

ENERGY REGULATORY COMMISSION
OF THE REPUBLIC OF MACEDONIA



REGIONAL MARKET DISCUSSIONS

REGIONAL ENERGY MARKET IN SOUTH EAST EUROPE

**NARUC - Regulatory Partnership Program
(ERC, R. Macedonia – PSB, Vermont)
Montpelier, Vermont, May 23-27, 2005**

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Regional Energy Market in SEE

- Declaration of Intent for the Establishment of a Competitive Electricity Market in South East Europe – Thessaloniki, September 10th, 1999
- Memorandum of Understanding on the Regional Electricity Market in South East Europe and its Integration into the European Union Internal Electricity Market – Athens, November 15th, 2002
- Memorandum of Understanding on the Regional Energy Market in South East Europe and its Integration into the European Union Internal Energy Market – Athens, December 8th, 2003
- Treaty establishing the Energy Community in SEE

Energy Community Treaty

➤ Legally binding document

- Version 1 – July 6th, 2004
- Version 2 – October 6th, 2004
- Version 3 – November 4th, 2004
- Version 4 – December 3rd, 2004
- Version 5 – February 8th, 2005
- Final Draft Version – February 22nd, 2005
- Final Treaty Text – initiated March 22nd, 2005

Energy Community - Parties

➤ **European Community**

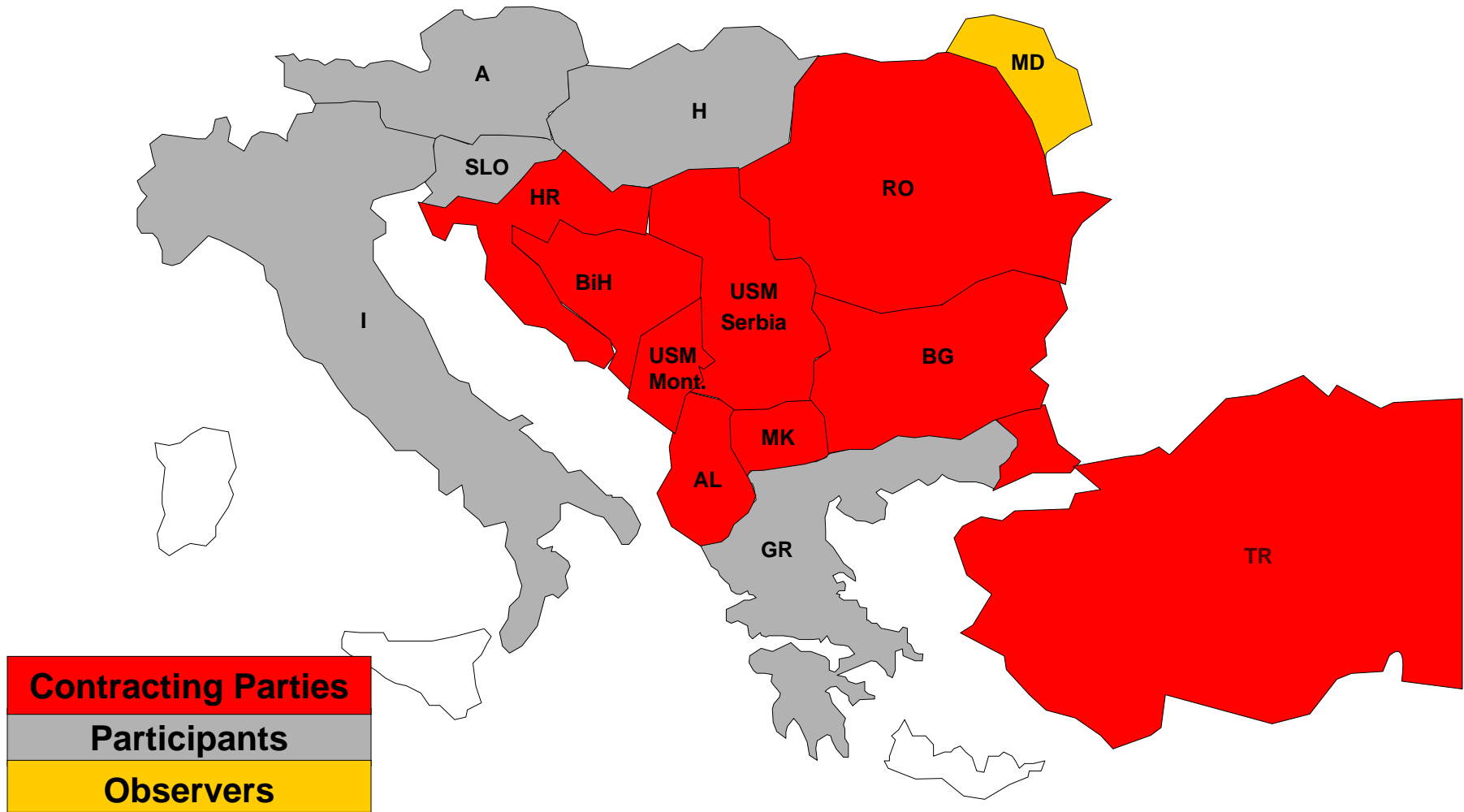
➤ **Contracting Parties:**

- Adhering Parties: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Romania, Serbia, Turkey
- United Nations Interim Administration Mission in Kosovo (UNMIK)

➤ **Participants:** any Member State of the European Community

➤ **Observer:** Moldova – within six months of the entry into force of the Treaty

Energy Community - Parties



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Energy Community - Goal

- Create a stable regulatory and market framework capable of attracting investment
- Create a single regulatory space for trade
- Enhance the security of supply of the single regulatory space
- Improve the environmental situation, energy efficiency, foster the use of renewable energy sources and set out conditions for energy trade
- Develop market competition and exploit economies of scale

Energy Community - Activities

- Implementation of the Acquis communautaire on energy, environment, competition and renewables
- Setting up of a specific regulatory framework permitting the efficient operation of Network Energy markets across the territories of the Contracting Parties and part of the territory of the European Community, and including the creation of a single mechanism for the cross-border transmission and/or transportation of Network Energy, and the supervision of unilateral safeguard measures
- Creation for the Parties of a market in Network Energy without internal frontiers, including the coordination of mutual assistance in case of serious disturbance to the energy networks or external disruptions, and which may include the achievement of a common external energy trade policy

The Acquis on Energy

- Each Contracting Party shall implement within twelve months of the entry into force of the Treaty:
 - EC Directive 2003/54/EC concerning common rules for the internal market in electricity;
 - EC Directive 2003/55/EC concerning common rules for the internal market in natural gas; and
 - EC Regulation 1228/2003/EC on conditions for access to the network for cross-border exchanges in electricity.
- Each Contracting Party must ensure that the eligible customers are:
 - From 1st January 2008, all non-household customers; and
 - From 1st January 2015, all customers.

The Acquis on Environment

- Each Contracting Party shall implement:
 - Directive 1985/337/EEC on the assessment of certain public and private projects on the environment, and its subsequent amendments as of 31st December 2004, on the entry into force of the Treaty;
 - Directive 1999/32/EC on reduction of sulphur content of certain liquid fuels by 31st December 2011;
 - Directive 2001/80/EC on large combustion plants by 31st December 2017;
 - Article 4(2) of the Directive 79/409/EEC on the conservation of wild birds on the entry into force of the Treaty.
- Each Contracting Party shall endeavor to accede to the Kyoto Protocol
- Each Contracting Party shall endeavor to implement EC Directive 96/91/EC concerning pollution prevention and control

The Acquis on Competition

- The following are incompatible with the proper functioning of the Treaty, insofar as they may affect trade of Network Energy between the Contracting Parties:
 - all agreements between undertakings, decisions by associations of undertakings and concerted practices which have as their object or effect the prevention, restriction or distortion of competition;
 - abuse by one or more undertakings of a dominant position in the market between the Contracting Parties as a whole or in a substantial part thereof;
 - any public aid which distorts or threatens to distort competition by favoring certain undertakings or certain energy resources.

The Acquis on Renewables

- Each Contracting Party shall provide to the European Commission within one year of entry into force of the Treaty a plan to implement:
 - EC Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market; and
 - EC Directive 2003/30/EC on renewable energy sources.

Network Energy Markets - Harmonization

- The Energy Community may take Measures concerning:
 - compatibility of market designs for the operation of Network Energy markets;
 - mutual recognition of licenses; and
 - measures fostering free establishment of Network Energy companies.

Network Energy Markets - Operation

- The Energy Community shall take Measures establishing a single mechanism for the cross-border transmission and/or transportation of Network Energy.
- The Parties shall, within one year of the entry into force of this Treaty, adopt security of supply statements describing in particular diversity of supply, technological security, geographic origin of imported fuels.
- The Energy Community may take Measures to:
 - allow for the universal provision of electricity;
 - foster effective demand management policies; and
 - ensure fair competition.
- The Energy Community may also make Recommendations to support effective reform to increase the level of payment for energy by all customers, and to foster the affordability of Network Energy prices to consumers.

Energy Community - Institutions

- **Ministerial Council (MC)**
- **Permanent High Level Group (PHLG)**
- **Regulatory Board (ECRB) – Athens**
- **Fora**
 - Electricity Forum - Athens
 - Gas Forum - Istanbul
- **Secretariat – Vienna**

SEE Regional Trading Centre (1/3)

- A central SEE trading centre, based on the infrastructure and experience already existing in the region (Borzen and Opcom), established by these and with the participation of every national market operator (or TSO with such role) with functions similar to a regional Power Exchange
- Participants: regional generators, traders or brokers and eligible customers
- Trading through the Centre ***completely voluntary***

SEE Regional Trading Centre (2/3)

- Initially, products offered will be simple:
 - OTC bilateral contracts for bulk electricity at various time sessions
 - Standard tradable contracts (products) for multiregional exchanges (futures)
- At a later stage (depending on maturity and regional progress):
 - Voluntary Day Ahead market for physical deliveries in the region; hourly bids and offers; continuous price publication
- Will act as a clearing house, performing accounting and settling of transactions
- It will be the counterparty for each transaction
- It will provide and require financial guarantees to participants (initially supported by the Donors)

SEE Regional Trading Centre (3/3)

- In collaboration with the Technical Institution (below), will develop the procedures for the physical deliveries of the transactions concluded; however, the participants will be responsible for the provision of the physical path (capacity allocation in the interconnectors and the national grids)
- It will participate in the development of the regional DAM market rules and will become the future regional market operator (2008 and onwards)
- At a later stage, it will expand to offer other products, too (gas, real time balancing products, financial products, etc.)
- Its establishment can be regarded as a valuable tool, independent from the successful evolution of ECSEE; It can be a self sustained Institution and its liquidity will increase with time; When the ECSEE operates the market rules will safeguard and facilitate such liquidity.

Technical Institution for the Inter-TSO balancing and ancillary services coordination (1/2)

- The provision of balancing and ancillary services (real time function) will prove to be an important element of the ECSEE
- On a national basis, this task is assigned to the national TSO (experience shows that this can be a profitable service both to the TSO and the market participants)
- On a regional basis, under various national and regional wholesale regimes and various national real-time balancing schemes (market based or administrative), this task has to be strongly coordinated among the national TSOs of the region, especially since a real-time regional market is not achievable in the foreseeable future
- This will be the main task of the regional Technical Institution

Technical Institution for the Inter-TSO balancing and ancillary services coordination (2/2)

- Its task will initially be to develop a mechanism for the accounting and the settlement of the real time balancing and ancillary services' provision actions between the national TSOs
- At a later stage, this Institution, established jointly by the national TSOs, will act as the provider, if and when necessary, of the balancing and ancillary services' energy at a regional level, in a totally transparent, regulated and non-discriminatory manner
- For this purpose, it may conclude contracts with generators and suppliers, buy energy from a national market or perform swaps with national TSOs in a way linked to the CBT
- During the transitional phase the Institution will develop this mechanism under the evolving regional circumstances

Regional Energy Information Center

- A platform for the collection and processing of all kinds of energy data for ECSEE, including analysis and reporting;
- The centralized provision of such services is of paramount importance for the decision making process; The lack of such services is more than evident at present time;
- Tasks for electricity, oil and gas in SEE will include:
 - Collection of data (physical flows, prices, capacities, etc.);
 - Long and medium term forecasts (generation, transmission, etc.);
 - Analyses and decision support for other Institutions;
 - Linked with international organizations of the kind (IEA, etc.);
 - Publication and reporting;
 - Offer, on a fee, services to regional stakeholders;
 - Workshops and training.

Decision Making Process (1/2)

- The MC, the PHLG, or the ECRB can deliberate if two-thirds of the Parties are represented

- The MC, the PHLG, or the ECRB shall take Measures on a proposal from the European Commission regarding implementation and extension of the Acquis Communautaire
 - Each Contracting Party shall have one vote
 - The MC, the PHLG, or the ECRB shall act by a majority of votes cast

Decision Making Process (2/2)

- The MC, the PHLG, or the ECRB shall take Measures on a proposal from a Party or the Secretariat regarding operation of the network energy markets
 - The MC, the PHLG, or the ECRB shall act by a two-third majority of the votes cast, including a positive vote of the European Community

- The MC, the PHLG, or the ECRB shall take Measures on a proposal from a Party regarding creation of a single energy market
 - The MC, the PHLG, or the ECRB shall take Measures by unanimity

Implementation of Decisions

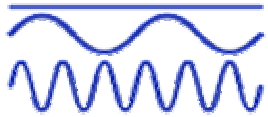
- The Parties shall implement Decisions addressed to them in their domestic legal system within a period specified in the Decision.
- A failure by a Party to abide by a Treaty obligation or to implement a Decision addressed to it within the required period may be brought to the attention of the MC by a reasonable request of any Party, the Secretariat or the ECRB.

Dispute Settlement

- At the request of a Party, the Secretariat or the ECRB, the MC, acting by unanimity, may determine the existence of a serious and persistent breach by a Party of its obligations under the Treaty and may suspend certain rights deriving from application of the Treaty to the Party concerned, including the suspension of voting rights, exclusion from meetings or mechanisms of the Treaty.
- The MC may decide subsequently by simple majority to revoke any measures taken.

Duration

- The Treaty is concluded for 10 years from the date of entry into force. Its duration may be extended by a unanimous decision of the Ministerial Council. If no such decision is taken, the Treaty may continue to apply between those Parties who voted in favor of extension, provided that their number amounted to at least two-thirds of the Parties of the Energy Community.
- Any Party may withdraw from this Treaty with a six-month notice, addressed to the Secretariat.
- Upon accession to the European Community of an Adhering Party, this party shall become a Participant.



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**THANK YOU
FOR
YOUR ATTENTION**

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