

CIGRE CONFERENCE
“For synchronous operation of the east-west interconnection”
17 – 19 September 2003

Prospects of East-West Electricity Market Integration

The main focus of the CIGRE conference "For synchronous operation of the east-west interconnection" is on technical aspects of possible synchronous operation of two large electricity systems, on one side the European system represented by UCTE and on the other side the Integrated and Unified Power System of CIS countries. However, an overall frame within which aspects of interconnections have to be discussed should not be forgotten and this is, a parallel identifying necessary conditions for East-West electricity trade. EURELECTRIC is, in particular active in this area, and in this paper its approach towards the prospects of east west electricity market integration and its practical contributions to this issue are discussed.

1) Trends in Electricity Markets

The rapid political and economic developments have been challenging the electricity industry over last decade. In Europe, a process of this industry transformation was initiated by the Electricity Directive of December 1996. Today, over 70 % of the overall European Union electricity market is open to competition. And finally, an agreement has been reached on the liberalisation package at the European Council in June this year calling for market opening for all customers including households by mid-2007.

Within this context, it is important to see a political orientation of the European Union. As stressed in the recent Communication of the European Commission from May 2003 on Developing Energy Co-operation with Neighbouring Countries of the Enlarged Union, the **European electricity market** will not be confined to the European Union alone, but will grow beyond its borders. The EU's medium-term aim is the creation of a genuine integrated European electricity and gas market, potentially embracing more than 35 countries. This market shall be based on common standards for market access, environmental protection and safety rules. In pursuing this objective, three key mechanisms were established in recent years: South-East European regional energy market initiative, Euro-Mediterranean energy forum, and EU-Russia energy dialogue.

Looking at **the CIS countries**, all of them have been undertaken a great effort to proceed with market liberalisation and the industry restructuring. This process was recently launched in the Russian Federation by endorsing the electricity law, which implies restructuring of RAO UES, legal separation of network operation, the creation of a united national grid company as well as a system and a market operator.

2) Political Context – EU/Russia Energy Dialogue

The importance of the energy sector and of the mutual interdependence of EU - Russian energy relations has been increasingly acknowledged. Therefore on the EU-Russian Summit of October 2000 in Paris it was agreed to institute an energy dialogue between the EU and Russia.

High-level working group was appointed and it stressed in its second Progress Report that a number of preconditions need to be fulfilled before a substantial trade in electricity can take place. This includes reciprocity in market opening, cost-based pricing, environmental protection and a high level of nuclear safety comparable to that exists in the EU Member States.

3) EURELECTRIC Contribution

EURELECTRIC in its Position paper on imports of non-EU electricity of January 2002 expressed its belief that the conditions for trade should not be artificially restrictive, nevertheless some criteria need to be fulfilled. Concerning former Soviet Union countries, with Russia in particular, EURELECTRIC supports the principles and objectives underpinning the European Union - Russia energy dialogue namely market reciprocity, cost-based pricing, environmental protection and nuclear safety. EURELECTRIC also supports the EU suggestion to create a "Common European Economic Area" and calls for an early ratification of the Energy Charter Treaty and that those ECT signatories that are not yet members of the World Trade Organisation (Russia is among them) should become the members.

EURELECTRIC takes a proactive stand in providing a useful input to the ongoing discussion on the development of pan-European electricity market. Cooperation between EURELECTRIC and Electric Power Council of CIS, which dates back to 1993, received new impetus on March 2002 when the Presidents of the two organisations signed a Protocol with a view to strengthen long-term relations between the power sectors of the two regions.

Under the frame of the Protocol of November 2002, **two special joint ad-hoc groups** were created and they were given the task to describe the regulatory environment for the electricity industry in the EURELECTRIC and CIS EPS regions. The result of this work, two descriptive reports, one on market legislation and market rules and another on environmental legislation and policy situation, are now available and will be presented and discussed at a foreseen joint EURELECTRIC - CIS EPC - UCTE conference.

Conference is scheduled for **13 - 14 November 2003 in Brussels**. Integrating three important elements - physical interconnections, market structure and environment - the Conference aims to provide a platform for discussion on potential conditions for further East-West market integration involving policy-makers and stakeholders.

At the last Presidents meeting in June 2003, the joint groups received a mandate to continue in their investigations and to elaborate under which conditions east-west electricity trade can be considered.

4) Challenges Ahead

To summarise, EURELECTRIC, a common voice of the electricity industry, supports further market integration and calls for the creation of a pan-European market and in this respect the process of integration of accession countries and of developing energy relations with neighbouring regions namely the Balkans, Russia and other CIS countries and the Mediterranean basin.

Therefore in the prospect of physical interconnections between the CIS and European power networks, EURELECTRIC fully supports UCTE and NORDEL as well as CIGRE

to investigate and discuss the technological and operational aspects related to East-West interconnection development.

On other hand, EURELECTRIC believes that bringing markets together require unity of several components: market structure, environment and interconnections rules. Physical interconnections are only a tool and make sense only in the framework of an agreed market and environmental framework. So, EURELECTRIC stresses necessity of making parallel progress on interconnection, market and environmental conditions and highlights the importance of a political resolution related to a possible connection of the two markets concerned.

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