# EU and Russian energy regulatory systems: experience, lessons, evolution and cooperation

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# Power (capacity) market in Russia and in Europe: uniformity?

Power (capacity) market in Russia and unified electricity market in Europe **have been generally formed.** At present moment the process of their adjustment is being carried out.

**The general principles** of market organization in Russia and in Europe have **much in common:**

✓ Structural unbundling (power generation, transmission, distribution) as the condition for the development of competition and functioning of power (capacity) market;

✓ Vast number of participants;

✓ Remaining isolated territories and free flow caps;

✓ Integration processes (the Customs Union and the United Economic Area of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation).

But, nevertheless, despite good knowledge of each other, we should admit that we do not understand completely the essence of each other's processes in the sphere of further markets and regulation systems' developments.

# Power (capacity) market design in Russia (1)

✓**Since 1st January, 2011 - 100% of liberalization** (excluding Northern and isolated territories) and **development of market relations**.

✓ Territories united into price zones of wholesale power (capacity) market make up **more than 90% of total capacity and about 95% of the total consumption.**

## Power market

**Marginal pricing** – electricity is paid at the price of generation of the most ineffective, judging by variable costs, marketable supplier.

**1. Market infrastructure:**

✓ Non-for-profit Partnership "Market Council" – organizing efficient system of trading of wholesale and retail power and capacity market.

✓ OJSC "Trading System Administrator of wholesale power market" (100 % subsidiary of NP "Market Council") – conducting of trading and ensuring payments between power producers and customers;

✓ OJSC "System Operator of the United Power System";

✓ Market participants (generators, trade companies).

**2. Market entry:**

✓ Membership in NP "Market Council";

✓ Concluding the contract on connection to the trade system of the wholesale market;

✓ Concluding a set of contracts on power purchase and sale on tomorrow market and balancing market.

# Power (capacity) market design in Russia (2)

The Russian Government Decrees of 24.02.2010 №89 and of 13.04.2010 №238 on capacity market functioning

## Capacity market

**Capacity** – a special commodity the sale of which means readiness for power generation for the producer and the purchase of which guarantees the possibility to buy the necessary power volume for the consumer.

Within the framework of the competitive power takeoff annually and for four years ahead:

**1.** System operator determines (considering the consumers' orders) the forecast and structure of consumption, the necessary reserve supply capacity and sets the demand curve;

**2.** Suppliers submit the price bids forming the price quotation;

**3.** According to the results of the competitive power takeoff the following parameters are determined:

- ✓ generating facilities the power of which is needed in the year of supply;
- ✓ sale / purchase power prices;
- ✓ suppliers' obligations on power supply.

# Power (capacity) market regulation' characteristics

## The current Russian legislation provides for:

➢ ***Principles of regulation:***

- Price regulation by setting of the rules and methodologies.

➢ ***Households:***

- Tariffs for households are regulated.
- The obligation of producers to supply power (capacity) for the households at the regulated prices is fixed.

➢ ***Territories with special regulation conditions:***

- The full volume of power (capacity) purchase on the wholesale market is regulated till 2015, deviations – on the balancing market.

➢ ***Non-price zones and geographically - isolated systems:***

- Adjustment of tariff regulation issue.

# Target design of power (capacity) market

- ✓ **Structural unbundling** (power generation, transmission, distribution) as the condition for the development of competition and functioning of power (capacity) market **has been completed.**

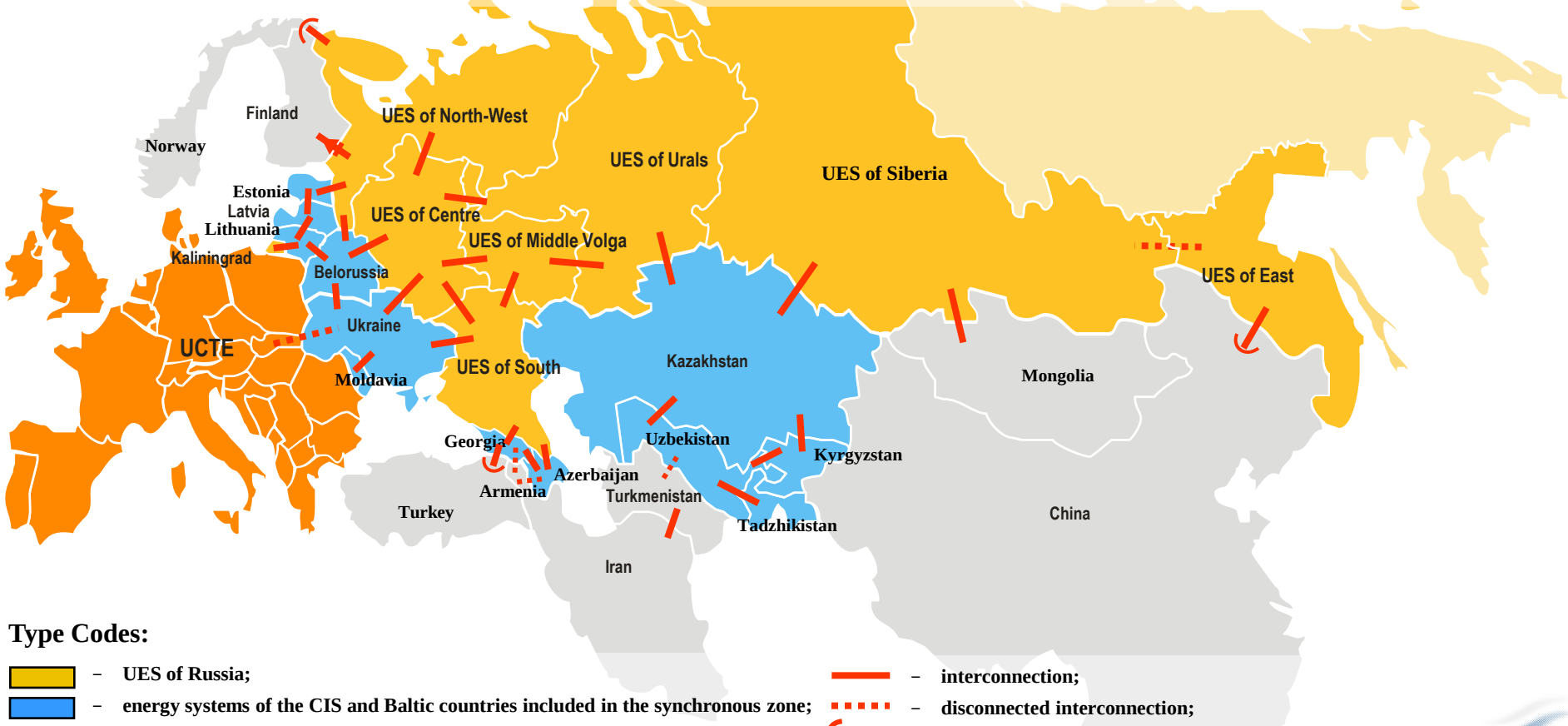
- ✓ **The power (capacity) market rules have been adopted.** These rules include:
  - provision of the inner incentives for the development of the industry;
  - creation the necessary conditions for increasing the competition;
  - making it possible to compensate the lack of market power for vulnerable and unqualified consumers.

# Energy market regulation: Russian experience

- At the IV World Forum on Energy Regulation held in October 2009 in Athens we asserted: ***"While forming energy markets with complicated regulation we should determine the market rules in such a way that they should include the mechanisms, orders and instruments for different situations".***
- In November 2009 the Russian Federation Government approved the Decree "On procedure for the execution of state regulation in the power sector, conditions for its introduction and termination", which provides for:
  - ✓Continuous **price monitoring** on the wholesale power (capacity) market;
  - ✓Mechanism for **smoothing** prices (including automatically triggered);
  - ✓ Introduction of **price regulation** in cases of:
    - **temporary power shortage**,
    - **absence of competition** among suppliers due to the technological reasons,
    - **emergencies** in power sector.
- If the above measures are insufficient – direct price regulation is imposed (for a period not exceeding 30 days, setting limiting parameters for price bids' and calculating equilibrium prices excluding marginal principle).

# Synchronous work of the Unified Energy System of Russia with the energy systems of foreign countries (according to Minenergo of Russia)

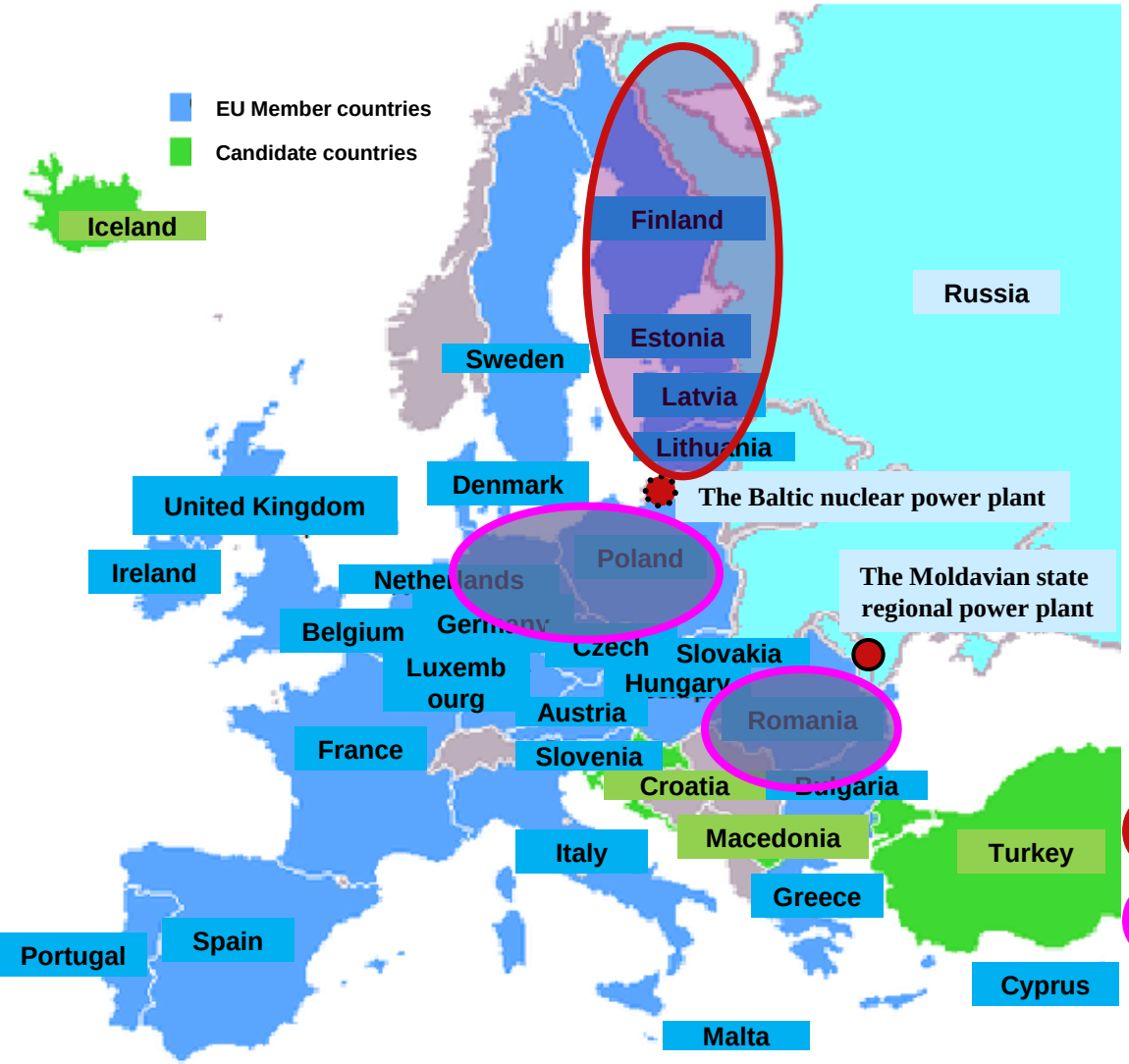
✓ **UES of Russia works in parallel with the energy systems of 13 countries: Belarus, Estonia, Latvia, Lithuania, Georgia, Azerbaijan, Kazakhstan, Ukraine, Moldavia, Mongolia, Uzbekistan, Kyrgyzstan and Tadzhikistan. Power transmission is conducted from the UES of Russia into the allocated areas of Norway and China. Energy system of Finland works together with the UES of Russia through the installations of the Vyborg power transforming complex.**




**Type Codes:**

- – **UES of Russia;**
- – **energy systems of the CIS and Baltic countries included in the synchronous zone;**
- – **technologically isolated energy systems of the Russian Federation;**
- – **energy systems of the foreign countries.**
- – **interconnection;**
- – **disconnected interconnection;**
- – **power supply of allocated areas;**
- – **power supply through transforming complex.**

# Geography of interconnection




Energy systems of the Baltic countries are functioning in the synchronous zone.

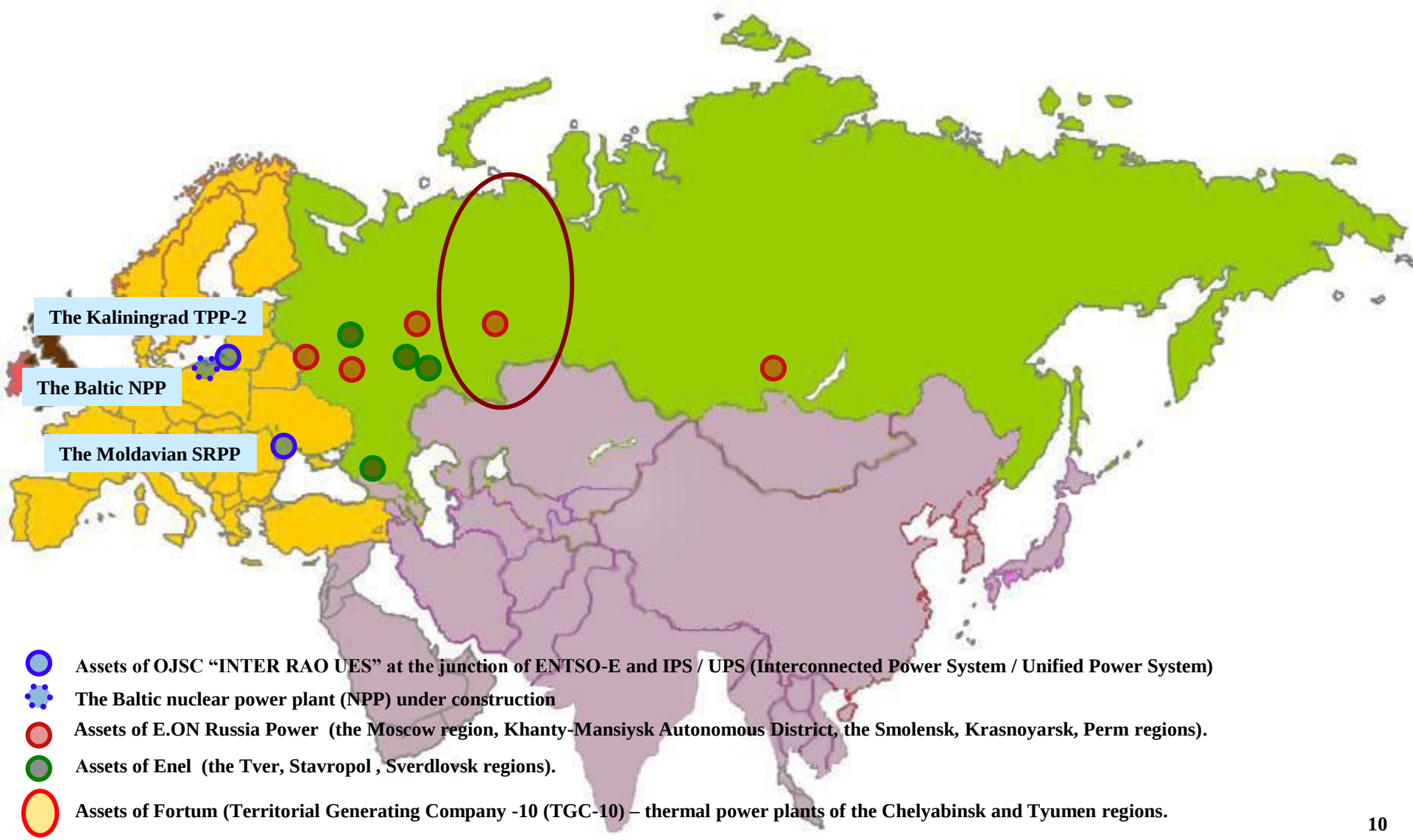
Existing directions of power export from the Russian Federation

Upcoming directions of power export of OJSC "INTER RAO UES"

Generating assets of OJSC "INTER RAO UES"

The Baltic NPP (nuclear power plant)

# Business' bilateral presence




- Assets of OJSC "INTER RAO UES" at the junction of ENTSO-E and IPS / UPS (Interconnected Power System / Unified Power System)
- The Baltic nuclear power plant (NPP) under construction
- Assets of E.ON Russia Power (the Moscow region, Khanty-Mansiysk Autonomous District, the Smolensk, Krasnoyarsk, Perm regions).
- Assets of Enel (the Tver, Stavropol , Sverdlovsk regions).
- Assets of Fortum (Territorial Generating Company -10 (TGC-10) – thermal power plants of the Chelyabinsk and Tyumen regions.

# The role of energy regulators

- ✓ What may be and should be the regulators' role in ensuring **accessibility and transparency of the markets**?

- ✓ The regulatory aspect of accessibility and transparency can not be ahead of technical and legal aspects but without **clear and precise regulation rules** markets will be incomplete.

- ✓ **Special Group on cooperation between Russian and European system operators and regulators** within the framework of EU-Russia Energy Dialogue.

- ✓ We hope that today's Conference will help us to formulate clear questions to ourselves, as well as to the common agenda in order to have the possibility for a **joint search of the proper answers**.

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# THANK YOU FOR YOUR ATTENTION!