THE ROMANIAN POWER MARKET AT THE BEGINNING OF THE 3RD MILLENNIUM

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Romania assumed the decision to liberalize the power market, taking into consideration the importance to operate a coherent competitive market, in which the participants will benefit from the advantages of the competitive environment.

In order to adhere to the European Union, the Romanian electricity sector should not only comply with Community's directives and decisions, but should implement actions, organize, create and apply procedures and a legal and regulatory framework leading to the compliance with the directives provisions.

The advantages deriving from a competitive environment are consisting mainly on the direct competition for the achievement, preservation and development of the market share, on the contractual discipline, cost effective management, free determination of prices, as well as on the provision of incentives for costs reduction and efficient use of resources.

The implementation of competition in those activities which are not natural monopoly ones (e.g. implementation of competition in generation and supply), is a benefic decision. This requires the provision of clear rules for commercial arrangements, players rights and obligations, trading and settlement mechanisms.

In order to have a workable competitive market it is necessary to design proper principles, rules, commercial arrangements, mechanisms, tariffs methodologies, rights and obligations for natural monopoly areas, in such a manner to avoid the situations in which the impossibility to implement competition in those areas do not affect the competitive environment within the other sectors.

These general issues are meant to design the wideness of the structural, organizational and legal changes to be made regarding the electricity and ancillary services commercial and trading mechanisms, required by the launch of the liberalization process of the Romanian power market.

The primary legal framework was necessary to be established. An important step regarding the primary legislation consisted in the issue of the Urgency Ordinance number 63, at December 28, 1998, by the purpose to establish the framework, principles and main action directions for the competitive power market liberalization in Romania., consistent with the related provisions set by the European Directive number 62 from 1996, as well as of the following decisions in the field.

The market entered, by these means, in a profound transformation phase which continue and the following main coordinates are characterizing the process:
- establishment of a power market based on transparency, nondiscrimination and fairness;
- set up and put into complete operation of the National Electricity Regulatory Authority;
- implementation of competition in generation and supply;
- implementation of an authorization and licensing of new entrants in the power market;
- guarantee of free, regulated, third Parties access to networks.

An important step has been made in the first stage of the liberalization process by the establishment of the market regulatory framework.

As a result of the decisions made through the Urgency Ordinance number 29 from October 22, 1998, the National Electricity Regulatory Authority - NERA - has been established, as public organization responsible to create and implement the regulatory system meant to properly operate the power sector and related market, in conditions of efficiency, competition, transparency and consumers protection.

At March 1, 1999, the National Electricity Regulatory Authority entered into effective operation and stated to issue the first regulations (e.g. the Commercial Code of the Electricity Wholesale Market; the Regulation for scheduling and Dispatching of the National Power System; the frame-contracts, the technical Codes of the Networks; regulations for licensing and authorization ; regulations related to the eligible consumers; tariffs
According to the status of the beginning of liberalization, NERA mobilized important efforts in order to design the secondary legislation, meaning the set of new principles, rules and relationships to be implemented within the market, as well as in order to support and keep the process of their implementation according to the difficulties of the changing transitory process of the market, both at organizational and commercial levels.

The secondary legislation set new roles, relationships and responsibilities, for all the market players, essential for a proper operation of the market according to its new structure as set up during the last years.

OPCOM’s mission is to supply an organized, viable and efficient environment dedicated to the accomplishment of commercial trades within the power market, in conditions of continuity, fairness, objectivity, independence, nondiscrimination and transparency.[2]

The Romanian power market is, due to all these changing, in an essential phase for the successful liberalization process.

Meantime, beginning with September 2000, the wholesale power market has been administered by the commercial Operator – OPCOM S.A., entity responsible for the this function according the provisions of the primary and secondary legislation in force. This commercial company has been established at August 15, 2000, based on the provisions of the Government Decision number 627 from July 13, 2000, and being a subsidiary of the National Electricity Transmission Company – Transelectrica S.A.[3]
All trades with electricity and services are made on contractual bases, an appropriate commercial arrangement scheme being in force.

The electricity wholesale trades, as well as the ancillary services ones, has been uninterrupted made beginning with September 2000, through specific tools especially designed and developed by OPCOM.

Between August 2000 – October 2002, the overall amount of traded electricity was of 103,538 GWh, with a financial value of 75,311 billion lei.

The amount of ancillary services provided during the same interval totaled 4,712 billion lei.

It should be noted that this overall trading mechanism operated daily and uninterrupted. It has been also performed the equivalent settlement activity, in monthly basis.

The demand forecasts set for short time, on daily basis, responded to a high standard of accuracy. Meantime, the daily scheduling of generation and ancillary services provision has been made, based on the bids submitted by generators according to the secondary legislation.

As outlined in the above figure, the electricity amount traded within the spot market during the first two years of OPCOM reached 6.6%.

It is obvious for all of us the fact that the market opening process shall continue, in order to keep the compliance with the assumed EU's decisions related to the Unique Power Market.

Meantime, the planned privatization process for the sector will lead to changing within the ownership structure, as well as of the organizational structure of the market.

A key role for the development of the commercial

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**Results of the Power Market Operation**

- **Daily Trading for Bulk Electricity and Ancillary Services on the Day-Ahead Market, Since September 2000.**

- **Trading Through Mechanisms Developed by OPCOM According to the Secondary Legislation.**

- **Daily Consumption Forecast, Answering to High Precision Standards.**

- **Daily Scheduling Established for Generation and Ancillary Services Based on Bids Carried Out in Accordance with the Regulations.**

- **Daily Uninterrupted Operation and Trading Within the Market.**

- **Monthly Financial and Physical Settlement.**

- **The Spot Market - up to 6.6% in Average.**

- **The Bilateral (Negociated) Contracts Market - in Average up to 6.4% of the Wholesale Market.**


- **Financial Value of the Wholesale Traded Electricity Between Aug. 2000 – Oct. 2002 (Without Export and Eligible Consumers) - Settled: 75,311 Bil. Lei, with a Monthly Average of 279 Bil. Lei.**

- **Traded Ancillary Services - billed Between Aug. 2000 – Oct. 2002: 4,712 Bil. Lei, with a Monthly Average of 175 Bil. Lei.**

- **The Trading Environment (Legal, Regulatory, Commercial and Technical) Proved to be Stable, Equidistant, Transparent and Reliable.**
mechanisms of the power market is played by the
market operator’s coherent and dynamic development.

The enhancement of competition within the market is
determined by the increasing number of market players
and commercial arrangements, as well as of the trading
specific risks.

These elements determined the Power Market Operator
to set, as target, its development in terms of institutional
building but its technologies and infrastructure also, in
such a manner to be ready, at the moment when the
market environment will be prepared, to open the
trading and settlement mechanisms specific to a Power
Exchange. The following picture is showing the strategy
goals designed on short, medium and long horizons.

The Power Exchange will be developed for both the
physical power market and the related financial one.

The next figure describe an overall image of the multi-
annual planning of the projects which will be
implemented in order to attain the strategic goals.

The Power Exchange role is to operate the wholesale
power market, with its physical component as well as
with the financial one.

This market has two components:

1. the spot market – where selling/buying offers are
launched and the transactions are concluded one
day ahead of the physical delivery.

2. the balancing market – where two phases occur
through the launching of selling/buying offers:
   - intra-day transactions — transactions with
     hourly electricity volumes that are lower
     than on the spot market; it continues the
     trading after the spot market is closed till
     one or two hours before the physical
delivery of the contractual electricity. This
component is destined to adjust the
portfolio of contracts owned by the market
participants, sellers and buyers, to minimize
the possible losses resulted from some
unbalances in complying with the volumes
traded on the spot market. The balancing
market may be organized after the spot
market, as the players from the spot market
gain experience and the soft and hard
instruments are created for its
administration.
   - real time transactions — transactions with
     very small volumes of electricity,
     representing the difference between real
     and contractual electricity volumes.

An efficient use of the internal resources has been taken
into consideration, jointly with the mobilization of
external financing, determined to support the
achievement of the above mentioned goals.

During this interval, it is under development a major
investment project, which purpose consists on the
implementation of an integrated IT&T system, at latest
state of art, designed for the administration of the
physical power market.

The scope is to ensure a performing and reliable
demand and previously traded quantities.

Of the above-mentioned components, the Romanian Power Exchange, organized and operated by OPCOM, shall administrate the spot and the intra-day markets.

The role of the financial market is to make available, for the agents that trade on the physical market, instruments for selling the rights to a future production of electricity, and so to allow these agents to hedge the risks that develop from physical transactions.

The following derivatives are traded on the financial market administrated by a commodity exchange:
- Forward contracts
- Futures contracts
- Options

The commodity exchange performs specific services that ensure the best environment for concluding the mentioned transactions, by receiving and processing the respective tenders.

The principle of processing the tenders is that the commodity exchange arranges the competitive tenders according to the value of the tendered price. The intersection between the bids for purchase and sale indicates the hourly trading price, known as spot price or system price.

As mentioned above, OPCOM also administrates will the financial power market.

The role of the financial market is to make available, for the agents that trade on the physical market, instruments for selling the rights to a future production of electricity, and so to allow these agents to hedge the risks that develop from physical transactions.

It must be mentioned that the spot market price, resulted from this mechanism, represents the reference price for the agents that trade on the financial market of electricity.

**CONCLUSIONS**

According to the present status of the liberalization process, an enhancement of the market operator’s effort is necessary, in order to support the regulatory activities, for the regulatory framework implementation, as well as for the identification of the detailed operation rules, and for the achievement of a good level of understanding and fulfillment.

The market operator – OPCOM is entirely aware on the importance gained by the regulations within the market, for its operation and for the coherence of the liberalization process.

Based on these assumptions, OPCOM is providing the authorities, NERA and market participants, its entire support, mobilizing its expertise, experience, professionalism, through a n active and positive approach.
Related to the opportunities determined by the experience reached by OPCOM until now, its dissemination and sharing within the region it is considered feasible, the regional vocation being able to support the dynamics of the power trades in the area.

The effort necessary to ensure the overall, continuous and benefic operation of the commercial mechanisms is important, on both the human resources but the financial and material too.

It is certain the fact that the implementation of new commercial arrangements represents a team effort, based on the involvement of all stakeholders in the power sector, which must continue to be harmonized, enhanced and supported.

We are determined that the establishment of a power market based on fairness, transparency, equidistance and nondiscrimination is entirely feasible.

REFERENCES