

(Agenda Item nr. 4, Ministerial Council Meeting, 17 November 2006, Skopje)

ELECTRICITY AND GAS ROAD MAP

- THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA -

Background

According to Article 3a of the Treaty establishing the Energy Community (the Treaty), the activities of the Energy Community (the EnC) shall, among others, include the implementation by the Contracting Parties of the *Acquis Communautaire* on energy, environment, competition and renewables. Under the Treaty, the *Acquis Communautaire* on energy is represented by the Directive 2003/54/EC, the Directive 2003/55/EC, and the Regulation 1228/2003/EC (Article 11 of the Treaty). The timeline, as specified in the Treaty's Annex I, asked for this activity to be implemented by July 2007 (within twelve months of the entry into force of the Treaty). The Treaty also sets out the timetable to adopt the necessary measures to open the market to non-household customers by January 2008, and to all customers by January 2015.

Purpose

The implementation of the *Acquis Communautaire* on energy, and the adoption of necessary measures to open the electricity and gas markets for competition are supported by the development of tailor - made Road Maps (Action Plans), by each Contracting Party. These are based on electricity, and respectively gas templates prepared by the Energy Community Secretariat and agreed with major stakeholders in the process, including the Permanent High Level Group members.

Electricity Road Map

*(1) Adoption of the *acquis communautaire**

- Development and adoption of market rules by 2007. As transitional arrangements are envisaged, the rules should aim to minimise the distortion of competition.
- After the recent approval of the transmission grid code proceed to its actual implementation together with the development of the specific business processes.
- Ensure compatibility and synergies between the market rules under development and the recently approved technical rules.
- Review the timetable for legal unbundling between distribution and supply activities.
- Monitor the account unbundling within the electricity undertakings.
- Include legal provision granting eligibility status to all non household customers as from 1 January 2008 (according to the EnC Treaty – Annex I, Para 2).
- Address market based capacity allocation mechanisms in the future market rules.

(2) Market structure

- Monitor the effective account unbundling between distribution and retail supply activities within AD ESM, which is already stipulated in the legislation and the licenses. Clarify the timetable for legal unbundling between distribution and supply activities in AD ESM.
- Develop a distribution grid code.

(3) Wholesale market

- Development and adoption of market rules within 2007 which shall cover at least a description of the market participants, nomination and scheduling procedures, gate closure, the balancing mechanism and the provision of ancillary services. As transitional arrangements are envisaged, the rules should aim to minimise the level of distortion to the market.
- Introduce capacity allocation and congestion management mechanisms into the market rules. Envisage an evolution from the current temporary capacity allocation mechanism based on pro rata to a market based approach using explicit or implicit auctions. Explore the possibility to coordinate with neighbouring TSOs the allocation of capacity using market based mechanisms.
- Study a possible timetable to evolve from the Transitional market provisions, where generation and retail prices are regulated to a market in competition.
- Continue developing the required infrastructure to ensure the effective implementation of the future market rules and recently approved grid code.
- Follow up the decisions adopted at the Athens Forum regarding market transparency and upload the relevant data onto the MEPSO website.
- Extend cooperation between the Regulatory and Competition Authorities.

(4) Retail market

- Decrease current eligibility threshold by the end of 2007 to make sure that all non-households consumers may become eligible from 1 January 2008 as given by the timetable set out in the Annex I of the EnC Treaty.
- Continue the programme for improving collection rates and continue upgrading the transmission and distribution metering systems.
- Implement customer switching mechanisms by the end of 2007, which shall non-household customers to choose supplier by the end of 2008.

(5) Tariff reform and affordability

- Due to the current low level of the tariffs, study the possible implementation of a plan for the gradual increase of the all-inclusive retail tariffs until cost reflectivity is reached noting that the tariff methodologies are in place.
- Develop and implement a scheme to subsidise the supply of electricity to vulnerable customers. The proposed scheme should avoid cross subsidies between customer groups.

Gas Road Map

*(1) Adoption of the *acquis communautaire**

- Developing of legal provisions and implementing of provisions regarding to appointment of a supplier of last resort and vulnerable customers by July 2007.
- Developing legal provisions for monitoring the security of gas supply by July 2007.
- Developing of legal provisions regarding legal, organisational and decision making unbundling of transmission activities (although the legal, organisational and decision making unbundling has been completed for transmission (GA-MA) and supply activities (Makpetrol) by July 2006, the legal framework is missing) by July 2007.
- Developing of legal provisions and implementing of provisions regarding legal, organisational and decision making unbundling of distribution activities by July 2007.
- Developing of legal provisions for incentives related to new gas infrastructure in accordance with Article 22 of the Directive 2003/55/EC (exemption from TPA and Tariffs provisions) by July 2007.
- Developing of legal provisions for derogation possibilities in relation to take-or-pay commitments and derogation possibilities regarding emergent and isolated markets by July 2007.
- Developing legal provision granting eligibility status to all non household customers as from 1 January 2008 (according to the EnC Treaty – Annex I, Para 2).

(2) Market structure

- Drafting and implementing the secondary legislation (necessary regulations, communiqués and decisions etc.) related to Energy Law by end of 2007.
- Establishing a market structure and defining a clear role for each market players (service providers and traders) especially effective unbundling of distribution system operators.
- Developing a set of analytical and monitoring tools for long term supply and demand perspective.
- Promoting the development of transmission and storage infrastructures taking into account the exemptions.
- Developing and creating a methodology for promotion of gasification of cities taking also into account the results of the Gasification Study carried out under lead and auspices of World Bank/KfW (first results expected at the end of 1st quarter 2006).
- Establishing electronic bulletin boards for transparent and non-discriminatory capacity allocations and trade.
- Expanding the dialogues with third countries for transit transmission and regional projects.
- Implementing the technical rules and standards (network/system code/s, for transmission, distribution and storage) for operations of natural gas infrastructures within 2007.
- Completing the technical rules required for facilitation of cross-border trade and improving the functioning of gas market flexibility by January 2008.

(3) Wholesale market

- Ensuring and implementing transparent and non discriminatory rules on gas markets including capacity allocation, balancing rules.
- Monitoring of the proper functioning of market in terms of prevention, restriction and distortion of competition (*acquis on competition* Annex III of The Treaty establishing Energy Community).
- Creating a mechanism for long term market monitoring (data base for each company and each activity)
- Removing all the technical and legal barriers for export and import of gas trade including technical obstacles as well.
- Diversifying supply sources and increasing the security of supply standards (storage, multiple import sources, multiple supply companies, interconnections etc.) including management of crisis situations for short and long term.
- Developing and implementing an international licensing/authorisation mechanism in order to attract foreign investments and allow the presence of foreign investors and operators in the gas market.
- Extend cooperation between the Regulatory and Competition Authorities

(4) Retail market

- Decrease current eligibility threshold by the end of 2007 to make sure that all non-households consumers may become eligible from 1 January 2008 as given by the timetable set out in the Annex I of the EnC Treaty.
- Developing and facilitating customer switching mechanism and providing transparent and non discriminatory switching rules for each customer (without any additional costs or consequences).
- Improving the collection rate through technical (such as prepaid meters) and legal framework (penalties and cut off gas etc.).
- Improving the procedures for customer complaints and customer connection to the gas system.

(5) Tariff reform and affordability

- Developing and implementing the cost reflective tariffs by end of 2007.
- Eliminate cross-subsidies between different customer groups and different activities.
- Developing and implementing gas sale prices in line with EU standards.