

**USAID Regional Energy Security, Efficiency & Trade  
Program (RESET)**

**Experience of Organization of a Market  
Council in the Russian Federation**

Michael Bekker  
RESET Program Adviser  
Bangkok, Thailand  
September 27, 2012

# Acknowledgment

This presentation uses materials developed by the  
Market Council of Russian Federation

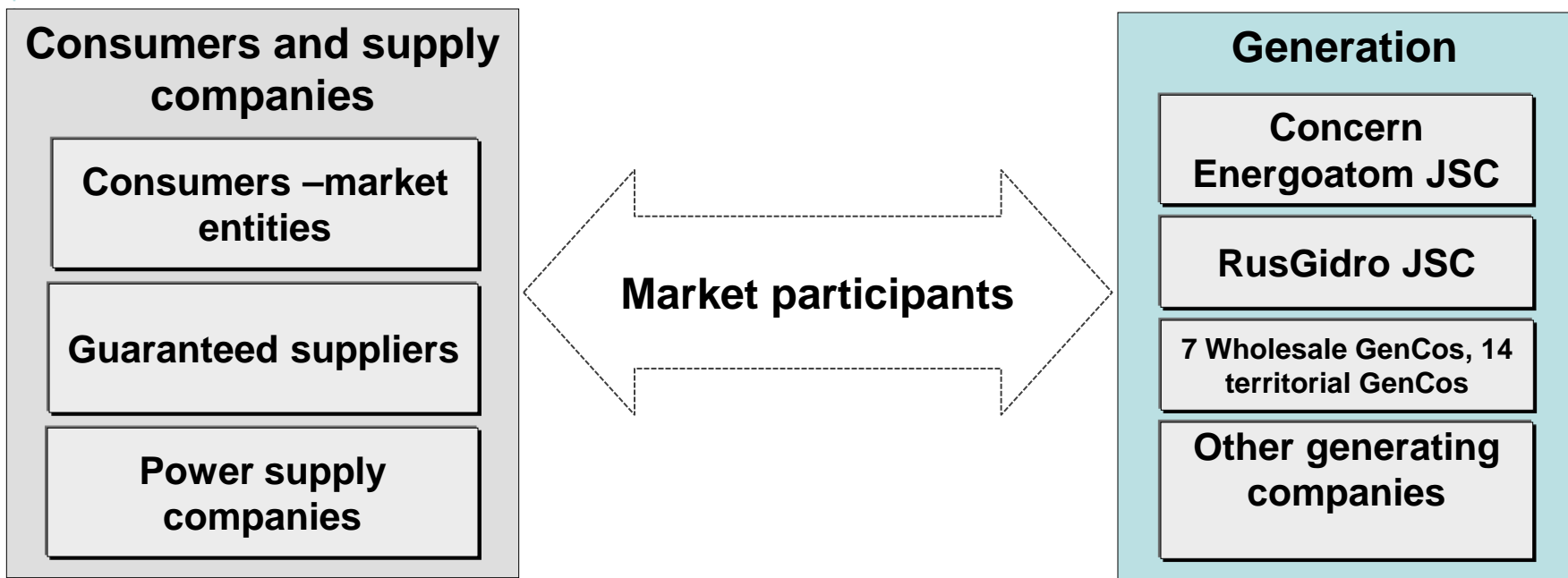
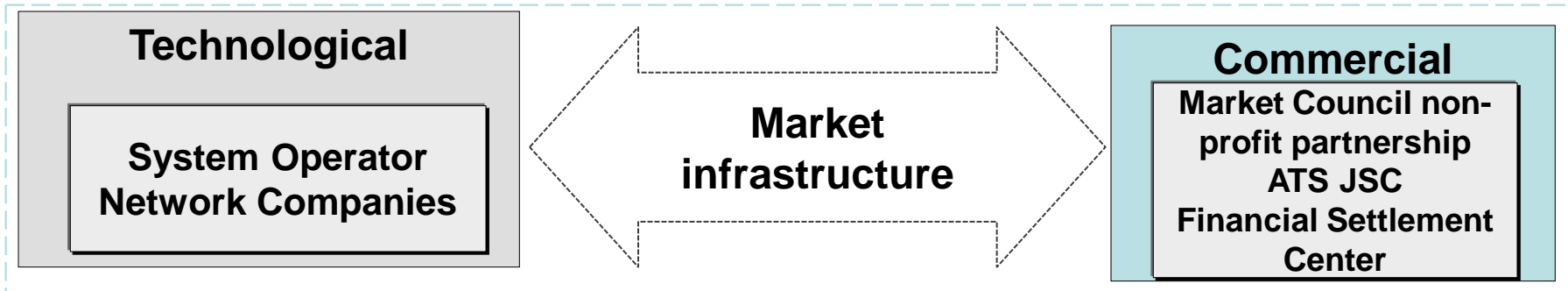
# General Issues

- Organization of the RF competitive power market operation
  - Market governance
  - Market infrastructure organizations
- Organization of a competitive market
- Goals and tasks of a Market Council
- Market Council non-profit partnership as self regulated organization
- Structure of the Market Council
- Governing bodies and their authorities
- Decision-making process
- Information disclosed
- Information system

# **Organization of competitive power market operation in the Russian Federation**

# Management of competitive markets in the Russian Federation

- Until the end of power sector reforms, the existing markets of the Russian Federation have been operated by:
- Technologically – UES System Operator (SO)
- Administrative and commercial matters – NP “Trading System Administrator” (ATS)
- General management and coordination of work in the sphere of market relations in the energy sector have been implemented by the Management Board of the RAO UES of Russia
- With the end of power sector reforms in July 2008, the RAO UES of Russia ceased to exist
- In 2008 a new organization was created for governing and managing power market operation – Non-profit partnership Market Council. ATS with all its subdivisions merged into the Market Council



# Infrastructure organizations: System Operator

- Assurance of meeting established reliability parameters for Russian UES functioning and assuring power quality.
- Management of technological operation modes of power facilities in accordance with the procedure established by the wholesale market rules approved by the RF Government.
- Participation in the organization of generation and consumption volume forecasting in the area of electric power industry, generation and consumption volume forecasting in the area of electric power industry, and participation in forming the production generating capacities reserve.
- Development and submission of list of activities, process flow charts and UES development programs to the federal executive body together with the management organization for the Unified National (All-Russia) Power Grid, and participation in implementation of those.
- Coordination of outage and shutdown of power supply network facilities and those used for generation of electrical and thermal energy, and commissioning of those after repair

# Infrastructure organizations: System Operator (continued)

- Participation in developing and issuing of technological requirements for power entities joining the Unified National Power Grid and regional distribution networks. These requirements ensure that these entities work as part of the Russian UES.
- Participation in controlling by authorized federal executive bodies of the technical state of power facilities owned by power consumers that influence reliability and safety of functioning of the Russian UES.
- Arrangement of selection of service providers for assuring system reliability, mitigation of emergency situations for the Russian UES; payment for the above mentioned services and settlement of agreements and payment for services related to forming a technological capacity reserve to ensure that the Russian UES functions in a reliable manner and in accordance with the procedure established by the RF Government



# Infrastructure organizations:

## Federal Grid Company

- Provision of services related to transmission of electrical energy through the national power grid to the wholesale market entities on a contractual basis and for pay.
- Ensuring access to the transmission services.
- Assurance of technological interconnection infrastructure.
- Settlement of relations on using power grids of foreign states and transmission of power through those, as well as provision of related services to technologically assure parallel operation of the Russian UES and power systems of the neighboring states.
- Development of main networks and construction of power supply system facilities to remove technological restrictions on electrical power flow between the regions of the Russian Federation, and development of transmission capacity of power grid to assure power delivery from the power plants to consumers.
- Development of the plans for UES development for a long-term period (also, participation in development of a UES Development plans for a long-term period conducted jointly with the System Operator).

# Infrastructure organizations: Federal Grid Company in the wholesale market

- Participation in purchase and sale of electrical energy and capacity for in-house needs; purchase of electrical energy (capacity) to compensate losses in the power grid and technologically assure parallel operation of the Russian UES and power systems of the foreign states.
- Operation of transmission lines and power supply system facilities to assure power transmission, repair of power supply system facilities to the extent and according to the timeline agreed with the System Operator in accordance with the established procedure.
- Undertaking of activities to create metering system at commercial borders in accordance with the Wholesale Market Rules as to collection, processing and transfer of metering data to the commercial infrastructure organization.

The cost of electrical energy to be purchased for the Federal Power Grid (FPG) shall be determined in accordance with the agreement on joining the wholesale market trading system (the joining agreement). As for the prices (tariffs) for electrical energy, a multiplying factor shall be applied as approved by the federal executive body in the area of state tariff regulation, in case repair schedules are violated.

# Federal Law on “Electric Power Industry”: organization of a wholesale market (Art. 31)

✓ Organization of a wholesale market *shall be based on self-regulation of the activity of its players. This should include participation of the Market Council in the development of wholesale market rules and creation of a control system to ensure that these rules are complied with, on an ongoing basis.*

✓ To assure level playing field for wholesale market entities, they shall be regulated by the **wholesale market rules**.

The following organizations ensure that the wholesale market commercial infrastructure functions:

**Self-regulated organizations – Market Council;**

**Wholesale Market Commercial Operator;**

*Other organizations that have been vested functions to assure commercial infrastructure under the agreement to join.*

# Principles of functioning of a wholesale market

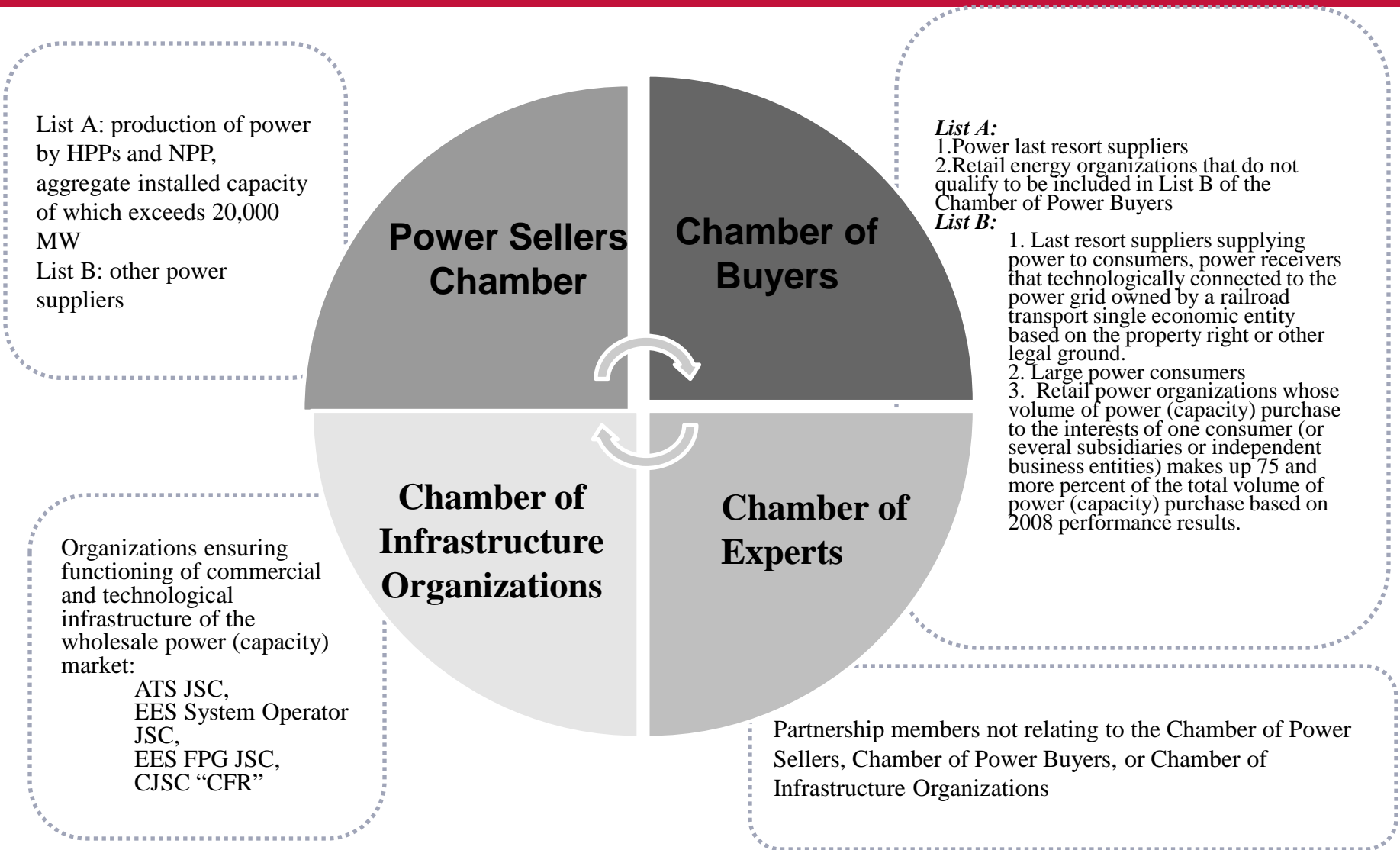
## The principles are determined by the law on electricity (Art.30):

- ✓ Free, non-discriminatory access to the market for all buyers and sellers complying with the Market Rules and meeting the requirements and quantitative characteristics
- ✓ Free interaction between WEPCM entities observing the Rules
- ✓ Freedom of choosing the procedure of purchasing and selling power through participation in organized trade in accordance with the Rules or settlement of bilateral agreements
- ✓ Accounting for specific features of participation of individual entities providing services on assuring system reliability and/or generating power on thermal, nuclear or hydro power plants
- ✓ Interaction between market entities based on absolute compliance with contract conditions and financial discipline
- ✓ Mandatory nature of acquisition of capacity by wholesale market entities
- ✓ Absence of discrimination in the Rules between the existing and new power entities

# Federal Law on “Electric Power Industry”: purposes of creation of a market council

- ✓ Assurance of functioning of market’s commercial infrastructure
- ✓ Assurance of effective interaction between wholesale and retail markets
- ✓ Creation of favorable conditions to attract investments into the power sector
- ✓ Creation of a general position of wholesale and retail market participants at the time of development of regulatory documents regulating functioning of the power industry
- ✓ Organization based on a self-regulation system of wholesale and retail trade of power, capacity, and other goods and services admitted for trading in wholesale and retail markets

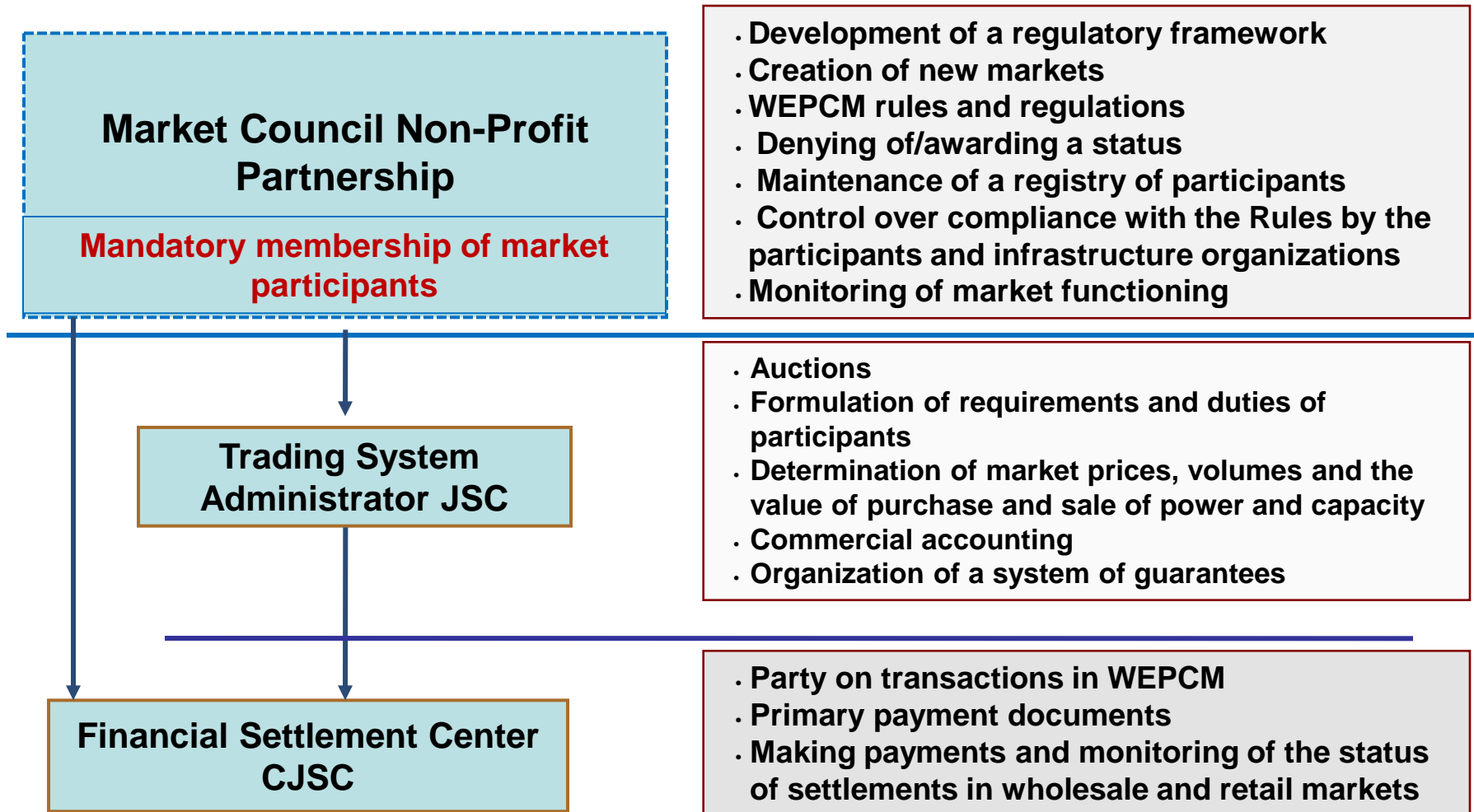
# Members of the Market Council Non-Profit Partnership



# Market Council Non-Profit Partnership – a self-regulated organization - Tasks

- Determination of the procedure of maintaining a register of wholesale market entities, making a decision on awarding or depriving of a status of WEPCM entity
- Participation in drafting wholesale and retail market rules and proposals on amending those
- Development of an agreement on joining the wholesale market trading system, wholesale market regulations, and standard forms of agreements that would make it possible to trade power, capacity, and other goods and services that are traded in a wholesale market in such a market
- Resolution of disputes in wholesale and retail markets in line with WEPCM Rules
- Creation of a system and procedure of imposing material sanctions for breaking wholesale market rules
- Monitoring of actions of the System Operator in accordance with the wholesale market rules
- Control over compliance with the wholesale market rules and regulations by WEPCM entities and infrastructure organizations
- Qualification of generating entities as those using renewable energy resources
- Maintenance of a register of issuance and cancellation of certificates confirming power generation using renewable energy resources
- Control over wholesale market buyers' performing their obligation to purchase specific volume of power generated using renewable energy resources
- Monitoring of the price situation in wholesale and retail markets
- Forecasting prices for electrical energy and capacity

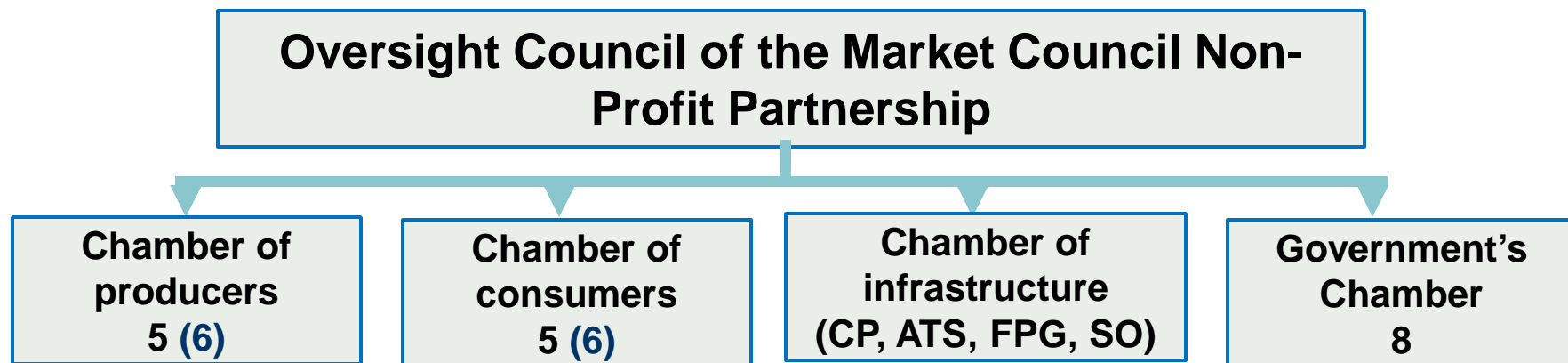
# Self-regulation and commercial infrastructure





# Management Structure of the Market Council Non-Profit Partnership

- Overall management of the Partnership's activity rests with the Oversight Council, a collegial governance body
  - Membership in the Oversight Council is determined by the Federal Law



- ↪ Each Chamber's right of veto a decision of the Oversight Council
- ↪ Each infrastructure organization's right of veto a decision of the Oversight Council
- ↪ Preliminary discussion at the sessions of Committees and Commissions

# Oversight Council: General Provisions

- The Provision on the Oversight Council was approved by the Decision of the annual General Meeting of members of the Market Council Non-Profit Partnership on June 26, 2009. This is an internal document of the Partnership that specifies:
  - timeline and procedure of convening meetings of the Oversight Council, and the quorum requirements, as well as the procedure of making decisions and controlling their implementation
- The Oversight Council is a collegial governance body of the Partnership functioning on an on-going basis.
- The mandate of the Oversight Council includes the issues of overall management of the Partnership, except for the issues that the Partnership' Charter assigns to the competence of the General Meeting of members of the Partnership.

# Reserved Matters of the Steering Council

## Reserved Matters of the Oversight Council include the following:

- |   |   |
|---|---|
| 1. Approval of the principles (model) of functioning of wholesale and retail power and capacity markets, rules for wholesale and retail power and capacity markets (including for the transitional period), drafts of other regulations aimed at the development and functioning of wholesale and retail power markets, as well as proposals on amending those. | 6. Approval of the form of the agreement to join, the regulations of the wholesale market, standard forms of agreements, and other documents that assure functioning of an effective wholesale trading of power, capacity or other goods or services admitted to trading in the wholesale market. |
| 2. Deciding on the selection of organizations to fulfill functions of commercial infrastructure.  | 7. Approval of the principles and the procedure of imposing material sanctions for violating the wholesale market rules.  |
| 3. Approval of the procedure of maintaining the registry of wholesale entities.   | 8. Approval of the procedure of ensuring compliance with the wholesale market rules and regulations by wholesale market entities and commercial and technological infrastructure organizations.   |
| 4. Approval of the procedure of pre-trial dispute resolution in wholesale and retail markets in line with the agreement to join.  | 9. Admission of organizations to members of the Partnership, approval of the Provision on Members of the Partnership, approval of the Procedure of Forming the Chambers (lists) of Partnership members.   |
| 5. Approval of amendments to the agreement to join, the regulations of wholesale market, and the standard forms of agreements.  | 10. Determination of the size and the procedure of paying entrance (one-time) and current (regular) membership fees.  |

# Procedure of Electing the Oversight Council of the Partnership

- Every member of the Partnership being on the Chamber of Power Sellers or the Chamber of Power Buyers has the right to propose one candidate each to be elected to the Partnership's Oversight Council:
  - ***before March 31 of the current calendar year*** - for elections on the annual General Meeting of the Partnership Members
  - ***no later than 12 (twelve) calendar days before the date of the following specially scheduled non-regular General Meeting of the Partnership Members*** - for elections on the special General Meeting of the Partnership Members
- Election of member of the Oversight Council shall take place at the General Meeting of the Partnership Members by voting of the Partnership Members being on the Chamber of Power Sellers and the Chamber of Power Buyers, respectively.
- Voting on the election of member of the Oversight Council shall be done based on 1 proxy form of power buyers. A Partnership member voting on the issue of electing a member of the Oversight Council is entitled to vote only for the candidates to the members of the Oversight Council from the list he/she is assigned to.
- Oversight Council members being affiliated persons and/or a group of persons shall not account for more than 20% of the total number of members of the Oversight Council.

# Rights and Obligations of Members of the Oversight Council

## **Members of Partnership's Oversight Council shall HAVE THE RIGHT TO:**

1. Receive information about Partnership activity including information representing commercial secret of the Partnership, familiarize themselves with all constitutive, regulatory, accounting, reporting, contractual and other documents of a Partnership
2. Include issues to the Partnership's Oversight Council meetings agenda
3. Request in writing the documents and information necessary for decision-making on issues of Partnerships' Oversight Council competence
4. Require calling of a meeting of Partnership's Oversight Council

## **Members of Partnership's Oversight Council shall BE OBLIGED TO:**

1. To attend in person at the meetings of Partnership's Oversight Council (if the attendance is not possible, the member of Partnership's Oversight Council must notify in advance, BUT not less than 1 day prior to the date of the meeting)
2. Execute decisions taken by the general Meeting of the Members of Partnership and Partnership's Oversight Council
3. Ensure confidentiality of the information received, sign an agreement with the Partnership on non-disclosure of confidential information
4. Perform other duties specified by the Partnership's Charter and Provision on Partnership's Oversight Council

# The Rights of the Federal Executive Body Authorized by the RF Government

- The Federal Executive Body Authorized by the RF Government is entitled to:
  - *use the right of veto decisions of the Oversight Committee within ten (10) calendar days from the day these decisions were made*
  - *address to the Partnership's management bodies the issues to be included in the agenda for the Oversight Committee and subject to mandatory consideration by the Oversight Council*
  - *take a decision on the issues previously sent to the Oversight Council for mandatory consideration in case if the Oversight Council has not taken a decision within 45 business days following the wording agreed on with the federal executive body authorized by the RF Government*
- The Partnership provides all materials related to the issues on the agenda for the Oversight Council to the federal executive body that is authorized to supervise the activity of the Partnership.
- A representative of the federal executive body authorized by the RF Government has the right to attend the General Meeting of the Partnership members and meetings of the Oversight Council with a right to vote.

# Working Groups, Committees and Commissions under the Partnerships' Oversight Council

- Working Groups, Committees and Commissions under the Oversight Council are created by the decision of the Oversight Council to more thoroughly elaborate on the matters that are within the mandate of the Oversight Council, and to develop necessary recommendations for the Oversight Council.
- The Working Groups, Committees and Commissions under the Oversight Council may include members of the Oversight Council, representatives of Partnership members and staff of the executive office of the Partnership.
- The Oversight Council directs one of Oversight Council members or one of Partnership's executive body managers to provide guidance to a Working Group, a Committee or a Commission.
- Approval of provisions on the working groups, committees and commissions under the Oversight Council, as well as determination of their membership, terms of office and remuneration shall be subject to individual decisions of the Partnership's Oversight Council.

# Committees, Commissions and Working Groups, under the Oversight Council of the Market Council Non-Profit Partnership

Body	Key Objectives
<b>Market Model Committee</b>	Consideration and coordination of Joining Agreements, wholesale market regulations, and amendments to the Joining Agreements and Regulations
<b>Commercial Accounting Committee</b>	All issues related to the development of the requirements for fiscal accounting, fiscal accounting data collection and processing, and the procedure of confirming by the participants of the compliance of the Automated Measuring and Information System for Electric Power Fiscal Accounting (AIIS KUE) with the requirements
<b>WEPCM Payments Commission</b>	Monitoring of settlements at wholesale and retail markets, working with the “controlled” market players
<b>Conflict Resolution Commission</b>	All issues related to the access to the market, including resolution of conflicts between allied participants as to agreeing upon necessary registration documents
<b>Commission for Interaction with EURELECTRIC</b>	Involvement in the activity of EURELECTRIC, issues of the development of cross-border trade with European countries
<b>Interaction Working Group</b>	Issues of interaction between the wholesale and retail markets
<b>Regulatory Legal Working Group</b>	Discussion of legislative initiatives and draft regulatory and legal acts
<b>Energy Efficiency Group</b>	
<b>System Reliability Working Group</b>	Issues associated with the System Operator’s activity (reserves, emergency situations, selection of equipment, etc.) and its impact on the functioning of the market
<b>Debt Settlement Working Group</b>	Development by participating lenders and debtors of suggestions on indebtedness settlement (Restructuring Agreements, controlled payment indicators)



# Management Board of the Market Council: General Provisions

- Provision on the Management Board of the Partnership approved by the decision of the annual General Meeting of the Partnership members as of 26 June 2009 is an internal document of the Partnership that specifies:
  - timeline, procedure of convening meetings and the quorum for meetings of the Management Board, as well as the procedure for the Management Board to make decisions and supervise their implementation.
- Provision on the Partnership's Management Board and the Partnership's Charter specify the mandate within which the Chair of the Management Board and the Management Board administer day-to-day operations of the Partnership in line with the decisions taken at the General Meeting of the Partnership and Steering Council members.
- Deputy Chairs of the Management Board provide their leadership in the focus areas in accordance with allocated responsibilities as determined by the Chair of the Partnership

# Mandate of the Chair of the Partnership and the Management Board of the Partnership

## Mandate of the Chair of the Partnership

Chair of the Partnership is a sole executive body of the Partnership

Chair of the Partnership:

- organizes the work of the Partnership in accordance with its goals and objectives, and manages the work of the Partnership's executive apparatus;
- approves staffing table of the Partnership;
- issues power of attorney and performs legal acts on behalf of the Partnership;
- effects transactions associated with acquisition and alienation by the Partnership of the property the cost of which does not exceed 7.5 mln RUB;
- exercises rights and obligations of the employer in respect of the Partnership staff (also imposes disciplinary penalties and applies incentives);
- ensures that the decisions taken by the General Meeting of the Partnership members and the Steering Council are communicated to the Partnership members;
- arranges for implementation of decisions taken by the General Meeting of the Partnership members, Steering Council and the Management Board, and supervises implementation of those decisions;

## Mandate of the Management Board of the Partnership

Management Board of the Partnership is a collegial executive body chaired by the Chair of the Partnership

Management Board of the Partnership:

- takes a decision on effecting a transaction associated with acquisition and alienation of the property the cost of which exceeds 7.5 mln RUB but does not exceed 15 mln RUB;
- takes a decision on effecting a transaction regardless of its amount, if the cost of the property acquired or alienated under the effected transactions is >7.5 mln RUB.;
- determines positions of the Partnership on the agenda issues of the top management body of the legal entity in which the Partnership has <20% of voting shares of a joint-stock company or <20% of an authorized capital of the limited liability company.
- deals with the issues related to voting on the annual report of the Partnership, the report on implementation of the decisions of the General Meeting of members of the Partnership, Steering Council, and Management Board;
- deals with the issues related to voting on the budget (budget estimates) of the Partnership;

# Mandate of the Chair of the Partnership and the Management Board of the Partnership (continued)

## Mandate of the Chair of the Partnership

Chair of the Partnership:

- prepares and submits to the Management Board of the Partnership the annual report on implementation of the decisions of the General Meeting of members of the Partnership, Steering Council, and Management Board for approval;
- submits budget (budget estimates) of the Partnership to the Management Board for approval;
- deals with other issues of day-to-day operations of the Partnership.

## Mandate of the Management Board of the Partnership

Management Board of the Partnership:

- deals with the issues related to the review of: key principles (model) of the power wholesale market (including for the transitional period); rules for wholesale power and capacity markets; drafts of other regulations aimed at the development and functioning of wholesale power and capacity market; and proposals on amending those;
- deals with the issues raised by the Chair of the Management Board at the meetings of the Management Board;
- performs other duties assigned to him/her by the Charter, documents of the Partnership, and decisions of the General Meeting of the Partnership and the Steering Council.

In the event of the absence of the Chair of the Management Board, his/her functions as functions of the Chair of the collegial executive body of the Partnership shall be performed by the Acting Chair of the Management Board appointed by the Chair of the Management Board out of members of the Board.

# General Framework of the Agreement System in WEPCM

## • Agreement to Join the Trading System: Conditions

**Subject:** regulation of relations of the Parties associated with power (capacity) trading in the wholesale market:

**Functions of the Agreement:**

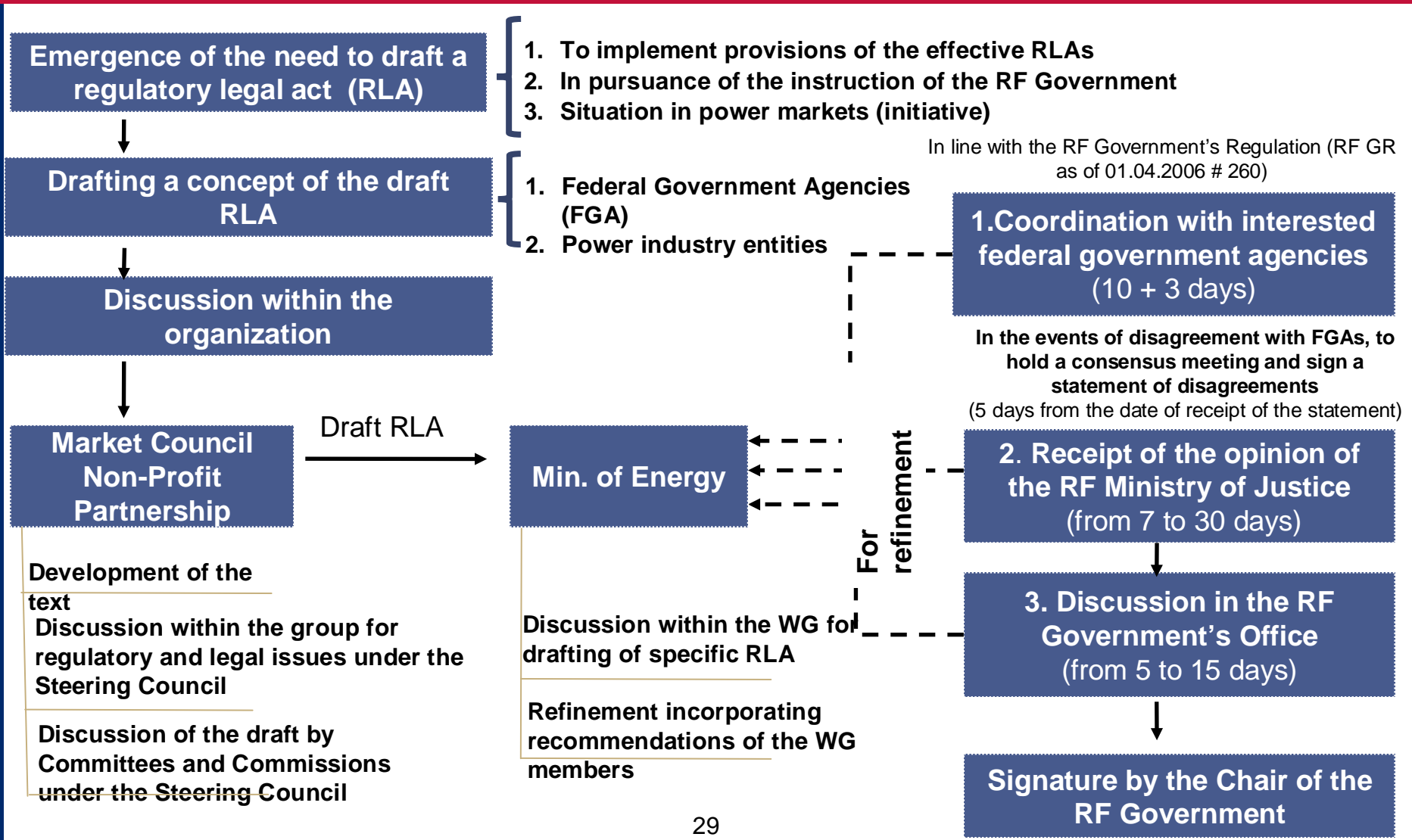
- Settle rendering of ATS services (service contract)
- Settle rendering of FSC services (service contract)
- Identify an agreement system, ensure that agreements/contracts are signed, set out material terms of agreements (preliminary agreement)
- Provide for the obligation of the wholesale power market (WPM) entities to implement WPM Regulations specifying the way the WPM shall function
- Provide details of functioning of WPM (organizational agreement + service contract): planning modes, procedures of calculating volumes and prices, system of guarantees, procedure of settlements, interaction between infrastructure organizations, **including control over the System Operator**, access to the trading system, organization of a system of measuring and collecting information on the actual power generation and consumption, **control over compliance with the rules on the participants' part**
- Specify that the System Operator acts under the agreement within the boundaries of the operational dispatch management service, and provide for the obligation of all WPM entities to follow System Operator's directions
- Specify the procedure for the FGC to purchase energy (capacity) to pay for losses
- Specify conditions of the **responsibility of the parties**
- Specify conditions of confidentiality
- Specify conditions of using electronic digital signature
- Specify conditions of modifying and terminating the agreement

# General Framework of the Agreement System in WEPCM

## Agreement to Join: Termination and Modification

- WEPCM entity is not allowed to terminate or modify the Joining Agreement unilaterally since along with Art. 428 of the RF Civil Code, Art. 450 of the Civil Code shall also apply (on the grounds for modification or termination, upon mutual agreement of the parties or in a judicial proceeding);
- To terminate (modify) the agreement as specified in Art. 428 (part 2) of the RF Civil Code, the WEPCM entity must prove that there are explicitly onerous terms contained in the agreement and that he did not know and should not have known on which conditions he entered the agreement;
- The Joining Agreement must provide for the events when the Agreement can be terminated at the initiative of the Market Council and/or the Commercial Operator.

# Role of the Market Council Non-Profit Partnership in the Development of the Regulatory Framework



# Information on Functioning of the Power Industry Disclosed via Internet

## Mandatory information disclosure

**RF Government  
Resolution as of  
21.01.2004 #24  
(information  
disclosure by power  
industry entities)**

**Order of the Federal  
Financial Markets  
Service (FFMS) as of  
10.10.2006 #06-  
117/pz-n (information  
disclosure by  
issuers)**

## Voluntary information disclosure and analyses

**Companies' data on  
their performance  
results**

**Information of  
government  
authorities**

**Third parties  
furnishing  
information and  
analyses**

# Mandatory Information Disclosure by Power Industry Entities

## Network organization

- Structure and size of costs
- Tariffs, standard forms of agreements
- Power transmission volumes, volumes of sales and losses
- Investment programs and reports on their implementation (35 kV and more)

## ODM Entities

- Structure and size of costs
- Tariffs, standard forms of agreements
- Results of EES (Unified Energy System) performance
- Installed capacity of power plants and changes in it
- Forecasting power and capacity demand by RF constituent entities
- Information on repairs (aggregate figures for repair of generating facilities and networks)
- Investment programs and reports on their implementation

## Power producers

- Structure and size of costs
- Power and capacity delivery tariffs
- Fuel used, pollutant emissions, use of power for in-house needs
- Information on the investment program



# AIS “Energy and Capacity Markets” (AIS REM)

## Automated Information System “Power and Capacity Markets” (AIS REM)

- Source of information on results of functioning of power industry, including power and capacity markets

## Source of data for AIS REM:

- In-house data of the Market Council, ATS JSC, FSC CJSC
- Market infrastructure companies (EES System Operator JSC, EES FPG JSC, MRSK Holding JSC)
- State information resources (Government Statistics Service)

## System structure:

- Industry functioning indicators  
(by geographical areas: federal districts, RF entities; price zones, non-price zones, isolated territories)
- Ratings of power and capacity market participants and RF entities (identification of the best ones in key areas of power markets' functioning)

# AIS “Energy and Capacity Markets”: Indicators

## GENERAL FEATURES

- Area
- Population size
- Average per capita income

## POWER SECTOR ENTITIES

- Generating companies (list of companies operating in the WEPCM)
- Power supply companies (list of last resort suppliers and independent supply companies)
- Large consumers

## KEY PARAMETERS OF THE MARKET FUNCTIONING

### Production

- Installed capacity
- Generation of power by types of generation (%)
- Volume of power generated
- Net sales
- ICUF – installed capacity utilization factor (specific by types of plants))

### payments

- Indebtedness in the WEPCM
- % of payment in the WEPCM
- Indebtedness in the retail power market (RPM)
- % of payment in the RPM

### Consumption

- Power consumed
- Power consumed by the population (plan)
- Actual average sales price for power for end user in the retail power market
- Average price in the day-ahead market
- Average price for capacity
- Maximum level of tariff on power supplied to the population
- Forecast of prices in the day-ahead market (for 4 quarters ahead)
- Forecast of prices in the retail power market in the price zone (for 1 year ahead)

### Investment programs

- Volume of commissioned capacities under the Supplied Capacity Agreement
- Volume of commissioned capacities – HPP/NPP

### Transmission

- Length of transmission lines by voltage levels
- Transformer capacity of substations by voltage levels

# Information published by the Market Council and ATS JSC

## Market Council

- Joining agreement, regulations
- List of regulatory and legal acts regulating the functioning of the power sector
- Register of wholesale entities
- List of commodity exchanges admitted to organization of power trading
- Documents determining admission and functioning of generating facilities based on RER

## ATS JSC

- Results of competitive selection in the day-ahead market, hub indexes, volumes of purchase under the free agreements, EES volumes and indexes
- Capacity market: seasonality factors, coefficients of actual availability of capacity in the free power transfer zone
- Lists of debtors in the WEPCM
- Monthly reviews of day-ahead markets
- Retail markets: forecasts of weighted average non-regulated prices and average non-regulated prices for last resort suppliers

**Questions ?**