

***“Update on SEE and the role of the ECRB”***

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**1. Introduction**

It is my pleasure to present you the Energy Community (EnC) process an impressive achievement of regional cooperation in the energy sector, in fact a major achievement for peace and stability in a region of recent conflict. This was a process that prompted the countries of South East Europe to join their efforts with the European Union to form an energy market embracing most of the european continent as the biggest single energy market in the world.

**2. The Energy Community Treaty (EnCT)**

The European Commission, with the support of the International Donors Community, initiated in 2000 the Energy Community process in order to create regional electricity and gas markets in South East Europe (SEE) harmonized to the EU energy liberalization acquis. The ultimate goal is to integration, at the appropriate time, to the EU Single Energy Market.

The Treaty establishing the Energy Community, signed on October 25, 2005 in Athens, by, Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and UNMIK, as Contracting Parties and by the European Commission on behalf of the EU, constitutes the legally binding framework enabling the achievement the above aims. Turkey, the Ukraine, Moldova and Norway, aspirant members to the Treaty, have applied for and have been granted Observer status. The Treaty was ratified by national parliaments and the EU and came into force on July 2006.

The Treaty assigns to the European Commission the important role of co-ordinator of the Energy Community activities. Significant, in fact unique, is the Treaty provision (under its Title III) that obliges seven EU countries (Austria, Bulgaria, Greece, Hungary, Italy, Romania, Slovenia) naturally integrated or directly affected by the functioning of the gas and electricity markets of the Contracting Parties, to implement Measures including in particular the establishment of a single mechanism for the cross-border transmission of electricity and transportation of gas. Such provision recognizes the strong link between energy flows and markets not only within SEE but also with the rest of Europe.

The introduction of radical changes envisioned by the Treaty is accompanied by the mandate to address the social consequences associated with these changes such as the protection of economically vulnerable citizens. This was a result of fundamental lessons learned during the 50-year old process of European integration. On October 18, 2007 an MOU was signed to this effect by the Ministers and the European Commission

The Treaty stipulates the political and legal commitment to introduce to the regional SEE energy market a structured reform based on European energy market rules promoting, among others, competition and environmental protection. To this end, appropriate regional regulatory oversight is strongly supported by international donors such as USAID, CIDA, the World Bank and EBRD who have committed substantial financial resources and expertise to assist in national and regional institutions building and infrastructure development.

At this point we can make a credible claim that the Treaty has **created the largest internal energy market in the world** by integrating in a single trading block the 27 members of the European Union and its neighbours in South East European under a common legal regulatory framework that promotes energy trade and competition.

Strong regional Institutions have been established to oversee and implement the process. The Ministerial Council, supported by the Permanent High Level Officials Group ensures that Treaty objectives are attained. The Energy Community Regulatory Board (the ECRB) has both advisory and decision authority to the extent empowered by the Ministerial Council, The Athens Forum for Electricity and the, recently inaugurated, Maribor Forum for Gas, bring together all interested stakeholders and have an advisory role in the Energy Community, similar to that of the Florence and Madrid Fora in the EU. The Energy Community Secretariat (ECS) supports the European Commission and the Energy Community Institutions to carry out their tasks under the Energy Community process and to serve as a monitoring institution.

### **3. Regulatory Cooperation within the Energy Community : The ECRB**

The Energy Community has placed particular emphasis on the regulatory aspect of the regional cooperation, promoting the concept of **independent regulation** as a prerequisite for market orientated reforms in the energy sector. I would like therefore to draw your attention to the Energy Community Regulatory Board and its unique role within the Energy Community Process.

The Energy Community Regulatory Board is a regional institution composed by representatives from the seven energy regulatory authorities of the signatory Balkan countries. The ECRB President is elected from signatory Balkan country representatives while the European Commission acts as the ECRB permanent Vice President assisted by ERGEG and representatives of EU country regulatory authorities that have expressed their specific interest in the Energy Community process. Treaty procedures recognize these representatives of EU country regulatory authorities as Participants. Regulators from Observer countries may be invited to be present in ECRB meetings on an ad Hoc basis.

The role of the ECRB as defined in the Treaty is advisory on statutory, technical and regulatory rules. The Treaty also provides the ECRB with the competence to issue recommendations on cross border issues, and, If so empowered by the Ministerial Council, to decide binding Measures.

The ECRB became fully functional in early 2007 and its General Assembly meets in Athens where it has met to date four times. The ECRB has proposed and approved its Rules of Procedure, and has established three already functioning Working Groups on Electricity, Gas, Institutional and Social Issues.

Under Treaty provisions, a dedicated ECRB Secretariat has been established within the EC Secretariat to support the work of the ECRB and its working groups, and to enhance its independence. The ECRB secretariat has its own head and staff of experienced regulatory experts.

The ECRB **draws on the experience of regulatory cooperation in the EU** to facilitate **coordination** and cooperation of EC regulatory authorities, and works methodically towards the creation of a single regulatory space throughout the Energy Community.

At this stage, work has focused on the development of regional market regulatory principles, in particular for long distance gas transit infrastructure, intra-regional cross-border trade and market monitoring and benchmarking. Considerable progress has been made with the active involvement of TSOs and the cooperation of Traders in the establishment of a regional coordinated flow based congestion management mechanism whose the dry-run phase has been operating for over a year, and the creation of a regional Coordinated Auction Office is now within sight. A gas market benchmarking interim report was also completed recently. Considerable work on the regulation of new long distance gas transit infrastructures has provided the foundation of EU Guidelines that shall be applicable also to the Energy Community. Moreover, issues such as access to energy resources, creation of new regional infrastructure and alternative gas transportation routes incorporating environmental and social concerns, have been part of the broader agenda of the ECRB in its first four meetings and addressed by its working groups.

#### **4. Strategic Importance of the Energy Community**

The main goal of the Energy Community is to develop electricity and gas market competition on a broader geographical scale, achieve trade and regulatory stability, attract much needed investment in infrastructure, enhance security of supply and improve the environment. The ultimate purpose is to bring about the social, economic and political benefits resulting from the reinforcement of privileged relations with the EU and the international donors.

In return for their commitment to implement this goal, the Energy Community Treaty Contracting Parties will benefit from substantial investment provided from international donors, financing institutions and market players, and shall have access to technical expertise and assistance. The development of Integrated Energy Networks across Europe, combined with the strategic position of SEE in the wider cross-regional perspective -- linking Europe with its major existing, and, most importantly, new sources of gas -- shall improve security and reliability of energy supplies and increase competitive forces across the Continent.

Over the coming years, the Energy Community is expected to safeguard development and stability in South-East Europe, and transform it to one of the fastest growing regions in the world.

As a closing remark, I would like to propose the Energy Community as a successful model of further cooperation between the EU and its neighbouring Mediterranean countries. Viewed in a wider perspective, the EC is an excellent showcase of the potential of regional regulatory cooperation and International Community involvement to identify and promote innovative global opportunities in the context of Energy markets.