

Regional Electricity Market in South East Europe- important road to EU integrations

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Abstract

Competitiveness in diversity of products, economy and efficiency, better use of trade and other measures is considered a key factor for the development of the region in the context of European integrations. At the same time, regional cooperation is not only a key part of EU accession conditions but it is also an important tool for achieving necessary level of competitiveness and survival on the European market. Taking into consideration relatively small economies in the countries of SEE, regional cooperation is of essential importance for economic development. Creation of common energy network provides important support to the progress of regional integrations as well as to the building of competitive economies of these countries.

Key words: European Union, South East Europe (SEE), common market, Athens' process, Agreement on the establishment of energetic community.

Energy, Energy Community, Competitiveness

1. Introduction

European perspective of Balkan's countries is confirmed through the process of stabilisation and association and it is based on fulfilling conditions and standards of democratic development and economic and social reforms, in accordance with development standards of regional market. Regional trade integration is very important for the region of SEE and represents the key element of EU policy for the region. Interregional partnership and connecting is needed for good functioning of common market.

Development of trade and investments in the region depends on political stability, general economic ambient and development of reforms in each country of the region.

Economic prosperity lies in competitiveness of economies and products and it is necessary to identify and connect potential resources on regional level and make

influence on their efficient usage, through the regional coordination. Energy can be one of very important regional resources.

Energy is one of the most important factor of development and functioning of economy and society and basic launcher and integral part of all human activities.

Electricity is the most refined and the most suitable source of energy that has huge importance for functioning and progress of economy and society. Electricity represents specific sort of goods because it is invisible, cannot be stored and it is transported with special transportation roads (networks) and its production moment comports with consumption moment. Above mentioned specificities make the electro-energetic market very specific and sensitive. Rules for organisation of electro-energetic market are more and more above national level.

1. The need to have a unique regional electricity market

EU establishes unique electricity market with the goal of providing energetic future and improvement of competitiveness of own industry on the world market. Through the common market EU expects realisation of technical-economic optimal development and construction of new capacities for production and transportation, establishment of competitiveness, improvement of efficiency of electro-energetic companies and general development and electricity-supply for EU consumers.

With the aim of optimisation of developing energetic sector and providing electricity-supply for the region of SEE, the EU initiated establishing of Energetic community of SEE, what provided preconditions for integration of that sector in wider European market. Electricity market in EU is sum of national markets.

Establishing of regional market, that is legislatively and regulatively completely defined minimises the risk for investments and reduces total costs of its functioning and in that way it is of high importance for the region countries.

Reasons for establishing regional market:

- Market “forces” construction of technologically-economic optimal production capacities and in that way optimisation of costs for electricity production.
- Regional market provides optimisation of using production capacities that are different by structure (hydro and thermo) and in that way optimisation of costs for the work of electro-energetic system.
- From the regional point of view, consumption of electricity during a day and during a year does not have the same characteristic in all countries/areas and it is possible to make optimisation of production and in that way optimisation of working cost of electro-energetic system.

- Market “requires” improvement of working efficiency of electro-energetic companies.
- Arranged and attractive market attracts investors.
- In bigger and arranged systems there is higher level of safety and reliability and costs of reserved capacities are smaller, so the working costs of bigger electro-energetic system are smaller.
- Arranged and functional regional market provides improvement of complete political and economic relations between countries.
- Market based on optimisation of constructing new capacities provides optimisation/saving of natural resources and higher level of environmental protection, which is based on EU directions.

Establishing regional electricity market requires **radical reform of the existing electro-energetic sector**. Apart to establishing of market the reform has aim to provide reliable delivery of electricity to all buyers, clear regulatory framework for sector functioning, attracting of new investors and economically healthy and sustainable development of electro-energetic sector. The aim is to provide the most convenient way to supply consumers with electricity and in that way to improve the level of competitiveness for its products.

Establishing and work of the market implies making of institutional framework for its efficient functioning, what means the following:

- Establishing of regulatory body (bodies) that will set up and supervise the system of functioning of monopolist functions (function of transmission and distribution of electricity) and also functions of electro-energetic system management and will define its price for other participants. Regulator has to provide transparent and non-discriminatory using of transmission and distribution network for all those who reach conditions, which are defined in advance. It also has to provide adequate tariff for functioning of *Independent system operator*.
- Establishing *a transmission company* that will provide functioning and development of network in a way to satisfy quality and capacity needs of electro-energetic system.
- Establishing *a distribution systems operator*, which will provide functioning of distributive network in a way to satisfy quality and capacity needs of electro-energetic system.
- Establishing *an independent operator*, which will provide electro-energetic system management.
- Existing of competitiveness in segments of electricity production and electricity-supply.

- *Electricity supplier* can provide needed amount of electricity directly and /or through traders, from domestic producers and/or from import and provide needed electricity-supply to consumers.
- *Electricity trader* can make contract with domestic producers and/or provide by import the needed amount of electricity for a qualified buyer.
- Existing of *qualified consumer*, i.e. consumer that has right to buy electricity directly from producer/trader on prices that are not defined by tariff system.
- Fulfilling technical pre-conditions for market functioning.

2. Athens process - creation of regional energy market

Simultaneously with reorganisation of electro-energetic sector and with opening of electricity market in EU states, the need for improvement of economic efficiency of electricity trading in SEE appeared, in fact the need to create institutional framework of common, regional electricity market (South-East Europe Regional Electricity Market - SEEREM).

EU created its energetic policy to SEE countries with the intention to establish internal regional market, based on principles of Directives for the electricity branch in EU in a way that the whole region intergrates in wider European market. The key concept is to provide conditions for development of infrastructure in the region, its connecting with wider market but also mutual connecting with the countries of the region. There are multiple reasons for this kind of policy: mutual energetic dependance of region countries is evident, individual markets in the region are too small to support important investments in electroenergetic sector. These markets are too small also from the aspect of implementing European market institutions so, the need for subnational management with electro-energetic development in the region was implied.

Traditional electricity trading, different sources, better electricity connection and transition of economy in general are enough of reasons for all states in the region to find interests in market connecting. Successful functioning of regional market where electro energetic subjects work under the same, non-discriminatory rules and under the regulatory supervision would, of course, attract investors and secure development of electro-energetic system in the whole region.

Creation process of regional energy market and its integration in internal EU market, so called Athens' process, is treated as the most important regional activity in stabilization and joining of the region countries to EU.

Athens' process involves a series of activities, with the aim of creating regional electricity and gas market. These activities include:

- Organising meetings, studies, analyses, advising etc., in cooperation with European commission;
- Gathering and publishing of relevant information through printed material, web pages, electronic data bases etc., in cooperation with European Commission and World Bank;
- Exchange of information about progress in creating regional market, between each member country of future market;
- Organisation of national and regional discussion about current issues of regional markets;
- Following and comparison of changes in organisation and functioning of individual systems in the region.

With signing the first Athens' memorandum of understanding on 2002, states/regions that are interested in participation on regional electricity market in SEE obliged to cooperate with the aim of creating common regional market, which will result with free pass of wealth and goods, discontinuing of national or regional monopoly, increasing system efficiency and transparent work of all subjects on the market.

Signed document represented political will for regional cooperation, with the aim of creating common market. It was not legally obligatory.

The aim of first memorandum of understanding was opening of regional electricity market until 2005 and its integration in European market.

States that signed the first Athens' memorandum on 2002 are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia, Kosovo (UNMIK) and Montenegro, while Austria, Italy, Hungary, Slovenia and Moldova were countries observers.

Despite of precisely set deadlines for implementation of activities it can be said that electro-energetic sector in SEE needed much more time to provide conditions for market opening.

The second Athens' memorandum of understanding from December 2003 supplements the previous one, and full rights members obliged to adjust legal regulations to EU directives (Directive 2003/54 for electrical energy)

Each signatory country is obliged to define time framework for implementation of some legal solutions. Member states have to make strategy to define working market principles, steps and deadlines for implementation of activities related to the market opening. Harmonization with regulations of EU market is also very important in this process.

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Kosovo (UNMIK) and Montenegro while Hungary, Slovenia and Moldova were countries observers. In the framework of second memorandum, signatory countries obliged to adopt basic principles of market functioning in EU.

With signing the Agreement on the establishment of energetic community, states obliged to organise all necessary institutions, with the aim of market functioning in accordance with Directive and also to implement all legal, organisational and technical regulations and procedures.

It was realised that it is necessary to do liberalisation of electro-energetic sector and establish one stable regulatory and market framework that would encourage new investments, develop competitiveness on the market and increase safety of electricity - supply for consumers.

Apart to institutional solutions the appropriate technical solutions are needed for good market functioning. Steps are directed to mutual connecting of transmission networks for the same sorts of energy-generated products, enlargement of transmission capacities and connecting of peripheral countries of the Union with neighbouring countries.

One of basic precondition for making regional electricity market is network reconstruction, construction of transformation stations and necessity to define the order of activation of trunks. Region of SEE has assigned status of the network, technical equipment, and different size of electro-energetic system and necessary technical improvement in some systems, especially in the field of telecommunications, which will provide required level of data exchange between the systems regions and towards counting centres of Europe.

The common interest of region countries and potential investors in energetic sector is to establish the regional market, completely defined through legislation and regulations with minimising the risk for investments and reduction of complete costs of its functioning. From the point of EU perspective, process of joining region countries to the energy-generated products market is much more than market opening. That is the process of creation of real integrated market, released from any kind of barriers, based on laws, safe for traders and investors.

3. Basic characteristics of existing regional electricity market and perspectives of the future one

Electro-energetic system in all countries of the region had relatively similar characteristics and problems, before the beginning of transition. Low subvention price of electricity, investing from the state budget, which wilted with the beginning of transition, governance and working on non-commercial bases were only some of characteristics of the sector. The fact that some countries are faced with the lack of electricity testifies about it. Insufficient interest of foreign investors is mostly result of need to make big

investments in the network, with small chances for profitable business due to low price of services and relatively low purchasing power.

In other words, the existing level of prices, the most often, is not enough for successful operating of electro-distribution companies. Insufficient investments in the system development (unsatisfactory development and unenforceability of production capacities and transmission and distribution network) are the consequence of this. This opens the space for big investments in electro-energetic system of the whole region. Most of state owned electro-distribution companies are not able to realise big investment projects. It is necessary to provide conditions for foreign companies to invest in the market of SEE.

The last decade is noticeable with big changes in electro-energetic sector. Regarding the initial situation in this branch, dominate state owned property and monopoly, privileges for domestic companies comparing to foreign companies, changes in electro-energetic sector realize in stages, facing with different problems, objective and subjective ones. Countries that had strong state owned, vertically integrated companies and also countries that had strong regional companies are the slowest in the process of changing.

Creation of unique market contributes to speedy changes in all countries and market interest makes pressure on construction of standard solutions in organisation, leading and management with transmission and distribution network that will provide development of open electricity market. Regional market should be compatible with unique EU electro-energetic market. SEE region has to implement European design of electro-energetic market. That design is not based on unique concept but it has to be developed from different regional designs.

Successful functioning of regional market, where electro-energetic subjects work under equal, non-discriminative regulations and under regulatory supervision would attract investors and insure development of electro-energetic sector in the whole region.

From the long term point of view, stabilisation of energetic sector will significantly contribute to macroeconomic convalescence of the region, increasing of competitiveness of economies and in that way to economic growth and peace.

Establishing of regional electricity market will provide self sustainable, safe and competitive supply with energy-generated products. Introduction of competitiveness increases efficiency of companies and competitiveness means better use of available resources and improvement of services for consumers.

Connected market reduces costs of expensive reserve capacities. Regionalisation stimulates economic development and investments in the region of SEE through higher accessibility, efficiency and reliability of energetic resources, with acceptable prices.

Conclusions and recommendations

Apart to undeniable benefit that opening of regional electricity market brings through its integration in EU market, economic growth and increasing of countries' competitiveness the implementation of market is significantly delaying.

According to Athens' goals, market opening was supposed to be realized until 2005, but existing electro-energetic systems of region countries proved to be unprepared to realize numerous and radical reforms. The year 2008 was determined as new date for opening and market functioning. Still, according to findings of 14th Athens' forum from May 2009 regarding implementation of the Agreement between countries, „status quo“ was estimated.

Is energetic system that big in countries of SEE that so long time is needed for its reform? Or this is lack of political will for roots and substantial changes? One more question is if citizens of these countries are ready to accept totally different concept of energy/energies as resource!

Countries of SEE region have to provide conditions for revival and strengthening of its economies and in that way to have quality EU integrations. Increasing of competitiveness is one of basic tools for realization of these goals. Functioning of regional, opened electricity market is one of preconditions for increasing of competitiveness. With the aim of increasing competitiveness in the region, countries have to do the following:

- To implement adopted EU directives and regulations, which on countries pledged, with the aim of making integrated regional market in SEE and providing smooth integration in unique market.
- To adopt additional regulations which will lead to full harmonization with Aquis
- To make stable regulatory and market framework, through implementation of regulation, that would be capable to attract investments in the region
- To improve efficiency and reliability of energetic sector in the region
- To create necessary ambient for more intensive over border exchange and trade
- To intensify regional cooperation in the domain of planning transmission capacities, information systems, providing balanced amounts of electricity
- To take care about environment in terms of energy in the region.

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