IVth Regional Energy Conference - Energy development and integration of regional markets

Results from the liberalization of the electricity market in Romania and perspectives for integration of energy markets on regional level

In 2012, the net power available in the Romanian power system was **18,8 GW**, approx. 8% higher than the previous year. The increase was mainly due to the commissioning of a large number of wind generation capacities. Due to a generous support scheme the evolution of the installed capacities using renewable sources sharply increased in the period 2010-2012 (from 560 MW to 2300 MW). The total amount of electricity supplied to the network in 2012 by producers, was around 54 TWh. Romania is an electricity exporter in the region; last year was an exemption due to the severe draught and Hidroelectrica's insolvency. In the first quarter of 2013, the electricity consumption was covered around 42% from fossil fuels, 29% from hydro, 21% from nuclear and 8% from wind.

Two support schemes for generation power plants, approved by the European Commission, are in place: the support scheme to promote electricity produced from renewable sources (a *green certificates* scheme) and the support scheme for promoting high efficiency cogeneration, a *bonus* type scheme.

Electricity market in Romania is composed of the **regulated market and the competitive market**, and the energy transactions are **wholesale or retail**. The increasing competitive market share is achieved gradually by ensuring the market access for as many participants, producers, suppliers and end customers as possible. Electricity transactions are carried out in the competitive market in a transparent, public, centralized and non-discriminating manner. A number of centralized markets are defined: day-ahead market, centralized market of bilateral contracts, intra-day markets and balancing markets.

The number of electricity market participants has increased yearly, at the beginning of 2013, the active market participants were:

- 27 generators,
- the Transmission System Operator – CN Transelectrica SA
- the Market Operator SC OPCOM SA
- 8 distribution operators with more than 100.000 customers
- 71 suppliers (5 incumbents/suppliers of last resort).

The **wholesale electricity market** is divided into the following components:

- **bilateral contracts** (regulated, negotiated or concluded through auctions on centralized markets).
- transactions concluded **on the day ahead market** (DAM) or intra-daily market (ID), in which participants adjust their contractual position or to gain profit from the difference between the contract price and the spot price.
- **balancing market (BM),** which covers differences between notified production and consumption forecast. For imbalances participants assume financial responsibility.

For a greater transparency on the competitive market was organized **Centralized Market for Bilateral Contracts**, which includes two ways of trading, i.e. trading means that contracts are awarded through public auction **(CMBC)** and the method of trading that contracts are awarded through a combined process of auction and negotiation (CMBC-CN). Centralized Market for Bilateral Contracts was completed at the end of 2012 with an organized market for high industrial customers (CMHC).

In the wholesale market are also included the transactions on the **ancillary services market** and on the **interconnection capacities market**.

According with the provisions of the Electricity and Natural Gas Law no. 123/2012, on the competitive market, **commercial transactions of electricity are performed in a transparent, public, centralized and non-discriminatory manner**. This involves eliminating the possibility to conclude negotiated bilateral contracts on the wholesale electricity market.

Law no. 123/2012 establishes similar principles and for ancillary services transactions, which the transmission system operator must perform on the basis of transparent, non-discriminatory and competitive mechanisms.

The **electricity retail market** has also two components: the regulated and the competitive part. On the competitive retail market around of 55% of final consumption is traded. The retail regulated market covers the consumptions of customers which choose not to change the supplier and in 2012 represents 45% of the final consumption.

Memorandum of Understanding signed with the European Commission and Letters of Intent signed with the International Monetary Fund include **the requirement for removal of regulated prices for industrial consumers and households in the electricity sector**.

Based on evaluation studies that measure the impact on end users who have not exercised their eligibility, the Romanian authorities have proposed a gradual approach to the process, which will take place in the period 2012/2013- 2017/2018.

The subject of the gradual elimination of tariffs/prices was taken over by the Electricity and Natural gas Law no. 123/2012. So far **the first 4 stages of the deregulation of electricity prices for non-households have been implemented** and it **was completed the first phase of deregulation for households**, according to the road-map of phasing-out regulated electricity supply tariffs to the final consumers, approved by the Government Memorandum in March 2012.

According to the law, the unbundling of the public entity that represents the state as majority shareholder in operators engaged in production and supply activities, on the one hand, and public entity representing the state as shareholder in transmission system operator, on the other hand is done by the Government, through a normative act proposed by the relevant ministry. **The unbundling measures asked by the law were adopted in 2013, through the Government Emergency Ordinance no.18/2013, which entered into force on 27 of March 2013**.

Given the fact that the electricity transmission system in Romania is public property, the chosen unbundling model was **independent system operator**. This model allows the certification of the transmission system operator in compliance with European provisions, and at the same time maintaining the existing ownership and providing also an effective unbundling of transmission activities from production and supply.

Mention should be made that legal separation of the activities of generation, transmission, distribution/ supply of electricity in Romania has been done since the year 2000.

Transmission service tariff is determined using the **revenue cap** methodology. Transmission tariffs differ by nodes (zones) depending on the impact of the injection or extraction of electricity into/ from the nodes of the transmission grid. This impact is expressed as the transmission nodal marginal cost. Transmission tariffs are approved annually by ANRE and come into force at the beginning of each fiscal year. Mention should be made that a new methodology for transmission tariffs was approved for the third regulatory period. **Starting with January 1, 2014 the transmission tariff for extracting electricity from network (T_L) will be removed for exports.**

All 8 companies acting as distribution operators have completed the process of legal unbundling of electricity distribution activity and electricity supply activity in 2007. Electricity distribution operators having less than 100.000 clients are not forced to unbundle the distribution activity from other activities of the company in accordance with Directive 72/2009/EC concerning common rules for the internal electricity market.

Distribution tariffs are monomial (lei/MWh) and differentiated by three voltage levels: high voltage (110 kV), medium voltage, low voltage and by distribution operators. The regulator sets distribution tariffs for each distribution operator. Distribution tariffs are calculated according to a "tariff cap basket" methodology. Based on this regulation method, regulation periods are set for 5 years, except the first period which was of only 3 years (2005-2007).

The allocation of interconnection capacity on the National Power System interconnection lines with neighbouring EU systems, for electricity import/export and transit activities, has continued to be coordinated and done through explicit auctions on long-term (annual and monthly) and short-term (daily and intra-daily).

ANRE continued to cooperate with regulatory authorities in neighbouring countries in order to ensure an uniform application of the provisions of the Regulations 714/2009/CE. In this context, particular attention was paid to cooperation with Bulgaria and Hungary in order to promote the implicit allocation of interconnection capacity and market coupling aspects.

Meetings of the Romania-Bulgaria Working Group on project preparation and implementation of electricity market coupling took place in February and October 2012. Cooperation should continue to comply with the 2014 target regarding the European market integration.

On 11th of July 2013, representatives of national regulatory authorities (ERU, URSO, Mekhi, URE and ANRE), transmission and system operators (CEPS, SEPS, MAVIR, PSE and Transelectrica) and the market operators /energy exchanges (OTE , OKTE, HUPX, TGE and OPCOM) from the Czech Republic, Slovakia, Hungary, Poland and Romania have signed a Memorandum of Understanding regarding the cooperation to accession of Romania and Poland to the integrated day-ahead electricity markets from the Czech Republic, Slovakia and Hungary.

National electricity market coupling according to the target model - **Unique coupling through price** used for electricity trading on day ahead market and implicit allocation cross-border transmission capacity - should lead to a harmonized approach to market organization, a more efficient cross-border transmission capacity, an increase in competition, wholesale electricity prices more stable and convergent, and a greater market liquidity.

In this process PXs faced two major challenges: implementation of PCR solution to be compatible with NWE project and decision on Market Gate Closure Time (11h00 or 12h00). A conducted survey among market participants in all involved markets showed different expectations.

Based on survey results all five NRAs commonly concluded that the Market Coupling project: will start with 11h00 GCT, involve the day-ahead electricity markets of the Czech Republic, Slovakia, Hungary, and Romania, coupling with Polish market will be implemented in the context of CEE FBMC, compliance with NWE region will be sought as much as possible. Close cooperation and information exchange between Polish parties and CZ-SK-HU-RO MC Project will continue.

The future developments of the electricity sector and ANRE's activities envisage:

• **Full implementation of the third package provisions**. The transposition process was concluded by issuing the Electricity and Gas Law 123/2012 and Law 160/2012 regarding the organization and functioning of ANRE,

• **Gradually phasing-out the regulated tariffs for final customers and development of competitive electricity market**. The Law no. 123/2012 provides the gradual phasing-out of regulated tariffs for non-households and households customers by ensuring the affordability of measures by the final customers. The Law includes also the principle of „non-reversibility" of regulated tariffs, once a customer has opted for the competitive market;

• Ensuring **customers' protection –** identification of the vulnerable customers and measures to protect them, empowerment of customers;

• **Consolidation of competitive markets for electricity** through increased transparency and centralizing transactions. According to the law, ANRE has the power of investigation of electricity markets functioning, decides and imposes any necessary and proportionate measures to promote effective competition and ensure the proper functioning of the market. By case, the regulatory authority also has the power to cooperate with the Competition Council and with financial market regulators or with European Commission for investigations in the field of competition law;

• **Monitoring the operation of the electricity market** to evaluate the level of efficiency, transparency and competition, the continuity of supply and monitoring the application of support schemes for the promotion of electricity produced from renewable energy and high efficiency cogeneration in order to avoid overcompensation;

- **Attract new investments in the sector.**