

Can the SE European electricity market operate as a competitive regional market?



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Regional electricity market: sum of the national electricity markets?

- Regional market: exploitation of economies of scale, supplementary load curves, portfolio of generation, primary sources of energy, possibility of economic growth
- Exchange of energy quantities for technical reasons is **not sufficient**
- Interconnections' capacity is **not sufficient**
- **Need** for harmonized operation rules, compatibility of the national markets, harmonized regulation, imposition capability, financing background

Target: the consumer – not the exports!

TARGETS of the SE European regional electricity market

- **Development of competition in the energy market and exploitation of economies of scale**
- **Stable regulatory and commercial environment**
- **Common regulatory framework**
- **Security of supply, via stable investment climate**
- **Improvement of environmental conditions**

Recipient is the end user...

CHARACTERISTICS of the national electricity markets in SE Europe

- **Little free wholesale market activity except in Romania**
- **Distribution Companies (DisCos) are not eligible or are integrated with generation**
- **Dominance of a central wholesaler –initial contracts between Gencos and suppliers for regulated market only in Romania (now down to 40% of total contracts)**

CHARACTERISTICS of the national electricity markets in SE Europe

- **Different sizes** of national retail markets, proportionally to the volume of the large industry in relation to DisCos
- Real retail opening **only** in Bulgaria and Romania
- **Consequently:** the supply business is **not further developed** – know-how remains with the dispatch center / TSOs

CHARACTERISTICS of the national electricity markets in SE Europe

- **Little development of the «power exchanges» in the region:**
 - Just 7% of the total volume of exchange through OPCOM
 - Difficulties in participation of foreign companies
- **Indicator of Imperfect Market:**
 - **Wide range of regional prices in the day ahead markets and the wholesale supply prices (regulated or open markets): from 24 to 80 €/MWh**

OBSTACLES in the cross border trade

- **Weakness** in the participation of generation companies and suppliers in the cross border trade. Most cross border trade is handled by traders
- **Ambiguities** in handling traders' imbalances for imported energy (it often functions as a motive...)
- **Incompatibility** of operating rules leads to trade of mainly base load products. Very little trade of more flexible and of greater value products

OBSTACLES in the cross border trade

- **Complex** procedures for access in the interconnections.
Lack of optimization. High costs
- **Does current situation create opportunities for traders?**
 - **Difficult to get access**
 - **But, inconsistencies between markets and price distortions create trading opportunities**
- **Difficult to identify traders' risks**

NEW CONDITIONS

- **Effects from the accession of Bulgaria and Romania in the EU:**
 - competition may accelerate development of the non-member states, but
 - generation capacity surplus at competitive prices is an important criterion
- **Energy shortfalls** (Kozloduy. Already creating trading problems)
- **Environment** (emissions trading, environmental costs for the conventional power plants)

How can the obstacles be raised?

1. Access to interconnections

- **Joint, bilateral capacity auctions for interconnections between neighboring TSOs**
- **No long term capacity auctions or capacity allocation out of the auctioning procedure**
- **Abolition of the import/export monopoly, where it still remains**
- **Coordinated flow based auction process across the whole region in the medium term**
- **Rules for usage of the auction revenues**

How can the obstacles be raised?

2. Charge of transmission cost

- **Immediate resolution of the ITC issue**
- **Application of suitable rules for the liberalization of the interconnections' capacity allocation and the optimization of their use**

How can the obstacles be raised?

3. Competition between suppliers

- **Choice of preferred model for the market opening**
- **Cooperation between regulatory authorities and market operators:**
 - **Initial contracts, capacity auctions, regulated imbalance prices**
 - **Support methods for the supply business within a regulated market environment, where a public supplier dominates (single buyer)**

How can (will) the obstacles be raised?

4. Rules of markets operation

- **Minimum common provisions of the national market rules:**
 - **Binding** for all participants
 - **Common Gate Closures** for commercial transactions
 - **Dissemination** of information to the public, before and after the allocation
 - **Adaptation** of the national legislation on public supply procedures, procedures compatible with the electricity market rules

How can the obstacles be raised?

5. Tariffs

- **Avoidance of tariffs' distortion due to protection of sensitive customers' categories**

How can the obstacles be raised?

6. Trading

- **Harmonization of the terms “trader” – “supplier” in the national legislation**

Can the SE European electricity market operate as a competitive regional electricity market?

- **Yes!**

Provided that exist:

- **Independent market's regulation and independent operation of the transmission systems**
- **Coordination of national markets**
- **Common model for markets opening**
- **Avoidance of distortions (tariffs, interconnections' access)**