

BiH REAP: Suggested Regulatory Commission Activity Plan to open electricity market and establish DAM _____ June 2011

Introduction

The three regulatory commissions with REAP participation have completed a number of activities in preparation for market opening in the last year and a half since the Market Working Group was formed. Although additional activities are necessary, this is an opportune time to consider the full scope of activities that remain to be accomplished and a suggested timeframe for doing so. This will assist the commissions in gauging the pace needed to accomplish needed activities.

Background

The three regulatory commissions with REAP participation created and discussed the following documents:

1. Policy Paper on Impediments, Preconditions and Solutions to Successful Functioning of BiH Electricity Market;
2. MWG Subgroup paper Request for Feedback from ECRB on Implementation of the World Bank Study on a Wholesale Market Opening in SEE; and
3. MWG Subgroup Document on the Electricity Market Opening: Transition Period.

Further, REAP developed a follow-on paper regarding Default Supplier and the Transition period:

1. Transition Period: Default Supplier and Supplier of Last Resort: Other Countries' Regimes and Recommendation for BiH

Finally, the EC has issued a decision to request the mandate of the Third Liberalisation Package from the Energy Community Ministerial in October.

As a result of all of these activities, it may be wise for the commissions and REAP to take a step back and assess what activities remain before opening the market and what the timeframe is for accomplishing them.

Summary

Activities were culled from each of the above-listed documents that the three regulatory commissions should accomplish in a period of time to be determined by the regulators. Below is an abbreviated table that lists the activities, all of which are discussed in more detail in the following Discussion section.

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	Task	Activities	Time schedule
1	Policy paper	<ul style="list-style-type: none"> • Lobby governments to act on the document • Installation of adequate Measuring Systems • Elimination of cross-subsidization between customer classes and customers groups • <i>Establishment of the SOLR and DS services [also relates to Item 2]</i> • Sort out and determine transparent and understandable Customer switching process • <i>Establishment of clear and straightforward processes and related contracts on third party access, ancillary services, balancing service and financial settlement [also relates to item 2]</i> 	
2	Transition Period - Document on the Extension of the Transition period	<ul style="list-style-type: none"> • Develop action plan to implement the chosen solution • <i>Request EPs to install meters where necessary [also relates to item 5]</i> • Request governments to change Electricity/Energy law if needed • <i>Eliminate subsidization between network users and between customers classes [also relates to item 1]</i> • Encourage governments and EPs to establish a new business unit, the supplier of eligible customers, unbundled from Distribution System Operator unit • Develop and apply criteria and/or methodology for Default Supplier and Supplier of Last Resort prices • Check processes and standardized contracts and improve and change where necessary • SERC and ISO clarify the situation with regard to Ancillary Services, Balancing Services and make changes if necessary • SERC requests ISO to develop revised Network Code and Market Rules • Regulators and EPs perform a Case Study • Regulators request EPs to execute a Load Research Study 	
3	Implementation of the World Bank Study on a Wholesale Market	<ul style="list-style-type: none"> • Lobby governments to act in accordance to the document • Develop the schedule for gradual transition from regulated to liberalized market • Improve processes for the provision of ancillary services, balancing services, third party access • Assist in establishment of the local DAM 	
4	A Case Study on whether preconditions for market functioning are met	<ul style="list-style-type: none"> • Establish a Group which will, with REAP participation, work to perform a the Case Study • The established Group should develop a Base Case for the Case Study and design different scenarios 	
5	Perform a Load Research Study		

Discussion

Policy Paper

The Policy paper identified eight preconditions and impediments for successful electricity market functioning. Five of the eight activities listed in the table entitled “Impediments, Preconditions and solutions/Primary Responsible Parties” involve the need for some Government policy action in the areas of Unbundling, Cost-based Tariffs, Deregulation of Generation, Vulnerable Customer Programs and the amendment of the Procurement Law. To ensure that the market opening occurs in a controlled manner that results in both the customers and the utilities being properly protected, the Governments were requested to act to designate policy in the following areas:

The Federation Ministry and Government

1. Unbundling. Encourage and ensure the unbundling of EPBiH and EPHZHB as soon as practicable, so that the EPs can commence a more detailed cost analysis for all market-related services and appropriate tariff methodologies, all in time for the 2012 market end of the transition period. This includes the unbundling of a Supplier for eligible customers and the Distribution System Operator.
2. Vulnerable Customer Program. Work with the proper Governmental agencies to ensure the development of a vulnerable customer program that will support vulnerable citizens when the household’s tariffs increase with the removal of cross-subsidies and pass-through of new development project costs.

State Government

3. Procurement Law. Support the passage of amendments to the Procurement Law that will enable the utilities to participate in the electricity market to quickly procure and sell quantities of electricity for secure operation of the electricity system.

All Governments

4. Cost-based tariffs. Adopt energy policy that fully supports cost-based tariffs.
5. Deregulation of Generation. Issue energy policy that provides direction with regard to the deregulation of generation.

RS Government:

6. Unbundling. Encourage and ensure the unbundling of Supply of eligible customers and Distribution System Operator.

Regulators and EPs should focus on:

1. Lobbying of governments to act to designate policy in the above-mentioned areas
2. Installation of adequate Measuring Systems
3. Elimination of cross-subsidization between customer classes and groups
4. Establishment of the Supplier of Last Resort and Default Supplier services
5. Sorting out and determination of transparent and understandable Customer switching process
6. Establishment of clear and straightforward processes and related contracts on third party access, ancillary services, balancing service and financial settlement

Transition Period: Default Supplier and Supplier of Last Resort: Other Countries' Regimes and Recommendation for BiH (MWG Subgroup Document on the Extension of the Transition period)

Based on the REAP follow-up paper with regard to establishment of the Default Supplier, its findings with regard to market opening and the proposal to deregulate generators and include a Public Supplier Obligation in Default Supplier Service, the following activities are suggested for the three regulatory commissions:

1. Develop action plan to implement the chosen solution.
2. **The three regulatory commissions should finalize agreement on the basic components of the Default Supplier service, for harmonization purposes.**
 - a. **Schedule for elimination of regulated tariffs**
 - b. **Determining who to appoint as Default Supplier.**
 - c. **Methodology and process to determine the price for Default Supplier**
 - d. **Appointment of the Supplier of Last Resort**
3. Inform governments of the Default Supplier Market Opening concept.
4. Regulators amend the Rules on Obtaining the Status of Eligible Customers to include Default Supply Service and Supplier of Last Resort Service in full.
5. The regulators and REAP hold a broad Training for the stakeholders on Market Opening in the Fall.
6. Request governments to change Electricity/Energy laws when and if needed to prescribe
 - a. A Public Service Obligation for Default Suppliers to provide electricity for households, small commercial customers and all eligible customers who did not choose a market supplier or a supplier was unavailable at the time of market opening
 - b. Deregulation of the generation
 - c. Incumbent Suppliers on their supply geographic territory to be appointed as the Default Supplier
7. Act to eliminate subsidization between network users and between customer's classes.
8. Encourage governments and EPs to establish a new business unit, the supplier of eligible customers, unbundled from the Distribution System Operator unit
9. Develop and apply methodology and process for Default Supplier and Supplier of Last Resort price where:
 - a. The Default Supplier tariff is a cap price to force the Default Supplier to negotiate a price with its own generators to keep the end user price at or below the level determined advisable by the Regulator
 - b. The Default Supplier tariff should be established to reflect all costs with a gradual increase of rate of return
 - c. At the market opening point the Default Supplier tariff could be equal to the current tariffs
 - d. In a later stage, as a rule, the Default Supplier and Supplier of Last Resort tariffs must be above the current tariffs
10. Check processes and standardized contracts and improve and change where necessary
11. SERC and ISO to clarify the situation with regard to Ancillary Services and Balancing Services and make changes if necessary
12. SERC to request ISO to develop a revised Network Code and Market Rules;
13. Regulators and EPs to perform the Case Study
14. Request EPs to execute a Load Research Study

The following table presents the Action Plan to implement Default Supplier and SOLR:

Next step	Action	When	Who	Technical Assistance
1	Three regulatory commissions agree on basics with regard to the idea of the Default Supplier Market Opening Concept	July 15, 2011	SERC FERC RSERC	REAP
2	Inform governments on Default Supplier Market Opening Concept	September 30, 2011	SERC FERC RSERC	
3	Change Rules on Obtaining the Status of Eligible Customers to include changes with regard to Default Supplier and Supplier of Last Resort in full	October 31, 2011	SERC FERC RSERC	REAP
4	Change the Rules on Tariff Methodology to include the methodology/criteria for the Default Supplier .	November 31, 2011	SERC FERC RSERC	REAP
5	Regulators and REAP hold a broad Training for the stakeholders on Market Opening	October 31, 2011	SERC FERC RSERC	REAP
6	Regulators implement the new concept	By December 31,2011	SERC FERC RSERC	

MWG Subgroup paper structure to respond to ECRB letter on the World Bank Study on a Wholesale market opening in SEE

The contents of the MWG Subgroup paper on the SEE Wholesale Market and the SERC document “Framework for the Development of action Plan for the Establishment of the Organized Wholesale Electricity Market in BiH,” point to the following actions that should be undertaken by regulators:

1. Lobby governments to:
 - a. Encourage unbundling of EPs
 - b. Develop energy policy to enable replacement of full supply contracts with a contract on base load that will be gradually reduced
 - c. Create local DAM and join the Regional Electricity Market
 - i. Draft/modify energy policy and legislation that provide for the creation of the local DAM
 - ii. Establish the Market Operator;
 - iii. Join the regional DAM
 - d. Establish the Market Monitoring function
2. Develop the schedule for gradual transition from the regulated to the liberalized market
3. Improve processes for the provision of ancillary services, balancing services, third party access, connection
4. Assist in establishment of the local DAM

The Sub-group proposed the following activities to establish local Day Ahead Market and join it to the regional Market.

No.	Activity	Description	Deadline	Responsibility
1.	Unbundling activities in electricity sector	Obligation of full unbundling activities in electricity sector, especially in the FBiH	End of 2011.	Regulators and Entity Governments
2.	Removal of full supply contracts between generator and supplier	Drafting/modification of energy policies that enable replacement of full supply contract with contracts on base load that will be gradually reduced year by year and be replaced by trading in the Day ahead market	End of 2012.	Regulators and Entity Governments
3.	Transitional period for regulation of tariffs	Develop the procedure and schedule for transition from regulated to market prices (transitional period)	September 2011.	Regulatory commissions and Entity Governments
4.	Balancing responsibility and balancing mechanism	Describe and improve processes for the provision of ancillary services and draft/improve contracts on transmission network: ancillary services, balancing, third party access contract, connection to network	End of 2012.	ISO, Elektroprenos EPs, SERC
5.	Creation of local DAM and joining the Regional Electricity Market	Drafting/modification of energy policies that will provide for the creation of local DAM and joining to the Regional market.	September 2011	Council of Ministers and Entity Governments
		Development of legislation for establishment of Market Operator, local DAM and authorization for joining the Regional Market	End of 2011	Council of Ministers and Entity Governments
		Establishment and beginning of operation of Market Operator	01.06.2012.	Council of Ministers, Entity Governments and SERC
		Beginning of functioning of the local DAM	01.01.2013.	Market Operator and SERC
		Joining the Regional DAM	01.01.2014.	Market Operator and SERC
6.	Allocation of cross-border capacity to the Regional DAM	Authorize the system operator to allocate a part of the cross border transmission capacity for regional implicit auctions.	Mid 2013	ISO, Elektroprenos and SERC
7.	Access of large customers to DAM	Enable large eligible customers to actively participate on the DAM	Beginning of 2014	Regulators
8.	Covering of transmission losses	Enable that the energy for covering of transmission losses is bought on DAM	Beginning of 2014	ISO and SERC
9.	Transparency of market data	Ensure that all necessary information on wholesale market is easily available to market participants	End of 2012	Market Operator, ISO, Elektroprenos and Regulators
10.	Market monitoring	Establish an efficient system of market monitoring	End of 2012	Market Operator and SERC

The Case Study on whether preconditions for market functioning are met

1. Establish a Group that will, with the participation of REAP, perform a Case Study;
2. The established Group should develop a Base Case for the Case Study and design different scenarios
3. In addition, the Group should:
 - a. Analyze and design the detailed Work Plan, including the participants
 - b. Run different scenarios, and
 - c. Write a gap analysis as the result of running of different scenarios

Perform a Load Research Study

After REAP presents the Scope of Work to the regulators and EPs and both sides accept the final version, the regulators should:

1. Establish a Load Research Working Group with REAP as a member, to coordinate activities on Load Research (to discuss the SOW; to draft Guidelines; to monitor EPs when performing Load Research; to analyze reports from the studies)
2. Establish common bodies with EPs to monitor and coordinate the EPs' work on Load Research
3. Encourage regulatory commission members and EP representatives to participate in the workshop where REAP will present the Guidelines on Load Research
4. Issue orders to EPs to perform Load Research
5. Supervise Load Research Working Group coordination and monitoring activities when perform Load Research Study
6. Monitor EPs during performance of Load Research
7. Attend the common Workshop where EPs present results on the Load Research Study
8. Implement results of the Load Research Study