

Following recent changes in the laws of most South East Europe countries - Contracting Parties of the Energy Community, by which all consumers are obliged to purchase electricity on the electricity free market except for households and small businesses, there is a noticeable acceleration of activities on the liberalization of the electricity market in the region.

Most active in preparations for the establishment of national energy exchanges in the region are Croatia (EU member state) and Serbia, while other contracting parties also plan to soon establish national electricity exchange. In Macedonia a consultant was engaged to establish a national energy exchange, and there are plans for the establishment of energy exchanges in Bosnia and Herzegovina, Montenegro and Albania as well.

In EU member states within the region of South East Europe, the national electricity exchange already exist in Slovenia (South Pool), Romania (OPCOM) and Greece (LAGIE), and in January 2014 a national power exchange was established and in Bulgaria (IBEX - Independent Bulgarian Energy Exchange). Although the establishment of the national energy exchanges in the countries of former Yugoslavia has no point or justification because each power system of the Contracting Parties as a market area cannot have the liquidity individually (there is no necessary balance between supply and demand of electricity as a prerequisite for the liquidity of the energy exchange), due to historical and political reasons it is necessary that the initial phase of each market area (Contracting Party) set up a national energy exchange of electricity, at the cost of their insolvency, but with a plan to start the process connecting the market (Market Coupling) in the region of South East Europe after a short initial work of at least one year. Energy Community Secretariat has also recognized the importance of establishing electricity stock exchanges and energy exchange mergers which are in line with the target model of the EU market, and is given support by organizing workshops and initiating the work of the ad hoc working group to assist the Parties in the process of establishing the electricity stock market.

Establishment of the power exchange in Serbia: SEEPEX

In accordance with the new Law on energy in the Republic of Serbia, adopted December 29th 2015, Article 180, the market operator is responsible for establishing the organized electricity market, administrating organized electricity markets and for efficient and functional connection of the electricity market in the Republic of Serbia with neighboring electricity markets, in cooperation with the transmission system operator in the Republic of Serbia, as well as transmission system operators and market operators of neighboring countries, and in accordance with internationally recognized principles and commitments. The new Energy Law is fully supported and provided for the creation of Serbian Energy Exchange (Article 177-183). Although in the initial stage of establishing the energy market in Serbia is given the name SERPEX (Serbian Power Exchange), which would commemorate the Serbian National Power Exchange, in the later stages it was decided that the name of

the power exchange is SEEPEX (South East Europe Power Exchange) in order to unambiguously send message that the Serbian energy market is ready to connect with the markets in the region, as well as to offer market zones in the region, providing services such as energy exchanges will entrust the management of their market zones SEEPEX, if they have no intention of setting up their national energy exchanges, and want to improve as quickly as possible and develop its own electricity market.

Electric Network of Serbia (EMS) shall establish strategic partnership with Electric Power Industry of Serbia (EPS) within Serbian energy market SEEPEX, in order to engage EPS as a market maker. Namely, in the starting phase of energy market operations it is necessary to establish balance between energy demand and supply, with the final goal of making the Serbian market liquid something that EPS should provide with its production abilities.

Although there are clues that SEEPEX energy market would be liquid in this very moment by its demand/supply structure even without EPS being involved as a market maker, it is necessary to do additional analysis before the final stand on this matter is determined, and having in mind characteristics of consumption and production in Serbia, as well as the scope of exchange during one year.

Market areas of other countries of the former Yugoslavia, such as, for example, Montenegro and Macedonia, certainly do not have the conditions for liquid operation of a national energy exchange due to unequal balance of production and consumption. The market area of Bosnia and Herzegovina has the prerequisites for the liquidity of the energy exchange, if it comes to its founding agreement between the three state entities, as in Bosnia and Herzegovina need for production and consumption uniform. South East Europe Region as a whole has great potential to become a single market area in the new circumstances, because historically created preconditions (formerly JUGEL within the SFRY) for the exploitation of energy resources and the establishment of equilibrium between supply and demand at regional level. Therefore, the only solution for South East Europe create a unique regional "pan-Balkan" exchanges that would be a meeting place of demand and supply of electricity to the reference price and its future integration into the internal EU electricity market. A separate issue is whether the possible establishment of a single regional energy exchange, bearing in mind the political relations and historical heritage in South East Europe.

Serbian electricity exchange plan is that after the initial year-long work the process of merging with neighboring markets exchanges of electricity begins, and in all likelihood the first merger will be between the markets of Serbia and Hungary. It is expected that the first merger market in South East Europe will cause a chain reaction of a energy exchange and acquisitions markets of the Contracting Parties and EU Member States in the region, which will result in complete and safe liberalization of the electricity market in South East Europe with a transparent wholesale price electricity at a regional level as an important signal for

the further liberalization of the market for the future involvement of Serbia and the entire region in the EU internal market and significant investment in energy production and transmission infrastructure.

In the context of the integration of the EU market, the question of “why and how to regulate the energy market” could be redesigned in a provocative question “why and how to regulate the cartel of dominant domestic retail market,” which proposes “monopolization” of organizing cross-border trade. While the creation of such a cartel is uncertain from an economic point of view, it is likely that it will be the only institutionally feasible solution that would eliminate the significant inefficiencies of cross-border trade that Europe has experienced. A theoretical alternative is adoption of a energy exchange model with a regulated price of services throughout Europe, as such a energy market has no profit incentives to make cross-border trade monopoly abuse. However, everything indicates that energy exchange regulation is needed, while the cross-border coordination and harmonization should be one of the regulated activities within the national regulatory framework. It is no coincidence that trade exchanges largely organize cross-border trade in some parts of Europe, providing resistance to the regulation of any of its functions, considering that no segment of the energy market should be regulated. Energy exchange self-sufficiency and their belief in their infallibility and absolute independence, without services cost regulation, could lead to a monopolistic position in the energy exchange and possible abuse of the market due to incorrect output and reference price. But there are several promising regulatory activities that may prevent all the more pronounced European monopolistic market structure to lead to new commercial inefficiency. Stronger energy market dominance in the market could be limited: 1) by increasing demands for transparency of data relating to the work of the energy exchange; 2) by introduction of management rules to prevent cooperation between the energy market begins to take place within a closed cartel; and 3) by continuing the distribution of long-term physical transmission rights. Quality of service should be introduced in the context of energy market integration of the EU market to so that having such excellent energy exchange results in achieving the target model is award-winning, and the failure is sanctioned.

When it comes to deciding whether the region of South East Europe needs to establish energy exchange that are commercial (non-regulated) or exchanges services with regulated prices, at this point it is difficult to give the right answer and the right solution. As is known, the question of “whether or not to regulate the energy exchange” is very sensitive and topical issue not only in the region of South East Europe, but in the European Union itself. This is a topic that is vigorously discussed and that there is still no definite and clear answer. The European Commission has recognized the need to encourage the establishment and operation of electricity exchanges and the process of joining the market, because it is the quickest and best way to a further successful and comprehensive liberalization of the

electricity market in the EU and achieving the target market model of the EU. However, the European Commission has recognized the dangers that complete independence in the activities of the energy exchange entails, as an entity that creates and manages the price of all commercial transactions. Therefore, the European Commission plans to issue specific guidelines and regulations which would clearly and comprehensively define the tasks, status, duties and responsibilities of the energy exchange, but it is still not certain when they will be made. In this vacuum period, while there is no clear definition of European legislation relating to the activities of energy exchanges as well as all significant factors in the electricity market, it is possible only on the basis of present experience, to make recommendations for the region of South East Europe and Serbia. Based on experience from the close environment energy markets (Romania, Greece, Italy, Slovenia), it would be expedient to establish a model of the energy exchange with a regulated price of services, at least in the initial period. In this way, the newly established energy market would have clearly defined activities, and price regulation would be conducted by a regulatory body or ministry. This would ensure the success of the energy exchange, and shared responsibility for its operation in the initial period. Also, it is necessary immediately after the establishment of energy exchanges to define energy markets control model, as is the case in the EU, where in most cases the regulatory body carries out the function to protect the market as a whole, but also the Exchange participant. , transmits serbia-energy.eu