Implementation of the Treaty

Development of the ELECTRICITY Market

Energy Community Secretariat
www.energy-community.org

13th PHLG Meeting – 25 June 2009, Sarajevo
ENERGY COMMUNITY TREATY

Development of ELECTRICITY Market

SCOPE

- Acquis IMPLEMENTATION
  (end of 2007)
    ✓ Directive 2003/54/EC
    ✓ Regulation (EC) 1228/2003
      (end of 2009)
    ✓ Directive 2005/89/EC

- Electricity MARKET OPENING
  (01.01.2008)
    ✓ all non-household customers
  (01.01.2015)
    ✓ all customers – including households

Summary
### Development of ELECTRICITY Market

#### Implementation of the Acquis

**STATE OF PLAY (reference - December 2008)**

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<th><strong>REGULATION (EC) 1228/2003</strong></th>
<th>Inter-TSOs Compensation mechanism</th>
<th>Charges for access to the networks</th>
<th>Congestion Management method</th>
<th>Transparency</th>
<th>Use of Congestion Income</th>
<th>New Interconnectors</th>
<th>Coordination among Regulatory Authorities</th>
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- **Red**: Bottlenecks
- **Yellow**: Some provisions are available
- **Blue**: Some provisions are missing
- **Green**: All provisions are available

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13th PHLG Meeting - Sarajevo, 25 June 2009
Directive 2003/54/EC

- PSO and CUSTOMER PROTECTION
  - PSO – in general, mainly through supply (or access) tariffs
  - Customer RIGHTS – within Conditions for (regulated) Supply
  - Customer PROTECTION – social schemes under development
  - COST – REFLECTIVITY of regulated supply tariffs – at least

PUBLIC SERVICE OBLIGATIONS

OPTIONAL and DIVERSE measures aimed to FACILITATE AND SUPPLEMENT THE OPERATION OF THE COMPETITIVE RETAIL MARKET - rather than to PROMOTE REGULATED SUPPLY OF ELECTRICITY

UNIVERSAL SERVICE, CUSTOMER PROTECTION

COMPULSORY measures - focussed on REGULARITY / QUALITY OF SUPPLY for HOUSEHOLDS / SME and on PROTECTION of all FINAL CUSTOMERS including VULNERABLE CUSTOMERS enforcing the rights of both ELIGIBLE AND CAPTIVE CUSTOMERS - rather than to ADVOCATE THE NEED FOR REGULATED TARIFFS AND SUSTAIN CROSS-SUBSIDIES IN FAVOUR OF HOUSEHOLDS
Security of Supply

- Balancing (demand / supply) – on annual basis, long term strategies
- Planning of Investments – generation, transmission to be included
- Operational safety – (transmission system) UCTE criteria applied
- New capacity (authorization, tendering) - need improvement

Measures focused on Reliability of Supply, Demand Forecast, Energy Efficiency and New Investments in the electricity Generation and Transmission employing Adequate Market Instruments - rather than on Administrative Measures and State Aid.

Operational Safety

Related to Safety Standards and Optimal Efficiency in the Use of Transmission Network Capacity through Adequate Market Instruments - rather than based on Contingency Measures, Reserve Capacity, Long-Term Contracts or Priority Rules.
Development of ELECTRICITY Market

Implementation of the Acquis

**Directives 2003/54/EC**

- **TECHNICAL RULES**
  - GRID CODES (transmission / distribution) - Connection rules, metering
  - INTEROPERABILITY – UCTE criteria applied
  - AVAILABILITY – continuously improving

Target SAFE AND TRANSPARENT RULES for ACCESS TO THE INFRASTRUCTURE required for operation of the COMPETITIVE MARKET - rather than fit into boundaries of the incumbent system limited to ORGANIZATION OF THE (REGULATED) DELIVERY OF ELECTRICITY
Development of ELECTRICITY Market
Implementation of the Acquis

Directives 2003/54/EC

- **UNBUNDLING**
  - **TSO / ISO (Transmission)** – Unbundled, functionally *not* independent
  - **DSO** – to be further legally unbundled from the (regulated) supply
  - **GENERATION** – dominant incumbent generators (regulated)
  - **ACCOUNTS** – unbundled – regular monitoring is important

**UNBUNDLING - INDEPENDENT SYSTEM OPERATORS (TSO / DSO)**

To be INDEPENDENT in order to provide MOST EFFICIENT USE OF THE NETWORKS as shared resources IN FAVOUR OF THE COMPETITIVE MARKET - rather than to TRANSPOSE STATE POLICY / PRIORITIES INTO RULES FOR USING THE NETWORKS OR FOR THIRD-PARTY ACCESS

**UNBUNDLING - GENERATION / SUPPLY**

Aimed to provide GENUINE COST-REFLECTIVITY through DIVERSIFICATION OF PRODUCTS / SERVICES and avoid MARKET CONCENTRATION and DISTORTION OF COMPETITION by SEPARATION OF REGULATED and COMPETITIVE BUSINESSES - rather than to SUSTAIN THE OPERATION OF INCUMBENT COMPANIES
Development of ELECTRICITY Market
Implementation of the Acquis

Directives 2003/54/EC, Regulation (EC) 1228/2003

- THIRD-PARTY ACCESS
  - TPA (transmission / distribution) – applied to eligible customers
  - Published TARIFFS – NOT always clearly determined / available
  - REFUSAL of access – generally covered

Third-party access should guarantee SAFE AND EASY ACCESS to the networks under FAIR AND TRANSPARENT CONDITIONS – avoiding SELECTIVE / CUMBERSOME ADMINISTRATIVE REGIMES.

Transparency - Charges for access to the networks

Charges should be CLEARLY DEFINED AND APPLICABLE FOR ANY THIRD PARTY ACCESSING THE NETWORK (TRANSMISSION / DISTRIBUTION) and APPROVED BY THE REGULATOR AND MADE PUBLICLY AVAILABLE BY THE OPERATOR however in most cases they are AGREGATED WITHIN THE REGULATED SUPPLY TARIFF STRUCTURE.
Development of ELECTRICITY Market

Implementation of the Acquis

Directives 2003/54/EC

- MARKET ENVIRONMENT
  - LICENSES – applied, not always coherent, NO reciprocity
  - Market RULES (balancing, ancillary services) – under development
  - Market OPERATORS – missing / not clear, not sufficiently developed
  - SWITCHING Rules – not sufficiently developed
  - SUPPLY Function – not distinctive from trading / regulated supply
  - Market OPENING – not always correct, insufficient practical results

OPENING OF THE MARKET

ELIGIBLE CUSTOMERS ARE ALL CUSTOMERS WHO COMPLY WITH THE ALREADY SPECIFIED THRESHOLD and they MUST NOT BE SHORT OF THEIR RIGHT TO EXERCISE ELIGIBILITY however some classes of customers (e.g. HOUSEHOLDS / S.M.E.) MAY BE GIVEN EXCEPTIONAL RIGHT TO A TEMPORARY SUPPLY UNDER PUBLIC SERVICE (REGULATED) CONDITIONS which CAN NOT BE GENERALLY AVAILABLE TO ALL ELIGIBLE CUSTOMERS
Development of ELECTRICITY Market
Implementation of the Acquis

Regulations (EC) 1228/2003,

- MARKET ENVIRONMENT
  - CROSS-BORDER CAPACITY allocation – no priority rules / reserve
  - CONGESTION Management – capacity split (50-50), market-based method applied (one exception)
  - CONGESTION FEE – applied pay-as-beed methods to be eliminated

CONGESTION MANAGEMENT

FULL COMPLIANCE WITH THE REGULATION 1228/2003 AND THE CONGESTION MANAGEMENT GUIDELINES is needed (for all borders) - despite the current application of STANDARD, MARKET-BASED PROCEDURES

CAPACITY ALLOCATION

COORDINATED AUCTIONS FACILITY (CAO) TO BE DEVELOPED IN THE 8TH REGION heading toward implementation of a FLOW-BASED CAPACITY ALLOCATION CRITERIA – substituting current SUBOPTIMAL SOLUTIONS which apply INEFFICIENT USE OF THE AVAILABLE TRANSMISSION CAPACITY
Development of ELECTRICITY Market

Implementation of the Acquis

**Directive 2003/54/EC, Regulations (EC) 1228/2003.**

- **REGULATORY ENVIRONMENT**
  - **TASKS and RESPONSIBILITIES** – need to be supplemented
  - **INDEPENDENCE of the Regulator** – still under influence from the policy authorities
  - **POWERS of the Regulator** – to be coordinated with the competition authorities
  - **ADMINISTRATIVE CAPACITY** – sustain the political focus on reforms

REGULATORY AUTHORITIES

REPORTING

FULL SET OF RESPONSIBILITIES FOR REGULATORY AUTHORITIES to be enforced including CROSS-BORDER TRADE AND CAPACITY ALLOCATION and OBLIGATIONS FOR MONITORING and REPORTING
**Annex 1 to the EnC Treaty:** Each Contracting Party must ensure that the eligible customers within the meaning of the Directives 2003/54/EC and 2003/55/EC are:

i. *From 1 January 2008, all non-household customers; and*

ii. *From 1 January 2015, all customers.*

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<th>Contracting Party</th>
<th>Electricity Threshold</th>
<th>Switching</th>
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<td>ALBANIA</td>
<td>All non-household</td>
<td>One large customer</td>
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<td>BOSNIA AND HERZEGOVINA</td>
<td>All non-household</td>
<td>Two large customers</td>
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<td>CROATIA</td>
<td>All customers</td>
<td>32,000 customers (15% customers)</td>
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<td>The Former Yugoslav Republic of Macedonia</td>
<td>Connected on 110 kV (mandatory)</td>
<td>9 out of 10 (25% consumption)</td>
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<tr>
<td>MONTENEGRO</td>
<td>All non-household</td>
<td>One large customer</td>
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<tr>
<td>SERBIA</td>
<td>All non-household</td>
<td>No switching</td>
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<tr>
<td>U N M I K</td>
<td>Connected on 10 kV and above</td>
<td>Two large customers</td>
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"... the regulated retail tariffs are below levels at which new entrants would be able to enter the market to compete effectively and have even been stated as being below the wholesale energy price which a new supplier would have to buy energy at."

Development of ELECTRICITY Market

Summary

**NEXT STEPS**

- Remaining IMPLEMENTATION of the ACQUIS:
  - Directive 2003/54/EC (overdue)
  - Regulation (EC) 1228/2003 (overdue)

- Appropriate MARKET ENVIRONMENT:
  - Market structure (define the Supply Function, complete the unbundling)
  - Switching (rules, metering, billing) including customer protection
  - Balancing and ancillary services
  - Market platform (rules, operator, monitoring) including settlement agent
  - Open-up incumbent generation portfolio to competition
  - Introduce day-ahead / intra-day trading

- Introduce REGIONAL MARKET integration
  - Reciprocity rules
  - Data Transparency (regulations, monitoring, market)
  - Licences (“Trading Passport”)
  - Coordinated Capacity Market (CAO)
  - Power Exchange to be considered
Measures for the ENERGY SECTOR

- Improve the ADMINISTRATIVE CAPACITY and
- Sustain the POLITICAL FOCUS