



MINUTES

EASTERN PARTNERSHIP PLATFORM 3: "Energy Security"

3rd WORKSHOP OF EASTERN PARTNERSHIP ENERGY REGULATORY BODIES

27 - 28 May 2014 - London

"BUILDING REGIONAL ELECTRICITY MARKETS"- REGULATORY ASPECTS OF MARKET INTEGRATION

Summary:

The 3rd workshop of the Eastern Partnership energy regulatory bodies took place in London on 27 and 28 May 2014. It was co-organized by the European Commission and the Council of European Energy Regulators (CEER). It contributed to the objective "approximation of regulatory frameworks" of the work program for the period 2014-2017 of the Eastern Partnership Platform on energy security.

The audience included regulatory authorities from the EU and the partner countries as well as ministry representatives and other bodies (INOGATE, ECRB). The participant's lists as well as the agenda are attached to the minutes.

The overall aim of this year's workshop was to convey the basic principles of EU market integration to the Eastern Partners and to discuss key priorities in individual national electricity markets in the Eastern Partnership region.

The workshop was complemented by a field trip to the UK site of the BritNed Interconnector¹ on 28 May 2014. The BritNed Interconnector is a major new cross border electricity link in Europe (between Great Britain and the Netherlands) and represents a good example for a step towards a common European energy market. As the workshop discussed aspects of regional market integration, participants had the chance to experience how cross border linkage are operated and put in place in practice.

The minutes and all PowerPoint Presentations held both during the workshop and the field trip are publically available on the following web-sites:

CEER:

http://www.ceer.eu/portal/page/portal/EER_HOME/EER_INTERNATIONAL/CEER_Eastern_Partnership/3rd_EaP_Workshop

¹ Located on the Isle of Grain

European Commission:

http://ec.europa.eu/energy/international/eastern_partnership/eastern_en.htm

The results of the discussions will be reported to the Eastern Partnership Platform on Energy Security on 23 June 2014.

Workshop meeting on 27 May 2014

Participants were **welcomed** by Lord John Mogg, President of CEER, Marion Schiller-Probst, international relations officer in Directorate-general Energy of the European Commission and Hrachik Tsughunyan, Head of the Development Department in the Ministry of Energy and Natural resources of Armenia. Speakers underlined the changes which occurred in all partner countries during the last years in the energy sector and the need to continue cooperation with the EU on energy related issues not only at bilateral but also at regional level.

Speakers highlighted the importance of technical seminars such as this workshop and particularly appreciated the fact that policy makers and regulators could come together and conduct an informed dialogue with relevant experts, thus, effectively complementing the ongoing policy dialogue.

The morning session was moderated by CEER Vice-President Michel Thiollière. This session focused on the European electricity market and its target model including regional case studies on the Central East and Central South European regions. Speakers elaborated on the objectives of electricity market integration and the progress made in Europe to date. They also explained fundamental approaches in relation to regional market building such as the concept of market coupling. The presentations also covered the benefits and challenges experienced in the process of establishing regional markets.

As a precondition for a functioning integrated market the need for a solid governance system was highlighted. It was outlined that such a system should ideally include all relevant stakeholders, particularly on the policy, production, transmission and consumer sides. The key message delivered in this session was that domestic and industry consumers could highly benefit from a functioning regional market if a top down policy vision formed the basis for regional cooperation and effective regional governance systems. Technical assistance on these issues is already ongoing via twinning projects between EU regulators and authorities from the partner countries as well as via the INOGATE programme including in the area of electricity on regulation and markets, standards and cross-border trading.

Two concrete examples for successful market integration in the Central-East (Austria and its Eastern Neighbours) and the Central-South (Italy-Slovenia) regions were presented.

Questions from the audience focused mainly on the difficulties and costs of market coupling, the difference between commercial and physical flows, the implementation of harmonized network codes and its implications for already existing national regulations and the governance of the different market models.

The **afternoon session** was moderated by Mr. Hrachik Tsughunyan from the Ministry of Energy of Armenia as partner country representative. This session focused on the

circumstances, characteristics and priorities in the national electricity markets of the partner countries. A representative from each of the six Eastern countries gave a short presentation about their national electricity sectors and potential for cooperation.

Armenia highlighted that energy security and energy independence are key priorities in the national electricity sector. It was reported that Armenia wants to achieve these goals by diversifying sources of energy supply but also by preserving and developing nuclear energy, enhanced regional cooperation, stable funding and economic efficiency. The presentation also touched upon possible cooperation with Armenia's neighbours and pointed out that cooperation/integration with Georgia is a feasible option for both sides.

Azerbaijan provided an overview of the national generating capacities/facilities and showed how these grew over the last decade. Future projects were also mentioned underlining the sector's dynamics. It was stressed that Azerbaijan's territory is 100% electrified and used state of the art technology for grid development and oversight. It was also reported that Azerbaijan is a net exporter of electricity to its neighbouring countries Turkey, Iran, Russia and Georgia and that particular importance will be given to the Energy Bridge Azerbaijan-Georgia-Turkey in order to export more electricity to Turkey via Georgia in future years. The presentation also covered data on load profiles and energy efficiency.

Georgia named the main priorities in its energy sector to be the development of transmission infrastructure and generation capacities (especially renewables), liberalization of electricity markets, the introduction of modern trade mechanisms as well as strengthening cross-border capacity and improving regulatory capabilities. Necessary legal amendments and new market rules were presented in this context. Georgia also pointed to the benefits of market liberalization for Georgia and positively mentioned the Twinning project carried out with the Austrian Energy Regulatory Authority E-Control Austria.

Belarus presented a thorough picture of its electricity market explaining the governing system of the market, the tariff regulation process and the transmission profile of the country. The presentation also gave insight into regional import/export relations, particularly with the Baltic states and Russia (synchronous BRELL area) and explained transit flows through Belarus. Special attention was given to Belarus' membership in the Eurasian Union together with Russia and Kazakhstan which builds on the already existing customs union among these countries. It was reported that a common electricity market was one of the aims of the Eurasian Union. A roadmap outlining the steps to take until 2019 was presented in this context.

Moldova elaborated on the electricity market rules, supplier switching process and renewables generation/support in the country. In addition, the Moldovan representative explained the roles and responsibilities of the different market participants and provided an overview on the generating facilities in Moldova. In terms of regional integration, the existing lines between Moldova, Ukraine and Romania were highlighted in addition to future projects with these countries and the integration to the ENTSO-E system.

Ukraine mentioned the key tasks and challenges the regulator faces in the electricity sector, notably the improvement of natural monopoly regulation (tariffs), regulatory support for renewables, accession to electricity networks, creation of functioning wholesale markets, increased service quality and energy efficiency (in the longer term). In this context, the main

changes of legislation were outlined and details on the process made in each of the areas mentioned were presented.

The individual country presentations were complemented by an insight on the cross-border activities in the Energy Community. The presentation provided an overview of the Energy Community's approach and potential blueprints for the Eastern Partnership region. Provided the political will for cross-border cooperation in the electricity sector is there, the following main elements based on the lessons learned in the EC process were highlighted to participants: the need to have independent regulators in place and operating; the need to unbundle generation and transmission; start coordination between countries at an early stage (at ministerial, regulatory and TSO level); the need to have a legal framework for cross-border issues in place from the beginning of an integration process including harmonized grid codes as well as market and balancing rules; a rigid and systematic management of flows and monitoring capabilities. All these elements should ideally result in a long-term regional action plan.

Questions of participants included the progress of the creation of the Eurasian Customs Union and its implications on developing a common electricity market, the prospects of installing or further developing independent regulators in the partner countries and the progress on developing new legislation in the partner countries.

The European Commission rounded off by providing an outlook on integrating third countries into the EU Internal Electricity Market. The speaker embedded the issue in the context of the third internal energy market package and the progress made so far as well as the challenges ahead within the EU. It was noted that challenges still remain notably in the area of infrastructure and in terms of establishing appropriate and well-designed public interventions systems, the integration of renewables and the need to reduce costs and prices for the consumers. Despite these challenges, the main aim is still to complete the regulatory framework of the internal energy market by 2014. It is of key importance for the EU to cooperate with all its neighbours on these issues. There is cooperation ongoing with a variety of non-EU partners taking regional and national differences of individual partners into account. As to the future, cooperation with other interested partners may/will start with the longer term perspective of approximation to the EU market once the conditions in both the EU and the partner countries or regions are ready for it.

During the **wrap-up**, speakers welcomed the progress made in the workshop since 2012. It is considered a very useful platform bringing together regulators and decision-making authorities as well as civil society. Security of energy supply and diversification of sources and routes were again underlined as being the main driving factor for cooperation and solidarity within a rather heterogeneous region. The workshop clearly showed the important bottom-up work of independent regulators for the market by adding transparency, stability, predictability and visibility. The presentations given by partner countries showed their will to continue being involved in the harmonization of the markets and their efforts undertaken in reforming and adapting their national systems. Partner countries called for further strengthening the capacity of qualified experts in their countries. In order to improve coordination of the workshop activities and to facilitate informal contacts and meetings between yearly meetings, it was suggested to create a network of key contact persons per partner. The results of this workshop will be reported during the up-coming 11th meeting of the Eastern Partnership Platform on energy security in Brussels on 23 June 2014.

Field trip to the BritNed Interconnector on 28 May 2014

The workshop included a visit to the BritNed Interconnector. Staff at the Interconnector site held a presentation on the history and the objectives of the interconnector. The multinational undertaking is operational since April 2011 with a capacity of 1000 MW high voltage direct current transmitted via a 260 km long underground cable. In the presentation BritNed operators explained its design and construction, its technicalities and operational system as well as its trading products and the related customers support. The operators gave high importance to all issues related to highest safety standards including monitoring and survey mechanisms and technical reliability of the system. They also informed about the integration of the North West European Market coupling and its links with the South-West European region. Commercial risks like the lack of market spread and/or of liquidity, asset reliability and availability as well as ongoing regulatory changes linked to the implementation of the 3rd Energy Package were pointed out.

Participants were very interested to know about the trading system via the different types of auctions (explicit and implicit) and BritNed's linked auction products as well as issues linked to the technical operation of the system.

Enclosures: Agenda, participants list