



CONCLUSIONS

3rd Athens Forum

Sofia, October 23 & 24

Welcome and introduction

1. The meeting was welcomed by the representatives of the European Commission, the Turkish Chairman, the CEER and the Bulgarian Minister of Energy, Mr Kovachev. In his speech, the Minister thanked the European Commission as well as the Stability Pact for SEE, for organising the Sofia Energy Week and the Athens Forum. He recommended to the European Commission three particular requirements for a competitive market:

- Enough participants to ensure liquidity
- Common rules of operation
- And adequate infrastructure

The new national Energy Laws and the Memorandum would ensure the first two points, but the Minister mentioned a number of necessary infrastructure projects which would be required. The European Commission thanked the Minister for his helpful and timely attention to infrastructure projects.

New memorandum of Understanding

2. The Commission introduced the new Memorandum of Understanding, which now incorporated the arrangements for a gas market and environmental requirements and contained commitments to implement the general provisions of the new EU Directives on gas and electricity, though with a slower market opening. The Commission reflecting the discussions at the Permanent High Level Group on this issue, stated that it should sign the Memorandum on behalf of Member States, but it was anticipated that Austria, Greece and Italy, plus Hungary and Slovenia after May 2004, would explicitly be identified as full participants of the market.

The Memorandum would be signed at the Ministerial on 8/9 December, and the work on drafting the legally binding document, if authorised by the European Council, would also begin in early December.

3. The Forum warmly welcomed this initiative undertaken by the Commission and stressed the need to move along with the legally binding document that will ensure that all countries are engaged in bringing forward all the necessary measures for the proper functioning of the regional energy market.

Institutional compliance

4. The Forum concluded that the benchmarking is a key tool in determining the degree of advancement of the countries in meeting the main prerequisites linked to the creation of the REM and determining their need for support. It should be done on a regular basis and should include the following:
 - Verification if there are gaps in laws or regulations;
 - Gaps in terms of human resources and their training;
 - Summary definitions of gaps in needed support and the estimated cost.

There should be communication of the results to all relevant parties, notably donors and IFIs.

5. The Commission stressed the need for strong and independent regulators in each country and CEER provided a proposal for Regulatory Benchmarking Standards, developing work from previous meetings. The proposal was adopted, together with the need for an annual benchmarking process.

Amongst the most important stipulations for Regulators were:

- Independence
- Competences:
 - market design, operation and monitoring
 - access to information
 - role in environmental issues (eg emission trading)
- Enforcement powers
- Procedural transparency and accountability of the Regulator.

The Commission thanked CEER for carrying out this outstanding report and called on the countries to make considerable efforts to comply with the standards as those are outlined in the report. The Commission will issue an Implementation Programme with respect to the monitoring process, as it is described in point 10 of the Memorandum, which among others will incorporate the standards set out by CEER. The Commission will report at the next Forum.

6. ETSO presented the first benchmarking report on the status of reform and creation of SEE Transmission System Operators (TSOs). In all countries, there were still steps required to complete the work. The Commission thanked ETSO for the work and underlined the need for unbundling of TSOs and separation from generation. The benchmarking would be updated annually.

Amongst the most important stipulations for TSOs was the need:

- Urgently to complete national legislation in some countries on establishment of legally unbundled TSOs, separated from the state-owned vertically integrated company;
- To publish separate annual accounts for the TSO;
- To enact legislation for regulated and equal third party access to the network, with published network tariffs.

The report pointed out that although the countries have made some progress towards unbundling TSOs, fundamental issues yet need to be resolved.

The Forum invited ETSO, in close collaboration with SEETEC which will be providing expertise, to carry out a benchmarking exercise to determine gaps in legislation and to quantify technical and other support needed by Southeast European countries in creating TSOs. To this end ETSO will present an in depth benchmarking report at the 4th Athens Forum.

7. The timing of CEER and SETSO annual benchmarking reports should be coordinated and contribute towards the report to be presented annually by the Regional Regulatory Committee when formed under the new Memorandum of Understanding.

Internal Market Issues

8. ETSO TF presented an operational proposal for the South East Europe Cross Border Trade (CBT) mechanism implementation. As from the 2nd Athens Forum, this showed a two stage implementation, with two compensation funds corresponding to the two synchronous zones. Results of calculations on cost claim and financing for the second CBT fund financing were presented. Operation of the mechanism is proposed to begin in January 2004 with a six month “dry run” period, followed by real operation of at least the second fund (including most of the SEE countries) in July 2004.

CEER stressed the importance of operation on a real basis and urged SETSO to resolve the remaining problems during the six month “dry-run” period, namely:

- a) the problem with the pancaking effect when flows from the existing ETSO-CBT zone cross the SEE region to be delivered to another ETSO-CBT country;
- b) the possibility to have a single ETSO fund throughout Europe (including the SEE region)
- c) The inclusion of Croatia and Bosnia and Herzegovina.

SETSO expected these problems to be solved during the first six months virtual operation. CEER congratulated SETSO on the excellent work done so far, and offered support to resolve all outstanding issues before the next Forum.

CEER and ETSO stressed the importance of the North-South reconnection of the two UCTE zones and for the implementation of the CBT in SEE and urged all relevant stakeholders to undertake all actions necessary to resolve this issue.

The Forum congratulated ETSO on the huge work carried out to this effect and adopted the proposal.

9. A Paper on Congestion Management in SEE region and Net Transmission Capacity (NTC) was presented by the ETSO as a first step of work on Congestion Management issues. ETSO as instructed by the 2nd Athens Forum, has calculated, harmonised and published SEE NTCS on the public ETSO website both for winter 2004 and summer 2003. In the next six months, before the next Athens Forum, ETSO is invited to organise a series of planning meetings and workshops in close collaboration with the Regulators and other Athens Forum participants who are indispensable for supporting its work and making further progress possible.

A summary of projects needed for the actual Congestion Management Implementation will be provided by ETSO at the 4th Athens Forum. It is likely that further support will be sought from the donors’.

10. EdF presented the Terms of Reference on the development of a the Regional Grid Code. The participants welcomed the initiative and stressed the need for a regional grid code to be developed taking into account the necessities stemming from the market design and incorporating input from ETSO and UCTE. EdF was invited to take on those comments and to present the kick-off report at the next Forum.
11. CEER introduced the Position Paper on the Standard Market Design Model for the Regional Market, and presented proposals for implementation. The Forum considered the proposals. The Commission noted the vital importance of creating a wholesale market mechanism at regional level providing adequate liquidity for the region as a whole and was supported by CEER and EFET. The Forum, while recognising the importance of promoting competition in wholesale electricity trading considered that further detailed work on the proposal was necessary and invited the Working Group of CEER, in very close consultation with all other relevant bodies, and notably ETSO and UCTE, to draft the detailed market design paper to be presented at the next Forum.

The Forum welcomed the initiative taken by CEER and invited the Commission and CEER in close collaboration with ETSO, UCTE and the donors to conclude an Action Plan by the end of 2003 and also to elaborate further the Detailed Market Design. A paper on the Detailed Market Design will be considered at the 4th Athens Forum.

12. The European Federation of Energy Traders gave an overview of the Trading situation and challenges in the region, mentioning above all the need for transparency and market based mechanisms.

The Commission supports the need to reform the trading practices in the region. The Forum invited EFET to put its comments in writing and to make suggestions as to how to remove the most serious impediments to increased regional trade. The Forum also asked EFET and Eurelectric to elaborate a ‘best practice’ paper to guide the region in introducing the regional market. The paper will be introduced to the next Athens Forum.

13. The Commission reminded the Forum of the need to implement the commitments on accounting and corruption contained in the current (November 2002) Memorandum.

Security of Supply and Infrastructure

14. The Forum concluded the absolute priority of the North South connection for the two UCTE zones and implementation of the UCTE Handbook. The Forum underlined the need for active support from the donors on this issue.

Rules on security of supply, as would shortly be introduced in the EU, should be adopted in parallel in the SEE region.

15. The World Bank presentation on generation investment was accepted by the Forum. Attention was drawn on the following issues:

- consensus between countries and donors;
- the Contractor (PWC) to collaborate with CEER, ETSO and UCTE
- all countries of the SEE region (as per the Memorandum of Understanding) to be taken into account in the preparation of the relevant study, and not just those of the CARDS region

The Commission agreed to ensure this.

CEER made it clear that long term signals from the market were needed to ensure appropriate investments.

16. UCTE presented the state of play on the development of the UCTE Operational Handbook and the inter-TSO multilateral agreement aiming at providing a first step mandatory European reliability standards that must be applied at both the regional and global UCTE level and affect the countries of the region independently of reconnection conditions and timing.

Addressing the system adequacy issue, UCTE called for a harmonized regulatory framework especially at the scale of regional markets aiming at:

- Improving the legal/administrative procedures and funding modalities for the necessary development of the generation and transmission infrastructure allowing compliance with the a.m. reliability standards;
- Avoiding any incentive towards long-distance bulk energy transits.

UCTE further presented a paper on the global aspects of the reconnection scheduled as of now for mid-end 2004 provided that infrastructure funding issues in BiH and a final operational agreement on the new control blocks is achieved.

Finally UCTE set out the on going work with the objective to keep Albania interconnected with UCTE and called the Forum for facilitating the implementation and the financial backing of investment commitments by Albania.

The Forum supported this important contribution by UCTE.