening

• 11th Athens Forum requested assistance
• TOR agreed by the 12th Forum
• ESMAP and PPIAF (two multi-donor trust funds) agreed to provide financing
• WB contracted a consortium of Poyry Energy and Nord Pool Consulting
• Draft Report now available - presented at the 14th Forum in May and discussed with regulators and TSOs in June
• Next Step: Action Plans to be agreed
Electricity Shortages Threaten the Energy Community

- Most countries maintain low regulated tariffs
  - State utilities generally cover their low (historic) costs
  - Tariffs do not support new investment

- Countries are opening their markets, but
  - National utilities dominate national markets
  - Eligible customers prefer to stay under their (artificially low) regulated tariffs
  - Effective opening and switching of suppliers is limited

- Demand-supply balance continues to tighten
  - Economic crisis provides only temporary “relief” as demand temporarily declines
Electricity Shortages Threaten the Energy Community

• **Current situation is well-known to all**
  – Energy Community Secretariat provides regular benchmarking reports to the Athens Forum, PHLG and Ministerial Council meetings

• **Conclusions of the 14th Forum:**
  – Contracting Parties to intensify their efforts...
  – Utmost importance of transparency...
  – WB project to help overcome market obstacles...

• The next slides present WB’s views, drawing from the consultant’s draft report and WB’s Athens process experiences
Next Steps in Market Opening

• Allow state utilities to sell to the market in addition to the regulated customers
  – Reduce volumes of tariff sales & allow volumes of market sales to increase - over time, gradually (see next slide)
  – Promotes effective market opening
  – Promotes internal cash generation by state utilities for their future investment and ability to survive in future market competition with private companies
  – Promotes energy efficiency when consumers increasingly have to pay the real price for electricity

• Market opening promotes private investment - key for electricity supply to support future economic growth
**Transition Period: Market and Regulated Prices**

Eligible Consumer and Supplier

Estimated consumption in \( t_0 \)

Volume purchased at market price

Volume purchased at regulated price from generator or supplier

\( t_0, t_1, t_2 \) and \( t_3 \) to be decided by Authorities
Next Steps in Market Opening

• **Open the market gradually**
  - Social safety nets
  - Each country can set the pace of opening/market sales, taking into account progress of social safety nets for vulnerable customers and economic conditions

• **Require transparent contracting when state utilities buy and sell electricity**
  - Auctions or other transparent processes advisable when state utilities award bilateral contracts
  - Good governance in the use of resulting revenues

• **Develop a Regional Day-Ahead Market**
Regional Day-Ahead Market

• A regional market is the objective of the Treaty. Bilateral trading to continue - needs improvements. A regional Day-Ahead market is proposed.

• Countries to decide on the Approach/Options:
  – Centralized: regional power exchange/regional market operator of the regional market
  – Decentralized: national power exchanges and market operators in each country, with couplings of the national markets to form a regional market
  – Variations of the decentralized approach include (1) timing (step-by step country-by country over time or big-bang all countries in parallel) and (2) use of market services from OPCOM, SouthPool, etc. by national market operators instead of each developing its own systems.
Regional Day-Ahead Market --
Centralized Approach

- Centralized regional approach - regional power exchange & regional market operator - is the “in-principle” ideal:
  - Cost-effective
  - Feasible - SEE systems too small for national markets?
  - Faster to implement & easier to coordinate and harmonize - compared to decentralized approaches
  - Easier for investors to understand
  - Regional cooperation and ownership - ideally TSOs would jointly establish and hold equal shares in the regional market operator.

- Immediate acceptability of a centralized regional approach & regional market operator is not clear -- Countries to decide and implement.
Regional Day-Ahead Market -- Decentralized Approach

- If SEE countries prefer decentralized approaches, countries should **decide and implement** a regional market through a decentralized approach.

- **One possible decentralized scenario:**
  - Serbia develops a national market and in parallel
  - Serbia and Romania couple their markets
  - Other countries join the Serbia-Romania market coupling (or couple with Austria, Bulgaria or Greece), one by one over time, when confident about the effective functioning of market coupling and after having developed capability and facilities to join the market coupling
  - Romania and Hungary are working to couple their markets -- Hungary-Romania-Serbia market coupling would have the necessary critical mass for the SEE region
Action Plan – Preparation

- Action Plan to be finalized, endorsed by PHLG and approved by the Ministerial Council in December 2009

- Proposed Next Steps:
  - PHLG to endorse and the Ministerial Council to direct ministries & TSOs and request regulators to prepare the Action Plan for approval in the December 2009 meeting
  - Regulators and TSOs to work country-by-country and coordinate regionally within ECRG/EWB and SETSO
  - Energy Community Secretariat, World Bank & Poyry - Nord Pool consultant team assistance is available

- Political Will is key to progress and success
- Regulatory Mandate to TSOs is also needed
Action Plan – Implementation

• Target: Action Plan approved in December 2009 and implemented in 2010-2014
• Regulators to issue the implementation mandate to the TSOs - country-by-country (with regulatory coordination at ECRB/EWG)
• TSOs to be responsible for implementation
• Regulators to monitor TSOs’ progress
• Athens Forum to get progress reports
• PHLG and the Ministerial Council to receive progress reports and take decisions/corrective measures as needed - sustained political will is key to progress and success
Action Plan - Improvements to Bilateral Trading Practices

• In parallel to developing the regional Day-Ahead Market, countries should improve bilateral trading

• Bilateral trading is active but has several well-known shortcomings:
  – Prices paid by import countries are high - often much higher than available reference prices in the region (OPCOM and Greek prices)
  – Trading is not transparent - information about available power for trading and about actual trades and prices not readily available, slow progress in market monitoring
  – Perception of a closed market - favored traders having preferential/exclusive access to electricity and cross-border transmission links
Action Plan - Improvements to Bilateral Trading Practices

- **Coordinated Auction Office (CAO)** for transparency about available cross-border capacity - time to move forward to implementation
- Mandate public auction of bilateral contracts by state utilities instead of allowing new negotiated deals with favored traders
- Publish information about available power for trading and about actual trades and prices, to build confidence and trust and to attract new investors and traders

These measures should be taken by all countries, also those that are not developing a DAM.
Summary of Market Development Actions

- Adjust regulated tariffs to provide for new investment by state utilities and private investors
- Effective opening of the market requires state utilities to be allowed to sell to the market - through auction (stop negotiated deals)
- Improve bilateral trading through auctioning of contracts (and transmission), improve transparency through information and monitoring
- Develop a regional day-ahead market, country-by-country / step-by-step.

Countries not willing/able to move ahead with day-ahead markets immediately should still develop action plans to take the first three measures!