

Issues Confronting CERC

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Issues confronting CERC

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| • Problems within the sector | •CERC problems |
| • Restructuring | •Organization |
| • Privatisation | •Indipendence |
| • EU | •Incomplete legal framework |
| • REM | •Cooperation with a non-profit organization |
| • UCTE | •Cooperation with Croatian Government and Parliament |
| • Technical standards and quality of service | •Continuity |
| • Other issues | |

Restructuring

- Electricity
- Gas
- Heat sector

Restructuring Electricity sector

- Unbundling – legal
- Functional unbundling –under way
- Instituting the market
- Institutions are created
- Rules have to be defined

Restructuring Gas Sector

- Functional and legal unbundling
- Rules in the final stage of preparation (market rules, grid code)
- Supply – reforms expected
 - Possible developments: creation of SO
 - Mergers & acquisitions - probable

(re) Structuring of Heat Sector

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| • Legal framework | • Technical requirements |
| - Law on generation, distribution and supply of heat under preparation | - Metering |
| - Market activity with regulated prices | - Regional differences (season/day regime) |

Privatisation

- HEP
- HEP group is privatised as a whole
- Until entry into the EU HEP shall retain exclusive ownership of its subsidiaries performing the activities of electricity transmission and distribution (i.e. Due to transmission and distribution networks)
- 51% is retained by the Republic of Croatia up to the accession
- INA Group
- Law defines INA p.l.c. as a vertically integrated company which is to be privatised as a whole
- CERC is excluded from the procedure
- 25% +1 share are retained by the Republic of Croatia, to be privatised in accordance with a separate law upon admission to the EU

Privatisation contd.

- HEP
- Ownership - according to the group, not subsidiaries
- 7% War veterans & families (Free of charge)
- Up to 7% to former and current employees, under privileged conditions (determined by the Government)
- No less than 15% initial public offering
- Residual shares: compensation for former owners, sale on capital market
- INA
- 7% War veterans & families (Free of charge)
- Up to 7% to former and current employees, under privileged conditions (determined by Government)
- No less than 15% initial public offering
- Strategic investor up to 25%
- Residual shares: compensation for former owners, sale on capital market

EU

- Applicant for membership (since February 2003)
- Goal of Croatia: by 2006 fulfil membership criteria (Including new *acquis*)
- Associated status: 7 out of 15 member states have ratified SAA (as of January 2003)
- General obligations in SAA:
 - enhanced regional co-operation
 - harmonisation of legal system, notably in key areas of the domestic market (such as state aid, competition)

SAA – obligations in energy field

- ART 101 SAA
- Cooperation: reflecting principles of market economy, European Energy Charter Treaty
- Restoration of electricity interconnections of regional importance with neighbouring countries
- Cooperation in formulating and planning of energy policy
- Improvement of access to energy market
- Formulation of framework conditions for restructuring energy companies
- Development of regulatory framework in line with EU *acquis*

REM

- CERC's participation : Participation at all meetings (Rome, July 26 Athens, October 1st, Belgrade, November 5th, Athens January 20th)
- CARDS – EUR 16 mil. 2000-2006 regional transport and energy infrastructure
- Parallel development: creation of market – integration in the region and towards the EU

REM in SEE – REM in the EU

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| • Designed for “One market” (EX Yu) | • Integration of 15 liberalised markets |
| • Gradual integration – in the region /towards the EU | • Physical interconnections missing |
| • Timing – simultaneous toward the (enlarged) EU or sequencing | • Interconnection Capacity |
| • Facilitation of transit (SAA) | • Transborder tariffication |

UCTE

- Union for the Co-ordination of Transmission of Electricity – association of transmission system operators
- Ensuring the technical condition for the reliable operation, guarantee market access
- Coordinating technical rules: basic 50HZ UCTE frequency
- Facilitating transparency of data, standardisation

UCTE Membership

- HEP – member since 1991
- Since 2001, members of the UCTE are as follows:
 - 1) interconnection partners, whose networks lie within the territory of the UCTE
An interconnection partner - management authority responsible for the operation of an electricity system comprising generating plants and a network of transmission lines of voltage 220 kV or higher. The electricity system concerned must make a concrete contribution to the maintenance of equilibrium and international security of operation in the interconnected network.
 - 2) as sole member for a given country, the national association designated by all interconnection partners in the country concerned,
 - 3) as sole member for a given country, a single interconnection partner designated by the remaining interconnection partners in that country.

UCTE/REM/EU

- Converging initiatives, specialised task
- The UCTE has no mandate to intervene in the commercial relations of its members.
- Enhanced co-operation:
UCTE welcomed the new EU guidelines for energy networks in Europe
- Energy Regulatory Forum welcomed UCTE draft for operational standard (power transmission standards)

UCTE/EU

Recent developments: an example

UCTE Assembly approved a resolution on the request of RAO UES Russia for interconnection with IPS/UPS. Consequently,

- UCTE analyses the technical risks identified together with proposals for further investigations.
- Increased cooperation: Simultaneously, the UCTE members consult their own national authorities, EU bodies and other international organizations.
- UCTE completes the assessment of the currently identified risks and consequences as a basis for the final UCTE position

Other regulatory issues

- Regulating oil and derivatives
- Market issues /public service obligations: grid code, market rules, environmental standards, consumer protection
- Definition of requirements
- Protection of environment
- Consumer protection – can international standards be adopted?
- Implementation of CERC resolutions
- Power to impose solutions? (e.g. standards for Public services, infringement procedures)
- Co-operation with other bodies (inspection bodies, competition agency)

Other issues contd.

- Infrastructure in neighbouring countries
- e.g. Electricity sector.

Available installed capacity: 3601 MW

HPP 2076 MW TPP 1525 MW

Abroad: 982 MW

NPP Krško 332 MW, TPP 650 MW