

MEMORANDUM

TO: Jane Wilson
FROM: Ognjen Markovic
DATE: November 27, 2009
RE: Report on 15th Athens Forum

I attended the 15th Athens forum held on November 25th and 26th 2009.

The BiH representatives who attended the 15th Athens Forum were SERC (E.Zametica), RSERC (M.Staka), ISO (M.Sabanovic) and FERC (R. Mandrapa and the translator). The following issues were addressed in the session:

Session 1: 3rd package

1. Keynote presentation-the 3rd package building block (*I did not attend because the presentation had finished before I arrived in the hotel*);
2. Agency for the Cooperation of Energy Regulators – all structure and tasks, potentials of regulatory cooperation

ERGEG representatives gave a presentation on the structure and tasks of the Agency for the Cooperation of Energy Regulators. The 3rd liberalization package foresees the establishment of ACER. ACER will coordinate regulators if and when needed, review network codes, monitor the EU directives and other documents that are being implemented into the national regulatory documents and deal with other issues in accordance to the new legislations.

3. ENTSO-E cooperation of SEE TSOs within ENTSO-E (3rd liberalization package provides for the establishment of ENTSO_E, which is the European Network of Transmission System Operators. From now on, former South East Europe Transmission System Operator association and EU Transmission System Operators association work as one association – ENTSO-E).

ENTSO-E has three committees, and all signatory parties have their representatives in the committees. The Working Group for Market design in SEE has been established in one of the Committees.

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(Talking to the BiH member of the Working Group, M. Sabanovic, I learned that membership in this WG is voluntary, and he does not believe this WG will help a lot to further market design and SEE wholesale market activities. ERGEG initiated a [Florence Forum] Study on the establishment of the Regional Wholesale Market to be prepared in addition to the Poyry effort funded by the World Bank. Now, it is not clear who is “the owner” of the implementation process to establish the Wholesale Market in SEE.)

4. Governmental cooperation – the Pentalateral Forum.

The representative of the Pentalateral Forum presented the MoU signed between Belgium-Luxemburg-Holland-Germany-France on the establishment of a Regional Market that is based on the implicit auction method. The presentation showed how easy it was to establish this effective market, as all sides have clearly understood its benefits. The MoU has only one key page. The MoU was signed not only by ministers, but also by representatives of TSOs, PXs and regulators. The presenter stressed the following important issues: the importance of trust between parties, all parties talked “the same language” (in the sense of “being on the same page”); political support for the regional market to be established; *(Note: these issues all are missing in SEE area. There is evident distrust between signatory parties, and there is no political commitment to establish the regional market, although politicians claim they promote regional cooperation. Albania is an exception.)*

Session 2: South East Europe Coordinated Auction Office development

5. Progress made – Project Team for Development.

The presenter Mr. Mijuskovic, who is the Chairman of the Project Team Steering Committee, could not avoid mentioning that Bulgaria and Serbia are not participating in the meetings related to the establishment of the CAO. On top of that, it appeared that Croatia is not very committed to the process of the establishment of the CAO. During the discussion that followed the presentation, Mr. Slavtcho Neykov asked representatives of these three countries to explain their positions. The Bulgarian representative just repeated the Bulgaria statement as regard to the establishment of the 8th Region: Bulgaria did not agree with it. Serbia did not have a representative in the meeting who could take the floor on this issue. The representative of Croatia’s answer was not straightforward.

It appears that the signatory parties do not support the establishment of the CAO. Bulgaria is not participating in some studies that are related to regional cooperation, while Serbia is silent. Most likely this is the reason that Energy Secretariat will address this problem at the next Political High Level Group and Ministerial Council meetings.

The Secretariat will invite the upcoming Ministerial Council to provide clear political guidance on how to fulfill the legal obligation of regulation 1228 and decision of the Ministerial Council on the establishing CAO for the 8th Region. The Secretariat and the Forum expressed its concerns about a few key TSOs not participating in the SEE CAO project.

Session 3: The Consumer Dimension

6. Vulnerable customers:

The representative of the ECRB addressed the following issues in his presentation:

- There is no common understanding or definition of “vulnerable customers,” neither within the Energy Community Contracting Parties nor on EU level.
- Protection of vulnerable customers does not involve a specific support scheme for energy customers alone but rather provides more general support to the group of eligible persons within a social welfare system.
- The level of monthly income is a commonly-used criterion for defining vulnerable customers.
- It seems that all contracting parties except FYROM have some kind of social protection program (including BiH-RS, Brcko and Sarajevo Canton).

Conclusions and recommendations: (i) Protection of vulnerable energy household customers is crucial and has to be addressed; (ii) No common regional definition exists, but there are definitions at the national level; (iii) Only market-oriented instruments for protecting vulnerable energy household customers are recommended.

7. Quality of electricity services-standards and incentives for quality

The presentation stressed that regulators, TSOs and DSOs need to work to guarantee the best possible level of service quality. It was announced that the Institute Hrvoje Pozar (from Croatia) will give assistance to regulators in regard to quality of electricity services.

(It appears that the BiH regulators should pay more attention to this issue in the future. Maybe REAP could initiate regulators (EPs) to deal more with quality of electricity services. The following issues could be addressed in this regard: regulatory instructions for recording customer requests and interruptions; guaranteed standards, reward and penalty schemes.)

8. The experience of market opening and the impact on customers:

The Croatian representative gave a short presentation on the current situation in Croatia in regard to market opening. He explained that more than 50% of

electricity has been contracted in the market. This is almost 93% of industrial customers. The most interesting part of the presentation was the explanation that Croatia has forced industrial customers to go in the market.

(Note: it was not clear why there is only one supplier – HEP Supply (from the incumbent). No other suppliers supply in Croatia. REAP intends to investigate the Croatia situation further.)

Session 4: Wholesale Market Integration

9. Wholesale Market Opening Study

-Final Findings and Recommendations

-Traders' view on the wholesale market integration – progress made and remaining challenges

-Electricity Industry view for facilitating wholesale market integration

The key role of the TSOs in creation of the preconditions for market opening was emphasized. The Contracting Parties were requested to take appropriate action in regard to their legal and regulatory frameworks in order to allow effective competition in wholesale electricity trading. Removal of all impediments – administrative and technical in electricity trading – is very much needed. Regional trading practices and present trading platforms such as OPCOM and BSP South Pool were presented and taken as a starting point for development of the regional market structure.

The World Bank representative (as the World Bank funded the Poyry regional wholesale market study) expressed his disappointment with the fact that most of the contracting parties did not show any interest and commitment to whole sale market opening.

(It that the next Ministerial Council will discuss the voluntary, country-by-country approach to wholesale market opening).

10. Regulatory measures for facilitating wholesale market integration – harmonized wholesale trade licensing

Mr. Radovanovic, from the Energy Community Regulatory Board (ECRB) presented the work of the Task Force on the possibility of establishing a harmonized system of licensing in the 8th region (the South East Europe wholesale market). The TF conducted a small survey/benchmarking exercise on the licensing regimes in the 8th region. Based on the survey results, the TF identified two basic models: (i) Explicit request for license (BiH belongs to this group); (ii) No licensing requirements. The TF analyzed different options on harmonization of a system of licensing in the 8th region and they proposed the following option: “Fade out of licensing in each jurisdiction complemented with other measures ensuring a level playing field for traders while ensuring market conduct.” This means the abolition of licenses in a gradual manner. It ensures

proper conduct from the traders via contracts and other mechanisms, such as bank or other financial guarantees, established between the system (and market) operators on the one hand, and the market participants (including traders), on the other hand. It means that the traders would not be licensed, but their proper market conduct is ensured primarily through contractual and financial responsibility.

Session 5: Investment Environment in SEE

11. Investment requirements in the transmission networks – SECI Transmission System Planning and Demand Planning

Mr. Jamsheed Heidarian of USAID presented two projects. The first one dealt with transmission System Planning, which is interesting since the investment criteria for the new Transmission Lines will be addressed and presented when the study is finished.

The other project is very interesting, since one of the results will be the demand forecast in the Region and in the signatory parties. On top of this, the project foresees the capacity building of the Ministries to develop a national energy policy.

(REAP could be interested in this. In general, if REAP will be dealing with Transco, then more information in relations to these two projects will be needed).

Very importantly, the recent economic and financial crisis was recognized as only second to the key factors for the region's suboptimal investment performance. The presenter stressed that the lack of effective legal and regulatory rules and a transparent investment environment as the first key factor for law investment in the region. A developed regional electricity market was again underlined as the preferred source of criteria for optimal use of existing and the construction of new energy infrastructure.

General findings: It is my opinion that regional cooperation and the Energy Treaty process are in a deep crises. It seems that Albania is the only signatory party that is committed to this process. The other parties do not cooperate and do not show a willingness to improve regional cooperation. Examples that support this conclusion are the following: (i) Serbia and Bulgaria are not participating in the CAO process, in that they have not signed the CAO MOU; (ii) Croatia is passive in the CAO process; (iii) Signatory parties have not show interest in the establishment of the regional wholesale market; (iv) Countries are not participating in some other regional activities; (v) some countries (Serbia, Romania and Hungary) are trying to establish a sub-regional market that is based on implicit auction; (vi) Bulgaria is not participating in some other regional activities.