

Role of AERS in natural gas sector reform in Serbia

Petar Maksimović
Secretary General

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1

The AERS was founded by the Energy Law, which entered into force in 2004, an independent regulatory body with jurisdiction in electricity, natural gas, heating and oil and oil derivatives sectors. It has been legally established in June 2006, and became fully operational as of 01st January 2007.

Contents

- Energy sector reforms
- EU acquis on gas
- Mission, tasks and key challenges of the AERS
- Impact of AERS
- Final remarks

ENERGY SECTOR REFORMS IN SERBIA



3

Due to years of wars and sanctions, the liberalization of the natural gas market in Serbia commenced with some 10 years of delay compared with the rest of Europe. Preparations started in 2000, but the main milestone for the reform was the new Energy Law, which entered into force in August 2004.



The objectives of the Energy Policy in Serbia are comprised in three main groups of goals:

Security of Supply

- Maintaining reliability and availability of existing infrastructure and ensuring network infrastructure adequacy to forecasted growing demand
- Capital intensive industry- massive investment needed

Efficiency

- Introducing competition for wholesale and retail supply.
- Price regulation of natural monopolies- networks industries (technical and allocative efficiency)
- Enhancing energy efficiency

Environment and RES

- Decreasing adverse impact to the environment
- Incentives for RES

EU accession

- Legal framework in compliance with EU Acquis Communautaire (European Partnership, SAP and Energy Community Treaty)
- Implementation taking into consideration interests of Serbia

...and how to achieve them

- Legal framework
- Institutional framework
- Industry structure (restructuring)
- **Change management**

5

LEGAL FRAMEWORK

• **Energy Law** (entered into force on 01. Aug.2004, enabling energy market development and arranging basic elements of energy sector organization and functioning):

• **Secondary legislation** (Energy Sector Development Strategy, Strategy Implementation Program, Licenses Decree, Regulation on Energy Permits, pricing regulation, market rules, grid codes, incentives for RES...).

• **The Treaty Establishing the Energy Community-** legally binding agreement creating a single regulatory framework related to energy in EU 27 and the Western Balkans territories (pan- European energy market)

INSTITUTIONAL FRAMEWORK

• New institutions- Energy Agency (AERS) and Energy Efficiency Agency (SEEA)

• Clear division of competences between the Parliament, Government, Ministry of Mining and Energy and AERS.

INDUSTRY STRUCTURE

• Corporatization (efficient corporate structure of PE)

• Unbundling of network industries

CHANGE MANAGEMENT

• Planning of reforms, implementation, monitoring and evaluation

• Coordination on horizontal (inter- ministerial) and vertical (Parliament- Government- Ministry- AERS) levels

EU ACQUIS ON NATURAL GAS

6

Legal basis of implementation- Energy Law, EnCT

Directives 2003/55/EC (on internal gas market), 2004/67/EC (on security of supply), Regulation 1775/2005 (on access to networks)

The EU directive 2003/55/EC

AREAS	DIRECTIVE 2003/55/EC	Compliance 
PSO and Customer Protection	Article 3	Partial compliance
Authorisation procedures, new infrastructure	Article 4, 22	Full compliance
Technical Rules	Article 6	Partial compliance
Monitoring Security of Supply	Article 5	Partial compliance
Designation and tasks of TSOs/ DSOs	Art. 7, 8,11, 12	Partial compliance
Unbundling and Access to Accounts	Art. 9, 13, 15-17	Non-compliance
Third Party Access	Article 18	Partial compliance
Market Opening	Article 23	Full compliance
Regulatory Authorities	Article 25	Partial compliance

Full compliance

Partial compliance

Non-compliance

7

Public Service Obligations and Customer Protection- Related to establishing PSO, safeguards to protect vulnerable customers (avoiding disconnection, appointing SoLR) and ensuring eligible customer to effectively switch to a new supplier

Authorisations, new infrastructure- state may grant authorizations for construction of natural gas facilities based on objective and non-discriminatory criteria. Major new infrastructure may be, by request, exempted from TPA. Authorization is granted by the MoME via Energy permits, TPA exemptions are not envisaged by the Energy Law; however, they are not mandatory

Technical Rules- Technical rules establishing minimum technical design and operational requirements for the connection to the networks shall be developed and published.

Monitoring Security of Supply- monitoring of SoS issues shall be ensured. Competent authorities shall publish annual reports on SoS issues.

Designation and tasks of TSOs/DSOs- states shall designate TSOs/DSOs, storage operators and/or LNG system operators to operate, maintain and develop the infrastructure

Unbundling Provisions and Access to Accounts- TSOs (and DSOs, if serving more than 100000 consumers, as is the case for all DSOs in Serbia) shall be independent in terms of legal form, organisation and decision making, where the TSO/DSO is a part of a vertically integrated undertaking. TSO/DSO shall establish a compliance program which sets out measures taken to ensure that discriminatory conduct is excluded. Natural gas undertakings shall keep separate accounts for each of their transmission, distribution, storage and LNG activities as they would be required to do if the activities were carried out by separate undertakings. The undertakings shall draw up, submit to audit and publish their annual accounts.

Third Party Access- implementation of TPA based on published tariffs

Market Opening- In EU all non-household customers shall be eligible as of 1 July 2004, and all customers as of 1 July 2007. In SEE all non-household customers shall be eligible as of 1 January 2008, and all customers as of 1 January 2015.

Regulatory Authorities- Art. 25 is setting the minimum requirements concerning the role of the regulator

Regulation 1775/2005

Cross Border Trade Mechanism	Reg. 1775/2005	Compliance 
Tariffs for access to networks	Article 3	
TPA services	Article 4	
Capacity allocation and congestion management	Article 5	
Transparency requirements	Article 6	
Balancing rules and imbalance charges	Article 7	
Trading of capacity rights	Article 8	
Guidelines	Article 9	
Regulatory authorities	Article 10	

Full compliance

Partial compliance

Non-compliance

8

Tariffs for access to networks- transparent, non- discriminatory and cost reflective tariffs

TPA services- TSO offers services on non- discriminatory basis- equivalent contract terms either using harmonized contracts or a common network code. Both firm and interruptible TPA services should be offered. Both long and short term services should be offered.

Capacity allocation and congestion management- Transparent and non-discriminatory capacity allocation mechanisms shall be implemented and published by TSOs. Maximum capacities for all relevant points shall be made available to the market participants by the TSO.

Transparency requirements- TSO shall make public all information regarding the services they offer (tariffs, technical, contracted and available capacities...)

Balancing rules and imbalance charges- Fair, non- discriminative and transparent balancing rules. Cost reflective imbalance charges.

Trading of capacity rights- capacity rights shall be freely tradable (secondary market)

Guidelines- guidelines on TPA, capacity allocation (CA) mechanism and transparency requirements are annexed to the Regulation 1775/2005.

Regulatory authorities- Regulatory authorities shall ensure compliance with the Regulation 1775/2005 and the Guidelines

MISSION, TASKS AND KEY CHALLENGES OF AERS



Mission of AERS

*Protection of short- term and long-
term consumer's interest.*



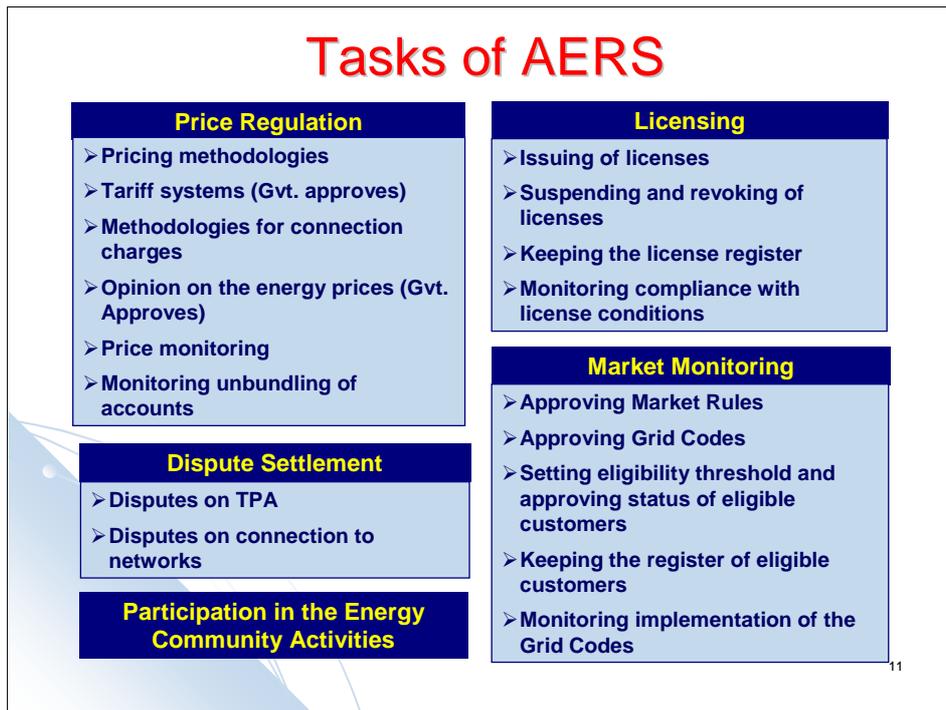
10

The mission of AERS is to protect short- term and long- term interest of consumers.

Short term interests include justified prices of energy (preventing companies to abuse monopoly position) and reliable supply (enabling companies to earn revenues for maintaining existing capacity and ensuring compliance with technical, environmental and financial requirements)

Long term interests- covering customers future energy demand by enabling sustainable development (allowing companies to earn revenues to invest in new infrastructure)

Tasks of AERS



Five main groups of activities to be performed by AERS are:

PRICE REGULATION

- Enacting pricing methodologies which set the way how to calculate allowed revenues of the regulated utilities, and allocate them in an economically efficient way to tariff elements (capacity, energy, ...) **Adopted by Council, published in OJ of the RoS in 2006 and early 2007**
- Developing tariff systems for regulated activities, further allocating the costs of providing energy and services to final prices (production, wholesale trade for tariff customers, transmission/ transport, distribution, supply for tariff customers). Tariff systems have to be approved by the Government. **Adopted by Council and Gvt., published in OJ of the RoS in 2006 and early 2007**
- Enacting methodologies for connection charges. **Adopted by Council, published in OJ of the RoS**
- Providing opinion on the regulated prices of energy and services calculated by the regulated companies according to the pricing methodologies, which will be submitted to the Government for approval.
- PRICE MONITORING- Monitoring the application of the pricing methodologies and tariff systems
- Unbundling of accounts is a prerequisite for efficient regulation

MARKET MONITORING

- Approving the Market Rules (applicable for electricity, no market rules envisaged in the Energy Law in gas sector)
- Approving the transmission, transportation and distribution Grid Codes (according to the Energy Law, no right to request modification), **codes in drafting phase**
- Setting eligibility threshold for eligible customers- as of February 2008 all customers except households eligible
- Keeping the register of eligible customers

DISPUTE SETTLEMENT

- DISPUTES ON TPA- Resolving appeals concerning the refusal or denial of open access to networks
- DISPUTES ON CONNECTION TO NETWORKS- Resolving appeals lodged against decisions of energy entities on refusal of connection to networks

LICENSING

- Issuing, suspending, revoking the licenses, keeping the license register. AERS received more than 600 applications (95 for gas- TransCo 2; TSO 1; DisCo 27; DSO 27; PSO Retail 27; Trade 10; PSO Trade 1).. Processing is underway
- Monitoring compliance with license conditions

ENERGY COMMUNITY- AERS is participating in the work of the Energy Community institutions (ECRB, Gas Forum) with a view to contribute establishing of the pan- European and regional gas markets, respecting interests of the consumers and industry in the Republic of Serbia.

AERS- key challenges

- **Implementation of new price regulation**
- **Approval of Transport and Distribution Network Codes**
- **Drafting price regulation for natural gas storage**
- **Incentive based pricing**
- **Enhancing the compliance and market monitoring functions**
- **On-line adjustment to envisaged amendments to the Energy Law**

12

•**Implementation of new price regulation-** while the secondary legislation (pricing methodologies and tariff systems) is in place, their implementation is underway- submission of data sheets by the industry, opinion on proposed prices, approval by the Government

•**Approval of Transport and Distribution Network Codes-** The network operators submitted the Codes for approval. Consultations are underway.

•**Drafting price regulation for natural gas storage-** to be completed before operationalization of the storage

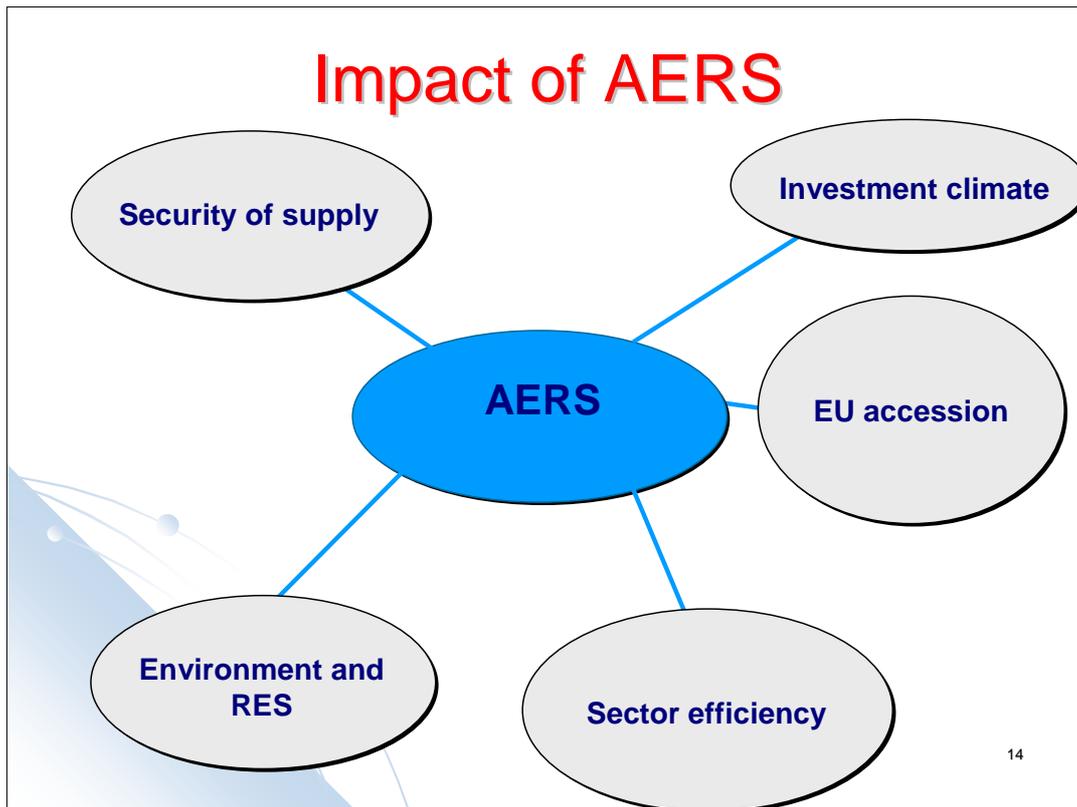
•**Incentive based pricing-** new incentive based pricing methodologies are being developed

•**Enhancing the compliance and market monitoring functions-**

•**On-line adjustment to envisaged amendments to the Energy Law-** the amendments to the Energy Law are currently being developed.

IMPACT OF AERS ON THE ENERGY SECTOR REFORMS





Quality of solutions proposed or adopted by AERS influences:

- Security of supply** - cost reflective tariffs are essential to achieve short term security of supply (reliability of facilities achieved through regular maintenance) and long term security of supply (networks adequacy to forecasted demand), but also for expansion of Serbian gas and machinery industry. Only if the prices cover justified costs, including rate of return necessary for new investments, the energy sector will not be a bottleneck, but an engine for economic growth of Serbia.
- Sector efficiency**- by approving grid codes adopted to specific circumstances in Serbia, as well as preventing excessive returns due to market power of regulated companies by close monitoring of their allowed revenues. This is essential for protecting the interests of customers and contributes to the competitiveness of Serbian economy.
- Environment and RES**- Costs needed for environmental upgrading of regulated company's infrastructure in optimal dynamics need to be covered by the regulated tariffs. Cost reflective tariffs, as well as stable regulatory framework, are preconditions for increasing the share of RES in energy mix of Serbia.
- Investment climate**- existence, competences, independence, accountability and authority of the regulator is one of the main factors for decision taking for investing in Serbian energy sector by local and foreign investors
- EU accession**- obligations of Serbia within the processes of European Partnership and SAP include several issues related to the AERS.

Final remarks

- **Obligations-Transposition- Implementation**
 - 2003/55/EC mainly transposed, implementation lagging
 - 1775/2005, SoS Directive- new obligations, ambitious deadlines
 - Amendments to the Energy Law underway
- **Parallel activities of AERS**
 - Implementation of the existing regulation
 - Introducing new concepts
 - Further expansion of AERS competences expected
- **Coordination btw. Government, AERS and the industry crucial**

Thank you for your attention!

Contact details:

Petar Maksimović

Energy Agency of the Republic of Serbia, Terazije 5/V , 11000 Belgrade

Tel: + 381 11 3033829; Fax: + 381 11 3225780

e-mail: petar.maksimovic@aers.org.yu , URL: www.aers.org.yu

16