

Record-high electricity and gas prices have been recorded throughout Europe, while economies are still trying to recover from the COVID-19. To be especially affected were the customers, who are blaming politicians' decisions, not enough natural gas and too much renewable energy. With winter approaching and colder days right behind the corner, together with an increase in demand, traders will be more vulnerable to big intraday spikes. Although big- and medium-sized companies can survive in these unprecedented times, the same cannot be said for small companies, as in the case of the majority of the Western Balkan countries which, other than this prices' crisis, need also to implement and be more aligned to the Third Energy Package.

What is driving the Western Balkans' integration?

Two factors could drive the Western Balkans' regional integration, according to Vojkan Tomašević, Advisor to the board and General Director of EFT Furnizare, a division of European energy trading and investment group Energy Financing Team (EFT) and one of the speakers of the ETCSEE conference which will take place this week in Prague with the goal to explore all major developments in the SEE and CEE power and gas traded markets. "I would say political factors," he tells CEENERGYNEWS "The opening of Montenegro's day-ahead market is important as well as fixed day-ahead markets especially in a small region and a small territory like the Western Balkans'."

He also believes that sooner or later also market coupling will play a role.

"Besides than the trading side, it brings more liquidity to countries liquidity and in this particular moment especially, availability is important," Mr Tomašević explains. "However, this price crisis might diminish or cover all good aspects of market coupling and we should work to prevent that."

Also for Jasmina Trhulj, Head of Electricity Unit at the Energy Community and another speaker of ETCSEE, the market coupling is crucial for the development of the organised power markets in the Western Balkan region.

"Given the small size and high concentration of the electricity markets in WB6 [Western Balkan six countries] on one hand and very strong, but underutilised interconnections, on the other hand, the coupling of these markets at regional and European level is key to the better utilisation of the infrastructure, improving competition and thus ensuring a robust price signal," she tells CEENERGYNEWS. "As the energy crisis loomed, we have seen in some days the highest electricity prices in Europe recorded on the day-ahead market in Serbia which is not yet coupled. This proves that small isolated markets are more prone to price volatility."

She goes on to say that, a multifaceted interlink between market integration and decarbonisation of the energy sector will play an important role in driving these two processes.

"The integrated markets are a precondition for sustainable and cost-effective

decarbonisation of the energy sector, to which the Western Balkans committed under the Green Agenda for the Western Balkans," Mrs Trhulj underlines. "Further to this, the Decarbonisation Roadmap for the Energy Community is expected to be adopted at the forthcoming Ministerial Council meeting on 25 November. In addition to political will, the speed of decarbonisation will largely be determined by the financial support that will underpin the process, as well as on public pressure to mitigate the pollution problem in the region."

Indeed, electricity trading across borders is a key element of EU energy policy. Three regulatory packages have opened up formerly isolated EU markets and introduced cross-border trading through liquid spot markets, intending to remove the barriers to an internal electricity market covering the entire EU. As Contracting Parties to the Energy Community Treaty, the WB6 countries have followed this development, including full implementation of the Third Energy Package by 1 January 2015.

"Speaking in figures, the Contracting Parties are on average more than two-thirds aligned with their obligations under the Third Energy Package in electricity," notes Mrs Trhulj.

"What is still to be done in most countries is the full unbundling of system operators and deregulation of their electricity markets. However, the establishment of organised markets and their integration remain the biggest regional challenges, due to the absence of a robust legal framework for the integration of WB6 and EU markets. The adoption of EU Network Codes and Guidelines for the Energy Community, which is expected next year, will add certainty to the process."

We will survive winter but the effects will be very negative for small companies

Winter is coming and due to the gradual coal and nuclear phase-outs in some countries, Europe has registered record-high electricity and gas prices. Also, traders were impacted and exchanges and clearing houses played an important role in decreasing credit risk and becoming a safeguard for market players under this turbulent environment.

"The Western Balkans have a lot of companies that have based trading on bilateral contracts which become extremely risky in these times," explains Mr Tomašević. "Of course having clearing houses is something that was accepted from the trading community, however, 80 per cent of our trade comes from the financial side which takes off the burden from both sides. But this is connected mainly with huge capital and those medium-size companies, therefore, is not a big issue in the Western Balkans."

Indeed there are a lot of small companies who are not skilled enough and cannot join exchange markets.

"We have seen many companies also from Romania and Bulgaria going bankrupt in these times," he continues. "Bilateral trade is practically zero during these times of high prices so it is a big issue for those small companies."

And it is something unprecedented. Mr Tomašević has never seen such a huge and lasting increase in prices in such a short period.

“For the prices increase some people are blaming gas or not enough gas,” he adds.

“However it is a consequence of something else, something broader that came with the outbreak of COVID and the decrease of coal and nuclear production. Technically speaking is not enough to have solar and wind production in huge capacities if we don't have storage to fill the gap. So we are going a bit too fast in this direction of replacing coal with renewables and we are paying the price of that. I am optimistic that we will survive this winter but the effects will be very negative for small companies.”

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