

THE EVOLUTION OF THE REGULATORY FRAMEWORK OF THE ENERGY MARKET IN ROMANIA

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ABSTRACT

The Romanian energy sector has faced a rapid liberalization process, together with the introduction of competition, according to the EU directives.

A definitely positive achievement was the transition to a single vertically integrated company, to a structure compatible with a liberalized and competitive electricity market.

The reorganization of the Power National Company was the first step towards decentralization of the energy sector. Thus, several companies appeared, specialized on different areas of activity. This meant the legal separation of electricity generation, transmission and distribution/supply. In 1998 the Romanian Energy Regulatory Authority (ANRE) is established.

The key document for changes that took place in energy sector is the Energy Law.

Romania has achieved the institutional reform. Also, the regulations issued by ANRE smoothed the way to new relationships between new producers, suppliers and companies of transport and distribution.

INTRODUCTION

The electricity market had a spectacular evolution in Romania. It is divided into the following segments:

Regulated market – where buy-sell contracts are concluded based on quantities and prices approved by ANRE,

Competitive market – electricity transactions are based on: a) negotiated bilateral contracts; b) Day Ahead Market (with voluntary participation); c) Balancing Market (with mandatory participation).

As for the access to the power network, according to the energy law, Romania chose to grant to third parties regulated access to the network. This is stated in the Transport Network Code, and also in the Distribution Network Code. Both acts were issued by ANRE in 2001. In present, these regulations are in progress. All economic agents, participants to the energy market, have to own licenses for: generation, transport, distribution, supply and dispatching. Some commercial enterprises applied for and were granted several licenses.

THE EVOLUTION OF THE REGULATORY FRAMEWORK

The perspective of Romania's accession to the European

Union concentrated our efforts towards the evolution of the existent regulatory and legislative framework, with a view to increase competitiveness on the electricity market.

The activity in the field of issuing regulations is based on an annual program, updated according to the evolution of legislation and to the modifications in organization or of any other nature that occurred in the sector of electric and thermal energy.

The main sector regulations issued by ANRE are:

- Wholesale Electricity Market Commercial Code (revised version)
- Network Codes (Grid Code – revised version, Distribution Code)
- Metering Codes
- Technical and commercial regulations
- Tariffs methodologies
- Authorizations and licenses
- Rules regarding the connection to the networks
- Performance standards

According to the process of institutional and functional reform of the electricity sector, starting with July 2005, the market opening degree became 83.5%. All the customers are free to choose their electricity suppliers, save for householders. Total market liberalization is due for the 1st of July 2007.

Also, in June 2005 the Day Ahead Market (DAM) and the Balancing Market (BM) started to operate. Shortly, these markets reached 6% and 10% of the electricity final consumption in Romania, respectively.

Rapid progresses also have been made in the field of renewables. The market for Green Certificates became functional in November 2005, when the first transactions were concluded.

In order to ensure the transparency needed for bilateral contracts, as well as equal rights to all participants to the market, starting with December 2005 the centralized market for bilateral contracts became functional, being an organized, voluntary framework for competitive transactions of electricity.

The main objectives that ANRE had in view were:

- Supporting the privatization processes in the energy sector;
- Efficient operation of the electricity market, with a view to integration in the regional market and lately in the European Union single market;
- Harmonization of interests and maintaining a balanced relationship in the energy sector.

The regulations issued for harmonization to the community

acquis can be structured as follows:

Regulations concerning the improvement of centralized markets operation

With a view to the effective functioning of the transaction mechanisms on DAM and BM, the president of ANRE issued the following orders regarding the operation framework of the wholesale electricity market:

Order of ANRE No. 14/2005 regarding the testing period of the new transaction platform of the wholesale electricity market which sets the actions that the participants to the wholesale electricity market has to take with a view to testing the transaction platforms on DAM and BM;

Order of No. 30/2005 regarding the operation framework of the wholesale electricity market whose main provisions are:

- allocation, through explicit auctions, based on the offered price, of the interconnection capacities with other systems, except those considered reserved by means of long term contracts concluded before the new provisions regarding the allocation of interconnection capacity come in force;
- purchase of system technological services by the Transport Operator in regulated framework, as a result of the insufficient competition on this market;
- assign balance responsibility to every distributor/supplier for their own captive customers, for the technological consumption of the electricity distribution networks;
- assign balance responsibility to every supplier for its eligible customers.

Order of ANRE No. 36/2005 regarding the operation framework of the wholesale electricity market whose main provisions are:

- the offers on the BM should fit in the minimum value of 20 MW on each band;
- introducing maximum and minimum values for the offer prices on the BM, as well as superior limitation of the price value from the fixed offers for starting on BM;

Order of ANRE No. 13/2005 regarding participation of electricity producers at the competitive market states:

The quantity of electricity that can be sold to a client by an electricity producer is limited to maximum 30% of the energy delivered by the generation units that they operate, if the installed capacity of the said units is over 300 MW.

Regulations concerning the bilateral contracts market

The framework contracts for electricity acquisition concluded between producers and suppliers for captive customers have been reviewed. The main modifications

were the following:

- contracts provide firm electricity quantities;
- the supplier may initiate a modification of the electricity quantities, as a result of exercising the eligibility right of an eligible customer, after concluding the contract or as a result of the deviation from the annual consumption forecast;
- the regulated prices are profiled on day-time hours and night-time hours;
- provisions regarding the allocation between contracting parts, as parties responsible with the balance, of the payment obligations which can result from erroneous notification of the electricity quantities under contract.

Regulations concerning retail market

Procedure for changing the electricity supplier sets the terms under which an eligible customer can change its electricity supplier, the steps to be made, and the obligations incurred by each party involved, in order not to delay or even hamper the changing process. The procedure was approved by the Order of ANRE No. 21/2005, modified and completed by the Order of ANRE No. 53/2005.

Regulation for labeling electricity at end users, approved by Order of ANRE No. 41/2004. The Romanian electricity producers and suppliers make and send to all interested parties declarations and labels with information regarding electricity generated and supplied. One a year, the bills for captive customers should contain also the information on: contribution of each source of primary energy to the coverage of supplier's electricity purchase; the level of specific CO₂ emissions and the radioactive waste corresponding to the electricity they supply; comparison between the above-mentioned data and the average values at national level.

Development of regulatory framework for promotion of electricity generated from renewables and cogeneration

It was established a system for promoting electricity generated from renewables and made some improvements to the regulatory framework for promotion of E-SRE.

According to the commitments made by Romania, during the negotiations for EU accession, the percentage of electricity generated from renewables increased from 30% to 33% for year 2010. ANRE calculated the mandatory annual quotas for acquisition of green certificates by electricity suppliers. So, for 2010 the percentage grew from 4.3% to 8.3%, and it should be maintained at this level until 2012. Also, the minimum and maximum transaction values for green certificates has been set between 24-42€certificate.

Order of ANRE No. 40/2005 approved the *Regulation for organization and operation of the market for green*

certificates, which provides:

- organization and operation of the market for green certificates,
- parties involved and their responsibilities,
- the method to monitor the green certificates market and the way in which the electricity suppliers can achieve the mandatory quotas of green certificates that they have to buy.

In 2005, 526 de guarantees of origin have been issued for the producers of electricity from renewables (E-RES). Such guarantees have been granted to 14 E-SRE producers, out of which 2 are using wind energy and 12 are using hydro energy.

Monitoring the operation of the electricity market

The methodology for monitoring the electricity wholesale market in order to evaluate the competition level on the market and to prevent the abuse of a dominant position has been approved by the **Order of ANRE No. 57/2005**. It sets the methods for supervision and evaluation of electricity markets, with a view to appreciate the level of efficiency, competitiveness and transparency on the market, and to prevent/discourage the anti-competitive practices and those which might affect the safety of the system. The monitoring activities, developed by regulatory authority,

- allowed to make periodical evaluations regarding the efficiency of operation of electricity wholesale and retail markets, and virtually the regulatory framework, as well as the behavior of participants to the said markets;
- led to the publication of monthly reports regarding the operation of supervised markets;
- did not find out any breach of legal provisions regarding competition and transparency or any abuse of a dominant position on the market, by the market participants, which would determine ANRE to bring the matter to the attention of the specialized ministry and to the Council of Competition, according to the provisions of the Law No. 318/2003 regarding electricity.

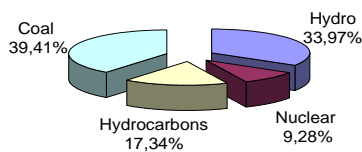


Fig.1

The resources used for generation of electricity in 2005 are presented in Fig.1.

At the end of 2005, there were 61 owners of licenses for

electricity generation and 112 owners of licenses for electricity supply (Fig. 2).

During 2005, about 55% of the electricity sold by the producers has been sold on the market of contracts with regulated prices and quantities, while 45% has been sold on the competitive market (Fig. 3).

On the regulated market, 55% of the electricity have been traded by producers for supply to the captive customers, under portfolio contracts, 16% under the long term contract of the nuclear producer, about 13% under the regulated prices contracts of independent producers and self producers, while for coverage of losses in power networks 12% have been for distribution losses and 4% for transmission network losses.

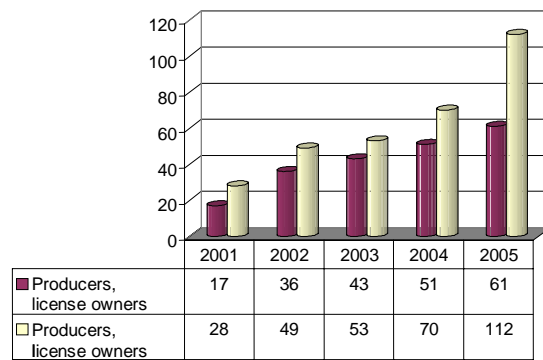


Fig.2

On the competitive market, producers traded about 10% of the electricity under supply contracts with eligible customers, 13% for export, 60% under contracts negotiated with competitive suppliers or with other producers, 15% on the DAM and 2% under contracts negotiated with distributors-suppliers for captive customers.

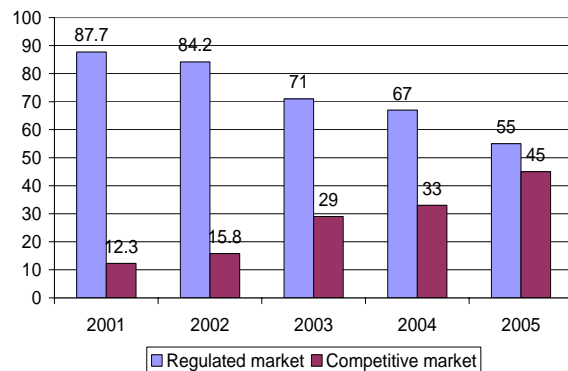


Fig.3

In all, the electricity acquisitions on the regulated market accounted for 72%, the rest of 28% being purchased on the competitive market and the structure of electricity wholesale market - 2005 is presented in Fig. 4.

Allocation of interconnection capacity

Allocation of interconnection capacities on lines that interconnect with the Power National Network with the neighboring systems, with a view to make import/export transactions and electricity transit is being made since the 1st of July 2005, by means of explicit auctions. Generally, auctions are made for monthly and annually periods, or wherever needed, but not for periods shorter than a week. The net interconnection capacity is agreed upon by the transmission operator with their corresponding operators from neighboring countries and it is divided equally with them, for both directions.

At the end of 2005, the consumption of eligible customers who changed their supplier or renegotiated their contracts reached 40% of the internal consumption of the end users, compared to 24% recorded at the end of 2004.

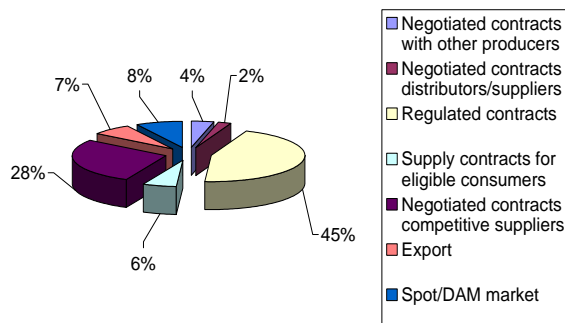


Fig. 4

Licenses and establishment authorizations

The processes of granting licenses and establishment authorizations for commercial enterprises continued. The regulator observed, namely imposed to the regulated commercial enterprises to observe the applicable requirements set in the “Regulation for granting licenses and authorizations in the electricity sector”, approved by the GD No. 540/2004, with subsequent modifications, as well as by the “Regulation for granting licenses for transmission, distribution and supply of thermal energy”, which has been approved by Decision 155/2004 of the ANRE president. The authorization documents have been issued after consultation and negotiations with stakeholders. Licenses and authorizations have been granted in public meetings, where invitations have been sent also to representatives of ministries, other public institutions and authorities, commercial enterprises, employers associations and professional associations in the field.

Prices and tariffs for electricity

By **Order of ANRE No. 11/2005** the (revised) Methodology for setting tariffs for captive end users has

been approved, taking into consideration the new evolutions of the electricity market. The methodology provides maintaining uniform tariffs at national level for this type of customers.

Also, by **Order of ANRE No. 50/2005**, the methodology for setting tariffs for the electricity transmission service has been approved. An in-depth analysis showed the need to improve certain methodological aspects concerning the data based on which the regulated income was established in 2004 and determined its update for the period 2005 – 2007. The average tariffs for the transmission, system services, distribution and settlement on the wholesale market were adjusted through **ANRE Orders 26/2005 and 48/2005**.

Regulations that are under preparation

- Regulations regarding the activity of the supplier of last resort
- Revision of the Distribution Networks Code
- Revision of performance standards for transmission and distribution activities

In addition, we can speak about complementing the regulatory framework with new commercial regulations and also about improvement of the rules for customer protection.

CONCLUSIONS

In the last years, Romania made remarkable progress in the transition process towards a liberalized electricity sector. The main elements that made this possible are the development of national legislation according to the European Union legislation, as well as establishing an independent regulatory authority that is entitled to make decisions in the area of responsibility granted by the law. With a view to support the restructuring and liberalization process of the electricity market, ANRE will continue to act towards improvement of methodologies for creating a competitive climate based on clear rules, which would allow to adopt long term decisions and to encourage the potential investors to enter the energy market. The international co-operation activities have an important role in establishing new collaboration relationships with similar institutions in European Union.

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