

Macedonia: The third energy package - What the Macedonian electricity market needs?

Categories : [SEE Energy News](#)

Date : August 28, 2017

Two and a half years after the expiry of the deadline for the implementation of the Third Energy Package, the Macedonian authorities seem eager to finalise this process in the near future. The new draft legislation has been in the pipeline for quite some time, but until now its adoption was postponed due to different reasons. From recent meetings between the delegation of the Energy Community and the representatives of the new Government of the Republic of Macedonia, it appears that the officials set up an agenda for overcoming the status quo.

During the process for transposing the Third Energy Package into national legislation, the main focus will have to be put on the requirements for unbundling, market opening, regional market integration and strengthening the position of the Energy Regulatory Commission ("ERC"). The most challenging issue which needs to be tackled is certainly the postponement of the electricity market liberalisation.

Unbundling

The Macedonian electricity market consists of the following three key players:

- the state-owned Electricity Transmission System Operator of Macedonia (MEPSO) (Macedonian: Македонски електропреносен систем оператор), acting as a transmission system operator and as a market operator;
- the state-owned Macedonian Power Plants (ELEM) (Macedonian: Електрани на Македонија), the biggest domestic electricity producer and an operator with a limited distribution network; and,
- EVN Makedonija, a private company which owns and operates most of the distribution network (i.e. 99.38%).

In line with the provisions from the Second Energy Package, MEPSO has been legally unbundled for quite some time, whereas ELEM and EVN Makedonija are not compliant with the applicable unbundling requirements. In particular, both companies hold supply licences and do not keep separate financial accounts for each of their regulated activities. According to the latest Annual Implementation Report prepared by the Energy Community Secretariat, EVN Makedonija undertook several steps to rectify this situation, however a functional unbundling was not reached.

The revised electricity legislation intended to transpose the Third Energy Package will have to introduce rules for ownership unbundling and the certification of the transmission system operator. According to recent news, the draft certification rules have been finalised, but their adoption will come after the amendments to the primary energy legislation. The authorities

will also need to ensure the implementation of the legal and functional unbundling of the distribution system operators, EVN and ELEM.

Market opening and Eligibility

In 2014, a few months before the scheduled full liberalisation of the electricity market, the Government decided to postpone it until the 1st of July, 2020. The liberalisation process should now happen in several stages i.e. each year a certain group of consumers will become eligible to choose its electricity supplier. For instance, non-households (having less than 50 employees and annual turnover below EUR 10 million) with electricity consumption over 100 MWh will enter the open market on the 1st of July, 2018, while those with electricity consumption over 25 MWh on the 1st of July, 2019. The households and the rest of the non-households will be eligible from the 1st of July, 2020.

The liberalisation was postponed in order to prevent shock prices, especially in the case of households. Now, on the one hand, according to an announcement, this breach of the Treaty establishing the Energy Community will be rectified. But on the other hand, the Government plans to introduce a daily tariff for cheap electricity, which needs to be carefully structured in order to avoid any further non-compliance with the Energy Community acquis. The Third Energy Package allows for such temporary measures, but they must focus on the socially vulnerable population and not be burdensome for the other electricity consumers.

Another obstacle to the establishment of a well-functioning electricity market are the public service obligations imposed on EVN and ELEM. On one side, EVN carries out a supply of last resort, while ELEM generates electricity to meet the demands of the suppliers of last resort, and sells the electricity at regulated prices. As noted by the Energy Community, these public service obligations represent a breach of the Third Energy Package - since they are excessive and without time limitation.

Regulatory Independence and Powers

All requirements from the Third Energy Package, with respect to the national regulatory authorities, aim to ensure an independent and autonomous decision-making process. To reach this goal, the regulatory authority should be independent from any public or private party, it should have a separate annual budget and sufficient human and financial resources for exercising its powers.

The national legislation satisfies the Third Energy Package independence requirements, with respect to the ERC, except for the lack of a rotation scheme for ERC board members. Hence, the announced amendments need to focus on this issue and on transposing all of the regulatory powers from the Third Energy Package.

Source: Lexology