

SUMMARY REPORT ON THE ENERGY SECTOR IN THE YEAR 2004

1 Development of the electricity and natural gas markets

Over the year 2004 several measures were undertaken which resulted in accelerated development of the electricity and natural gas markets. Due to its accession into the European Union, Slovenia modified its legislation to be based upon a new strategy on development of the energy industry. The Slovenian parliament adopted a Resolution on National Energy Program on 5th of April 2004 and modifications and amendments to the Energy Act on 23rd of April 2004. These statutory acts guided the development of the energy industry which were partly outlined in the EU directives. These directives, together with the Resolution ReNEP, Energy Act (henceforth: EZ) and by-laws, adopted in 2004, set the framework and guidance to all market participants.

The most important directives, which have influenced the market development, are:

- Directive 2003/54/EC of 26 June 2003 concerning common rules for the internal market in electricity,
- Directive 2003/55/EC of 26 June 2003 concerning common rules for the internal market in natural gas,
- Directive 2001/77/EC of 27 September 2001 on the promotion of electricity produced from renewable energy sources in the internal electricity market,
- Directive 2004/8/EC of 11 February 2004 on the promotion of cogeneration based on a useful heat demand in the internal energy market, and
- Directive 2003/87/EC of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

The modified and amended EZ, enforced on the 8 May 2004, determined the principles of the energy policy, general rules on the energy market functioning, modes and forms of the public services in energy, principles of security of supplies and efficient use of energy as well as conditions for undertaking of energy activities.

Regulation 1228/2003/EC of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity represents another measure in intensifying activities in electricity market at EU level. It provides for the use of market based methods for allocation of cross border capacities. To the initiative and request of the Slovenian government, the article 6(1) thereof will be applied to Slovenia on the 1 July 2007, which is a temporary derogation from the use of market method for capacity allocation.

Energy markets in Slovenia were further influenced by the by-laws, particularly government ordinances on the mode of undertaking the public services transmission and distribution system operators both for electricity and natural gas networks. These by-laws were amended and modified mainly to comply with the

modified and amended EZ and to improve market functioning by incorporating the experience collected so far.

At both markets the use-of-network charges were approved in accordance with the methodologies, defined by the Agency. Since 1 July 2004 all the customers except households became eligible to choose their suppliers for electricity and natural gas. The process of switching suppliers was more intense electricity, in the second half of 2004, according to the system operators data, more than 86.047 customers who annually consume 1070 GWh electricity, closed new supply and network access contracts. The transmission system operator is a legal entity, separated from market activities, whereas the distribution system operators will become legal entities at latest in 2007, but have unbundled accounts of system operator from the supplier to tariff customers (public service obligation) and commercial activities such as supply to eligible customers. Concentration has been observed in both, generation and in supply market, but there were no reported abuses of the dominant position which would require the state by the regulatory authorities to undertake procedures or measures.

Customers have not switched supplier of natural gas, mainly due to the existing long term supply contracts. Geoplin, Ltd., Ljubljana, company for trade and transport of natural gas, was in the year 2004 the only offerer of natural gas. By the end of 2004, the gas transmission system operator was separated into a new entity named Geoplin plinovodi Ltd. The distribution system operators, who supply more than 100.000 customers, will become legal entities at latest in 2007. They have started to unbundle accounts of the system operator from the supplier to tariff customers (voluntary local public service) and commercial activities such as supply to eligible customers. The customers, who became eligible in 2004 and had long term supply contracts, were granted network access, according to the general conditions for supply, for the contracted quantities of natural gas.

2 Basic data on electricity and gas market data in Slovenia

Slovenia

Inhabitants (average over 2004)	1.997.590	
Area	20.273 km ²	
Number of households (31. 12. 2004)	766.098	
Number of all customers of electricity (31. 12. 2004)	860.397	
Number of all customers of natural gas (31. 12. 2004)	105.572	
Gross domestic production (GDP)	6.191.161 mio SIT	25.919 mio €
GDP growth rate	4,6 %	
Inflation rate	3,6 %	
Average exchange rate SIT/EUR	238,862 SIT/€	
GDP/inhabitant (<i>per capita</i>)	3.100 mio SIT	12.977 €

Source: Statistical Office of the RS, Agency

Electricity

Installed capacity	2.760 MW	
- hydro power plants		822 MW
- thermal power plants		1.262 MW
- nuclear power plant		676 MW
Generation of electricity	13.835 GWh	
- hydro power plants		3.603 GWh
- thermal power plants		4.545 GWh
- nuclear power plant		5.211 GWh
- independent and qualified producers		476 GWh
Length of the transmission network	2.594 km	
- 400 kV		510 km
- 220 kV		328 km
- 110 kV		1.756 km
Length of the distribution network	58.766 km	
- 110 kV		793 km
- 35, 20 in 10 kV		15.594 km
- 0,4 kV		42.379 km
Electricity consumption	12.068 GWh	
- eligible customers, connected to the transmission network		2.783 GWh
- eligible customers, connected to the distribution network (>41 kW)		5.490 GWh
- tariff customers		3.795 GWh
Annual consumption per inhabitant	6.041 kWh	
Average monthly household consumption	311 kWh	

Source: undertakings data

Natural gas

Length of the transmission network	957 km	
- Above 16 bar		740 km
- under 16 bar		217 km
Length of the distribution network (under 16 bar)	2.086 km	
Natural gas consumption	1.094.255.926 Sm³	
- customers, connected to the distribution network		303.449.622 Sm ³
- industrial customers		790.806.304 Sm ³
Annual consumption per inhabitant	548 Sm³	

Source: undertakings data

3 The regulator

The regulator, i.e. the energy regulatory authority as defined by the electricity and gas directives, is Energy Agency of the Republic of Slovenia, a legal entity of the public law. It is headed by the managing director, who is supported by the deputy managing director, the secretary general and the secretariat. Its activities are performed by four departments: technical, economic, legal and common services. The regulator employs 26 persons (per 31 December 2004), out of which over 80% possess a university degree. Its annual revenue in 2004 was 2,25 mio EUR.

The work of the regulator is supervised by a Council of the Energy Agency which is composed of 5 persons who may not be employed in the regulatory authority nor in the energy industry. The council proposes to the government nomination of the managing director, it may give binding instructions to him and request information it needs. Apart from this, it confirms the regulator's general acts, specified by the Energy Act.

The main competence and responsibilities of the regulator are

- defining methodologies for use-of-network charges,
- determining use-of-network charges for electricity networks and approving them for the gas networks,
- defining methodologies for tariff systems and general conditions,
- dispute settlement for disputes, resulting from network access, stated breaches of general conditions, network connections and others,
- issuing and revoking licences for energy activities,
- other tasks, defined by the amended Energy Act, such as defining methodologies for tariff systems for district heating.

It cooperates with other organizations within the state administration and with related organizations in the EU as well as the EU institutions.

4 Main regulator's activities

Enforcement of the legal acts has caused the year 2004 to be an exceptional one for the regulator - Energy Agency of the Republic of Slovenia (henceforth: Agency). The Agency was authorized to regulate additional areas which increased the scope of its projects and tasks. On the basis of EZ, particularly the work on the gas market and district heating has substantially broadened and increased.

One of important Agency's achievements in 2004 was a series of proposed modifications and amendments to the EZ which significantly contributed to its content. Consequently to the enforcement of EZ, the Agency intensively prepared numerous regulator's general acts to prescribe methodologies for determination of use-of-network charges, tariff systems, and general conditions for supply.

The largest developments in the Agency's tasks in 2004 are mainly broadened legal competences to issue regulator's general acts, approvals and opinions in the fields of district heat supply and natural gas, which follows the transition from negotiated to regulated TPA.

So the Agency in 2004 prepared and enforced a series of regulator's general acts in the area of natural gas: Act on determining the methodology for calculating the network charge for the gas transmission network, Act on determining the methodology for setting the network charge and the criteria for the eligibility of costs for the gas transmission network. The Agency started to prepare further general acts, General Act on determination methodology for preparation of tariff systems for natural gas distribution network, General Act on determination methodology for defining general terms and conditions for natural gas supply from distribution network, General Act on determination methodology for charging network charge for natural gas distribution network, General Act on determination methodology for defining network charge and criteria for justified costs for natural gas distribution network.

Moreover, in 2004 the Agency started to prepare general acts to determine the area of district heating through uniform methodologies. Two regulator's general acts were prepared: general act on Act on determining the methodology for setting general conditions for the supply and consumption of heat from the distribution network and Act on determining the methodology for the preparation of the tariff systems for the supply and consumption of heat from the distribution network were prepared.

In the field of electricity, the Agency enforced Act on Determining the Methodology for Calculating the Network Charge, and the Methodology for Setting the Network Charge for Electricity Networks in and determined use-of-network charge for electricity networks. Furthermore it monitored the electricity market, resolved disputes at the first instance in the general administrative procedure, and resolved disputes by determination at the second instance in cases of appeals against system operators' decisions on consent on connection to the electricity networks.

The Agency is beneficiary of a one-year Phare project named Regulatory framework in completion of the energy markets in Slovenia, which was undertaken in the years 2004 and 2005 to support the Agency in legal, economic and technical terms. It required committed intensive engagement of the whole Agency. The project deliverables in form of conceptual and detailed recommendations, upgraded models and analyses, introduced knowledge and experience from other EU member states into the Agency's work, and they are being used, adapted to Slovenian conditions, by the Agency at the energy market regulation.

The Agency participated in the work of the Council of the European Energy Regulators and in the European Regulators Group for Electricity and Gas as well as the fora of regulators for natural gas and electricity in Madrid, Rome (Florence) and Athens.