

Obstacles to Trade and Compatibility of Market Rules in Southeast Europe

Findings/ Recommendations of SEETEC Final Draft Report

Athens Forum

June 22st, 2006

REM-1202-47RP-I-0006

National wholesale markets

- **Little free wholesale market activity except in Romania;**
- **Discos (suppliers) are not eligible or are integrated with generation;**
- **Romania: series of initial contracts between Gencos and suppliers for regulated market – now down to 40% of total contracts;**
- **Important market design questions: how to initiate competition in generation and in supply?**
 - **Initial contracts, role of wholesale supplier, virtual auctions**

National wholesale markets (cont'd)

- Retail market is more open in some countries (meaning discos are not eligible but large industrials are);
- Only Bulgaria and Romania have real retail opening;
- One consequence: no development of the supply business –expertise remains in dispatch center/TSO;
- Dispatch scheduling remains within TSO despite adoption of bilateral contract models (except B&H, Romania, maybe Serbia)

Day ahead markets

- **OPCOM in Romania and 4 exchanges in EC border countries (2 voluntary ones: Slovenia/Austria, 1 mandatory pool-Greece, and 1 hybrid-Italy);**
- **Low volumes for the voluntary exchanges but growing in Romania- 7% of total volume**
- **Difficult to participate for foreign participants**
- **Wide range of regional prices in day ahead markets**
- **Wide range as well of wholesale supply prices (regulated or open market) – from 24 to 80 euro per MWh**

Cross-border trading

- **Most cross border trade are handled by traders – contracts with utilities/TSOs –no imbalances;**
- **Most trading is based on base load products – traded in band for day, weeks or months;**
- **Tendering procedures in place in many countries with sometimes complex procedures – no optimization-expensive!**
- **Difficult to identify the risks – what is the traders' volume risk with absence of market rules?**

Cross border trading

- **When imports/exports are notified the same way as national bilateral contracts –the supply function will become important (rules for imbalances)**
- **Current Situation is both good and bad for traders:**
 - **Difficult to get access;**
 - **But, inconsistencies between markets and price distortions create trading opportunities**
- **Likely to be major changes in near future (e.g Bulgaria export-import, privatisation, etc.)**

Methodology for Analysis

Four types of Issues

Issues linked to EC Directives/Treaty

Issues linked to EC Directives/Treaty identified as priority by Athens forum

Issues linked to development of competition in generation/supply

Issues Specific to SEE

Obstacles for each Issue

RECOMMENDATIONS

Recommendation 1 :

1/I

Recommendation 2:

1/I

Recommendation 3:

2/II

Recommendation 4:

2/II

ACTION BY

Entity responsible for implementation/support
Output: e.g. new rules, new paper, training program, etc.

Nat.Recommendations =



Reg. Recommendations =



Time frame

Short (I) / Medium (II)

Level of priority: 1 to 3

Issues linked to legislative compliance (Directives/Treaty) and prioritized by Athens Forum

ITC

Cross-border Capacity Allocation

OBSTACLES

- TSOs' conflict of interest with ITC funds
- Unfair treatment of SEE countries by ETSO fund

Limited availability of interconnection capacity

RECOMMENDATIONS

- Abolition of import-export monopoly
- No new AAC
- AAC holders must pay average auction price
- Rules for utilization of ITC revenues

1/I

Merging of 2 funds

1/I

Ensure TSO neutrality to Fund

1/I

Joint-allocation across borders

2/II

Flow-based Coord. Auctions


2/II

ACTION BY

ETSO: Merging of 2 funds;
Regulators: Methodology for payment by participants

Regulators/TSOs: Application of CM Guidelines;
Development of national / regional rules

Nat.Recommendations = 

Reg. Recommendations = 

Time frame

Short (I) / Medium (II)

Level of priority: 1 to 3

Plan outline

	2 nd semester 2006	2007
Cross Border Allocation Procedure	Regulators/TSOs: Develop market based mechanism (joint auctions in each border, no new AAC, current AAC holders to pay auction price; abolition of import/export monopoly)	Regulators/TSOs: Complete application of Congestion Management Guidelines and Flow-based Coordinated Auctions; creation of Auction Office and regional rules
	Regulators/TSOs: Develop rules in Tariff Methodology for utilization of auction revenues	
	RRB/ECS: Supervise / Report	
ITC	ETSO: Merging of two funds (if not possible, increase injection fee from ETSO countries into SEE)	Regulators/TSOs: Develop rules in Tariff Methodologies for contribution of market participants to the ITC payments/credits (TSO must be neutral to the fund)

Other Issues linked to legislative compliance (Directives/Treaty)

Access to national networks / Role of TSOs

OBSTABLES

Legal unbundling of TSOs but no development of new (market-related) business processes

RECOMMENDATIONS

TSOs to develop new business processes, e.g:

- Scheduling (physical nomination-contract notification)
- Real bilateral contract model implementation
- Planning: indicative generation plan/ mandatory transmission plan

1/I

Publish key market information (follow guidelines for transparency – ERGEG, EFET, Eurelectric)

1/I

ACTION BY

TSOs: new market rules, grid codes

Nat.Recommendations = 

Reg. Recommendations = 

Time frame

Short (I) / Medium (II)

Level of priority: 1 to 3

Plan outline

2nd semester 2006

2007

Access to
National
Networks and
the role of TSOs

TSOs: Implement new market-related processes (scheduling of bilateral contracts, grid planning, etc.); publishing information for market participants

RRB/ECS: Supervise / Report

Issues linked to Development of competition in generation/supply

Market concentration / Vertical foreclosure

OBSTACLES

- Concentration of generation;
- Small size of countries!
- Almost non-existence of supply function

RECOMMENDATIONS

- Clear Statement on how to carry out initial market opening
- Development of guidelines for market opening:
 - Promotion of the supply function / role of Wholesale Supplier
 - Measures to kick start competition (initial contracts; virtual capacity auctions, etc)
 - Phased (gradual) approach

1/I

FSR/ERRA: Training programs for Regulators


1/I

ACTION BY

EC: Statement on preferences for market opening

Ad hoc group: Guidelines for market opening

Regulators/ERRA: Implement training programs; adapt local regulations

Nat.Recommendations = 

Reg. Recommendations =

Time frame

Short (I) / Medium (II)

Level of priority: 1 to 3

Plan outline

	2 nd semester 2006	2007
Market Concentration and Vertical Foreclosure	EC: State preference regarding alternatives for market opening and role of wholesale supplier	Ad-hoc group Regulators/Market Operators: Develop guidelines for market opening (development of competition in generation /supply) – March 2007
	Regulators & FSR/ERRA: Develop training programme for Regulators – November 2006 through March 2007	
	RRB/ECS: Supervise / Report	

Issues linked to development of competition in generation/supply (cont.)

Operability and harmonization of market rules

OBSTACLES

- Market rules not implemented (or only partially) in many jurisdictions
- Many constraints and lack of harmonization in existing market rules

RECOMMENDATIONS

Guidelines for market rules minimum requirements (e.g.):

- all participants subject to market rules (imbalances);
- harmonize gate closure (afternoon ahead);
- minimum constraints to contracts;
- publishing of information;
- transitional rules for import-export tendering;
- procurement of AS and balancing energy only through TSO (eliminate bilateral settlement)

2/I

Adaptation of guidelines to local market rules/grid codes

2/II

ACTION BY

Ad hoc group: Guidelines for market rules development

Regulators: Adapt local regulations

Nat.Recommendations = 

Reg. Recommendations = 

Time frame

Short (I) / Medium (II)

Level of priority: 1 to 3

Plan outline

	2 nd semester 2006	2007
Operability of Market Rules at National Level	EC/Regulators/MOs: Confirm importance of implementation of Market Rules for transparency reasons – November 2006	Ad-hoc group Regulators/Market Operators: Develop Guidelines for Market Rules Development (minimum national requirements) – March 2007

Issues specific to Southeast Europe reforms

Tariff issues

Other regional issues

Licensing

OBSTACLES

Retail tariffs are often lower than wholesale prices

Need to define role of regional market institutions and processes

Cumbersome licensing procedures for national / regional trade

RECOMMENDATIONS

- Implementation of new tariff structures
- Implementation of new ways to regulate suppliers purchases

1/I

Address regional Issues:

- Role of Power Exchanges
- Coordinated Auctions
- ITC
- Regional Balancing Market;

2/II

Definition of minimum level of compatibility between market rules

- Harmonization of trading/supplier concepts
- No need for trading license- need to be linked to BRPs

3/II

ACTION BY

Regulators/CEER:
New tariff methodology

Ad hoc group: Discussion paper on potential SEE regional institutions

Regulators:
harmonization of definition

Nat.Recommendations = ■

Reg. Recommendations = ■

Time frame

Short (I) / Medium (II)

Level of priority: 1 to 3

Plan outline

	2 nd semester 2006	2007
Tariff issues	Regulators/EREG: Action plan for tariff rationalisation; regulation of suppliers' purchases	
Harmonisation/ Compatibility issues	Ad-hoc group Regulators/Market Operators: Define minimum level of compatibility between national markets – March 2007	Ad-hoc group Regulators/Market Operators: Develop Discussion Paper on Regional institutions – October 2007
Licensing issues	Regulators: Work on Harmonisation requirements	