



TOWARDS A REGIONAL ELECTRICITY MARKET IN SOUTHEAST EUROPE

Robert F. Ichord, Jr.

Chief, Energy and Infrastructure

Bureau for Europe and Eurasia

US Agency for International Development

**Presentation to 1st Energy Regulation and
Investment Conference**

April 25, 2002

Budapest, Hungary

Historical Evolution

- **Balkan Interconnection Working Group**
- **Phare Regional Study(1998-1999)**
- **Thessaloniki Declaration(September 1999)**
- **SUDEL Working Group(Ongoing)**
- **SECI Electricity Interconnection Working Group(1995-Present)**
- **Romania/Bulgaria Synchronous Tests with UCTE (2001)**
- **Southeast Europe Regulatory Forum (December 2000)**
- **Stability Pact -- Table II Transport and Energy Strategy (Sept. 2001)**
- **EU Relaunch of REM Initiative (March 2002)**

Regional Characteristics

- **Small Markets -- Limited Demand Growth**
- **Mix of Thermal, Hydro and Nuclear**
- **Important environmental and safety concerns**
- **Transmission System Damage Due to Wars**
- **Varying Status of Restructuring and Regulatory Development**
- **Limited Private Sector Investment**
- **Payments Problems in Serbia, Montenegro, and Albania**
- **Winter Peak Problems Due to Electricity Use for Heating**
- **Limited Gas Distribution Networks**

Reform Indicators

- Adequate Legal Framework
- Independent Regulatory Agency and Tariff Rationalization
- Utility Unbundling and Commercial Operations
- Market Design and Rules in Place and Clear Financial Settlements System
- Privatization Strategy, Actual Sales and Openness to Foreign Investment and IPPs
- Commitment to Regional Market Development

Status of Laws

- Albania: New Law is Planned
- Bosnia and H.: State Law Passed and Entity Laws in Draft
- Bulgaria: New Law is Planned
- Croatia: Laws Passed
- FYR Macedonia: Draft Approved by Government and Submitted to Parliament
- Montenegro: Draft Law Prepared
- Romania: Ordinances and Laws
- Serbia: Draft Law under Discussion

Status of Energy Regulatory Agencies

- Albania: Operational but needs strengthening
- Bosnia and H.: State Agency Approved in State Law for Transmission; Regulators for genco/disco and retail tariffs proposed in Entity Laws
- Bulgaria: Operational -- recent tariff authority
- Croatia: Recently legally charted
- FYR Macedonia: Proposed in Draft Law
- Montenegro: Proposed in Draft Law
- Romania: ANRE is fully operational
- Serbia: Proposed in Draft Law

Status of Utility Unbundling

- Albania: Proposed in New Energy Policy
- Bosnia and H.: Proposed in USAID Restructuring and Privatization Study
- Bulgaria: Legal Unbundling Implemented
- Croatia: Planned Under Electricity Market Law
- FYR Macedonia: Study Underway
- Montenegro: Functional vs. Legal Unbundling being considered
- Romania: Full legal unbundling implemented
- Serbia: Functional Unbundling Proposed Initially

Status of Market Rules and **Financial Settlements**

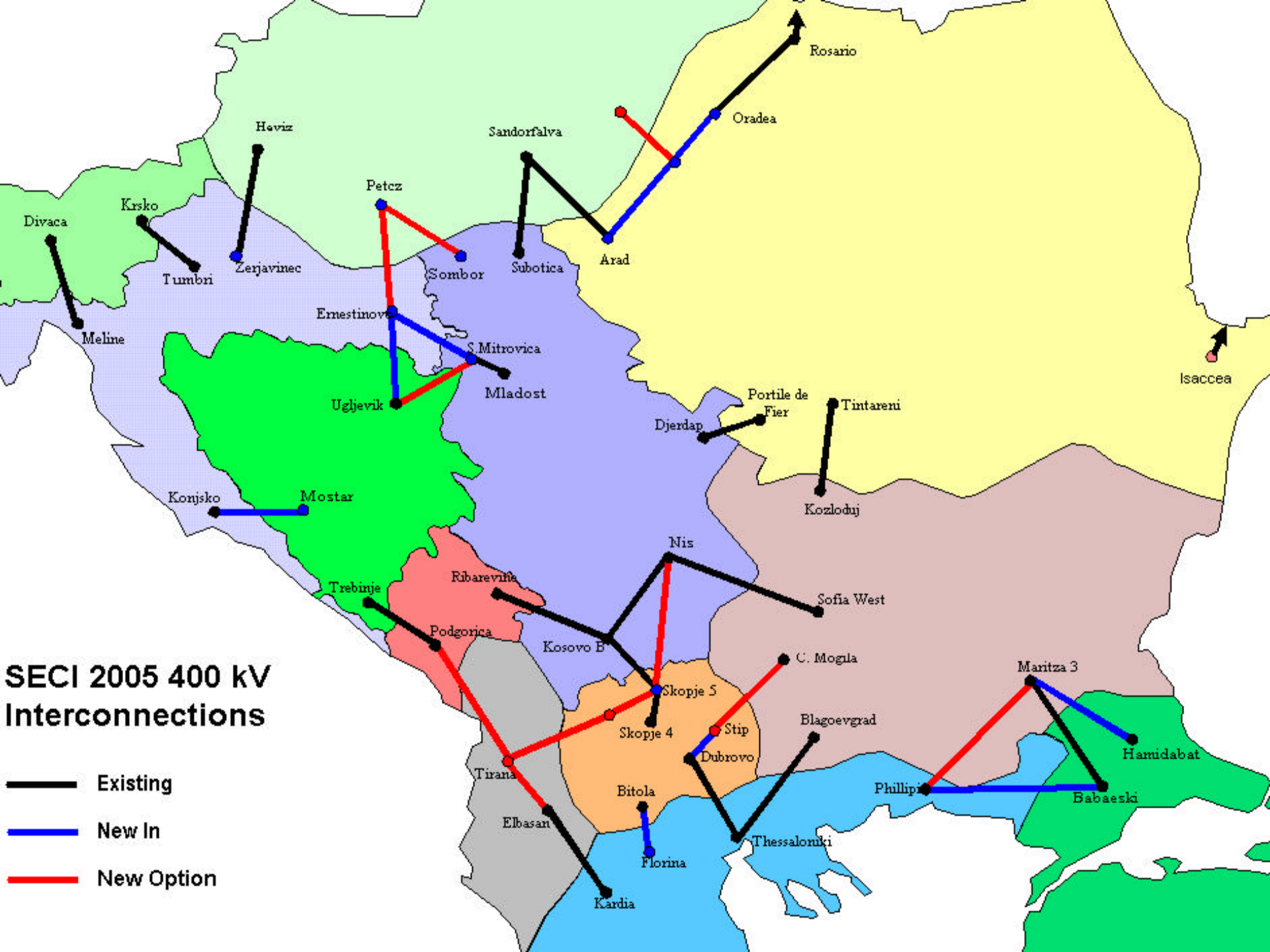
- **Albania: Integrated Utility -- State Subsidies and Payments for Imports/external finance**
- **Bosnia and H.: Three ethnic-based utilities -significant lack of financial transparency**
- **Bulgaria: Single buyer system; proposed revision**
- **Croatia: Integrated Utility**
- **FYR Macedonia: Integrated Utility**
- **Montenegro: Integrated Utility -- State subsidies/external finance**
- **Romania: Regulated Third Party Access (33% market opening); State heat subsidies**
- **Serbia: Integrated utility -- State Subsidies/external finance**

Status of Privatization

- **Albania: Envisioned in New Draft Energy Policy After Unbundling and Financial Improvements**
- **Bosnia and H.: USAID Study completed; policy to attract strategic investors and transparent process**
- **Bulgaria: Distribution companies privatization planned in 2002; several major IPP with PPAs;**
- **Croatia: Policy statement on privatization of generation with majority State shares**
- **FYR Macedonia: Meinl Capital Contract to Gov. for ESM Privatization**
- **Montenegro: Policy is to Privatize -Aluminum Plant Issue**
- **Romania: Plans to privatize two distribution companies; USAID study on generation privatization**
- **Serbia: No immediate plans to privatize EPS**

Factors in Developing REM

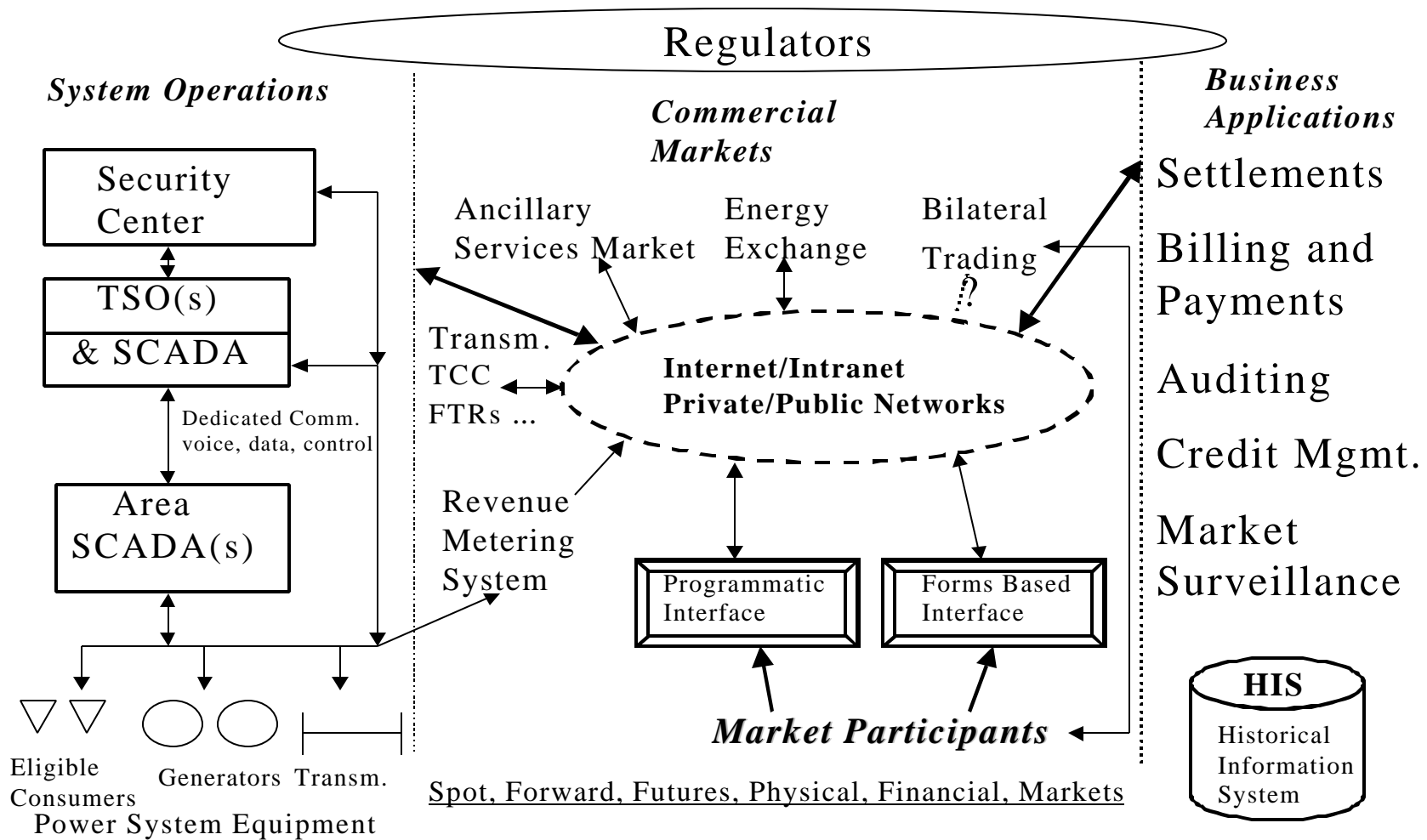
- **Institutional and Regulatory** : Governance; Legal Authority and Harmonization; Management of Key Functions; Role of Ministries, Regulators, TSOs, Traders and Eligible Customers
- **Economic and Commercial**: Role of Traders; Transmission Tariffs, Congestion and Grid Access; Coordination of Market Opening; Contracts, Accounting and Settlements; Ancillary Services
- **Teleinformation, Accounting, and Security**: UCTE Requirements; Modernization Investments; CENTREL model; SUDEL reintegration
- **Transmission System Rehabilitation, Upgrading and Expansion**: SECI analysis; Croatia/Bosnia projects; Bulgaria/Macedonia 400kv interconnection; issue of Turkish participation; supply/demand and Bulgaria nuclear plant closures; Liev/Burshtin Island and Russian imports.



SECI 2005 400 kV Interconnections

- Existing
- New In
- New Option

Potential Elements of a SEE Regional Market



“Unbundled” Competitive Market Functions -Telecom Needs