

Effective wholesale market opening - Interview with adv. Lorenc Gordani, Legal Energy Market Advisor and Project Manager at ACERC

by Dijana Hinic

Interview

AL Many changes are expected in the Southeast Europe region as of the beginning of 2015. Some reforms of electricity and gas markets prolonged for quite some time are likely to come live, eventually leading to more efficient and competitive regional market. Furthermore, Ministerial Council of Energy Community urged the contracting parties to introduce the Third Package by 1 January 2015 and even.....read more on page 18.

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44.25
MPEIndex
calculated on prices
of market survey of
31.10.2014.

GERMANY
35.45
—NOV'14—
HUNGARY
44.75

Separate licences for wholesale and retail suppliers in Serbia

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Markets

SRB By the end of 2014 Serbia is expected to eventually get a new Energy law which was drafted for the past couple of months. The law will strive to implement EU's Third energy package regulations but will introduced changes necessary for further market liberalisation. As per pending draft new segmentation will be introduced to the market and new demands will be set in front of the market participants.....read more on page 20.



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Romania to enter 4M on 19 November

by Dijana Hinic

Markets

RO "The parties of the 4M Market Coupling, which covers Czech Republic, Hungary, Slovakia and Romania, announced that the coupling will start on 19 November for delivery on 20 November 2014," EPEX SPOT stated. So called 4M will replace existing trilateral coupling between Czech Republic, Hungary and Slovakia and EPEX SPOT.....read more on page 22.

Natural Gas Wholesale Prices from bilateral trades assumption ^{31.10.2014}

Country	Deliveries	EUR/MWh
DE	NOV'14	23.10
AT	NOV'14	24.70
TR	NOV'14	24.30
SEE ¹	NOV'14	31.00 - 39.00

Emissions' Certificates Prices assumptions ^{31.10.2014}

Period	Period	EUR/t CO ₂
EU-EA ²	2013-2020	6.37
Green-CER ³	n.a.	0.10

Coal Wholesale Prices bilateral trades assumption ^{31.10.2014}

Country	deliveries	USD/t
DES ARA ⁴	NOV'14	73.50
FOB RB ⁵	NOV'14	66.50

ELECTRICAL ENERGY (€/MWh) ^{31.10.2014}										
Market:	IT		DE		HU		CZ/SK		GR	
Profile:	BASE	PEAK								
NOV'14	58.50	69.25	35.45	46.95	44.75	55.75	35.20	47.25	53.40	58.74
CAL'15	53.84	57.35	34.40	43.00	42.90	52.20	33.90	43.05	54.60	60.06
Market:	SLO		CRO		SRB		RO*		BG*	
Profile:	BASE	PEAK								
NOV'14	44.90	53.88	45.00	54.00	45.10	54.12	37.70	45.24	36.60	43.92
CAL'15	40.85	51.88	43.20	51.84	43.15	51.78	39.90	47.88	35.55	42.66
Market:	BIH		MNE		MK		AL		TR	
Profile:	BASE	PEAK								
NOV'14	45.15	54.18	45.25	54.30	45.60	54.72	47.65	57.18	54.90	60.39
CAL'15	43.05	51.66	43.35	52.02	45.35	54.42	46.15	55.38	56.20	61.82

* Presented price is without export fee which is additional 2.18 EUR/MWh for RO and 4 EUR/MWh for BG

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Price survey by
STRATEGA EAST
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MPEIndex - Market Player's survey of bilateral market trades, calculated as average front month Electrical Energy price index for Southeast Europe (HU, SLO, CRO, SRB, BIH, MK, MNE, AL, RO, BG, GR)
1 - SEE stands for Southeast Europe; 2 - stands for EU Emission Allowances; 3 - stands for Green Certified Emission Reductions; 4 - DES ARA stands for Delivered Ex-Ship at the ports of Amsterdam, Rotterdam or Antwerp in the Netherlands where ARA's coal quality parameters: Calorific Value 6000 kcal/kg, Total Moisture 12-15%, Volatile Matter 22-37%, Ash 11-15%, Sulphur 0.75-1%, Hardgrove Grindability Index 45-70, Nominal Topsize 50mm; 5 - FOB RB stands for Free On Board at port of Richards Bay in South Africa where RB's coal quality parameters: Calorific Value 6000 kcal/kg, Total Moisture max 12%, Volatile Matter min 22%, Ash max 15%, Sulphur max 1%, Calcium Oxide in Ash max 12%, Hardgrove Grindability Index 45-70, Nominal Topsize 50mm
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01 INTERVIEW

AL Effective wholesale market opening - the key pillar for competitive regional electricity market in SEE Interview with adv. Lorenc Gordani, Legal Energy Market Advisor and Project Manager at ACERC

Many changes are expected in the Southeast Europe region as of the beginning of 2015. Some reforms of electricity and gas markets prolonged for quite some time are likely to come live, eventually leading to more efficient and competitive regional market. Furthermore, Ministerial Council of Energy Community urged the contracting parties to introduce the Third Package by 1 January 2015 and even threaten to launch enforcement against those lagging with the process. Market Player spoke to adv. Lorenc Gordani, PhD, Legal Energy Market Advisor and Project Manager at Albanian Centre for Energy Regulation and Conservation (ACERC) who provided detailed analysis of SEE markets and gave an exclusive outlook of Albanian energy market.

Market Player: Significant changes are ahead on regional markets looking to introduce the principles of the Third energy package. What progress Albania made so far? Is Albanian market ripe for the changes ahead?

Lorenc Gordani: The liberalisation process in the EnC, started later in the EU, followed the same patterns and proved to be even more difficult. In regard, only few Contracting Parties (CPs) have already implemented competitive energy markets in which several producers and suppliers compete within and beyond country borders. Indeed, most EnC energy markets are today still dominated by a single incumbent operator, often state-owned and shielded by monopolies, single-buyer models and the exclusion of price competition.

Furthermore, the level of progress made in the implementation of the acquis so far, are not uniform across all the WBs member of EnC and regard all the areas. In this context, the reform process related is seeing the Albania involved in the long process of draft legislation in the electricity sector. The process is already in discussion within the domestic stakeholders. The country shown in the last period strong signs and political will to implement the necessary legislation on time or only with slight delays.

The drafting of new primary energy legislation is important not only for the inclusion of those building blocks which the Third Package introduced or reinforced but also for following with a complete template (i.e. Network Codes and Framework Guidelines) of a functioning market. In the situation where the other countries of the 8th region are moving ahead with faster pace even for the Albania is necessary to make more effort than before, in order to meet its 2014 target.

In terms of unsustainable situation where the domestic generation is not even sufficient to supply residential customers, the public owned utilities and finally, the State

budget are expected to cover the difference between high import costs and the regulated price. The changes of the current situation was also the condition for the approved 150 million USD grant by World Bank for Albania's power sector recovery and reforms, granted on 29 September 2014.

Market Player: Albanian TSO is a shareholder of SEE CAO announced to start performing auction in November. OST also became ENTOSO-e member recently. How significant these events are for Albanian traders and for country's security of supply in general?

Lorenc Gordani: The recent positive developments towards the establishment of a Coordinated Auction Office in South East Europe (SEE CAO), on 27 March 2014, support confidence on the Region's ability to deliver results towards regional wholesale market opening. The establishment of SEE CAO is a key pillar of WMO in the 8th Region in terms of coordinated forward capacity allocations and congestion management. The SEE CAO is expected to become operational with annual auction in November 2014.

These events are accompanied in Albania with the necessary preparation of a functioning energy market. In regard, on 30 September 2014 there has been the meeting between the Competition Commission and the Board of Directors of the ERE on issues of liberalisation and competition in the sector of electricity and gas. The representatives of both expressed readiness to deepen cooperation closely in the design and improvement of strategic documents for the development of the market Model Power, the regulations for the purchase of electricity and the deliberative process of energy tariffs for market operators, transmission and distribution system of energy.

On the other hand, in order to process the setting into operation SEE has prepared the Auction Regulation for the Capacities Allocation in SEE CAO. These regulations will soon enter into force and will be obligatory for all Electricity Market Participants that will participate in the Capacity Allocation Auctions. These regulations have to increase the electricity market transparency in Albania (matter became sensitive as demonstrated by the last issues risen by GEN-I in regards to FTE and GSA suspicion behaviour on market) as well in the region.

However, the limit transmission interconnection capacity with neighbouring systems is a core obstacle for limited cross-border trading and the establishment of a regional electricity market. Then the coordinated capacity allocation and congestion management schemes are essential. Although the

TSOs of all Energy Community Contracting Parties, have already introduced market-based capacity allocation mechanisms (based on NTC auctions) for congestion management at their borders, there is still insufficient harmonisation in the “8th Region”.

Market Player: Albania took some steps towards market liberalisation in the past years. As of 2012 the market is opened by 8.4%, for consumers connected to 110 kV or above. It was recently announced that further steps will be taken in 2015 – market opening for consumers on 35 kV voltage level, companies and end users on 20, 30 and 10 kV which should open the market up to 30%. What are your expectations? Will announced changes be implemented next year?

Lorenc Gordani: The criteria for eligibility in the Power Sector Law, based on voltage level or annual consumption and not on customer categories, are not in compliance with Article 21 of Directive 2003/54/EC. There are only 7 eligible customers under national legislation referred to a market hardly developed. ERE treats eligibility as a status which is one of the biggest obstacles to effective opening of the market.

In the same time, for the incumbent utilities losing these customers means being dependent on households, where many CPs are either bad payers, or pay a low regulated price hardly covering costs. The system in the actual stage, for all the reasons mentioned and many other, accumulates debts. Such situation can be overpassed only by creation of fully functional liberalised market.

Market Player: The power exchanges in Serbia and Croatia will be launched in 2015. How interesting are these exchanges for Albanian market participants?

Lorenc Gordani: It is a fact that the most of the energy trade exchange in the region came through the north south and east west direction. Actually, in Albania there is only the allocation of interconnection capacity. Auctions are currently applied only for yearly and monthly allocation. No daily auctions are in place and intra-day residual capacity is administered on a pro-rata basis. No joint auctioning with neighbouring countries takes place.

The level of progress made in Serbia in the implementation of the acquis, which made it possible to launch the power exchanges during 2015. Regarding the Albania in the short period, the country will remain dependent on the imports for about 30%, therefore the Pxs of Belgrade will become probably the platform of reference. However, the process putted in action makes it possible to activate others parties and to accelerate the competition. For example, big producers as Devoll hydropower are showing interest and moving forward with the opening of an office in the region.

Market Player: Establishment of a power exchange was announced in Bulgaria. There were rumours that FYR Macedonia and Albania will also establish an exchange. Do you consider that each regional country should establish an exchange and is it possible for all of them to become a success story?

Lorenc Gordani: Indeed the level of cooperation among transmission system operators are not satisfactory. The discussion about the establishment of trading platforms for each bidding zone, namely power exchanges, are in continue,

without any tangible results. The Secretariat was requested to present plans for the establishment of a regional power exchange to the PHLG at one of its first meetings in 2015. At last, all is possible.

In terms of moving towards a market-based procurement or total removing of monopoly positions in trade of electricity (or even in electricity generation and supply), it all seems positive. However, it is not possible due to dimensions and the potential of the markets in WBs for every country to have its own power exchanges. As the experience shows (i.e. case of Nordic Pool) what is really needed are transparent markets, not their multiplication.

Market Player: Albanian electricity production is currently dependent of hydro production and shortage is covered by imports. New installed MWs would certainly enhance the energy security of the country. What projects are supposed to go live first (wind park Dajc-Velipoje, HPP Skavica, 400 kV interconnection with FYRM)? In ideal scenario in which time frame would Albania start producing from newly installed capacities?

Lorenc Gordani: One of the key objectives of all Albanian governments has been to attract investments in infrastructure. In regard, Albania Ministry in charge of energy has awarded with “accelerate” procedure concessions for 160 large, medium and small HPPs for more than 1800 MW. However, hydro capacity increased only by 54 MW during the last year. At the moment, the electricity generation is still strongly dependent on the volatility of the water run-off of a major river course, the Drin.

Moreover, the necessary substantial investments are the actual concern. Given the capital intensity of energy infrastructure, and due to the pressure of the fiscal space on publicly funded investments to limited fiscal space (with a public debt of above 65% of GDP), mobilising additional private capital becomes crucial. In October 2013, the Ministerial Council adopted the list of Projects of Energy Community interest (PECI) the CES, and developed a monitoring system.

A summary of these monitoring results, regarding the projects in Albania are: Hydro Power Plant Skavica in the Conceptual stage; Wind Park Dajc-Velipoje in the assessment stage, and with commissioning year 2015–2020; 400 kV OHL SS Bitola (FYR of MK) - SS Elbasan (AL), in the Investment decision stage, and Commissioning Year 2018; 400 kV HVDC SS Vlora - Bari West, in the Conceptual; 400 kV OHL Tirana (AL) - Pristina (Kosovo*), in the Construction, Commissioning Year 2016; Ionian Adriatic Pipeline (IAP), in the assessment stage; EAGLE LNG Terminal, in the assessment stage; Trans Adriatic Pipeline (TAP), in the Investment Decision.

Market Player: From your point of view, what is the perspective of power markets in Southeast Europe? What are the biggest challenges regional countries will face?

Lorenc Gordani: Effective wholesale market opening (WMO) is the key pillar of and starting point for establishing a competitive regional electricity market in South East Europe and its integration with the European market. A harmonised regulatory approach is necessary for establishing a regional wholesale market. Therefore, with the financial support of the World Bank, a consultancy study on WMO has been developed and finalised in 2010. However, the level of progress in the

implementation of the acquis has been difficult. The last Ministerial Council of Sept. 2014 reviewed the state of the implementation of the Treaty and expressed its concerns regarding the lack of progress in some countries which have stalled or even moved backwards in the process of reforming their electricity and gas markets, as well as the lack of regional market integration.

Barriers to the opening and regional integration of wholesale markets need to be abolished, which is a priority. They include single buyer models and the regulation of generation/wholesale prices, (statutory or contractual) band of exclusivity between the incumbent generator and the incumbent (public) supplier covering the entire output, the lack of transparent market places such as power exchanges, etc.

In regard, all the CPs are aware of the importance of gradually

opening the markets, and devising their energy sector strategies accordingly. However, this ambition meet two main obstacles, both legacies from the past and still very relevant today: price regulation as an instrument of social policy and market structures created, operated and supervised by the State in various manifestation. In more, the deregulation had to come through limited domestic capacities.

Management of scarcity rather than a belief in markets led to the political decision that domestically produced electricity should be reserved for residential consumption at regulated prices. However, the Ministerial Council urged all Contracting Parties to transpose the Third Package by 1 January 2015 with the assistance of the Secretariat, and invited the Secretariat to launch enforcement against those CPs lagging behind after that date.

D.H.

02 MARKETS

SRB Separate licences for wholesale and retail suppliers in Serbia

By the end of 2014 Serbia is expected to eventually get a new Energy law which was drafted for the past couple of months. The law will strive to implement EU's Third energy package regulations but will introduced changes necessary for further market liberalisation. As per pending draft new segmentation will be introduced to the market and new demands will be set in front of the market participants.

As per announced Energy law regulations, the market will be segmented to following market participants: generation (producers), wholesale supplier, final customers' supplier, final customer, transmission system operator (TSO), distribution system operator (DSO), Closed electricity distribution system operator, market operator (spot market).

„Wholesale supplier will work directly with other professionals and at the moment there are no strict rules set in order to get a licence,” Ms Ljiljana Hadžibabić, council member of Energy

Agency of the Republic of Serbia (AERS) said at Executive Conference on Electricity Trading and Supply held in Belgrade on 17 October in Belgrade. However, more strict demands will be set in front of suppliers that supply final consumers.

„Licence for final customers' supplier will be regulated with transition norm, but no deadlines are given at this point. Those that perform such activity will have to meet additional requirements to get a licence. By current law those who work with final consumers need to have call centre, toll free phone line, billing system established, customer care service etc. The intention is that consumer has one unique point to which complaints can be addressed and that point would be the supplier. According to new arrangements they [customers] will communicate only with supplier not distribution or any other third party, but it will be all specified in licencing conditions,” Ms Hadžibabić explained.

Yet, no guarantees are demanded from the supplier. “Guarantees from a suppliers that contracted electricity will be delivered can't be asked on a free market, but law should regulate that licenced supplier is fit for such task, and the rest of the work is carried out by EMS who sets requirements before balance responsible parties,” Ms Hadžibabić added.

New demands set in front TSO and DSOs

“In accordance to the Third energy package of EU the rules and codes of all transmission systems will be harmonised, which will more efficiently regulate increased share of renewables on the market, and especially regulate the influence of renewables production on distribution systems. Distribution system was traditionally a passive system, but now needs to adapt to new trends and to respond to changes ahead by developing new skills,” Ms Hadžibabić said.

Network codes Third energy package regulates concern




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