

# The Role of the AERS in the liberalized electricity market and basic aspects of the market

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# Role of AERS

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**The Energy Agency of the Republic of Serbia (AERS) –**  
an independent regulatory body in the field of energy

***Goal:***

*Creation of a stable regulatory framework which supports reliable and sustainable supply of customers with energy at reasonable prices*

# Role of AERS

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Licensing

Price setting:

- Adopting Methodologies for price calculation network usage and final retail price for universal service (Public Supply) and approval of regulated prices
- Adopting Methodologies for calculation of connection costs
- Determining the price of system services

Approval of Codes (Grid/Market/Organized Market)

Approval of Capacity Allocation Rules and Contracts between the TSO with neighboring TSOs

Dispute resolution – connection/ refusal of TPA

Market monitoring, including the use of cross-border capacities

# Legal Framework for Market Functioning

**EU Legislation, 2nd and 3rd energy package – obligatory starting point (Energy Community Treaty and EU accession process)**

-*Acquis communautaire* incorporated in the Treaty (2<sup>nd</sup> energy package)

-Amendment of the Treaty and adaptation in line with Article 24 of the Treaty (3<sup>rd</sup> energy package)

**NPAA**

**Energy Law**

**Secondary Legislation**

# EU legislation

## Energy Community Treaty:

### **Treaty incorporated the relevant *acquis communautaire* (2nd energy package)**

- Directive 2003/54/EC concerning common rules for the internal market in electricity,
- Regulation 1228/2003/EC on conditions for access to the network for cross-border exchanges in electricity

+ EU competition rules (agreements - prevention, restriction or distortion of competition/abuse of dominant position/public aid distorting competition)

### **Extension of the *acquis communautaire* in 2007 via Ministerial Council decision**

Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment,

### **Amendments and adaptation in line with Article 24 of the Treaty in 2011 – Chisinau Ministerial Council (3<sup>rd</sup> energy package)**

- Directive 2009/72/EC concerning common rules for the internal market in electricity,
- Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity

# Requests of the European Commission

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- Speed up the liberalization of the market
- No price regulation on the wholesale level (purchase for the purpose of re-sale)
- Abolishing regulated prices for final customers (excluding households and small customers – but under certain conditions for them as well)
- Development of regional markets
- Inclusion of the 8. region (SEE) in the single EU energy market by 2015.

# Energy Law

**Drafted with the goal to fully implement the 2<sup>nd</sup> energy package (3<sup>rd</sup> energy package taken into account)**

- Enabled unbundling in the sector
- Defined procedures for constructing and operating new facilities
- Defined the types of markets and market participants
- Defined the support scheme framework for RES
- Confirmed the existence of AERS as an independent regulator and increased its jurisdiction in line with the *acquis communautaire*
- Prescribed the necessary set of secondary legislation which shall fully enable the smooth functioning of the market



# Types of Electricity Markets (Energy Law)

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## Bilateral

Purchase and sale is conducted directly between market participants on the basis of electricity sale (supply) contracts: full supply/predefined quantities for relevant market interval

## Balancing

TSO purchases and sells electricity from market participants for the purpose of balancing and ensuring the secure operation of the system

## Organized – PX

An institutionally regulated relation between supply and demand of market participants with predefined standardized products and physical delivery, on day-ahead and intra-day time horizons.

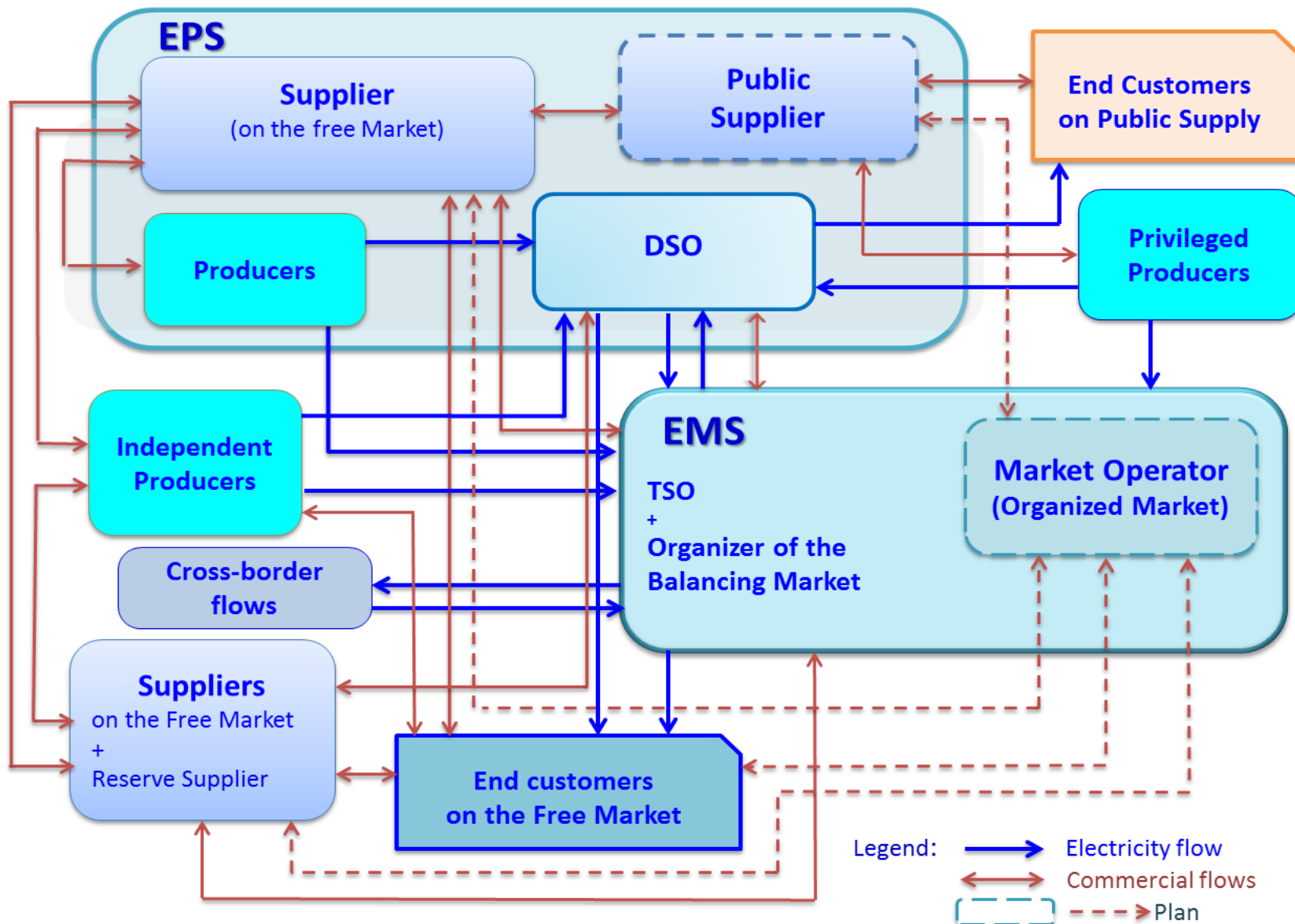
# Electricity Market Participants

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Producers
Suppliers
Public Supplier
Final Customers
Transmission System Operator
Distribution System Operators
Market Operator

All market participants are **balance responsible** and their mutual relations are governed by contracts.

# Serbian Market Model



# Market opening timetable

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## Energy Law 2004:

The Serbian market was potentially open for all customers from 2008, excluding households (from 2015.) – no interested customers to exercise eligibility

## Energy Law 2011:

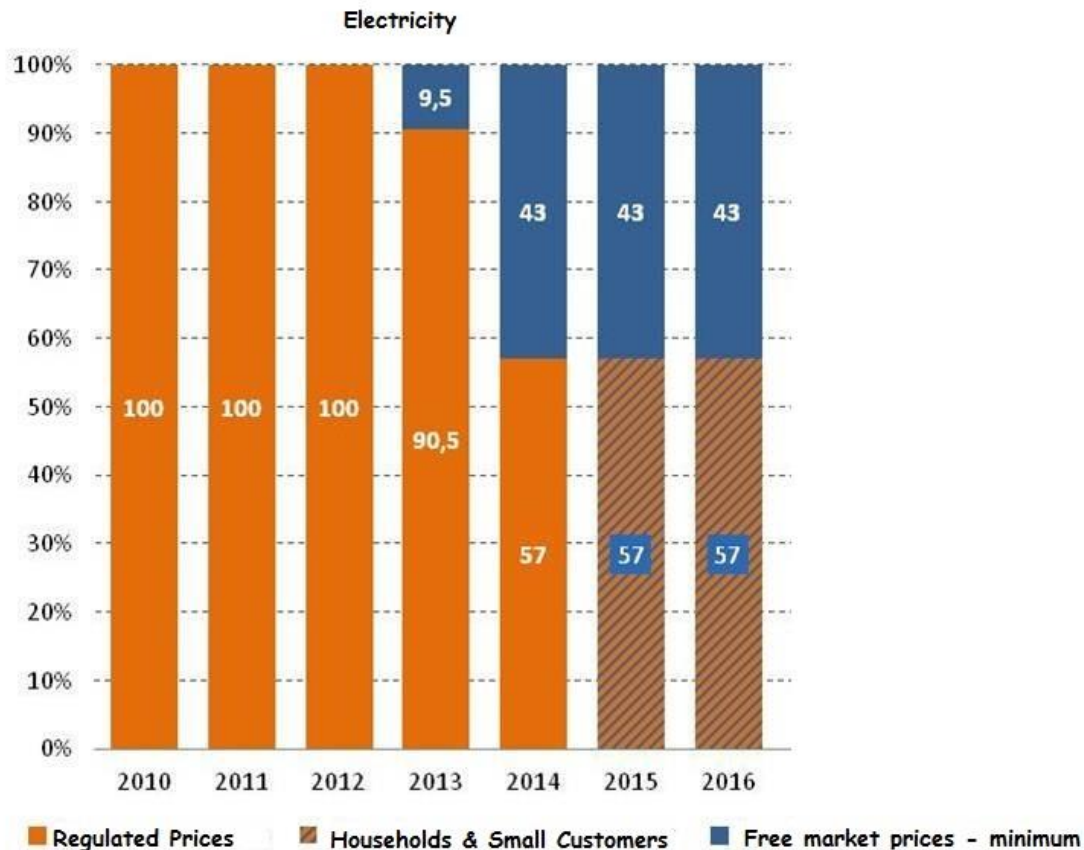
Limited right to supply at regulated prices (universal supply = public supply):

- From January 1<sup>st</sup>, 2013. – all customers connected to the distribution grids
- From January 1<sup>st</sup>, 2014. – only households and small customers

## How are customers supposed to prepare for purchasing on the free market?

- Better knowledge of their own consumption and of possibilities of rationalizing it
- Strengthening the planning function and managing consumption
- Following the development/trends on the market
- (leaving all their “worries” to the supplier)

# Level of Market Opening in Serbia



Obligatory market opening from January 1<sup>st</sup>, 2013 – as prescribed by the Energy Law

The Market shall be fully open as of January 1<sup>st</sup>, 2015. – Households and Small Customers shall have the right to universal supply (not obligatory).

# Secondary legislation

Act	Passed by	Approval
✓ Market Code	EMS	AERS
✓ Grid Code		
✓ Cross-border Capacity Allocation Rules		
✓ Switching Rules	AERS	
✓ Methodology for calculation of transmission UoS charges	AERS	
✓ Distribution Grid Code	DSO	AERS
✓ Methodology for calculation of distribution UoS charges	AERS	

# Secondary legislation (Market and Grid Codes)

## Act

### ✓ **Grid Code**

- Passed in 2008 (amended in 2012)
- Content:
  - Network development planning,
  - Technical conditions for connection to the grid,
  - Grid access,
  - System operation,
  - Exploitation and maintenance of connected facilities,
  - Metering

### ✓ **Market Code**

- Passed in 2012
- Content:
  - Balance Responsibility
  - Balancing Market
  - Imbalance settlement

# Secondary legislation (Switching Rules)

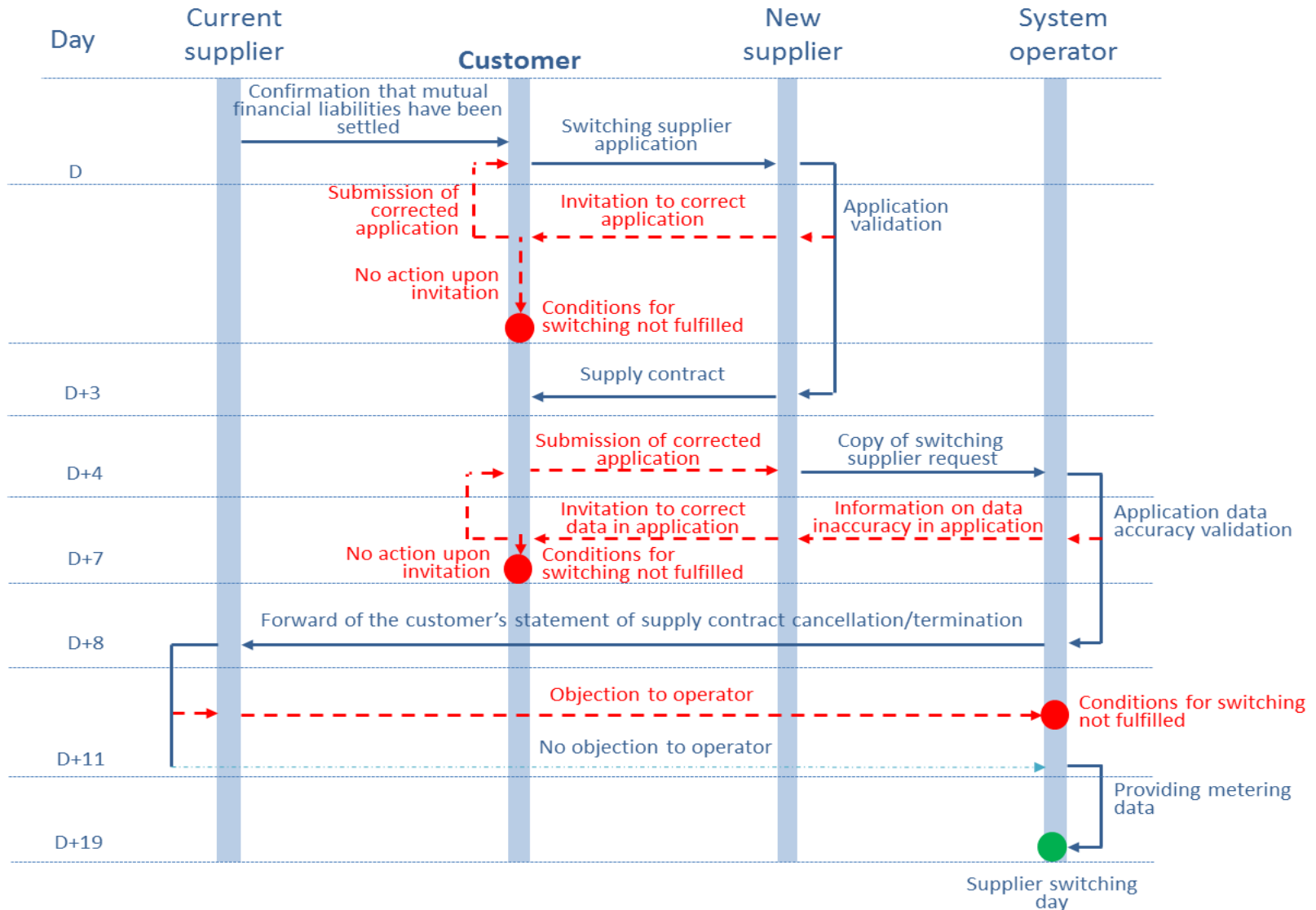
## Act

### ✓ **Switching Rules**

- Passed in 2012
- Extremely important for market participants (suppliers, customers, and system operators)
  - Applicable to full supply contracts only
  - In line with the 21-day EU requirement to finalize the switch
  - Switching per customer initiative (application)
  - Switching in specific cases envisaged by law (reserve supplier, contract termination due to non-payment and discontinuation of delivery of electricity)
- Balancing responsibility follows the switch



# Secondary legislation (Switching Rules)



# Other conditions necessary for the functioning of the market

## Transmission System Operator

- ✓ Secondary legislation
- ✓ Relevant measurements and data collection
- ✓ Necessary hardware/software

## Suppliers

- ✓ *Public*
- ✓ Free market (59)
- ✓ Reserve supplier (Temporarily EPS)

## *Preparation of the DSOs for the next phase of market opening - 2014.*

- Relevant measurements and data collection and exchange
- Necessary hardware/software

# Reserve Supplier

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Role – overtakes the supply of final customers that have not chosen a supplier or are left without the chosen supplier in the cases prescribed by the Energy Law.

Maximum Duration – 60 days

Designation of the Reserve Supplier – Government via public tender\*

- Conditions for designation
- Manner of price formation and change;
- Elements of contracts with final consumers;
- Term for designation

Temporary institute – ceases to exist on January 1<sup>st</sup>, 2015.

Price – cannot be lower than the average price of balancing energy

In case a final customer does not conclude a supply contract (and there is no more possibility for reserve supply) the respective system operator has to cut off further delivery of electricity!

# Balance Responsibility

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Defined as the obligation of the market participant to balance their production, consumption and contracted purchases and sales in the period for which the imbalance is determined and to assume financial responsibility for the imbalance.

The imbalance is determined and calculated for each hour.

Each participant has to “regulate” it’s balance responsibility.

Final customers supplied via “full supply” contracts – under the balance responsibility of their supplier.

# Final remarks

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- Expected hardship in the initial phase of market liberalization, but the legal framework is to a large extent there – need for elaboration and fine-tuning.
- The big step and challenge now is to correctly implement the requirements.
- Role of AERS in creating the necessary framework and monitoring the market crucial.
- More proactive stance from all stakeholders required important
- Prepare the DSOs for the next phase of market opening (substantial number of customers forced on the market as well).

*Thank you for your attention!*



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