



THE REGULATOR AS REFEREE

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Contents

- The rationale of regulation
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- **Explain** and **Justify** a market system
Comparative market – coordinating and controlling mechanism. Prices emerges out of the bargains between contracting buyers and sellers
- **The regulated sector** – comparative market model does not describe

Public sector – huge and growing

In Public sector government operate at the 'periphery' of the markets – enforcing contracts, protecting property, providing subsidies, market information, imposing standards for packing, and product content

- **Public Utilities** – private, but subject of direct governmental regulation
 - **Distinguish the public utility from other sectors of the economy**
 - ⇒ *Control of entry*
 - ⇒ *Pricing*
 - ⇒ *Conditions and quality of service*
 - ⇒ *PSO*
 - **Economics of regulation and economics of public utilities**
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- **Political, Economic and Social environment and Energy policy, Regulatory framework, privatization strategy**
 - ✓ The Governments try to keep the power after 50 years of centralized planning and full control
 - ✓ Strong power of vertically integrated state owned monopolies – postponed or limited restructuring and privatization
 - ✓ not efficient competition
 - ✓ Political control of price setting (especially household prices)
 - ✓ Lack of clear, transparent and workable model
 - ✓ Lack of practice in negotiation process with private investors
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- attract investment
- advance Regional Electricity Markets
- meet the requirements of the Electricity and Gas EU Directives and related requirements and practices.

- **Overview**
 - Regulatory Body
 - Formation Date
 - Projected Formation Date
 - Appointment Power
 - Removal Power
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- **Staff**
 - ✓ Numbers
 - ✓ Positions
 - ✓ Salaries
 - ✓ Hiring Procedure
 - **Scope of Authority**
 - ✓ Electricity
 - ✓ Gas
 - ✓ District heat
 - ✓ Other
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- **Resources and Autonomy**

- ✓ Budget amount
- ✓ Budget Source
- ✓ Budget Approval
- ✓ Budget Schedule

- **Commissioners**

- ✓ Numbers
 - ✓ Term Lengths
 - ✓ Positions
 - ✓ Experience
 - ✓ Salaries
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- **Monitoring**
 - ✓ Information collection
 - ✓ Verification of information
 - ✓ Audits
 - ✓ Enforcement Mechanism
 - ✓ Violations
 - **Licensing**
 - ✓ License Issuance
 - ✓ Number of Licenses
 - ✓ Types of Licenses
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- **Transparency**
 - ✓ Annual reporting requirements
 - ✓ Publication of reports
 - ✓ Independent Audit
 - ✓ Code of Ethics
 - ✓ Conflict of Interest
 - **Accountability**
 - ✓ Open hearings on tariffs and licenses
 - ✓ Publication of decisions
 - ✓ Explanation of decision
 - ✓ Time Frame
 - ✓ Confidentiality of Information
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- **MARKET REGULATORY INDICATORS :**
 - **Market Opening**
 - ✓ % of currently open
 - ✓ Pace of opening
 - ✓ Export/Import
 - ✓ Reciprocity
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- **MARKET REGULATORY INDICATORS :**
 - **Market Monitoring**
 - ✓ **Competition**
 - ✓ **Publication of Information by TSO**
 - ✓ **Unbundling**
 - ✓ **Market Rules/ Grid Code**
 - ✓ **UCTE norms**
 - ✓ **Third party access**
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- **MARKET REGULATORY INDICATORS :**
 - **Tariffs**
 - ✓ **Separate transmission tariffs**
 - ✓ **Cross-subsidies**
 - ✓ **Access tariffs**
 - ✓ **Access tariffs procedure**
 - ✓ **Targets/ Incentives**
 - ✓ **Cross-border tariffs**
 - ✓ **Stranded Costs**
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- National Markets:
 - Non-residential market opening and regulated third party access;
 - Unbundling of accounts, independent audits;
 - Adoption of UCTE norms and standards;
 - Development of licenses for facilities;
 - Preparation of grid codes based on non-discriminatory access;
 - Adoption of competition legislation for energy sector
 - Elimination of cross subsidies and development of transparent transmission and distribution tariffs;
 - National Action Plans.
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- ERRA is an association to promote the exchange of information on good regulatory practices for the electricity and gas industries
 - 19 full Member - States from Central and Eastern Europe, the Southeast Europe, the Commonwealth of Independent States, and Turkey
 - Associate Members including the NARUC, the Association of Regional Energy Commissions of the Russian Federation, the Romanian Gas Regulator and the Energy Regulator of Mongolia
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Number of players (market share) - generation



	Number of generator companies with installed capacity above		Number of generator companies, which are producing significant share of electricity	
	50 MW	100 MW	50%	75%
Albania	1	1	1	1
Armenia	5	5	2	3
Bulgaria	14	9	3	10
Czech Rep.	26	11	1	2
Estonia	1	1	1	1
Georgia	10	9	2	5
Hungary	12	10	2	4
Kazakhstan	n.a.	n.a.	n.a.	n.a.
Kyrgyzstan	3	1	1	1 (>95%)
Latvia	1	1	1	1
Lithuania	6	5	1	1
Moldova	2	1	1	2
Poland	54	39	4	8
Romania	7	6	2	2-3
Slovakia	6	5	1	1
Ukraine	39	27	3	6

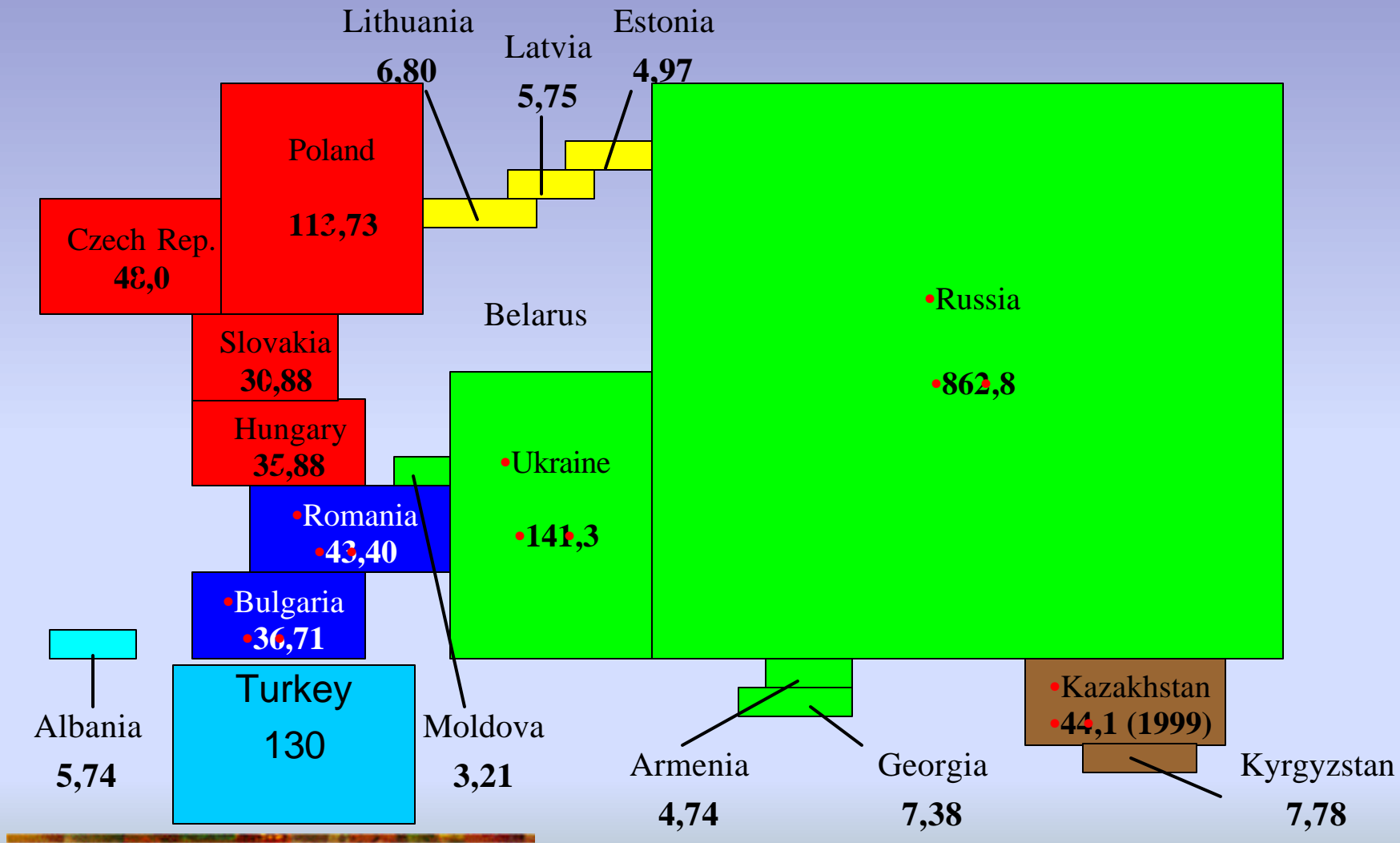
Number of players at present and/or in future competition - supply

	Number of suppliers serving		
	the tariff (captive, public) consumers		the eligible consumers
	at present	in future	at present
Albania	1		0
Armenia	4	1	1
Bulgaria	7+1	7+	0
Czech Rep.	8+1	8+1	8+1
Estonia	1	1+	1
Georgia	12	4	15
Hungary	6	6	0
Kazakhstan	n.a.	n.a.	n.a.
Kyrgyzstan	4	4+	1
Latvia	1	1	0
Lithuania	2	2+	5
Moldova	3	3	0
Poland	293		33
Romania	8	8	30
Slovakia	3	3+	4
Ukraine	41	41	22

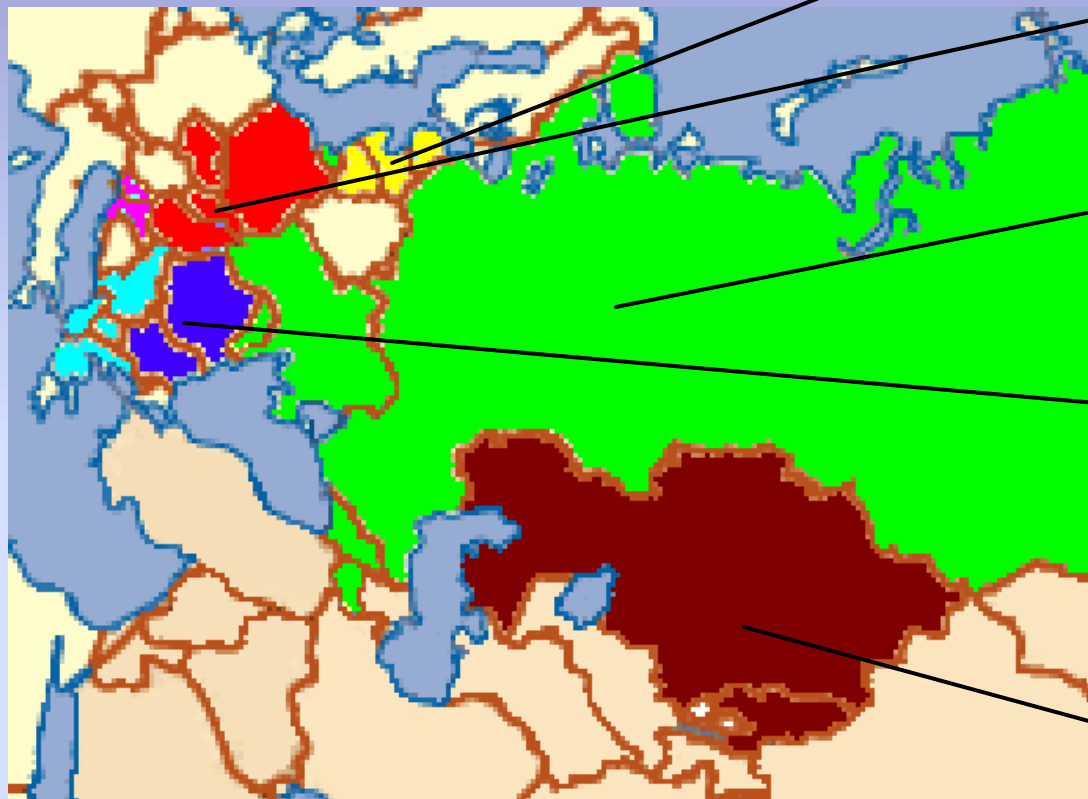
Market structure facilitate efficient competition (2)

	Public Service Wholesaler	Public Service obligation remains	ISO	TSO	Separated Market Operator
Albania	no	no	no	no	no
Armenia	yes	yes		yes	yes
Bulgaria	yes	yes		yes	no
Czech Rep.	no	yes		yes	yes
Estonia	no	yes		yes	no
Georgia	no	yes		yes	yes
Hungary	yes	yes	yes		no
Kazakhstan	no	yes		yes	yes
Kyrgyzstan	yes	yes		yes	no
Latvia	no	yes		yes	yes
Lithuania	no	yes		yes	yes
Moldova	no	yes		yes	no
Poland	no	no		yes	no
Romania	no	yes		yes	yes
Slovakia	no	no		yes	no
Ukraine	no	no	yes		no

Market size - TWh/year



Possible regional markets



- **Baltic countries**
(15-20 TWh/year)
- **CENTREL + maybe Croatia, Slovenia**
(200-250 TWh/year)
- **IPS/UPS (Moldova, Ukraine, Georgia, Armenia, Russia)**
(950-1100 TWh/year)
- **South-East Europe (Romania, Bulgaria) Yugoslavia, Greece, Macedonia, Albania, Bosnia, Croatia**
(100-200 TWh/year)
- **Central Asia (Kazakhstan, Kyrgyzstan) + maybe Tajikistan, Uzbekistan, Turkmenistan**
(50-60 TWh/year)

Supply market - Surplus installed capacity over demand (MW)

	Installed capacity	Peak demand	Surplus
Albania	1 684	1 100	410
Armenia	3 701	1 200	2 501
Bulgaria	13 183	7 068	6 115
Czech Rep.	15 324	10 128	5 196
Estonia	3 213	1 370	1 843
Georgia	4 447; working: 1 325	1 500	-175
Hungary	8 282	5 742	2 540
Kazakhstan	17 450 (1999)	6 000	11 450
Kyrgyzstan	3 647	2 601	1 046
Latvia	2 151	1 200	951
Lithuania	6 156	1 700	4 456
Moldova	444	701	-257
Poland	34 552	24 208	10 344
Romania	19 900	8 200	11 700
Russia	206 600	129 000	77 600
Slovakia	8 277	4 275	4 002
Ukraine	51 966	26 503	25 463
	379 080		

Supply market - Import

	Technical possibility	Need for licence	CBC allocation
Albania	South-East Europe, UCTE 2.	no	
Armenia	IPS/UPS and Iran	yes	
Bulgaria	South-East Europe, UCTE 2.	yes	not applied
Czech Rep.	CENTREL, UCTE 1.	no	auction/priority
Estonia	BALTIC, IPS/UPS	yes	licence
Georgia	IPS/UPS and Turkey	yes	
Hungary	CENTREL, UCTE 1.	yes (activity)	2003: auction (?)
Kazakhstan	IPS/UPS	yes	not applied
Kyrgyzstan	IPS/UPS and China	yes	
Latvia	BALTIC, IPS/UPS		
Lithuania	BALTIC, IPS/UPS	yes	quotas, tender
Moldova	IPS/UPS (Ukraine, Romania)	no	not applied
Poland	CENTREL, UCTE 1.	limited only	under preparation
Romania	South-East Europe, UCTE 2.	no	2003: auction
Russia	IPS/UPS		
Slovakia	CENTREL, UCTE 1.	yes	under preparation
Ukraine	IPS/UPS	no	not clear
	CBC: Cross Border Capacity		
	IPS/UPS is the technical system of CIS		

Thank you for your attention!