

CEER SEEER WG Report

Comments on EC Discussion and Consultation Note

Version 2005-05-31 for distribution to the Athens Forum

1. Background

During the second half of 2004, shortly before the 4th and 5th Athens Forum, the EC has distributed among the Forum participants two versions of a Discussion and Consultation Note on the “Electricity Transition Strategy for the Energy Community of South East Europe” from the present time to its full deployment, estimated in 2008.

In the meantime, shortly after the 5th Athens Forum of October 2004, CEER has distributed a “Discussion Paper on the Options for the Transition Phase of the ECSEE”, which put forward for discussion among the SEE stakeholders, the common position of the EU and SEE Regulatory Authorities on the intermediate steps to be followed for the establishment of a Regional Energy Market in SEE, with emphasis on the electricity market. This paper has been also welcomed by the Donors’ community.

Finally, in April 2005, the EC has distributed for discussion among the SEE stakeholders, the first draft of an options paper on “South East Europe Electricity Market”, with the view to present a comprehensive view of the discussions held so far on the electricity market design in ECSEE, which would formulate the common basis for discussion in the following months.

The CEER WG SEEER believes that all these documents are of a complementary nature and could formulate a concrete basis for the next steps on the establishment of the ECSEE. CEER is also prepared to further collaborate with the EC, the Donors’ community and the regional stakeholders, as appropriate, on the ideas presented in these documents, with the view to finalize a proposal on the transitional steps for the establishment of ECSEE. An effort should also be made in order the final outcome to be fully consistent with the forthcoming Treaty and properly endorsed by the countries of the region.

The aim of the present paper is to provide the consolidated comments of the CEER WG SEEER on the Discussion and Consultation Note, along the lines presented above.

2. General Comments

As already indicated, CEER WG SEEER welcomes the Discussion and Consultation Note of the EC and believes that, with some amendments, it can form the basis for the future strategy

in ECSEE. However, we would like to underline the fact that a final position cannot be formulated, unless the Annexes of the Discussion and Consultation Note, which refer to the important issue of the competencies of the Institutions and their interrelations (in particular those of the Secretariat and the Regulatory Board), are also completed and put forward for discussion among the regional stakeholders. In this case, some additional comments from our Working Group should also be expected, realizing, of course, that these issues should be looked into in parallel with the ongoing discussions on the Treaty.

The CEER WG SEEER also believes that this strategy paper needs to be accompanied by a coherent Action Plan for its implementation, to be endorsed by the SEE stakeholders (e.g. Permanent High Level Group). To this end, we would like to re-iterate our former proposals on the actions to be taken towards the development and implementation of a market design for the SEE regional electricity market, which could be regarded as an integral part of the roadmap for the establishment of ECSEE.

3. Detailed Comments

Our detailed comments on the text of the draft Discussion and Consultation Note of October 2004 are as follows:

- **Section 3, Para 3:**

The issue of power purchase agreements (PPA) is a very delicate one and has caused problems in many of the countries of the region in their efforts to properly implement their corresponding market opening obligations. There are countries in the region which suffer from existing PPAs.

The approach to be followed could be split in two parts. One concerning existing PPAs and the second concerning future PPAs as a tool for long term investments, especially regarding new generation capacity. For the latter, alternative approaches to long-term capacity availability mechanisms should be also considered, which would not hinder competition and impose market distortions to the market.

- **Section 6: The gas to power generation markets**

a. Third paragraph (p.7): It seems that the conclusions of this paragraph are in contradiction with some of the most respectful energy forecasts performed so far for other parts of Europe (e.g. EU'25 Energy Outlook). Such forecasts demonstrate that gas has the potential to cover up to even 80% of the incremental electricity demand, through gas-fired power generation.

In addition, the document states that in SEE region, “energy use relative to GDP is significantly higher than in the EU” deriving the conclusion that “efficiency gains will decrease demand”. We believe that this conclusion has to be reviewed, since the reason for this high ratio might be simply the very low GDP of the countries of the SEE. This conclusion has to be verified by a corresponding analysis which will also take into account the energy consumption per capita.

We believe that a proper analysis on the potential for gas use has to be based on methodologies similar to those used to derive corresponding energy forecasts (e.g. EU Energy Outlook) which will also take into account the macroeconomic forecasts of the countries of the region and also the environmental and social dimensions of the energy

market. Such an analysis will be proven important and is still missing, to the best of our knowledge.

- b. Second paragraph to the end (p. 9): The idea for a separate Gas Forum is welcomed, with the view to discuss the overall gas strategy for the SEE region. However Regulators should be actively involved in all discussions regarding “the outline structure for the regulatory framework favouring gas”.
- c. Last paragraph (p.9): the phrase “... and not hinder competition, especially regarding cross border and transit transmission infrastructure” should be added to the end of the paragraph.
- d. Reference to the insufficient interconnection capacity between the SEE gas transmission networks should be made.
- Sections 6 and 7
 - a. The nuclear option should not be excluded from the medium and long term scenarios, especially at a time where the evolution of gas prices in the world market may lead to increased electricity prices. This policy should also be considered when the financing of new investments in generation is going to be addressed.
 - b. In order to reach a sound balance between supply and demand, energy savings through improved energy efficiency is as crucial as increasing generation. Therefore an ambitious energy efficiency policy should be regarded as a priority with the definition of principles at the regional level, their implementation being left at the national level under the supervision of the national regulators, some of them having already the relevant competences at a national level.
- Section 8: Phasing and transitional measures for electricity
 - a. Introductory paragraph: Regional market arrangements should be investigated now and not later, with the view to start building at least a regional market design which would act as the medium-term perspective for national market developments. The phased approach implied by the document entails the risk to focus all efforts on the national reforms during the delicate initial steps of the development of ECSEE and, as a result, to lose the regional perspective. Therefore, unless the necessary harmonized reforms on some important aspects related to a functional regional energy market are carefully addressed and monitored, they may be jeopardized. We face the risk of ending up, in a few years, discussing how to integrate the national markets of the region, similarly to what is currently followed under the Mini- Fora in EU, while the opportunity for a more harmonized approach exists right now.

However, any effort regarding regional market development should neither refrain nor jeopardize the developments undergoing in most of the national electricity markets of the countries of the SEE region. A balanced evolution of national and regional perspectives should be maintained. Incorporating in the process the experience gained at the EU level on the issue will be proven both realistic and efficient.
 - b. Point 8.1.(3) p. 10: CEER is willing to collaborate with ETSO and USAID for the accomplishment of this task, in close co-ordination with the EC.

- c. Last paragraph of p. 11, regarding third priority: We believe that interconnection infrastructure development should be regarded as an issue of equal priority to generation infrastructure development. Investment in generation capacity should, in principle, be the outcome of the (regional or national) market operation, with the exception of the case where short-to-medium generation shortages are expected.

Generation and infrastructure adequacy and forecast should be performed *simultaneously* under the same input and assumptions, taking into account possible scenarios on the possible *regional market operation*. Therefore, the studies already undertaken can possibly provide useful *indications* but need further to adequately describe the existing situation on generation and infrastructure capacity in the region as well as in the context of a regional market operation with the view to be used for a definite *decision-making* process..

- d. Second paragraph of p. 12, regarding fourth priority: The CEER WG SEEER welcomes and accepts the proposal and commits to collaborate with the WB on this, as per the conclusions of the 5th Athens Forum (October 2004).
- e. Third paragraph of p. 12, regarding fifth priority: The CEER WG SEEER welcomes the proposal; It relates to the overall roadmap for the implementation of this strategy and is linked to all relevant discussions already made (e.g. reference to the conclusions of the Sofia 2003 Donors meeting on market design). The CEER WG SEEER commits to participate to such a scheme, under the auspices of the EC, which will formally inform the Forum and the PHLG on the progress and the intermediate steps to be taken.
- f. Fourth paragraph of p. 12, regarding regulators: the same should be safeguarded, in broad terms, for the SEE Regulators Board.
- g. Paragraph 8.3.3. (p. 14): We re-iterate our position that a single market design for the SEE region, which will be implemented in the post-transition period is the best option for the region. This is the outcome of the experience with other regional markets in EU (e.g. UK, Nordic, Irish, Iberian). Work on it should start immediately, with the view to address all issues, details, specificities and new ideas (e.g. regarding Flow-based Market Coupling or Open Market coupling ideas, as well as coordinated explicit auction idea for SEE, as proposed by SETSO) and incorporate them into a coherent and workable scheme.

We also believe that the involvement of the Donors would be very helpful at this stage and their resources, experience and support should be fully exploited. The CEER WG SEEER commits to collaborate with the EC, ETSO and the Donors community on the more detailed elaboration of ideas already put forward on regional electricity market design.

- h. Paragraph 8.3.4. (p. 14): Welcomed
- i. Paragraph 8.3.5. (p. 14): Welcomed. However, the license harmonisation and the mutual recognition require a lot of work at CEER level among the EU Member States, as well. This question requires legal harmonization among the involved states, as well.
- j. Paragraph 8.3.6.(p. 14): Welcomed. However, reference is also made to remarks under the previous point g).

The CEER WG SEEER invites the EC to take into account the comments above and commits itself to collaborate with the EC and the regional stakeholders for the establishment of the ECSEE.