



3RD SOUTH EAST EUROPE ENERGY WEEK
1-4 JUNE 2004, ATHENS GREECE

CONCLUSIONS

4TH ATHENS FORUM

Welcome and introduction

1. The meeting was opened by the Albanian Presidency and welcomed by the Greek Minister of Development, Mr Sioufas. Mr Sioufas gave the opening speech to the Forum, underlining the importance of the Athens Process and supported the development of the Legally Binding Agreement.

ECSEE Negotiating Directive and Strategic Issues

2. The Commission introduced the Negotiating Directive for the Legally Binding Agreement. The intention is for the Commission to endeavour to table a draft paper to the PHLG by 1 July, and for there to be a first discussion of the Legally Binding Agreement at a PHLG meeting in Vienna on 14 July. Over the summer, the PHLG is to investigate fully the issues raised in the draft and to have a more detailed discussion in September. The aim is to have agreement on the substance before the end of the year.
3. The Tirana Declaration was presented and explained. It creates a Regional Regulators Board for electricity and gas for South East Europe. The Declaration has been approved by the PHLG and will be presented to the Ministerial for formal adoption. CEER raised some issues concerning the advisory role of this group and it considers that the division of competences between the group and national authorities has to be clarified further. EFET welcomed the initiative and underlined that some issues such as competition, unbundling and access to the Transmission networks have to be taken care of. To this effect, CEER will draft a paper to be forwarded to the next PHLG.

Institutional compliance

4. The Regulatory Benchmarking Update was presented by Pierce Atwood. CEER pointed out that the establishment of independent regulators in the region is an evolutionary process and so much progress has been achieved.

CEER WG SEEER had to take into account the difficulties involved in setting up regulatory bodies. In order not to slow down the process, the WG accepted Ministries' representations to participate in the meetings. This will not be acceptable after 31st December 2004. In this regard, the Forum requested the region to speed up the reform process. The Benchmarking also indicated there is significant room to develop and strengthen regulatory capacity.

CEER was tasked to prepare a report to propose the tasks of the Regional Regulatory Board. The paper is to be presented to the next PHLG meeting anticipated for July 14.

5. ETSO TF SETSO updated the Forum on the status of SEE TSO restructuring phases. It is regrettable that the reform process is not yet completed. The Forum stressed the need to create fully unbundled TSOs. Establishment of unbundled TSOs is a key requirement to promote market development. SETSO TF informed about the collaboration undertaken with SEETEC in view of the future in-depth benchmarking exercise, as requested by the 3rd AF. The interviewing questionnaire to implement the benchmarking of SEE TSOs was presented and adopted. SETSO TF and SEETEC will present the results at the next Forum.
6. The process of benchmarking Ministries was presented by the Albanian Presidency, with a very preliminary review of initial data received, as a pilot study. As more data was received, the tables presented would be reviewed and checked before conclusions were drawn. Further developments in the methodology were also to be expected before a final benchmarking report was prepared and presented to the PHLG for approval.
7. As an example, Croatia presented its country's model of unbundling of a vertically integrated monopoly. More generally, the Commission stressed that Directive 2003/54/EC specified actions of unbundling which were necessary but not sufficient to meet the intentions of the Directive. The Commission would review each country's model to make sure that the solution chosen for unbundling would meet those intentions.

Operation of the Internal Market

8. The Forum warmly welcomed the World Bank's Framework of Development for Regional Trade on SEE. The Frameworks highlights risks and provides risk mitigation strategies related to institutional reform to support power market liberalisation. A phased approach is being brought forward by the World Bank to help the countries of SEE to open up the energy markets, implementing in steps the requirements of the Athens Memoranda of Understanding.

The Commission presented a Consultative Note as an indicative strategy to be followed in the region. The Note is tabled for consultation with the countries of the region over the summer period. The Commission will then produce a revised version, in September, as a draft common agreed strategy for the region. The Forum

invited the countries to contribute actively to the consultations. In this context, the EFET Paper on wholesale market development was welcomed.

9. Removal of barriers to trade is a key issue to facilitating the market. The Commission stated that in the European internal market for energy, import and export monopolies were not permitted, and countries can not levy import and export duties, or VAT for physical and financial cross-border transactions. Therefore, it was expected that if currently any countries in SEE operated in this way, this would need to be discontinued. Otherwise, current barriers to implementation of the CBT mechanism would remain. The Forum strongly supports SETSO TF proposals on CBT and congestion management, and approves the proposed CBT mechanism to start on 1 July 2004. The Forum urges SETSO TF to resolve all remaining issues in the coming few days and start the implementation of CBT from 1 July 2004. The European Commission will take all necessary actions to ensure start of CBT operation by the same date.

Transition and Standard Market Design

10. Romania presented the steps taken since 1998 to develop a wholesale electricity market. To this effect considerable progress has been achieved. Countries in South East Europe who are currently in the process of establishing a competitive electricity markets can draw lessons from the experience gained in Romania.
11. The Forum invited the participants to adopt the transition management objectives and schedule put forward by CEER. The Forum also requests the Commission to incorporate these into the Strategy Paper, CEER, together with the Commission, will report to the Forum on progress achieved to meet these objectives. In the interim, USAID is tasked to give a status report by early July, on standard market design issues across the region and particularly looking at aspects of compatibility and compliance between countries. The Forum noted the importance of transparency of transmission and generation data for the development of wholesale markets.
12. CEER gave an update on the meeting in Turkey regarding the operation of the SE Europe Gas Market. This is aimed at developing a common and competitive market for gas in the region in line with the Gas Directive 2003/55/EC. CEER informed the Forum about the formation of its Gas Task Force on the natural gas market, while promoting the development of infrastructure in the interests of SEE and other EU countries. A questionnaire on the current legislation, regulatory and market situation will be circulated and the results will be available by the end of the year. The Forum invited CEER to outline the next steps in the process and report to the 5th Athens Forum. Croatia raised the issue of gas market development. The Commission and Croatia suggested to form a specific Working Group devoted to gas and Croatia would be prepared to host an invitation only meeting. Turkey agreed and proposed a follow up in Istanbul. The Forum accepted the creation of a Specific Working Group on Gas and asked the Commission to assist in the organisation of the Group and identifying the appropriate stakeholders.
13. The Forum asked the Commission to set up a process to give advice on the competitive effects of Power Purchase Agreements (PPAs) so that governments, regulators and financiers have clear guidelines from the Commission on this issue. In the interim, the Commission is open to discussion on the question.

Trading

14. EBRD made a report of the Trading Round Table held in London on March 12 and its recommendations, which include:

- the creation of a Task Force with CEER representation to maintain a dialogue and information flow between traders, active in the region (co-ordinated by EFET) and other groups represented in the Athens Process;
- the appointment of a consultant to consider traders views about the development of the ECSEE market and traders' needs for clearing mechanisms.

The Task Force will regularly report on progress to the Athens Forum.

EFET and Eurelectric presented papers on Codes of Conduct for their members and discussed their application to companies in the region, and the development of appropriate codes for the region to tackle the issues of ethical conduct, good governance and the reduction of corruption.

15. A report on the development of the Regional Grid Code was made.

16. The Forum congratulated ETSO on the results provided in developing CBT for SEE. Real CBT will start in July 1 before reconnection of zones 1 and 2. A few problems remain such as taxation on invoices. The Forum concluded that if national authorities applied taxation, the Commission will be asked to try to solve any problems bilaterally. Transit and capacity contracts need to be brought into line with the CBT mechanism, but all parties were urged to be flexible in finding individual solutions. Because the mechanism has no central clearing house, there is a problem of trust that all invoices will be paid. A mechanism to increase trust is needed. (EBRD will explore whether it would be able to provide support to facilitate the mechanism).

UNMIK raised their role in ETSO. The Commission proposed to host bilateral discussions with the relevant parties, in Brussels, with the assistance of the Stability Pact.

17. About CM methodologies, ETSO presented a proposal for operating a pilot project of coordinated auctioning in SEE. After such a testing period, further elements will be available to decide on the best methods to be adopted for SEE CM; a report will be presented at the 5th AF. As preliminary activities for Congestion Management (CM), ETSO has completely defined as well as proved efficient the procedures for Day Ahead Congestion Forecast (DACF); such activity will be now passed to UCTE for implementation at operational level. Also, Net Transmission Capacities for SEE countries have been calculated with reference to the summer 2004 period and published on the ETSO Website. Finally, as requested by 3rd AF, a paper on the infrastructures and projects requested for the actual CM implementation in SEE is presented and submitted to the possible support on Donors' side.

Security of Supply and Infrastructure

18. A report on GIS was made. The Forum called the responsible authorities in the countries to collaborate with the contractor in order to ensure that accurate data is taken into consideration.

19. The UCTE report addressed both the progress achieved since the last Forum in the context of reconnecting both UCTE zones as well as the last developments within UCTE that will impact the full UCTE area. UCTE reminded that the reconnection process has been defined as a 3-step process to be agreed as a whole before being able to be started: a) creation of missing infrastructures (as fundamental pre-requisite, but in itself not sufficient); b) re-synchronization program (for the reconnection sequence itself); c) Operational Co-ordination Agreement for the time after reconnection.

- The infrastructure issues as reported by UCTE up to now (Croatia, Bosnia-Herzegovina) are solved: The Forum highly appreciated the very substantial efforts by both the Croatian and Bosnian TSOs.
- The final layout of the control blocks is now defined. UCTE approved now a detailed share of responsibilities among all involved TSOs on a precise timeline and accepted to unlink the issue of maintaining the Albanian TSO within the UCTE synchronous zone from the reconnection process itself. Provided that all deliverables are presented as committed to, the reconnection schedule is **autumn 2004**.
- UCTE will assess the global impact of reconnection of the complete UCTE area and approve the above mentioned. Multilateral Operational Co-ordination Agreement for the time after reconnection. KESH will be requested by UCTE to fulfill a set of minimum requirements in order to be maintained within the UCTE interconnection.

Concerning the last global developments within UCTE, UCTE reported that in the context of the Operational Handbook (OH) - to be completed by the end of 2004 - a new Compliance Monitoring and Enforcement Process (CMEP) will be introduced. All UCTE TSOs will commit to OH as best operational practice and make it contractually binding. TSOs that will not be able to OH policies will declare how/when they will achieve compliance as well as their measures for safe operation will make these declarations public to TSO stakeholders.

20. The European Commission thanked Mr Leka personally for his excellent chairmanship of the Forum and the PHLG. Under the Albanian Presidency, the Tirana Declaration had been adopted and the first exploratory Ministerial benchmarking had been carried out. There had been several successful meetings, in particular the Durres PHLG meeting in March. The Forum looked forward to the Austrian Presidency and with the Commission thanked Albania for its work and the resulting success.

21. The Commission noted the planned following meetings:

- 13 July regional donors meeting on SMD, in Vienna/ BiH donors meeting Vienna
- 14 July PHLG in Vienna
- 22/23 July Prime Ministers' Advisors meeting
- 23/24 September PHLG in Vienna
- 26-29 October Energy Week.

Two additional civil society meetings, one for Parliamentarians and one for trade unions and NGOs are planned. Further information will be available later this month.