

Request for Feedback
from Energy Community Regulatory Board (ECRB)
on Implementation of the world Bank Study
on Wholesale Market Opening in South East Europe
Letter dated 29 October 2010

Introduction

ECRB Letter

On October 29, 2010, the ECRB sent a letter to the Members of the Permanent High Level Group (PHLG) representatives of the Contracting Parties, Bulgaria and Romania, seeking feedback as to whether those parties support the implementation of the World Bank's Study on Electricity Wholesale Market Opening in South East Europe. Specific questions are asked with regard to the Ministry's position on a series of questions on such implementation.

Purpose of This Paper

This paper outlines the information requested from the ECRB, defines key concepts, outlines the status of the country at this time with regard to the elements of the proposed World Bank Wholesale Market Opening, outlines what would need to be done to meet the requirements of such wholesale market as outlined in the Annexes A and B to the letter, and proposes a response to the ECRB.

Why a Regional Electricity Market?

An efficiently operating wholesale electricity market is not only a key prerequisite for developing a liquid, competitive and integrated regional electricity market but also the starting point for approaching the very goals of market opening – such as attracting investments in infrastructure, ensuring security of supply and finally bringing benefits for customers, social welfare and economic development. Joining forces for the creation of an efficiently operating wholesale electricity market therefore has to be on the top of our priority list.

What does ECRB seek from Contracting Parties?

The letter from the ECRB seeks feedback from the PHLG representatives of the Contracting Parties, Bulgaria and Romania (hereinafter: "the Parties") on their acceptance of the World Bank Wholesale Market Opening study's main recommendations, especially regarding the Proposed Regional Market Design and the Local Minimum Requirements. ECRB expects written information on whether the Country:

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- a. Fully accepts all recommendations and supports their implementation.
- b. Only partially accepts the recommendations. In this case ECRB request PHLG representatives to clearly indicate:
 - On which elements contracting party disagrees.
 - The degree to which local market should participate in the Regional Power Exchange (see Definitions from the World Bank Wholesale Market Study in Appendix A hereto). It can be from a branch office to a more decentralized link with the Regional Power Exchange.
 - The target timing for local market joining the Regional Power Exchange.
 - The target timing for completion.

Proposed Approach to the Subject Matter by the Market Working Group Sub-Group

ECRB Letter Appendix A -- Proposed Market Design

The MWG Sub-Group should describe the basics of the proposed Market Design, referencing the ECRB letter on an item-by-item basis. The proposed new Market Structure should be explained along with a description of the current situation contrasted with the proposed Design. The possibility of phasing from the current status to the wholesale market design could be considered. In particular, the impact on current incumbents should be explained:

- Description of the proposed Market Design
- Market Operator’s scope of work
- Connection with Regional Power Exchange
- Does this request changes in EPs’ business and organization?
- Relations between EPs and customers
- Required changes in Law and Regulations
- Explanation of the differences between current situation and proposed Market Design

Specific Topics Raised in Appendix A

1. Local Market combined with bilateral trading and physical forwards
 - i. Parallel development of regional PX and Local Market
 - ii. Local Markets linked together through implicit auction
 - iii. Physical markets with local incumbents as market makers
 - iv. Specific Design Elements: Balancing/ancillary/reserve markets
2. Implicit auction of cross border capacity
3. Balancing responsibility
4. Real time balancing market

5. Transparent market data
6. Market Surveillance
7. Future extensions of market
 - i. Intraday Market
 - ii. Capacity Reserve Market
 - iii. Financial Electricity Market

ECRB Letter Appendix B -- Local Minimum Requirements

The Sub-Group should describe what actions are needed to meet the preconditions for the following:

1. TSO unbundling-Unbundled; Action not needed****

- i. Functional and legal unbundling of TSO/ISO.
- ii. Distance independent transmission tariffs established (point-of-connection or post-stamp tariff).

2. Supplier unbundling-needed

- i. Public Suppliers have fixed base load power contract terms with Generators for tariff customers (not “Full supply” contracts).
- ii. Public Suppliers required to purchase rest of supply from Local Markets or bilaterally at market price.
- iii. Plans are established to reduce contract volumes between Public Supplier and Generator.
 - a. Supplier’s unbundling
 - b. Contract on the base load between Supplier and Generators;
 - c. Contract has decreasing quantity over defined time period
 - d. Variable part of load diagram will be purchase from Market Operator;
 - e. Generators/Single Buyer will sell variable part of diagram at DAM.

3. Eligibility

- i. Large customers are legally eligible and a clear definition of eligibility criteria are established (Increasing number of eligible customers over time by decrease of threshold for eligibility).
- ii. It is practically possible for eligible customers to enter the market, i.e., necessary hourly metering, settlement and separate network tariff are established.
- iii. Strong incentive or mandatory for eligible customers to purchase on the open market. If not mandatory: Possible to offer base load contracts (fixed hourly power) to eligible customers on favorable tariffs (current level), but with a year by year reduction of contracted volumes

4. Balance responsibility and balance mechanism

- i. Rules for balancing, hourly metering and settlement established for eligible customers, traders, suppliers and producers.
- ii. Balance Responsible Parties (BPR) have to be assigned for each network connection.

5. Market concentration

- i. Size of 3 largest generators less than 50% of wholesale market capacity.
- ii. Size of import/export capacity more than 20% of the incumbent's capacity in the market for each Party.

6. Transparency

- i. Plan established to publish wholesale prices and make them easily available for market participants.
- ii. Plan established to publish available cross border capacity and flows and make them easily available for market participants.
- iii. Plan established to publish planned maintenance for generation and transmission and make them easily available for market participants.
- iv. Plan established to publish generation and transmission outages (urgent market messages) and make them easily available for market participants.

7. Establishment of Regional Power Exchange

- i. There is a political support to establish a Regional Power Exchange.
- ii. It is legally allowed to establish a Local Market or a branch office of the Regional Power Exchange.
- iii. The responsibility for establishing a Local Market and/or a Regional Power Exchange is given to the TSO, the Market Operator or another designated party.
- iv. It is legally allowed for the TSO to allocate cross-border transmission capacity to a Regional Power Exchange.
- v. TSO to buy transmission losses from Local Market to enhance liquidity.
- vi. Responsibility for market monitoring given to the regulator in each Party.
- vii. Responsibility for market surveillance given to the market operator in each Party.

Conclusions and Recommendations

The MWG Sub-Group should list its conclusions and recommendations

Definitions in Section 9.1.1
World Bank Wholesale Market Opening Study, p. 142

9.1.1 Definitions

In the description of the Consultant's design following in this chapter, there are a set of definitions that will be used throughout the chapter. The most important definitions are listed here:

SEE Regional Power Market – This is the implementation of the RMD for the SEE region.

LMO – Local Market Operator – This is the local market operator for each jurisdiction/contracting party, which is the legal counterparty to all its stakeholders.

Regional PX – This is the regional price setter for the common DAM. This is not a power exchange as such, but the entity that performs the Day-ahead auction on behalf of the LMOs based on an implicit auction. The proposal is that this is performed by a service provider (SEESP). This entity constitutes a cooperation agreement between the involved LMOs and should not be envisioned to be a large organisation, but a body constituting the regional cooperation.

SEESP – This is the service provider that is responsible for the tasks defined for the Regional PX.

RMD – Regional Market Design.)