



# Lessons from the Opening of Southeast European Power Market

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Regional Energy Trade**  
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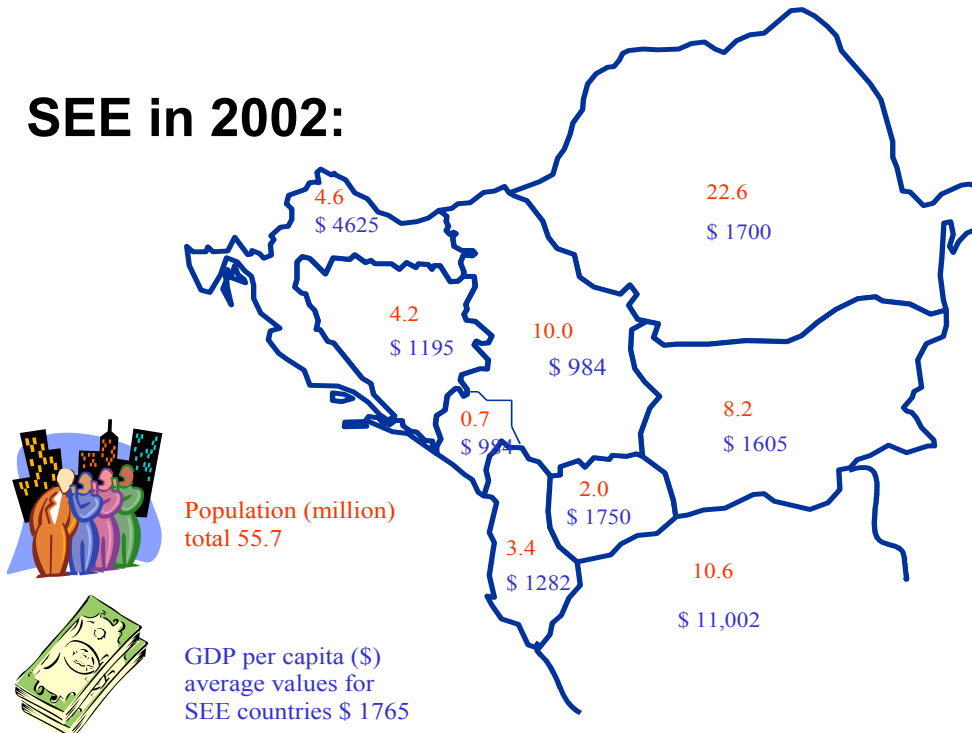
# Agenda

- 1. The Energy Community (EC) in Southeast Europe (SEE)**
- 2. Electricity Market Opening**
- 3. Regional Day-Ahead Market (DAM)**
- 4. Role of Transmission System Operators (TSOs)**
- 5. Takeaway messages**

# Energy Community in SEE

**Credo: “Solutions to national energy issues based on isolated national markets are neither capable nor desirable as a means to satisfy regional supply and demand imbalances”**

**SEE in 2002:**



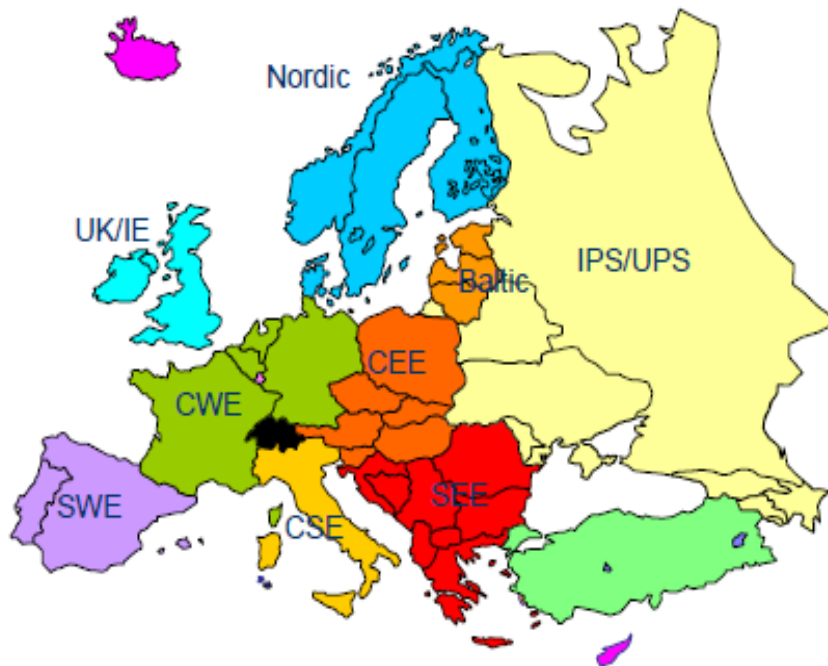
**Plan: Regional Energy Market (REM) should help “underpin investments in the region with a firm regulatory perspective into the medium and long-term”**

# Energy Community in SEE

- Intergovernmental MOUs signed in 2002 (electricity) and in 2003 (gas)
- International Treaty came into effect on July 1, 2006, establishing legal foundations of the Energy Community (EC)
- EC Secretariat (in Vienna, Austria) is a permanent body focusing on harmonization of regulations in SEE countries with *EU acquis* and Energy Directives (e.g. Electricity and Gas, Renewable Energy, Energy Efficiency etc.)

# EC: the 8<sup>th</sup> Regional Market in Europe

EC: Albania, Bosnia and Herzegovina, Croatia, Macedonia, UNMIK, Montenegro, Serbia, Bulgaria, Greece, and Romania (SEE); Hungary, Slovenia, Italy and Turkey (connected); Ukraine and Moldova (not synchronized)



## Implementation Mechanisms:

- Ministerial Council
- Permanent High-Level Group
- EC Regulatory Board
- TSO Coordination
- Electricity Forum (Athens Forum)
- RE and EE Task Forces
- EC Secretariat

# EC: Progress in the Power Sector

- Electricity laws enacted in line with EU Directives
- Regulators established, and working
- Unbundling done (EU Directives)
- Cooperation between TSOs is working
- Tariff reforms moving, but slowly
- Investments, particularly from the private sector, are still at a low level

# Electricity Market Opening

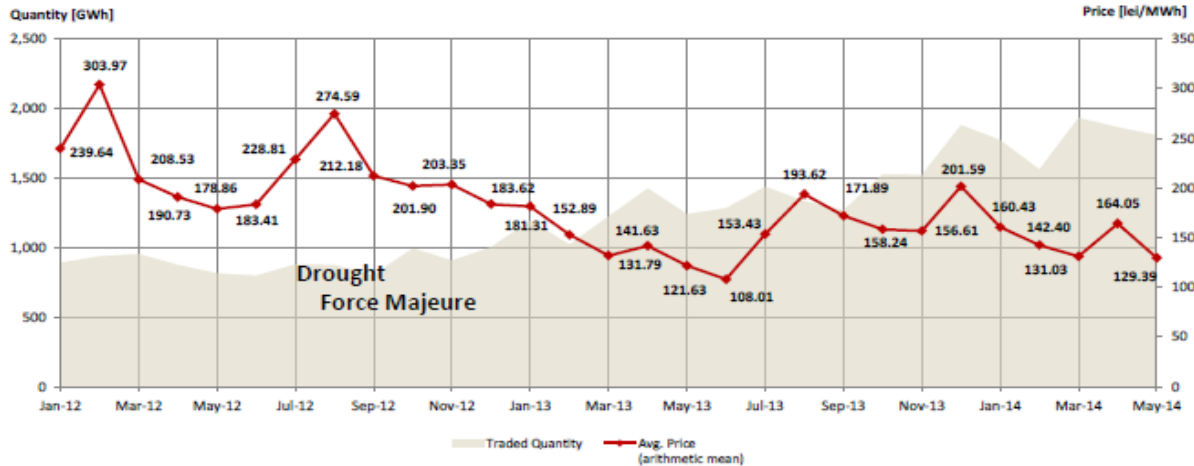
- SEE countries are too small to break up power generation and the regional trade is only option for an effective market (i.e. multiple generators)
- State utilities are allowed to sell to the market (essential for their ability to generate cash and to survive in a competitive environment)
- Gradual market opening should protect vulnerable consumers (“safety net”)
- Good governance and transparent auctions/contracting are essential for market to work

# Regional Day-Ahead Market (DAM)

- Bilateral trading will continue, but regional DAMs are emerging and attracting more trade
- Decentralized approach: national power exchanges and market operators in each countries first, with coupling of national markets to form a regional DAM later
- Market coupling can take different routs depending on readiness and compatibility of national markets (most recent is RO-HUN-CZ-SLV coupling)
- This is also a “standard European approach”, e.g. NordPool (NR-SW-FI-DK in the 1990s), OMEL (Spain-Portugal 2007), Be-Ne-Lux-FR (2010) etc.
- However, the risk of “illiquid” national market can foster closer collaboration in market opening in SEE

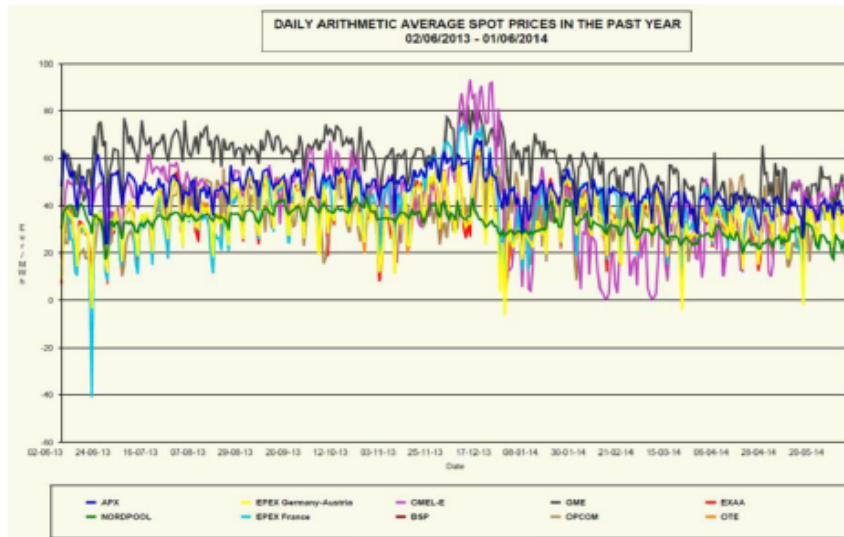


# Romania: Leading market opening



- Market evolution:**
- Price declining from 50 E/Mwh in 2012 to 33 E/MWh in 2014
  - Volume of bilateral contracts increased from 15% in 2012 to 42% in 2013
  - Volume of DAM and Intra-Day trading increased from 20% in 2012 to 31% in 2013
  - Currently, about 70% of electricity (40 TWh) is traded in the market

N2EX platform	52.6
APX-UK	52.3
GME Italy	49.9
APX-NL Holland	41.6
TGE Poland	40.1
BELPEX Belgium	39.3
EPEX Switzerland	38.4
HUPX Hungary	37.9
BSP Slovenia	37.4
EPEX France	35.4
OKTE Slovakia	33.5
OTE Czech Republic	32.8
EXAA Austria	32.7
EPEX Germany/Austria	32.5
OPCOM Romania	32.5
OMIE Spain	29.3
NORD POOL Scandinavia	28.5
OMIE Portugal	28.4



# Role of Transmission System Operators (TSOs)

- TSOs are more than transmission operators – they are key for regional integration and market coupling
- In SEE, TSOs are unbundled from vertically integrated utilities and have operational and financial autonomy
- In 2007, SEE TSOs joined the Europe-wide ITC mechanism for inter-TSO compensation for cross-border flows
- Congestion management: SEE TSOs are moving to bilateral auctions of transmission capacity (daily, monthly and annual) in line with EU regulations
- TSO operate as regulated business but play important role in advising regulators and policy makers (e.g. on energy security, integration of renewable energy etc.)

# Takeaway messages

- Political will is a critical condition for the establishment and growth of regional power markets (e.g. EC Treaty)
- Permanent institutions (e.g. EC Secretariat) are indispensable for sustainable market development
- Each country should take time to develop its institutions and regulatory framework, while ensuring compatibility with the main design principles of the future regional market
- Bilateral trading and DAM are complementary and need each other to grow
- “Managed” market, favored traders and lack of open (third party) access to the power grid are main barriers for expansion of regional trade and investments
- Pricing (tariff) policy remains at the core of investors decision making and creditworthiness of buyers underwrite the market