



# Experience with market liberalisation in CEE region

Market liberalization and prerequisites for market opening in Bulgaria, Comparison with the Romanian and Czech approaches

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14 April 2016, Vienna Forum on European Energy Law



## TOPIC

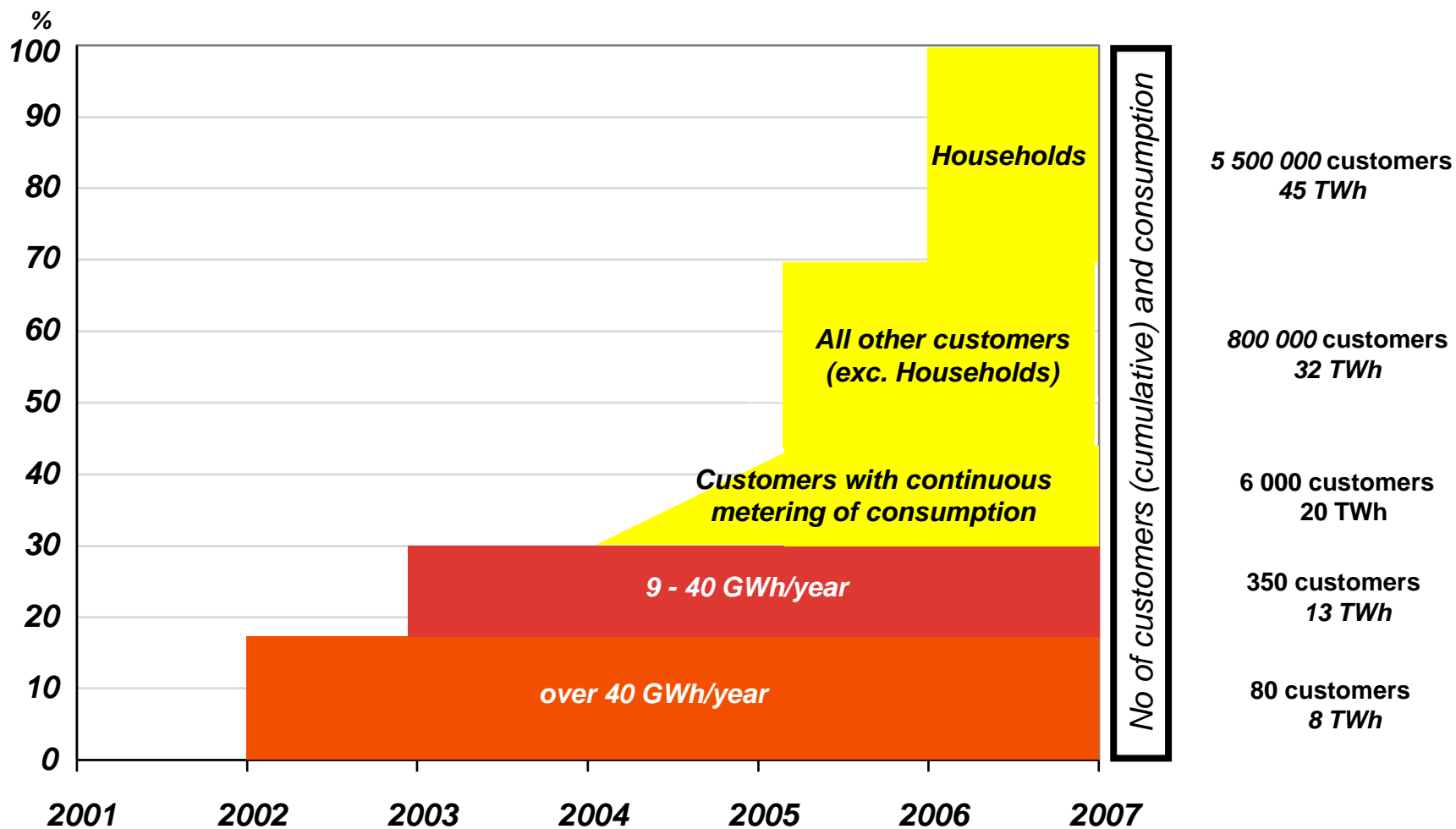
Czech Republic – gradual liberalization

Romania: different approach – gradual liberalization

Bulgarian market: current status of market liberalization

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# GRADUAL LIBERALIZATION IN CZECH REPUBLIC: FROM 2002 TO 2006



# POSITIVE OUTCOMES FOR CONSUMERS PREVAIL IN LONG TERM ...



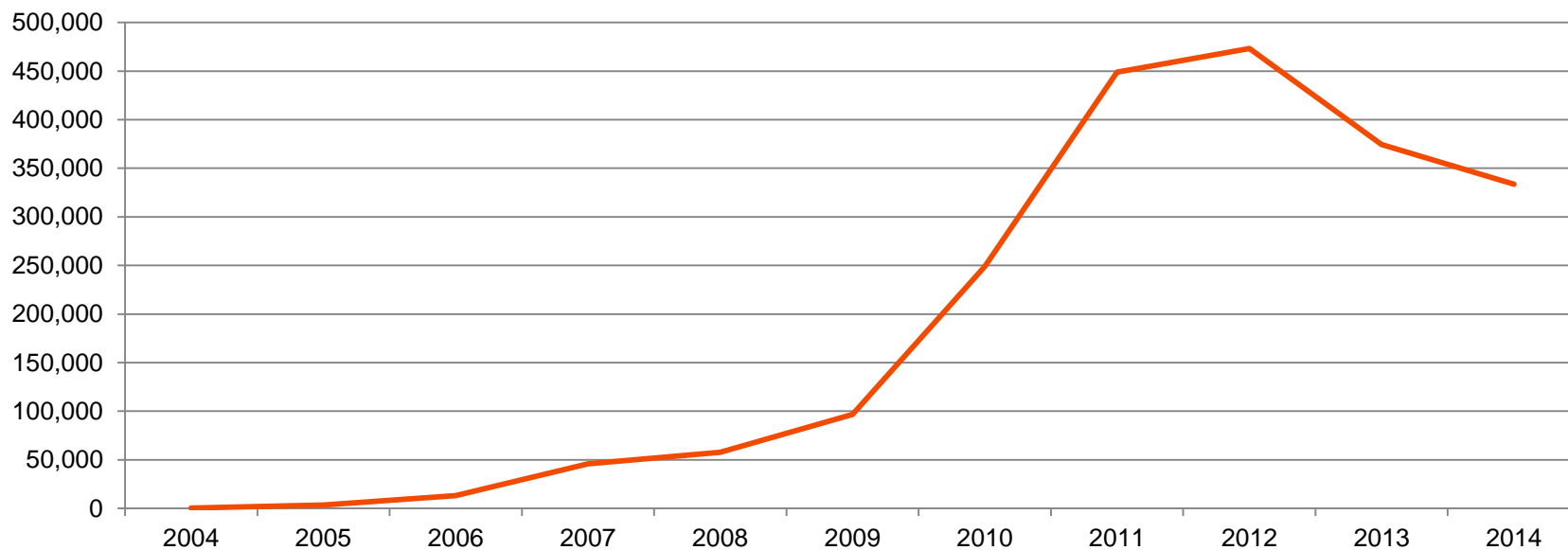
## Positives of liberalization process in Czech Republic:

- ➔ right of every customer to choose freely energy supplier,
- ➔ increased number of suppliers
- ➔ increased number of offered products and services because of higher competition,
- ➔ higher support of implementation of new technologies by suppliers,
- ➔ functional system of customer's protection in case of supplier (trader) failure  
i. e. failure of Moravia Energo supplier with annual delivery > 2 TWh,
  
- ➔ **Market opening did not lead to price increase, when the conditions are set right.**

# DEVELOPMENT OF No OF SUPPLIER CHANGES = STAGNATION AFTER SLOW AND FAST INCREASE

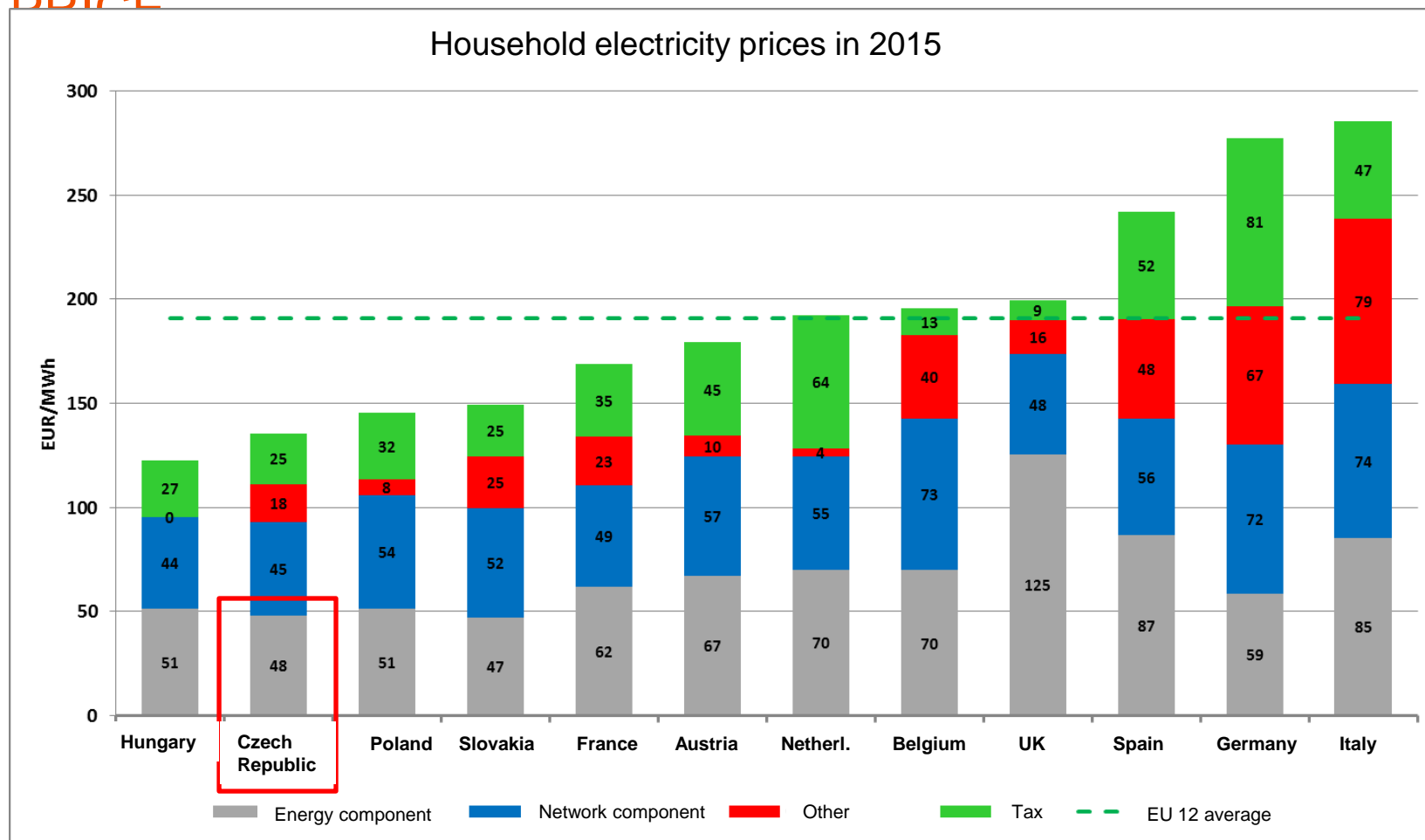


## Supplier changes in Czech Republic



- **Households (63 % of changes) and SME (27 % of changes) are important drivers for supplier change.**
- **Competition on the market enabled customers to choose supplier with cheapest electricity price or supplier with new and/or complex services.**

# PROVE OF SUCCESSFUL LIBERALIZATION IN CZECH REPUBLIC: LOW ENERGY COMPONENT OF PRICE



Source: ENA – Study „Final electricity prices and their structure in 2015“ (Czech language)

# LIBERALIZATION PROCESS IN CZECH REPUBLIC IS ASSESSED POSITIVELY, DESPITE SUBOPTIMAL



## TIMING

- Liberalization process in Czech Republic was accomplished smoothly including unbundling of distribution and trade. In case of DSO there is legal+functional+organizational unbundling, in case of TSO there is ownership unbundling in place.
- Czech energy market is one of the most liberalized markets in Europe as proved by high number of suppliers, high number of changes of suppliers and also low energy component of electricity price comparing to other EU member states.
- Costs of processes changes, IT modifications etc. were included into regulated prices. Their impact on final/total electricity price was not however important.
- Process of selection & change of supplier is fast, now it takes approximately 10 working days using the system of Market operator (OTE).
- Day-ahead and intraday markets have been also created, organized by the Market operator (OTE). Also Prague Power Exchange (PXE) was opened in 2007.
- The most significant negative consequence of liberalization process in Czech Republic is increase of unfair business practices of some suppliers.



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## ROMANIA - Full removal of regulated prices by the end of 2013 for business consumers and by the end 2017 for the household



### consumers.

- Order 30/2012 by the regulatory body (ANRE) settles Market opening calendar (full removal of the regulated tariffs).
- Starting September 2012 the final prices of the captive commercial clients were comprised of regulated tariff and a competitive market component (CPC).  
Since 2014 the commercial clients have been supplied with deregulated tariffs.
- Starting July 2013 the final price of the captive household clients is comprised of regulated tariff and a competitive market component (CPC).
- CPC tariff gradually increase up to full removal of the regulated tariffs.
- Clear conditions are defined by ANRE for each step of the market opening

# TARIFFS ARE SET BY ANRE AND INCLUDE REGULATED AND CPC COMPONENT. THE REGULATED COMPONENT IS BEING PHASED OUT



## Universal supply tariffs

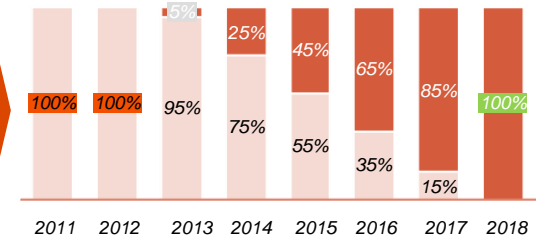
- ANRE sets **two tariffs for the universal supply - regulated and CPC**
- The regulated tariffs** are set by ANRE as the final price for the customer, including all pass through costs (Acquisition costs of electricity, DSO costs, TSO service costs, System services costs, Market operator costs).
- CPC price** is approved by ANRE and includes only energy component as RON/MWh. The CPC tariff represents a form of „lighter regulation“ – it covers electricity procurement costs on the PCSU market + a supplier OPEX and profit; suppliers present a „substantiation“ of the tariff, which is „endorsed“ by ANRE.
- Starting 2014, the last resort supplier (LRS) applies to **LRS clients** not satisfying the criteria and not exercising their eligibility rights and to the clients that remain without a supplier. These are supplied on the free market basis under the last resort supplier regime
- The tariff is composed of the Competitive Market Component tariff (CPC) plus a percentage:

**HV = CPC+ 5%, MV = CPC+ 7,5%, LV = CPC + 10 %**

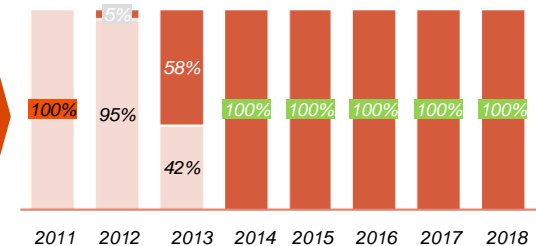
Relatively higher price motivates clients to exercise their eligibility right and to choose a supplier in the market

## Market liberalization calendar

Residential consumers



Commercial consumers



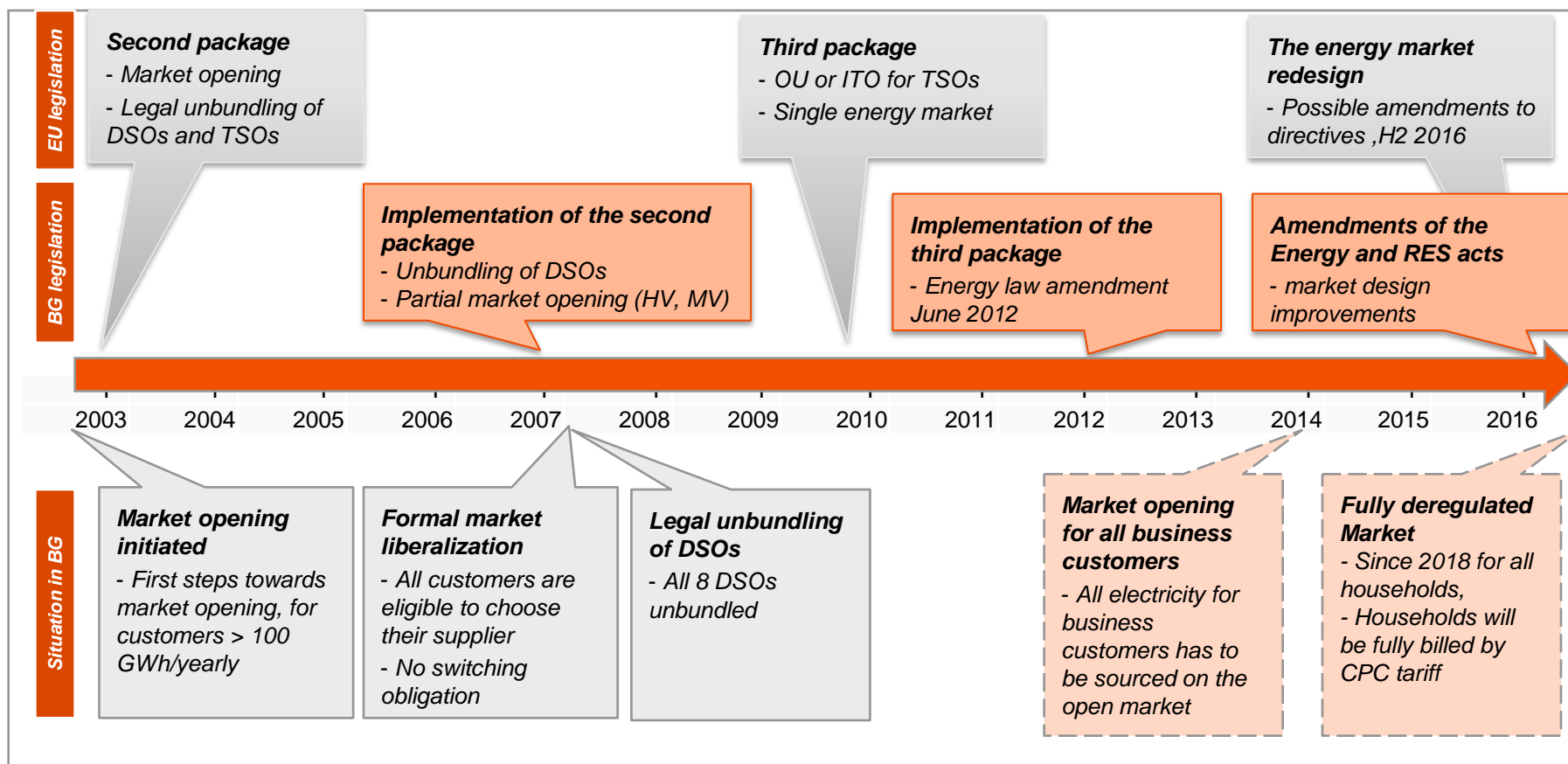
- Final price for the customers is set as a weighted average of the CPC and regulated tariff based on percentages shown above
- Regulated part of the tariff has been fully phased out for the industrial customers, households are expected to have 100% CPC tariffs from 2018

■ CPC ■ Regulated

The level of legal market opening and unbundling is sufficient, but real market opening is lagging behind as regulated tariffs are set at a low level



## Timeline of market liberalization in Romania





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# BULGARIA – Implementation and real fulfillment of market liberalization main risks for Bulgaria



- Market opening started with Bulgaria's EU membership, but only for a small group of very big industrial customers.
- The first market opening took place in 2013, August 1 when all medium voltage (MV) customers were obliged to choose their trader or to be supplied by the “last resort supplier” (LRS) who's the level between the regulated and the open market.
- Power exchange in Bulgaria has just started => **only Day-ahead market**, Market liquidity is very low.
- Imbalances settlement is done between the Market operator (ESO) and the balancing groups coordinators who are responsible for balance settlement of their clients.
- The regulated tariffs for households currently do not reflect the actual costs and are being cross subsidized by LV commercial clients mainly. The Regulatory authority sets production quotas and regulated prices, based on which producers are obligated to supply the single buyer – NEK.
- NEK subsequently sells energy at regulated prices to incumbents (end suppliers) supplying regulated customers.

# BULGARIA – Current Issues and prerequisites for a successful market opening



## *Current issues*

- *Non transparent wholesale market as only Day-ahead traded on power exchange*
- *Non-existent clear rules for liberalised market participation for the LV business and households.*
- *Potential of common standard for data exchange between market participants to be developed further.*
- *Missing definition of role of LRS after market opening in 2nd half of 2016. Principles for setting LRS prices should be to motivate clients to exercise their eligibility right and to choose their supplier at free market. LRS should not be provider of social tariffs.*
- **RES** – *lack of market mechanism on purchasing energy which provides obstacles for the development of the market and NEC corrects the FS which leads to the artificial increase of the imbalances*

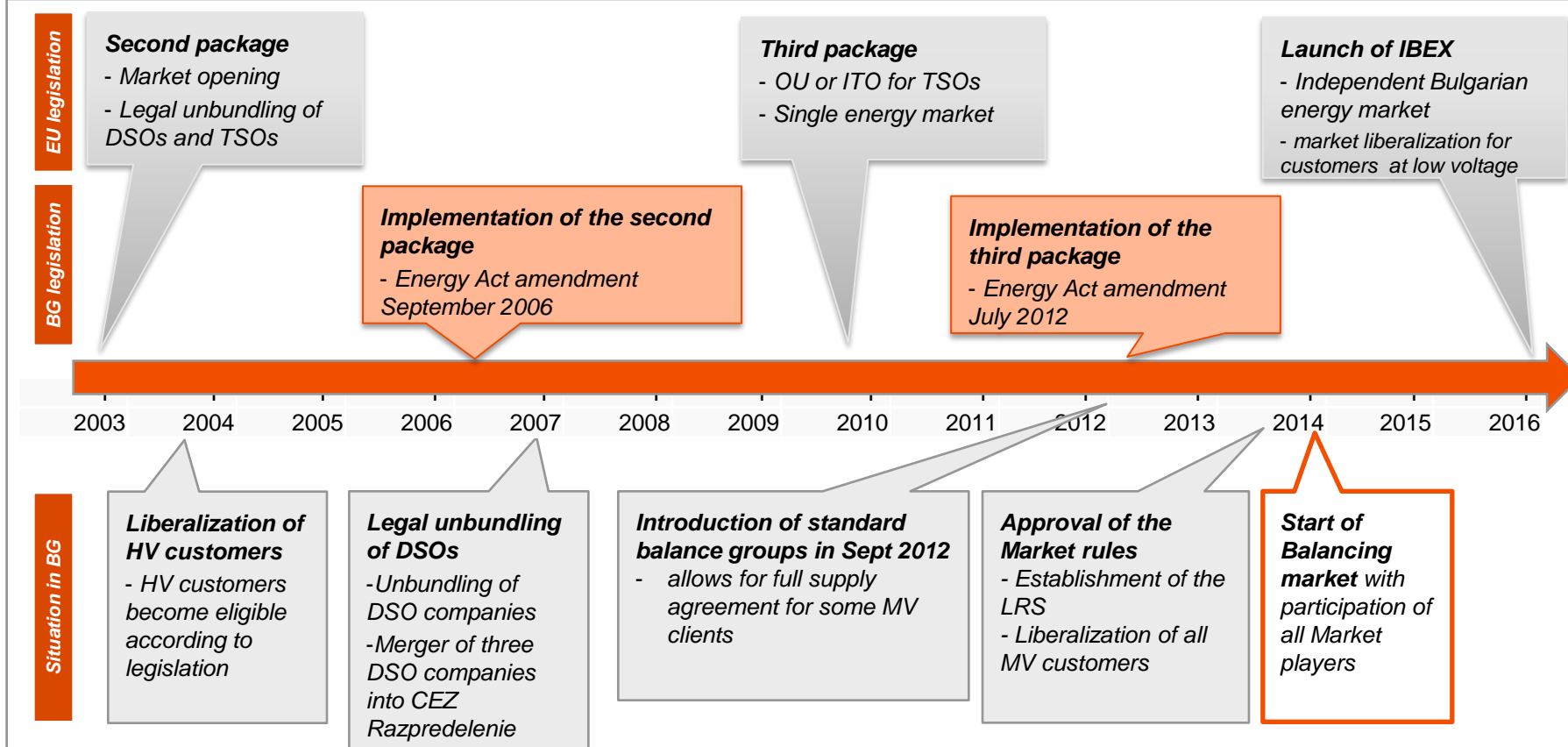
## *Necessary steps for complete market liberalization*

- *Elimination of the current cross-subsidies among the segments of consumers*
- *Establishment of a centralized platform for data exchange for billing and changes of suppliers*
- *Gradual reduction of regulated segment; elimination of quotas for producers*
- *Full establishment, promotion and proper operation of power exchange*
- *Need to define role of LRS.*
- *Transformation of long term PPAs at fixed/prices (TPPs and RES) in market based mode*

# BULGARIA – Implementation and real fulfillment of market liberalization is lagging behind EU legislation



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# PREREQUISITES FOR A SUCCESSFUL MARKET OPENING



- ***No cross subsidies in tariffs before liberalization***

A smooth transformation from regulated to liberalized markets needs prices which truly reflect the actual costs. Originally distorted prices to individual groups were rebalanced by Regulatory authority (ERU) before market liberalization. Even after liberalization, households had slightly better prices than low voltage based businesses. During short time after liberalization this distortion disappeared by price changes introduced by market participations

- ***Full coverage of cost of electricity acquisition and trade cost reflected in prices before liberalization***

Already before liberalization, the Regulatory authority reflected in tariffs trading costs related with billing, customer services, bad debt write-offs etc. The full cost of electricity purchase including balancing cost with allowed trading margin was reflected as well. As a result no big adjustments were reflected in the prices after the liberalization.

# PREREQUISITES FOR A SUCCESSFUL MARKET OPENING



- ***Process of data exchange for billing and changes of suppliers***

The necessary data flow for correct billing is organized and goes through Independent market operator (OTE). A standard protocol of data and system of unique identification of consumption has been in place since the beginning of market liberalization

A proper platform and relevant technological infrastructure must be in place and tested before market opening

- ***Last resort supplier procedure in place, transfer of contracts procedure established***

Last resort tariffs were determined by Regulatory authority in the first years of liberalized market. These prices reflected higher risk with energy purchase and credit risk of the customers who cannot find their supplier. In recent year the companies responsible for last resort supply determine their last resort prices on cost basis without preemptive decision of the Regulator.

All the customers bellow the eligibility threshold (i.e. all the customers since 2006) have been converting to eligible customers and had to find another supplier if not satisfied with the incumbent provider. No universal service is in place. The supply companies in charge of last resort supplier do not have any other obligations regarding supply and customer services then other market participants.

# PREREQUISITES FOR A SUCCESSFUL MARKET OPENING



- ***Process of balancing and cost allocation for hourly measured data in place***

It is not possible to run a liberalized market without a responsible and reliable body caring of reconciliation of cost allocation among the market participants.

An independent market operator (OTE) is in charge of day-ahead market, balancing and cost reconciliation since the beginning of market liberalization. The market operator has an extensive IT infrastructure in place to be able to cope with the data needs of managing the data flow of market participants who changed their suppliers.

Market operator registers all the measured profiles of individual customers who changed their supplier. The cost of market operator is paid by customers through regulated tariffs.



**Thank you for your attention!**

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