



EU4Energy



POLICY BRIEF

MOLDOVA'S ELECTRICITY MARKET REFORM

THE TIME IS NOW

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SUMMARY

Roughly 80% of Moldova's electricity consumption originates outside its borders from neighbouring Ukraine and the disputed Moldovan region of Transdniestria. The lack of transparency and market mechanisms that allow fair competition in Moldova's electricity market have led to prices perceived as uncertain and high. Further integration of the Moldova-Ukraine electricity market, increased harmonisation of electricity market legislation in line with EU energy acquis, and cross-border interconnection with Romania will increase Moldova's energy security and will provide consumers with electricity prices correlated with regional markets. Moreover, a transparent and competitive domestic electricity market, as well as a clear and predictable legal framework will attract foreign investment in energy infrastructure and energy efficiency.

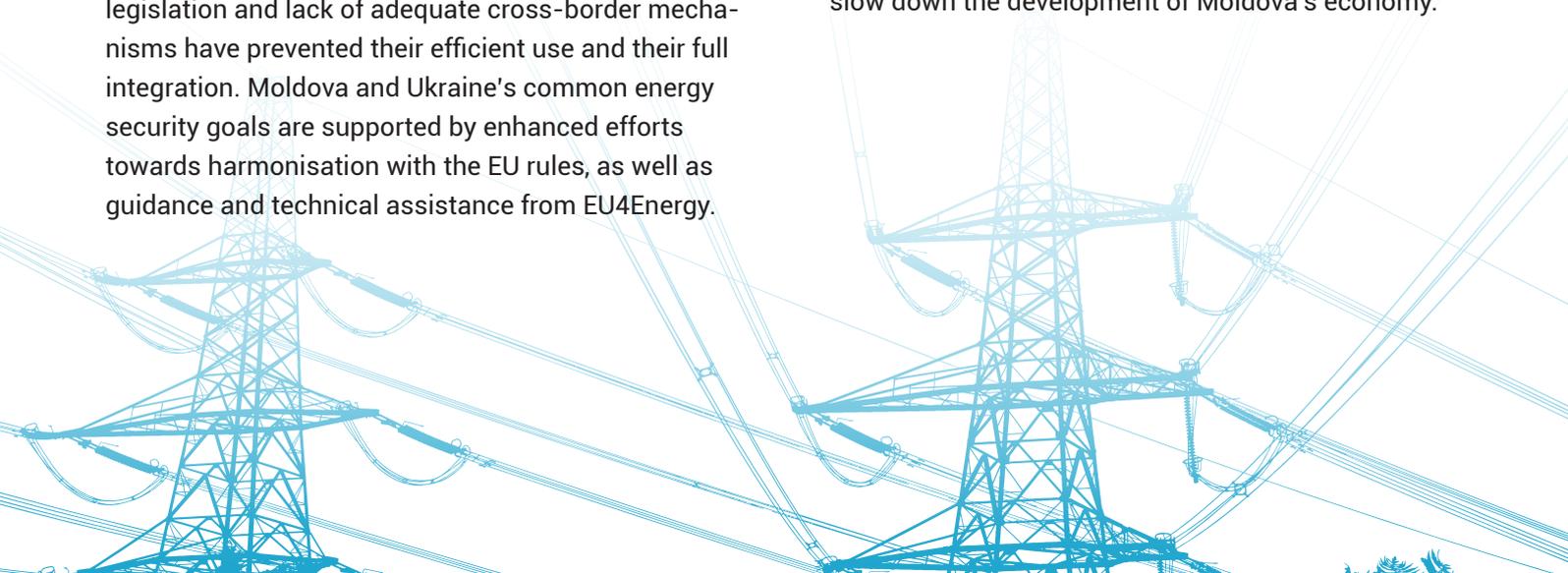
WHAT'S AT STAKE?

Moldova's energy security is endangered by the fact that a high percentage of electricity originates from imports through non-market based cross-border mechanisms, limited diversification of supply sources, and a lack of transparency in supply contracts. Further integration with the Ukrainian electricity market, the implementation of Energy Community legislation, and the physical interconnection to Romania will improve transparency and integration of the Moldovan electricity system with regional markets, providing fair prices and improving energy security.

Neighbouring Ukraine has already taken steps toward harmonising its electricity market legislation with the Energy Community acquis. The Moldovan and Ukrainian transmission infrastructures were constructed as a single system and are interconnected, but differing legislation and lack of adequate cross-border mechanisms have prevented their efficient use and their full integration. Moldova and Ukraine's common energy security goals are supported by enhanced efforts towards harmonisation with the EU rules, as well as guidance and technical assistance from EU4Energy.

The same is true for Moldova's interconnection with Romania, whose commissioning is expected after 2021. The interconnection between the Moldova-Ukraine electricity markets and the EU common market, and harmonisation of electricity market legislation with the Energy Community acquis will create new opportunities for investors and will reduce Moldova's vulnerability in electricity supply. Reliable and transparent rules, another target of EU4Energy assistance, will also improve investor confidence and increase the potential for foreign direct investment (FDI) in energy infrastructure and in energy efficiency projects. All these will in the end translate into improved energy security for the citizens of Moldova.

The time is now. Hesitation and delays in implementing electricity market liberalisation and reform increase uncertainty, represent an unnecessary burden on the Moldovan people, and slow down the development of Moldova's economy.



KEY ISSUES

Moldova's security of electricity supply is weak due to its limited interconnection to non-domestic suppliers and the lack of robust domestic generation capacity. Currently, the sole cross-border interconnection for Moldova is with Ukraine from where roughly 20% of Moldova's electricity needs are covered. Another 20% of Moldova's electricity supply comes from domestic production. The remaining 60% of electricity consumption is covered by the Kuchurgan power plant (Moldavskaya GRES, MGRES), located in the disputed Moldovan region of Transdnistria.

In 2017, the Energy Community Secretariat developed a set of guidelines for the procurement of electricity in Moldova. In 2018 and 2019, the guidelines were amended by the Energy Community Secretariat to address the experience and shortcomings from the previous year. Each year, the guidelines were adopted, albeit always in an amended form, by the Ministry of Economy and Infrastructure as an Order with instructions for the market participants. However, there is serious room for improvement for the annual energy procurement procedure. The three years when the guidelines have been in place have shown the weaknesses of the Moldovan market: very limited sources of electricity, few market players, state-owned companies supported by the government, parallel negotiations and dealings, uncompetitive behaviour, and lack of transparency.

Ukrainian and Moldovan transmission networks operate synchronously, or at the same frequency, and were originally designed as a single interconnected system within the larger Soviet UPS/IPS. In order to connect to the Romanian and larger EU grid through HVDC connection, significant investments are required for the Moldova-Romania interconnection to allow both transmission networks to operate together. In the longer term, additional investments and electricity market legislation implementation are required in order to upgrade the internal Ukraine-Moldova transmission network to allow for full synchronisation with the CE ENTSO-E system.

A SENSE OF URGENCY

Every day, citizens in Moldova are paying high energy bills to meet their basic energy requirements. The availability of primarily one source of electricity supply places a financial burden on the Moldovan people and is an impediment to investment and the economic growth of Moldova.

Albeit at a slow pace, both Ukraine and Moldova are reforming their wholesale electricity markets, improving transparency, and working towards interconnecting with the ENTSO-E system, thus increasing market competition. Working together will trigger progress towards market liberalisation, strengthen Moldova's negotiating position with companies who have a dominant market position, and help prepare for the interconnection with Romania.

Adopting and implementing legislation, removing all remaining restrictions on electricity trade, and allowing for a full Moldova-Ukraine grid integration is of utmost urgency. The recommendations below represent the next steps for Moldova and Ukraine in their common pursuit of energy security.

KEY RECOMMENDATIONS

01.

IMPLEMENTATION OF A WHOLESALE MARKET DESIGN.

Wholesale markets should aim to deliver undistorted prices by further integration of the Moldova-Ukraine electricity market through harmonisation with the EU Third Energy Package. Such wholesale market design should include transitional mechanisms to ensure smooth transition towards a fully competitive market.

Key actions:

- develop a balancing mechanism that sets the right incentives
- develop common licensing conditions for electricity market participants
- develop common rules for managing cross-border capacity
- unbundle the electricity supply from distribution
- develop a transparent, competitive procedure for the procurement of electricity
- ensure non-discriminatory third party access promoting competition
- ensure smooth transition through transitional processes and mechanisms

02.

IMPLEMENTATION OF JOINT CROSS-BORDER CAPACITY ALLOCATION ON THE INTERCONNECTION WITH UKRAINE.

This requires common rules and processes, approved by both countries' national regulatory authorities, ensuring transparent and non-discriminatory access to the cross-border capacity in line with the EU Third Energy Package and using the best practices of the EU Member States in implementing market network codes. Efficient use of cross-border capacity would offer more transparent pricing between Moldova and Ukraine, and potentially put downward pressure on the contracted price with MGRES. Additionally, this will foster cooperation, and is one of the requirements for eventual synchronisation with the CE ENTSO-E system.

03.

COMPLETION OF THE INTERCONNECTION WITH ROMANIA ON TIME.

The interconnection with Romania is of paramount importance. Romania is considered to have one of the most competitive and transparent European markets, and its electricity generation mix is well diversified between hydro, coal, nuclear, gas, and wind. Access to the Romanian spot market, which has historically had lower prices than the current contracted price between Moldova and MGRES, will increase competition in the Moldovan retail markets, pressuring MGRES and Ukrainian suppliers to price electricity fairly.

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The EU4Energy Initiative covers all EU support to improve energy supply, security and connectivity, as well as to promote energy efficiency and the use of renewables in the Eastern Partner countries Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It does this by financing projects and programmes that help to reform energy markets and to reduce national energy dependence and consumption. Over the longer term, this makes energy supply more reliable, transparent and affordable, thus reducing energy poverty and energy bills for both citizens and the private sector