

CEER WG SOUTH EAST EUROPEAN ELECTRICITY REGULATION

Discussion Paper on the Options for the Transition Phase of the ECSEE Regional Energy Market

Final Version

2004-11-16

1 Scope

Following the evolution of the electricity market developments in South East Europe and the invitation by the 2nd and 3rd Athens Process Forum, the CEER Working Group on South East Europe Energy Regulation has presented for discussion among all stakeholders and participants in the Energy Community for South East Europe, ECSEE (former SEE Regional Electricity Market), a discussion paper on Standard Market Design (SMD)¹, along the Basic Principles on the development of ECSEE² which has been endorsed by the 3rd Athens Process Forum in Sofia in October 2003.

Since then, a series of multilateral discussions on the various aspects of the regional market design, its impact on the development of the regional electricity market in the SEE and the steps towards its implementation have been held³ with the participation of various stakeholders, and as a result various position papers have been developed, reflecting the points of view of the participants in ECSEE^{4, 5}.

In this context, and on the basis of the draft strategy paper presented by the European Commission, an overall discussion on the transitional steps towards the implementation of the regional market has been initiated during the Donors' meeting in Athens in June 2004, as well as during the 4th Athens Forum, where an initial presentation by CEER WG SEEER on some options for this transitional phase was put forward. Pursuant to the conclusions of the 4th Athens Forum:

“The Forum invited the participants to adopt the transition management objectives and schedule put forward by CEER. The Forum also requests the Commission to incorporate these into the Strategy Paper. CEER, together

¹ Discussion Paper on the Standard Market Design of the SE Europe Electricity Market, 29.10.2003, CEER WG SEEER.

² Standard Market Design of the SE Europe Electricity Market Basic Principles, CEER WG SEEER position paper, 3rd Athens Process Forum, Sofia, October 2003.

³ Indicatively: 1) Towards an Action Plan for the implementation of the SMD in SEE, meeting in Brussels, 25 February 2004, 2) Presentation by CEER on SMD, meeting in EBRD, London, 11 March 2004.

⁴ World Bank Framework for Development of Regional Energy Trade in South East Europe, March 2004.

⁵ Discussion paper on the Single Market Design in South East Europe, presented by European Commission, June 2004, 4th Athens Process Forum, Athens, also annexed to the draft Strategy Paper, as Annex 1.

with the Commission, will report to the Forum on progress achieved to meet these objectives. In the interim, USAID is tasked to give a status report by early July, on standard market design issues across the region and particularly looking at aspects of compatibility and compliance between countries.”

Building on the draft strategy paper of the European Commission, this paper aims at elaborating on the points raised during the discussions held so far and at presenting in detail the intermediate steps prior to the initiation of the fully operational Regional Electricity Market in South East Europe.

2 Background

During the last Athens Forum in June 2004, the European Commission put forward its proposal for the strategy⁶ to be followed for the development of the regional energy market in South East Europe. According to this proposal, a phased approach in three steps is envisaged.

During the first phase, ending on December 2005, the legislative, regulatory and technical rules for the development of each national market in the SEE region will be concluded, along the lines of the EU legislation and practices, and the institutional reforms on a national level will have been completed. For this purpose, the close collaboration of the European Commission with the Regulators, the TSOs, UCTE, EFET, the Donors and, of course, the governments is envisaged.

During the second phase, ending on December 2007, the regional aspects of the market, such as investments of a regional nature and their guarantees, standard market design for the regional market, regional licensing, regional scheduling and trading facilitation mechanisms, are envisaged.

The third phase, starting from January 2008, is the actual, real-time operation of the Integrated SEE regional energy market.

⁶ “The regional energy market in South East Europe and its integration into the European Community’s Internal Energy Market”, EC-DGTREN discussion and consultation note, 3-4 June 2004.

The aforementioned phases, in principle, are not in contradiction with the corresponding proposals of CEER, as presented in the papers on Standard Market Design for the SEE Electricity Market. On the contrary, these proposals can be regarded as complementary to the corresponding ideas of CEER, in some respect, while providing a more concrete time scale than the indicative one included in CEER proposals, which, at the time of their presentation, had no intention to refer to any definite implementation plan.

However, this phased approach entails the risk to focus all efforts on the national reforms during the delicate initial stages of development of the SEE regional energy market and as a result to lose the regional perspective. Therefore, unless the necessary harmonized reforms on many aspects related to a functional regional energy market are carefully addressed and monitored, they might be jeopardized.

For this reason the CEER WG SEEER proposed, during the 2nd Forum in Rome⁷, a harmonized approach for the region, which went beyond the minimum requirements of the EU Directives and included a regional reform process from the initial phases of development. This approach has been endorsed by the Forum.

In the following paragraphs, some concrete steps are proposed, which would incorporate the phased approach envisaged by the EC whilst retaining the benefits of the harmonized approach already proposed by CEER. As the CEER WG SEEER has repeatedly emphasized, the national reforms already in progress in all countries of the region should not be hampered. On the contrary, efforts should focus on the proper implementation of the provisions of the latest EU Directives, especially those related to the establishment and the proper unbundling of the TSOs, the establishment of national Regulators, the opening of the market, the implementation of an efficient and non-discriminatory TPA regime and the fostering of competition. Care should be given, though, that such reforms are compatible with the perspective of the operation of a regional electricity market in the short term.

⁷ “A Working Paper on the Options for a SE Europe Electricity Market Model”, CEER WG SEEER working paper, 2nd Athens Process, 26.3.03, Rome.

3 The Regional Electricity Market in SEE

The final goal of all efforts is the physical operation of a transparent and competitive Regional Electricity Market throughout the SEE, based on the principles of the EU Directives and of the forthcoming Treaty. To this end, we believe that the eventual implementation of a set of detailed harmonized rules, procedures and mechanisms, along the lines described by the CEER WG SEEER in all our previous papers and proposals for the operation of this market, is imperative and therefore should be kept in mind as a main priority, despite the fact that the actual operation of the regional market as a whole is expected to start in three years⁸. The perspective of a SEE Regional Electricity Market, based on a harmonized set of rules, with regional market mechanisms that would operate as supplementary mechanisms of the national electricity markets, with suppliers and power generators who could operate on an equal basis in a wider regional energy market instead of a narrow national market and where electricity will flow among the countries of the region as if it was flowing within a single country, i.e. the so-called Standard Market Design, has been widely accepted by all stakeholders and is constantly gaining momentum among the countries of the region.

The development of wholesale market arrangements, both at a national and regional basis, the development of the Grid Codes necessary for the operation of both national and regional markets, the development of detailed market rules, i.e. the market design, in the short term at a national level but in a way which will be fully compatible with the regional market operation in the medium term, are issues which are commonly accepted as imperative for the operation of a regional energy market in the SEE region.

All these issues have been put forward during the last two years and have been explicitly addressed in recent discussions between all stakeholders on the way forward. To this end, the CEER WG SEEER has elaborated an initial proposal of a possible Action Plan for the implementation of a regional Standard Market Design in

⁸ And despite the fact that, to our view, the establishment of a fully operational SEE regional electricity market could be achieved earlier than January 2008 (e.g. January 2007).

SEE⁹. We strongly believe that the implementation of the steps described in that draft Action Plan have to be realized and we invite the European Commission to resume the relative initiative, with the view to put it forward for endorsement and approval by the Permanent High Level Group (PHLG).

The prime concern relates to the identification of the interim steps, both at a national and regional level, so that the reforms to be undertaken in each and every country are compatible with each other and consistent to the operation of the regional market in the medium term.

It is, therefore, evident that detailed market rules and all aspects concerning the interaction between national and regional transactions should be streamlined, so that the operation of the regional market will result as a natural evolution of national market reforms and any additional steps probably required at a later stage will only be of a minor extent rather than a magnitude that would create obstacles to the efficient operation of the regional market.

The constant monitoring of developments and reforms at a national level, both with respect to the institutional and the detailed market arrangements, will have to be performed throughout the transitional phase, with the view to ensure compliance of such arrangements at a regional level. This task will certainly be facilitated by the existence of the appropriate regional mechanisms and market institutions, in close collaboration with the EC, the Donors community and the countries of the region.

To this end, the efforts for benchmarking the reform process in various sectors of the national energy markets is very important, but has to be accompanied by the appropriate institutional reforms of a regional nature, as further explained in the following section.

⁹ “Towards an Action Plan for the Implementation of a SEE Regional Electricity Market Design”, presentation by the CEER WG SEEER in the European Commission workshop, 11 February 2004.

4 The Transitional steps

The recent European Commission draft strategy paper raises the issue of the creation of Institutions of regional character, as a means to facilitate the decisions and policy making on issues of a regional dimension, as well as the development of all the technical rules necessary for the operation of the regional energy market, their monitoring and implementation.

Such Institutions are the Ministerial Council, the Permanent High Level Group, the SEE Regulatory Board, the Secretariat and the Regional Energy Information and Technical Centre.

CEER believes that the establishment of Institutions of such a regional character is very important from the very beginning of the process and will greatly facilitate the development and operation of the SEE regional market. Those Institutions will be entrusted with a very important role during the transitional period and will safeguard smooth transition to a fully integrated regional market operation.

In what follows, the steps we consider appropriate for the transitional period between present time and the operation of the SEE electricity market as an Integrated Market are described.

4.1 Short term steps – Prerequisites

These are a number of issues, which are widely considered as prerequisites for the operation of a liberalized market and which in EU member states are already inherently included in the national market structure and operation:

- Following the recent North-South reconnection of the two UCTE zones, the synchronous operation of the networks will radically change the electricity flows in the region and will strongly enhance the opportunities of electricity trading between the countries of the region and between the SEE region and EU. Special care is needed for the subsequent technical problems which might occur, elsewhere in the SEE networks, as a result of this reconnection.

Immediate actions are needed, if necessary. This is a problem of a regional nature¹⁰.

- Establishment of a national Independent Regulatory Authority;
- Establishment of an Independent System Operator (TSO);
- Definition of non-discriminating and transparent rules for the Third Party Access (TPA) to the Networks, including Interconnectors;
- Establishment of tariffs for the use of the network;
- Sufficient unbundling of the TSO;
- Definition of eligible customers.

CEER believes that these issues have to be settled in all countries of the SEE as soon as possible and, in any case, prior to June 2005.

In addition, there is a series of steps that are necessary for the facilitation of cross border trade and which have to be implemented throughout the region as soon as possible:

- SEE CBT mechanism: The implementation of this mechanism, since August 2004, is a step of paramount importance, since it will remove barriers to electricity trade between the countries of the region as well as between the SEE region and EU countries and will enhance electricity trade between the regional market players. A gradual removal of all technical problems which may occur following the implementation of the mechanism will certainly follow shortly (SETSO, i.e. the TSOs of the countries of the region, has shown remarkable capability to address successfully all technical obstacles). At a later stage (most probably within 2005) and following sufficient unbundling of the TSOs of the region, which at this stage is lacking and thus represents an

¹⁰ Another characteristic example is the connection of the Turkish electricity network. Its synchronous operation to the UCTE network would be proven to be of equal importance, since the Turkish market is the second largest in the region (following the Italian market) and would largely affect the size and operation of the market in SEE, offering new opportunities to regional generators and suppliers, but also introducing additional challenges.

obstacle to this, this mechanism will be consolidated to the ETSO-CBT mechanism of the rest of the EU countries and, thus, a trade facilitation mechanism will be in force from Nordic countries to Mediterranean Sea and from the Atlantic coast to Black Sea, with obvious immediate benefits to all participants.

- Implementation of transparent capacity allocation and congestion management mechanisms, including interconnectors. Again, the steps proposed by SETSO, along the lines of the evolutions achieved in the Florence Forum, are in the proper direction. As an example, a successful implementation of a coordinated auction procedure for the allocation of the interconnection capacities will constitute a major step towards the facilitation of regional electricity trading¹¹.
- Removal of restrictions for imports and exports of electricity between the countries.
- Permission (license) to suppliers from one country to trade electricity with customers or suppliers or generators in another country.

It is only natural, expected and welcomed, that trading will be initially performed on the basis of bilateral contracts between generators and suppliers (or end users) and between suppliers and other suppliers and/or end users throughout the SEE region. Bilateral contracts will always be one of the pillars of the liberalized market in SEE, especially in its early stages of development.

It is only, though, through the existence of the framework described above that bilateral contracts between players of the countries of the region (and also between the countries of the region and external parties) will be conducted and implemented in a transparent and non-discriminatory manner, without distorting competition or exercising market power by the incumbents of the region.

¹¹ Reference should be made here to the very recent development during the XI Florence Forum of September 2004, where it was decided that a series of 6 mini-fora are going to be held in six regions of the EU, with the sole purpose of the implementation of a coordinated auction procedure among the countries of each region. A similar approach is envisaged for SEE.

Special care should be given to cases where long term contracts for the provision of energy (PPA) are to be conducted between entities in the SEE region. Such contracts may have a serious impact on competition in the energy market¹². The case may be different when the long term contracts refer to the long term capacity availability and are not linked to corresponding obligations for the provision of power. All these issues have to be clearly addressed from the very early stages of the development of the SEE electricity market and will be put forward by CEER for discussion in the special Task Force on trading, the establishment of which was decided during the 4th Forum, with the initiative of EBRD.

The existence of national wholesale markets (e.g. in a form of a national day ahead market - DAM) is certainly facilitating trading and, in some respect, can offer a mechanism for the mitigation of market power. However, special attention has to be drawn to the form that such wholesale markets can take, under the prevailing circumstances in each country of the SEE region, and the rules which will be governing their operation. In addition, the size of many of the countries of the region is very small to safeguard the viability and the usefulness of a day ahead (or balancing) market.

We believe that the time and resources necessary to develop a day ahead market in each country of the SEE region during the interim period (i.e. prior to 2008) would be better exploited if entrusted to the corresponding regional mechanisms. This does not mean that the existence of such markets in some of the countries (e.g. Romania, or others where such markets are already considered or will operate shortly) is not welcomed. On the contrary, we believe that such countries should be used as examples of proper market design and the experience gained therein should be fully exploited when developing corresponding mechanisms for the region. This is something that has also to be carefully addressed when developing the rules for the regional day-ahead market, where the consistent operation of this market with the national day-ahead and/or balancing markets should be safeguarded. The same

¹² The impact of long term PPAs is a very serious one. Many members of the CEER WG SEEER have explicitly stated their reservations regarding PPAs, especially those of an extremely long duration with take-or-pay clauses. There are cases where such contracts cover a substantial share of the national electricity markets, raising obstacles in the long term for the proper implementation of a competitive market and imposing the necessity to address stranded cost phenomena.

considerations are valid for a national balancing (real time) market in each country of the SEE region.

When a regional day ahead market will be in place and operating in an efficient and sustainable manner, the issue of the co-existence of the regional DAM and the national DAM (or balancing markets) will have to be re-addressed.

4.2 Institutional building

The eventual operation of the SEE regional electricity market will require the existence of regional Institutions. Some of them, like the Ministerial Council and the Permanent High Level Group, will have the executive powers to make the political decisions necessary for the operation of the regional market, along the lines that will be described in the Treaty. Others should have the role of the implementation of the energy policy, the technical and commercial operation of the regional market, the development of the corresponding rules and guidelines as well as the development of the tools for the support of the decision making process (e.g. electricity data monitoring, development of planning studies etc.).

Most of the actions foreseen during the transitional phase require simultaneous national reforms under a regional perspective. Therefore it appears necessary that those regional institutions, which will eventually operate in the context of the regional market following 2007, should be established and operate during the transitional phase. Such Institutions will be assisted, during the initial phase of their operation, by the Donors' community and the European Commission, as necessary.

Beside the regional bodies of a political character (Council, PHLG, European Commission) the regional Institutions assigned with the task of the technical implementation of the regional energy policy are the following.

4.2.1 The SEE Regional Market Regulatory Board

The expected establishment of the SEE Regulatory Board, following the Tirana Declaration¹³, is definitely a positive initial step, which has been welcomed by the

¹³ Reference to the document of Tirana Declaration.

members of the CEER WG SEEER. However, there are important issues related to the competencies, the role and the institutional aspects of the Regulatory Board which are not adequately addressed by the Tirana Declaration and have to be revised under the forthcoming Treaty, following also the provisions of the negotiating mandate to the European Commission.

It is not within the scope of the present paper to refer to the issues related to the Regulatory Board. Such issues are addressed in a separate working document of the CEER and will be presented to ECSEE stakeholders after the conclusion of the relevant elaboration. However, some aspects of the role that this Regulatory Board should play in the ECSEE process are totally relevant to the operation of the regional market in the transitional phase.

The Regulatory Board will be composed of the representatives of the national regulatory authorities of the countries of the SEE region. Its role will not be to substitute its members in their role as national regulators. On the contrary, it should focus on issues related to the operation of the regional energy market and safeguard the harmonized regulatory practices throughout the region. To this end, it should have an advisory role to the policy and decision making bodies of ECSEE (Ministerial Council and PHLG), should also have the right of proposal on issues related to the regional market design, monitoring and operation, and should have more decisive role on issues related to the daily operation of the regional market. In order to accomplish these tasks, the Board should have sufficient resources at its disposal and its functional independence should be safeguarded.

4.2.2 Regional Trading Centre

The application of the CBT mechanism and the coordinated congestion management are prerequisites, but are not in adequate themselves for the development of the efficient regional trading. A central market place would mostly facilitate this trading. For this reason efficient regional trading requiring the concurrent growth of trading mechanisms and infrastructure has been facilitated in the advanced countries by the development of spot markets, power exchanges and pools that are further supported by credit institutions, such as clearing houses and credit banks.

This has been clearly identified even by the most advanced countries of the SEE region, which have already developed such trading facilitating mechanisms (e.g. Borzen in Slovenia, Opcom in Romania). The same concept is supported by International Financial Institutions (IFIs) participating in the SEE energy market development, namely EBRD¹⁴, but also supported by the EC and CEER.

To develop trading in the SEE through interregional bilateral contracts, trading through “Over the Counter” (OTC) exchanging would be required from the very beginning because it facilitates OTC contracts between two entities in the SEE region, as standardized and risk hedging is assured by the tradability of the OTC contracts. As was also described in our previous proposals, when a SEE regional DAM will be fully operational, day ahead transactions at a regional level will take place and, at some stage, this will be supplemented by longer term futures and forwards transactions.

The size of the segmented markets of the SEE region is, in many cases, very small for the development of such trading facilitation institutions at a national level, not to mention that the financial guarantees that will be required for the support of such Trading Centers will be better ensured if effected at an interregional level, i.e. for the whole SEE region.

Therefore, the establishment, within 2005, of the SEE Trading Centre, is proposed, based on the infrastructure, knowledge basis and experience already existing in the corresponding national centers mentioned above (Borzen and Opcom) with the participation of every national market operator already in operation in the countries of the SEE region, or, in the case that a Market Operator (MO) does not exist in a country, with the participation of the corresponding TSOs who so wish. In the latter case, the independence of the SEE Trading Centre from any regional suppliers has to be safeguarded. The SEE Trading Centre could have the form of a self-supported for-profit organization, along the line of the various corresponding centers throughout Europe and elsewhere.

¹⁴ “EBRD concept for clearing arrangements for electricity trading in South East Europe”, EBRD paper, 2003.

The role of this Trading Centre will be to act similarly to a regional Power Exchange for the electricity exchange transactions between regional market players. The participants to this market place may be all regional power generators, all registered traders or brokers from every country of the region and also all eligible customers from every country of the region. Trading through this Trade Centre should be completely voluntary.

At the initial stage of development, the Trade Centre may offer simple products, such as OTC bilateral contracts, where two entities agree to trade a bulk amount of electricity in time sessions that may vary. It might also develop standard tradable contracts (products) for multiregional exchanges, traded as futures. At a later stage, e.g. after some period of operation, depending on the progress and maturity of circumstances, the Trade Centre will develop, in addition, the operation of a day ahead market for the physical delivery of power flows for the next day. A system market price will be derived on an hourly basis based on bids and offers of the market participants and will be published continuously.

The Trading Centre will be supported by a clearing house for the participants, performing also the accounting and settling of transactions concluded on the organized market. It will act as the central counterparty in each transaction concluded and will ensure the fulfillment of financial obligations to the participants.

To this end, it will require financial guarantees from the participants, and will closely collaborate with the banking institutions of the Donors' community (e.g according to EBRD proposal). These Institutions can also provide, if and when necessary, financial guarantees both to market participants who would like to trade through the Trading Centre and to the Centre itself, at least for the early stages of its establishment, in order to encourage the viability of this Centre and attract regional market players.

The Trading Centre, in close collaboration with the Technical Institution (see next section) and national TSOs, will develop the required technical and contractual procedures which will allow the physical deliveries of the electricity exchanges performed through the Centre to be realized. To this end, the Trade Centre will submit requests for power flows to the TSOs who shall carry them out. However, all cross border arrangements necessary for the flows of electricity (i.e. capacity allocation on

interconnectors and national networks) will be the pure responsibility of the market participants.

Representatives of the Centre will actively participate to the design of the regional DAM, which will be operational from 2008, providing their expertise on the development of detailed rules for the interaction between regional and national markets and the implementation of the regional market design, in collaboration with all relevant stakeholders. This will permit this Centre to act as the regional market operator, when the regional market is fully operational.

At a later stage, the Trading Centre will expand its functions with the inclusion of financial products as well as the expansion to other kinds of products, such as natural gas or even real time balancing products of a regional dimension. It may even, according to the prevailing circumstances and stage of regional market maturity, in close collaboration with the national TSOs and the regional Technical Committee, proceed to the participation of the regional scheduling of flows and balancing arrangements.

The establishment of such a SEE Trading Centre can be regarded as an action independent from the successful evolution of the ECSEE. The existence of this Trading Centre, coupled with sufficient mechanisms for the cross border trade of electricity between the countries of the region (such as the CBT mechanism), with TPA regimes existing in all countries and with sufficient and transparent mechanisms for the network capacity allocation and congestion management will provide an adequate platform for the electricity (and later gas) trading between the countries. Such a Trading Centre can be a self sustained Institution, which, as time passes and its liquidity is increased along with the confidence of market participants, will offer a valuable tool for the energy trade in the SEE region. In addition, when the regional electricity market becomes fully operational, at the end of 2007, the mechanisms provided for the support of the liquidity in the single market design that CEER has proposed, will enhance the development of the SEE Trading Centre and facilitate its role. The Centre will be under regulatory supervision and control.

4.2.3 Technical Institution for the Inter-TSO balancing and ancillary services coordination

As it has been realized and reported by almost all stakeholders participating in the development of ECSEE¹⁵, the national electricity market arrangements and design vary significantly from one country of the SEE region to the other. Moreover, the stage of development of electricity market reforms is such, that real time balancing and provision of ancillary services' arrangements also vary significantly between the countries. Transmission system operators are being established and assigned, *inter alia*, with the responsibility of safeguarding the balance of the system. This requires the provision of electricity for the real time balancing and of the ancillary services necessary for the safe operation of the transmission networks at all times.

As the experience in the advanced electricity markets shows, the provision of this kind of services may very well be considered as a separate service that a TSO can offer to market participants, in many cases with mutual profits for both the TSO, who is acting as the balancing service provider, and the market participants, who benefit from the provision of such balancing services in a non-discriminatory manner and with transparently formulated prices.

Through the transitional phase of the SEE regional market development, there will be cases where, in some of the countries, a real-time balancing market will be in operation, while in others the provision of balancing and ancillary services will be effected through administrative arrangements.

The existence of an integral real-time balancing market in the SEE region is not expected in the foreseeable future (within the decade). Whatever the regional wholesale market arrangements may be, they will have to exist in parallel to national real-time balancing mechanisms, which, in turn, will be, potentially, different between the countries.

As we have described in our proposals for the regional market design, the parallel existence of a regional day ahead market and different national balancing

¹⁵ ECSEE: Energy Community of South East Europe

arrangements will create the need for the development of a mechanism for the accounting and the settlement of the real time balancing (and ancillary services' provision) actions that will be performed between the national TSOs.

This will actually mean that national TSOs will eventually act as the “suppliers” for such services in the SEE region, but in a completely transparent, regulated and non-discriminatory manner. This implies the need for the existence of a regional independent Technical Institution which will be assigned with the task to provide, at a later stage of regional market development, balancing and ancillary services to the national TSOs. For this purpose, it may conclude contracts, in a transparent way, for the provision of such services with generators and suppliers, buy energy from a national balancing market of the SEE region or from other such markets outside the region, or through “swaps” with national TSOs. This task shall be linked with the coordinated congestion management mechanism and the CBT.

During the transition phase this Technical Institution will have to perform a significant amount of work as it will be responsible for the monitoring of the TSO configurations within the reforms on a country-by-country basis, and in relation to the developments of the market arrangements on a regional basis, so that it will be in position to develop the appropriate design of the TSO regional coordination mechanism required for the accounting of the balancing flows between the national networks, the regional ancillary services, the congestion management and the CBT, as well as the financial settlement of the compensation of such flows between the TSOs involved. This kind of mechanism will be an extension of the CBT mechanism which is currently used for the inter-TSO compensation for the transit flows of electricity.

This Technical Institution will be established jointly by all the TSOs of the SEE region and its operation will be under regulatory supervision and control. A clear framework of binding rules for TSOs cooperation should be set for this purpose.

4.2.4 Regional Energy Information Centre¹⁶

The experience gained during the last two years has revealed the necessity for the existence of a platform for the collection and processing of all kinds of energy data concerning SEE region (physical flows, prices, technical capacities, etc.) including analysis and reporting for decision making purposes.

This kind of centralized provision of decision making reports on the SEE regional energy market has not been performed so far. Studies and analyses of this kind have been so far conducted on an *ad-hoc* basis, mainly supported by the Donors' community and secondarily by the European Commission, through consultants, with no obvious collaboration between consultants or coordination of any kind and, in any case, with no official involvement of the true national participants (i.e. the TSOs and the regulators and their relevant associations, SETSO, UCTE and CEER). This has resulted in studies the results of which do not reflect the real needs of the SEE energy market and which can not be considered as having an absolutely objective basis for the necessary decision making process.

CEER had the chance, in the recent past, to communicate such reservations for this approach both to European Commission and the Donors. However, it is understandable that, under the prevailing circumstances, this kind of approach was the only way available so far.

It is necessary to improve this situation, in particular through the establishment of a Regional Energy Information Centre for SEE, which will be assigned with the energy information task. This is in line with the European Commission proposals as they are reflected in the draft strategy paper distributed by the Commission during the 4th Athens Forum¹⁷.

The tasks of this Regional Information Centre will include, for electricity, oil, gas and environmental issues:

¹⁶ The European Commission has proposed the establishment of a Regional Energy Information and Technical Centre in the Discussion and Consultation Note. The proposal of CEER is similar but envisions different competencies and delegates different tasks and functions for this Centre.

- The collection, on a regular basis, of energy data for all the countries of the region, including physical flow data, prices, transmission and storage capacities, generation capacities, etc.;
- The development of long and medium term planning forecasts for the adequacy of the generation and transmission capacity of the regional energy market;
- The provision of all kinds of analyses and forecasts necessary, in particular, for the support of decisions related to the rehabilitation and upgrading of the regional energy infrastructure, as well as any other kind of analyses that may be requested by other regional Institutions;
- The collaboration with all corresponding national and international organizations (e.g. EUROSTAT, IEA, etc.);
- The publication and reporting of its work, with the view to facilitate decision making of all players active in the SEE energy market. For this purpose, the Centre will have to establish the appropriate IT infrastructure;
- To offer, on a fee basis, information services to regional market stakeholders in the field of energy analyses and evaluation;
- The provision of workshops and training courses for the regional market participants, on all issues related to the operation of the energy market.

For the establishment of this Centre the financial support of the Donors' community, with EU participation may be required. It could, however, operate in a manner which will safeguard its financial independence and viability, with a minimum financial support in the long run. This Centre will be under regulatory supervision and control, in order to safeguard its impartial operation and the provision of reliable and unbiased energy market data.

¹⁷ "The regional energy market in South East Europe and its integration into the European Community's Internal Energy Market", EC-DGTREN discussion and consultation note, 3-4 June 2004, Annex 3.

4.2.5 Operation of Regional Institutions

One very important aspect for all regional Institutions described above, is their functional and financial independence from the stakeholders of the regional energy market.

It is, therefore, of paramount importance that the procedures followed during their establishment and their statutes will safeguard such independence in the long run. This, among others, means that they will be responsible for the development of their internal rules of procedure, the appointment of their personnel and their day-to-day operation. The intervention of externals in their operation should be safeguarded through the proper definition of rules for their interoperability and their linkage to other regional Institutions (Ministerial Council, European Commission, governments, etc.).

We believe that it would be appropriate for such Institutions to be hosted by various countries in the region, which will provide the initial administrative support for their establishment and which will no longer interfere with their operation. To this end, the financial support of the Donors' community will be also required.

5 Implementation

Following the discussion held so far between the regional stakeholders on the development of a Standard Market Design for the electricity market in SEE region, and taking into account the proposals described in the previous paragraphs, the CEER believes that it is the proper time for concrete steps towards implementation.

To this end, we believe that the next steps for the regional market design development have to be done along the following broad lines:

1. Completion of Institutional reforms on a national basis by the end of 2005, with full respect to the corresponding timetable of the Athens MoU
2. Establishment of regional institutions:
 - a. Regulatory Board: January 2005

- b. Regional Trading Centre: organizational setting up until June 2005, initial operation 1st January 2006
 - c. Technical Institution for the Inter-TSO balancing and ancillary services coordination: organizational setting up until June 2005, initial operation 1st January 2006
 - d. Regional Energy Information Centre: January 2005
3. Development of detailed market rules: this task, which has already been delayed, should start immediately. A revised Action Plan for the implementation of the Standard Market Design should be approved by the PHLG by March 2005. The full package of detailed rules should be ready for approval by the Ministerial Council by June 2007. The implementation phase and adjustments should be effected by December 2007 and the actual implementation should start on January 2008.
4. Initial operation of the integrated SEE regional energy market: 1st January 2008.

The above timetable relates to issues linked to the operation of the regional market only, as well as the corresponding market design. It is not meant, of course, to recommend an overall action plan for the development of the regional energy market in SEE, something which is addressed by the relevant phased approach proposed by the European Commission⁶. The timetable above can be considered as complementary to the three phases' approach recommended by the European Commission, which we believe that formulate an achievable target.

6 Conclusions

The CEER believes that the proposals presented herein, when combined with the widely accepted proposal for the implementation of a Standard Market Design, formulate a coherent course of actions, which can ensure both the establishment of an efficient competitive and sustainable energy market framework for ECSEE and, at the same time, the smooth transition from the current situation to a fully operational competitive energy market by January 2008.

Strong political commitment and coordinated collaboration of all stakeholders is required, though, for the successful implementation of the above. The particular instance, when the platform of a legally binding Treaty is currently under the negotiation process has to be exploited, and the outline of the proposals presented herein, along with the broad timetable described above, have to be incorporated into the text of the forthcoming Treaty.

CEER invites the European Commission and the governments of the countries of the region to carefully examine the incorporation of the main proposals for the transitional period into the Treaty. We also invite the Donors community, and especially the banking Institutions, USAID and CIDA, to actively participate and support the establishment of the initial regional Institutions proposed above. CEER also invites USAID and CIDA to actively support the development of the detailed market rules required for the conclusion of the market arrangements required for the operation of the ECSEE Regional Electricity Market by January 2008.

To this end, we welcome all relevant efforts performed so far by the Donors community and we would like to re-iterate our proposal for a coherent action plan for the implementation of the regional market design and to invite the European Commission to take all actions necessary for the completion of the corresponding efforts, initiated in March 2004, by February 2005, so that the corresponding coherent action plan is endorsed by the PHLG by March 2005.

The CEER would also like to invite the governments of the SEE region to support all relevant efforts and to endorse the procedures described above.

Finally, the CEER invites the Forum participants to endorse these proposals and commits itself to contribute and actively participate in all relevant efforts and to collaborate with all relevant stakeholders for the implementation of the above.