

Executive Exchange on Coordinated Cross Border Transmission of Electricity – an Examination of the European Union

September 22 – 26, 2008
Brussels, Belgium

Energy community & the Athens Forum

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AGENDA



South East Europe: Energy Community Treaty.

Energy Community Treaty: new parties.

Athens Forum. Institutional Framework.

Wholesale Market: Joint SEETEC – ECRB conclusions.

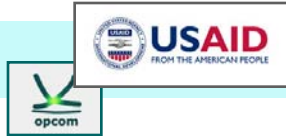
SEE; energy and capacity trade: target of the market based methods.

Coordinated Explicit Auctions. Dry Run & CAO.

Inter TSO compensation mechanism

ITC - Evolution

South East Europe: Energy Community Treaty



The Treaty establishing the Energy Community in South East Europe

- entered into force in 1 July 2006;
- signed in 25 October 2005 by the European Union and by the following States from the South East Europe: Republic of Albania, Republic of Bulgaria, Former Yugoslav Republic of Macedonia and UNMIK, Republic of Romania, Republic of Croatia
- Since 1st January 2007 Romania & Bulgaria are represented by EC, being EU members

The signatory countries committed to implement the *acquis communautaire* on energy, environment, competition and renewable.

The ECSEE *acquis* when the Treaty signed was related to the EU legislation: (EC) 54/03 Directive and (EC) 1228/03 Regulation.

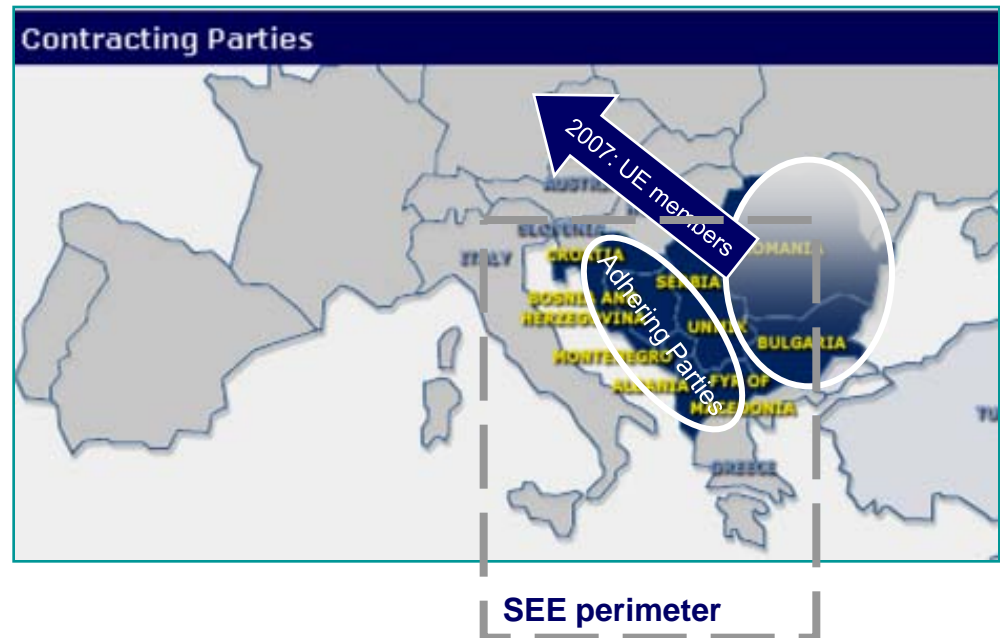


Energy Community Treaty: new parties



The Ministerial Council of the Energy Community decided in 27.06.08 on implementation of Commission Decision of 9 November 2006 amending the Annex to Regulation (EC) No 1228/2003.

This decision is addressing a perimeter containing the Adhering Parties, the territory under the jurisdiction of the United Nations Interim Administration Mission in Kosovo, the territories of EU members: Bulgaria, Greece, Hungary, Romania and Slovenia, Italy with regard to the interconnections between Italy and the Adhering Parties by asking a common coordinated congestion management method and a procedure for the allocation of capacity to the market at least yearly, monthly and day-ahead to be applied by not later than 31 December 2009.





Athens Forum. Institutional Framework.



Ministerial Council: the political level body

Takes key decisions on the Energy Community's policies and formally adopts its rules

Permanent High Level Group: shadows the work of the Council Energy Working Group

Gives guidance within their competence given by the ministerial

Brings together senior officials from each partner

Ensures continuity and follow-up of the political meetings of ministers

Decides on implementing measures in some cases

Energy Community Regulatory Board (ECRB): regulators from each adhering party and from EU (CEER, ERGEG).

Advises the Ministerial Council or the Permanent High Level Group on the statutory, technical and regulatory rules

Issue Recommendations on cross-border disputes involving two or more Regulators, upon request of any of them

Take Measures, if so empowered by the Ministerial Council and adopt Procedural Acts

Regulatory Electricity Forum (The Athens Forum)

Shadows the Florence Forum process

Two times per year, the meetings of the Athens Forums gather main stakeholder entities in the electricity field:

ministries, TSOs, regulators (NRAs, CEER and ERGEG), market operators, associations (UCTE, ETSO, EUROPEX, EURELECTRIC and EFET), consultants (CONSENTEC, Pierce Atwood, PWC, Potomac Economics, REKK etc).

Conclusions, agreed by consensus, go to the Permanent High Level Group

The Energy Community Secretariat (ECS)

Assists the European Commission in its tasks to assure the Energy Community process co-ordination on a daily basis

Serves as a monitoring institution

Responsible for ensuring the Energy Community's budget is correctly spent and accounted for.

Provide administrative support to MC, PHLG, ECRB and the Forums

Review the proper implementation of the obligations under the Treaty and submit yearly progress reports to the MC

Review and assist in the coordination by the European Commission of the donors' activity

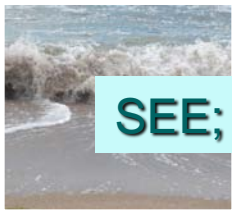
Adopt procedural Acts



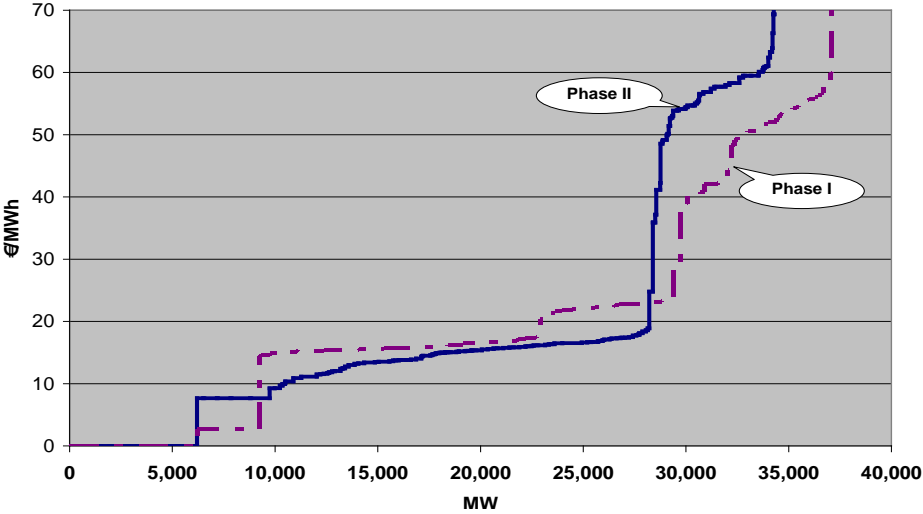
Wholesale Market: Joint SEETEC – ECRB conclusions



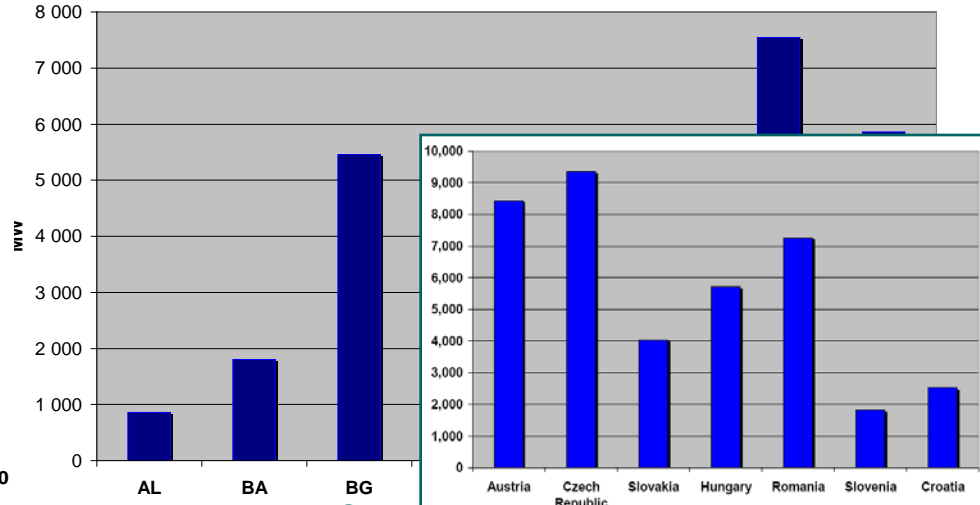
- Wide range of **wholesale supply prices** (regulated or open market) – from 24 to 80 Euro per MWh
- Recently (2007) – **illiquidity and high prices** (70-90 Euro/MWh).
possible reasons:
 - electricity lack in SEE region;
 - transmission capacities shortage;
 - non-adequate transparent transmission capacity allocation;
 - generation capacities maintenance;
 - Kozloduy2 units closure in January 2007;
 - public procurement rules.
- Low free **wholesale market activity** in SEE region, except in Romania.
- **OPCOM** in Romania, and **4 PXs** in EU border countries (2 Voluntary: Slovenia/Austria, 1 Mandatory Pool: Greece and 1 Hybrid: Italy).
- **Low volumes for Voluntary exchanges** but growing in Romania: 7.9% of total volume in 2006 (4.11 TWh); Average price: 44.81 Euro/MWh.
- Difficult to participate for **foreign participants**.
- Wide range of **regional prices** in Day Ahead Markets.
- Most **cross-border trade** is handled by traders –contracts with utilities/TSOs–no imbalances.
- Most trading is based on **base load products** –traded in band for **day, week or month**.
- **Tendering procedures** in place in many countries with (sometimes) complex procedures; no optimization and expensive.
- **Lack of electricity** in SEE region caused bilateral agreements and huge electricity flows from North to South.
- Increased interconnection usage and reliance on export-import for Wholesale Market development will lead to both National Wholesale Market and Regional Wholesale Market development, but **dominant players** in each country seems to be the preferred option by the national governments
- TSOs started to **allocate interconnection capacities** based on market methods



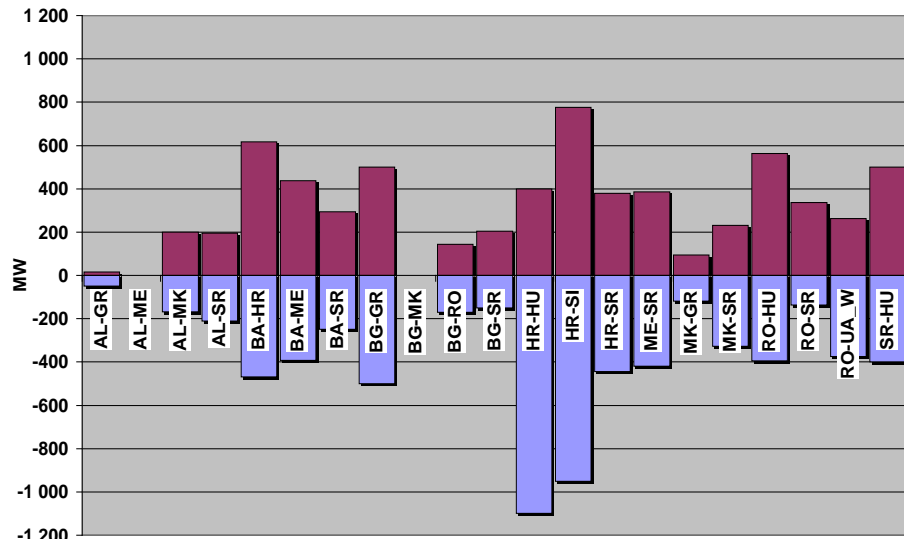
SEE; energy and capacity trade: target of the market based methods



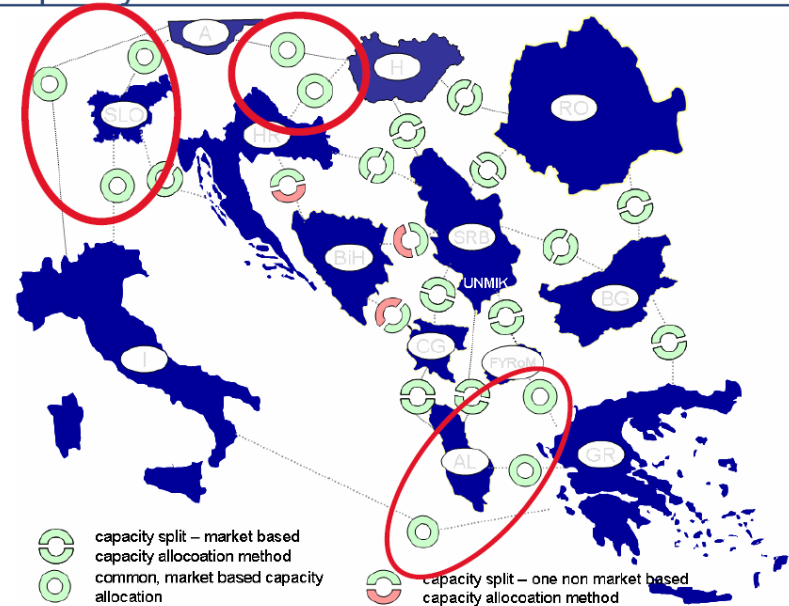
Marginal costs SEE ignoring congestions, end 2007



Peak Demand in SEE
CB capacity allocation schemes in SEE



Average monthly SEE NTCs in 2007



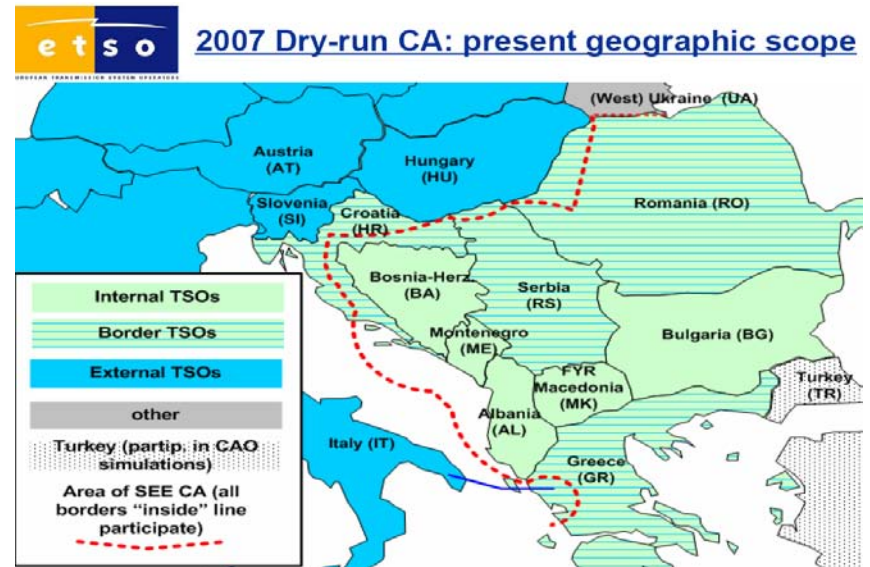
Coordinated Explicit Auctions. Dry Run & CAO.

History

- Dry Run: SEE TSOs practice coordinated flow-based auctions through monthly simulations, without clearing or payments
- Simulations started in January 2006
- TSOs acted initially as themselves (calculate PTDF, BC and as market actors (send bids)
- Neighboring TSOs (HR, SI, HU, AT) participated in load flow model preparation
- Each company acted as CAO on a monthly rotation

State of Play

- Classical Border Capacity approach failed while small and even negative BC figures occurred, network utilisation resulted low and transparency was limited
- New method (Max.Flow) proposed by consultants: critical elements represented, MFs and PTDF factors for each critical branches
- Several allocation rounds conducted with optimistical results; additional analysis required, huge PTDF/MF matrices, additional software required
- Auction income sharing in debate: several methods discussed
- Geographic scope depending on SEE perimeter (defined in 27.06.08) and TSOs willingness;
- Business Plan in ongoing development: existing one not approved, input from TSOs
- Dry run: Croatia joined dry run since September 2007, Hungary in expectancy, Italy intends to join, Slovenia applied with Croatian opposition, Kosovo applied with Serbia opposition





Inter TSO compensation mechanism



Reasons

- European states' energy dependency of the primary energy resources from imports is increasing
- A single internal electricity market (IEM)
- Cross-border trades have significantly increased (in particular for SEE)
- Physical flows differ from contractual ones (highly meshed network)
- Increased transit means increased network losses and increased network usage
- ITC Mechanism was initially introduced to replace multiple border tariffs and to increase the efficiency of the IEM (Internal Electricity Market).

Features

The mechanism remunerates European transmission network usage by transits, meaning:

- compensation of the effects of the national transmission network usage by transits generated by external trades;
- compensation of the increased network losses generated by transits

Key principles for costs allocation

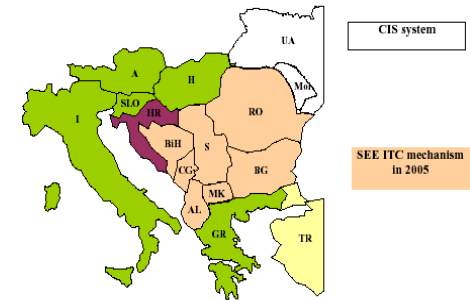
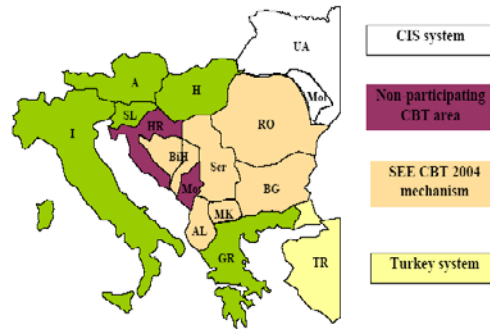
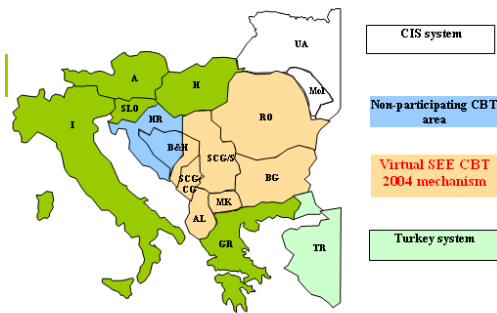
- To reflect the costs – involve a simple approach
- To not be based on trades – require explicit complex approach

Legal basis for a mandatory ITC mechanism : the adoption of EC Regulation 1228/2003 from 1 July 2004

ITC - Evolution



- First CBT mechanism was applied starting with 01.03.2002 for part of member states at that time.
- Eight members of ETSO signed the first voluntary Inter-TSO compensation (ITC) agreement in 2002.
- In the Interim ITC Agreement June – December 2007, 28 countries participated.



2004	Jan 2005 SEE ITC Agreement Jan 2005 SEE ITC (6 states)
2005	2005 SEE ITC (7 states)
2006	2005 SEE ITC mechanism extended (7 states)
2007 (Jan-Jun)	2005 SEE ITC mechanism extended
2007 (July)	Technical ITC Agreement June 2007 Bouris Airtgate ITC Scheme
2008-2010	Technical ITC Agreement 3 countries (ITC)

- Two similar mechanisms: ETSO ITC and SEE ITC for two separate UCTE zones
- Two similar mechanisms: ETSO ITC and SEE ITC for two zones interconnected



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Thank You for attention!

