



Roadmaps for Compatible EU-CIS Electricity Markets & Environmental Protection Conditions

ECS Expert Meeting,

Brussels

16 May 2006

**Jan Sundell, Chairman of the Joint CIS
EPC – EURELECTRIC Working Group
on Markets**



Content of the Presentation

- Consequences of interconnection
- EURELECTRIC approach (3 pillars)
- Joint CIS EPC – EURELECTRIC Market Roadmap (*main*)
- Joint CIS EPC – EURELECTRIC Environment Roadmap (*few words*)
- Co-operation on nuclear safety issues (*few words*)
- Way Forward



Technical/Economical Consequences

- **Need for investment to protect the system**
- **Need for investment to facilitate trade**
- **Need to agree on security rules**
- **Sharing of reserves become possible**
- **Increased risk for propagating disturbances, need for updated reliability criteria**
- **Diversity of peak loads reduce need for peaking capacity while increasing losses**
- **Savings in fuel costs and pollution due to better unit commitment**



Market Consequences

- **New business opportunities**
- **Price equalisation**
- **Stronger competition among players**

- **Need for compatible market rules**
- **Required investments may be located elsewhere than benefits**



EURELECTRIC Approach

- **Three pillars: market, environment, nuclear safety**
 - **Market rules, environment protection and nuclear safety conditions should be made compatible in parallel with interconnection issues**
 - **Technical interconnections issues are handled by UCTE and TSOs**



Joint Comparative Report on Markets

- **Comparison of roles and responsibilities of main actors:**
 - Governments and States
 - Regulators
 - Transmission system operators
 - Distribution system operators
 - Generators,
 - Traders & Wholesale markets
 - Suppliers & Retail markets,
 - Service companies,
- **Focus on regulatory and market framework**



Main Findings of the Joint Market Report

- **EU and CIS markets are currently not compatible:**
 - Status of electricity sector reforms differs greatly
 - EU: regulatory openness
 - CIS: plans for electricity sector reforms are in place in many CIS countries, but implementation is at different level of initial stages with no firm timetable
- **Report describes main differences in the areas of**
 - legal monopolies, including in export-import, maintained;
 - Independence of regulator and TSO;
 - non-discriminatory network access, unbundling, transparency of network tariffs;
 - customer choice;
 - primary fuel markets, including natural gas;
 - price control & end-user price subsidies, cross-subsidies;
 - monopoly structures;
 - access and participation rights to each other markets



Proposed Action: Market Roadmap

- **Builds on the findings & conclusions of the comparative report**
- **Proposes measures and timetable for gradually establishing compatibility**
- **Agreed by the both EU and CIS electricity industries**
 - EURELECTRIC: June 2005
 - CIS EPC: October 2005
- **Endorsed by the Joint Conference in Moscow, 24 November 2005**



Basic Concepts of Market Roadmap

- ☐ Gradual creation of compatible market conditions
- ☐ Full compatibility = full market opening
- ☐ Reciprocity
- ☐ Control of trade flows to avoid imbalances and prevent damages arising for different market rules and structures
- ☐ No large scale interconnection until Phase One is completed
- ☐ Roadmap applies for both synchronous and non synchronous interconnection (DC)
- ☐ Integrate environment and nuclear safety aspects into market control mechanism (these are developed separately for the time being)
- ☐ Mechanism for steering and monitoring implementation (Common Regulatory Council)
- ☐ Built-in incentive for full implementation



Structure of Market Roadmap

- **Consists of four Phases:**
 - **Phase 0**: current phase
 - **Phase 1**: Limited wholesale market opening
 - **Phase 2**: Full wholesale market opening
 - **Phase 3**: Ensure conditions for full market opening, also at retail level



Phase 0:

Current Situation & Preparation for Limited Wholesale Market Opening

- Prepares launching the political process
- Establishes a common mechanism of control, monitoring and dispute settlement: Common Regulatory Council

Common Regulatory Council: Functions

■ Phase O: Preparation

- Prepare for the implementation of roadmap
- Monitor and control trade flows, and can stop export or ask measures, to avoid:
 - Use of monopoly power
 - Abuse of dominant position
 - Unfair trade practices
 - Risk for system (network) security
 - Risk for security of supply
 - Dumped or subsidized export
 - Environmental concerns
 - Nuclear safety concerns
 - Lack of reciprocity in eligibility of contracting rights

■ Phases 1-3:

- Monitor and provide support for implementation
- Monitor and control trade flows, and can stop trade or ask measures, to avoid: see above, + cross subsidisation



Phase 1: Limited Wholesale Market Opening

→ Measures to be taken in that Phase:

- ☐ Establishment of independent TSOs
- ☐ Abolishing of export and import monopolies and special rights
- ☐ Elimination of cross subsidies
- ☐ Creation of competitive wholesale generation market
- ☐ Price control removed, prices are cost-based and market-based
- ☐ No State subsidies & no fuel subsidies
- ☐ Co-ordinated auctioning of capacity on cross-border interconnections
- ☐ Non-discriminatory, transparent access to the transmission network at both national and interstate level
- ☐ Removal of legal and regulatory obstacles for EU and CIS companies to enter each other's generation markets;
- ☐ Protection of investment by ensuring national or most favoured nation treatment, whichever is most favourable;
 - Application of WTO rules and the Energy Charter Treaty

→ Until Phase One is completed trade between EU and CIS generators, suppliers and traders would be kept limited to current trade flows with some marginal increase possible.

→ After Phase ONE is completed the establishment of **large-scale interconnections of the EU and CIS power systems **can be realised** with wholesale market opening at generation level**

Phase 2: Full Wholesale Market Opening

- Market is open at generation level.
- Common Regulatory Council monitor/controls trade flows.
- Measures to be taken in that Phase:
 - ☐ Establishment of Independent Regulators
 - ☐ Effective regulation in the domestic market
 - ☐ Regulated non-discriminatory Third Party Access to the transmission network at both national and interstate level
 - ☐ Transparency of available network capacity
 - ☐ Customer choice and end-user market opening for large and industrial users (except SME & households)
 - ☐ Competitive access to gas markets and fuel supplies
 - ☐ Flow on interconnectors and trade between areas based on market-based mechanisms (explicit auctioning, implicit auctioning, market coupling);
 - ☐ Trade via all forms: bilateral, Over The Counter (OTC), power exchanges;
 - ☐ Liquid, transparent and trustworthy power exchanges
 - ☐ Companies established in EU and CIS states can freely participate in each other's wholesale markets, power exchanges and other forms of trade
- After Phase 2 is completed full wholesale market opening is realised.



Phase 3: Retail Market Opening

- ➔ Measures in that Phase:
 - ➔ Ensure rights for all customers to choose supplier
 - ➔ Regulated non-discriminatory Third Party Access to distribution networks
 - ➔ Effective regulatory control in the domestic market so as real competition at both wholesale and retail levels can occur.
- ➔ At the end of this Phase full market compatibility is reached, including retail market.
- ➔ **After the completion of this Phase **control over trade flows can be removed** if environment and nuclear safety aspects are also guaranteed (not tackled in the market roadmap):**
 - Common Regulatory Council would cease to exercise the control function over trade flows



Environmental Roadmap

- **Tackle key environmental protection issues**
- **Based on Joint Report** on “*Key Environmental Protection Issues of the EU and CIS power market integration*” – summer 2005
- **Key Finding: Environmental protection regulations in EU and CIS are similar, but enforcement and monitoring is a problem in CIS.**
- **Environment draft road map consists of 4 phases (in coordination with Market Roadmap):**
 - Phase 0**: Current situation
 - Phase 1**: Preparation for limited wholesale market opening
 - Phase 2 & 3**: Preparation for full market opening



Nuclear Issues

- **Co-operation on nuclear issues is on-going: the aim is to propose a political process that will ensure to gradually reach equivalent levels of nuclear safety in EU and CIS**



Way Forward

→ 3rd Phase of Work to be launched in the next Presidents' meeting

- Priority Action List & ToR

- Focus on Implementation of Roadmap:

- develop proposals for competent authorities of both regions on concrete actions in order to create markets aligned to the Roadmaps, including the establishment of joint implementation and monitoring mechanisms (Common Regulatory Council)
- identify important issues for further investigations (e.g. regulatory & economic aspects of the EU-CIS electricity market integration) and to suggest the best way to address them