

Russian Power Market Reform

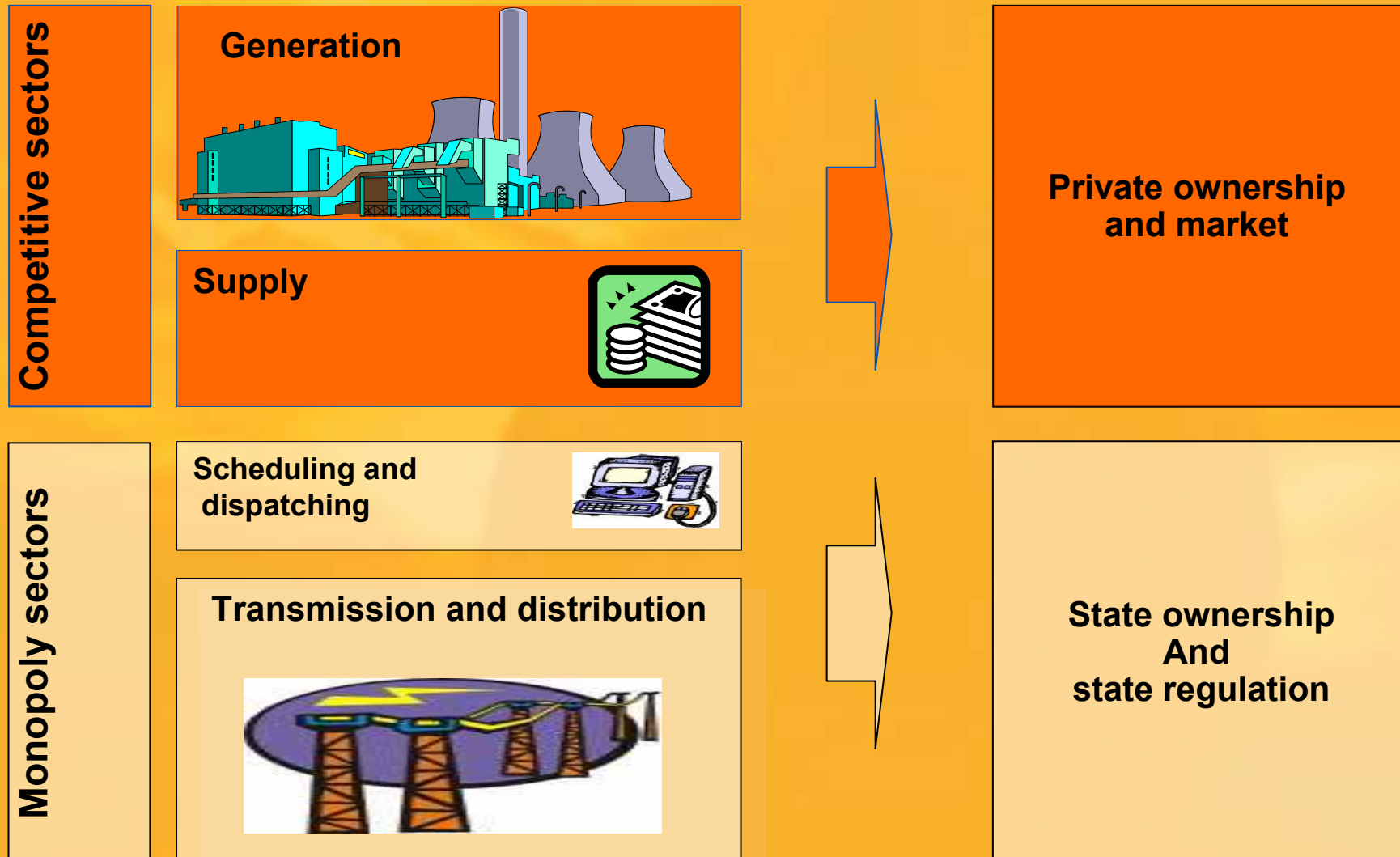


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Of OAO RAO "UES of Russia"
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Helsinki
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Basis of reform:

Unbundling for monopoly and competitive activities



Competitive and Monopolistic Sectors: Target Structure Companies

*Restructuring
process*

Competitive sectors

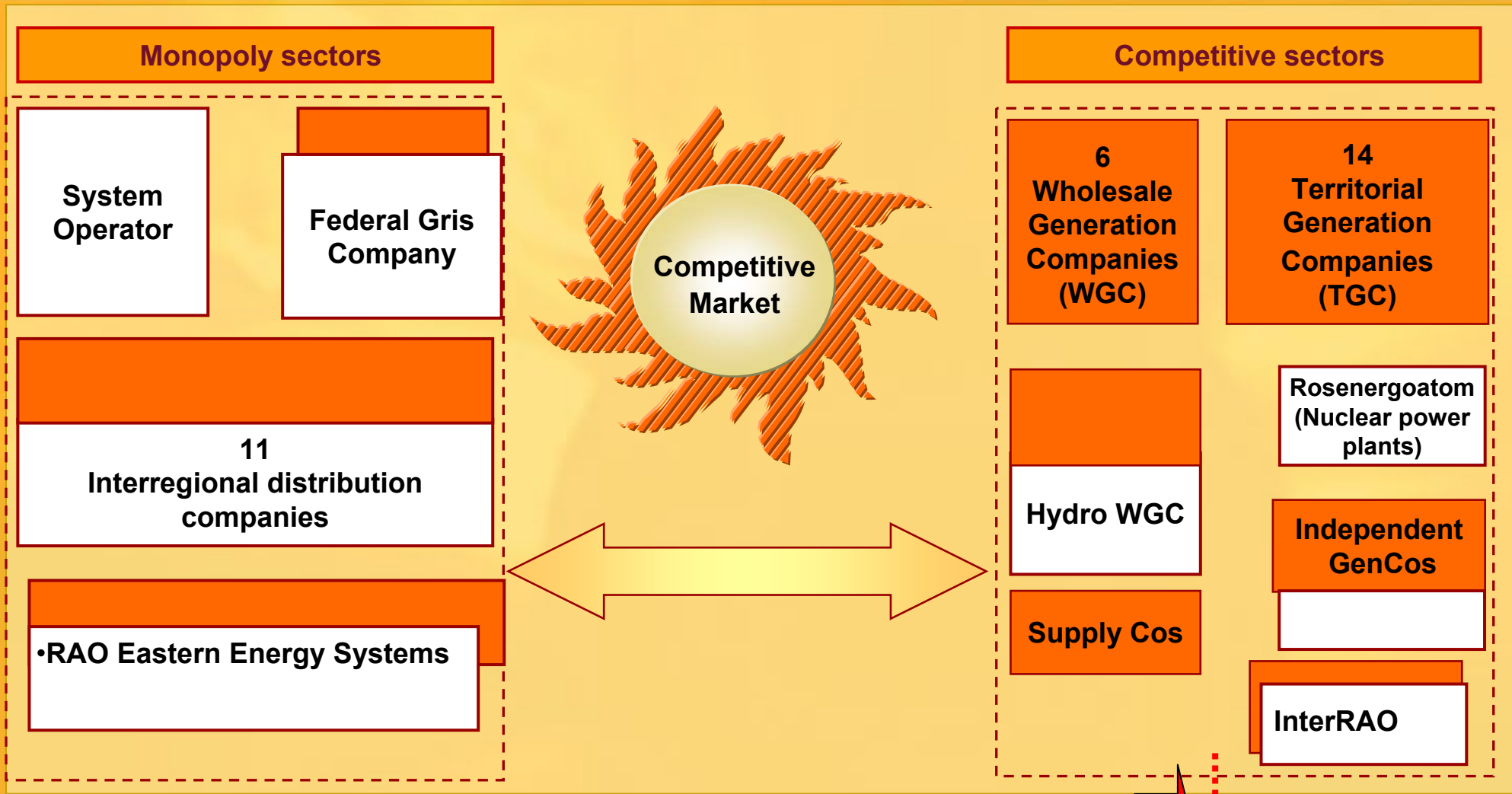
- Thermal Wholesale GenCos (6 OGKs)
- RusHydro
- Territorial GenCos (14 TGKs)
- INTER RAO

Monopolistic sectors

- Federal Grid Company (FGC)
- System Operator
- Interregional Distribution Companies (11, IDC Holding)
- RAO Eastern Energy Systems

...Postreform model ensures the competition

Restructuring process



Russia

Private ownership
 State ownweship

Completion date for RAO UES ownership unbundling

1 июля 2008 г.

Changes in Power Sector legislation

□ Power Sector Reforming :

- RAO “UES of Russia” reorganization
- End of transition period – **July 1, 2008**
- Wholesale electric power (capacity) market functioning
- Retail markets functioning
- Ancillary services market development

□ Energy system functioning:

- Functioning of grid companies
- Dispatch management system
- Increasing reliability of UES of Russia
- State regulation of prices (tariffs)

□ Completion of market transformations – **by January 1, 2011**

The process of gradual liberalization of wholesale and retail electric power (capacity) markets, which began on September 1, 2006 must be completed before January 1, 2011 :

- 100% e.p and capacity at free prices, excluding the population :
 - Requirement of supply at regulated prices during 3 years after market liberalization completion not only for the population but also for those consumers that are equated in category to the population
- TRANSITION PERIOD wholesale and retail market rules are in force
- Priority of legislation on state regulation of prices (tariffs) for electricity and heat

Changes in the commercial infrastructure of the wholesale market:

- ❑ **Market Council** – not-for-profit partnership with the mandatory participation of **all** wholesale market participants. It is comprised of 4 chambers. The Supervisory Council of the Market includes 4 representatives of infrastructural organizations
- ❑ **Trade operator of the market** – provides services for the organization of trade of electric power and capacity (day-a-head market)
- ❑ **Other specialized organizations** (for financial settlements, for clearing transactions...)

Wholesale market functioning(2)

Changes in the functioning of the wholesale market:

- ❑ Introduction of the definition of “the market price of purchase/sale of energy” which differs from the equilibrium price by the amount of additional liabilities of market participants as a result of conducting all procedures provided for by market regulations;
- ❑ Introduction of the definition of Energy Accounting and Metering on the wholesale and retail markets based both on measurement data and method of calculation of consumption of electric power and capacity
- ❑ Introduction of capacity trade:
 - Specification of capacity as a special good traded on the wholesale market
 - Competitive procedures for the selection of capacity suppliers
 - The role of System Operator in capacity trade organization

Retail markets

- The requirement of obligatory licensing of last-resort suppliers repealed
- Simplification of procedures for the conclusion of public agreements, the transition of consumers from one seller to another, introduction of a condition of payment guarantees
 - Right to demand the conclusion of an energy supply agreement with a last-resort supplier of anyone who applied for it (previously – only end-consumers). The sales company is obliged to present a guarantee of payment
 - The absence of documents on the connection to the grid and the transmission of electric power is no ground for refusal of concluding an electric power supply agreement by a last-resort supplier
 - The right of a buyer of electric power to revoke the agreement at any time provided that all due payment has been conducted

The timely prevention, exposure, restriction and/or suppression of all actions (omissions) that result in or may result in the exclusion, restriction, elimination of competition and (or) the infringement of interests of participants

Competitive forms of activity

- Unique position
- Price manipulation

Dominant position
Collusion

Natural monopoly form of activities

- Groundless rejection in concluding a service contract
- Creating discriminatory or favorable conditions for the operating of separate participants
- Creating barriers for the access to services

Energy Market Development

NOREM

Energy

Day-ahead
market

Free bilateral contracts

Regulated
(vesting)
contracts

Balancing market

Government Resolution № 205 April, 7,
2007

Annual mandatory decrease of Regulated
contracts
twice a year (1 January & 1 July)
**2011 – 100% energy trading by
competitive price (both wholesale &
retail markets)**

**! NOT FOR DOMESTICS AND
EQUATED GROUPS**

Target model – competitive market

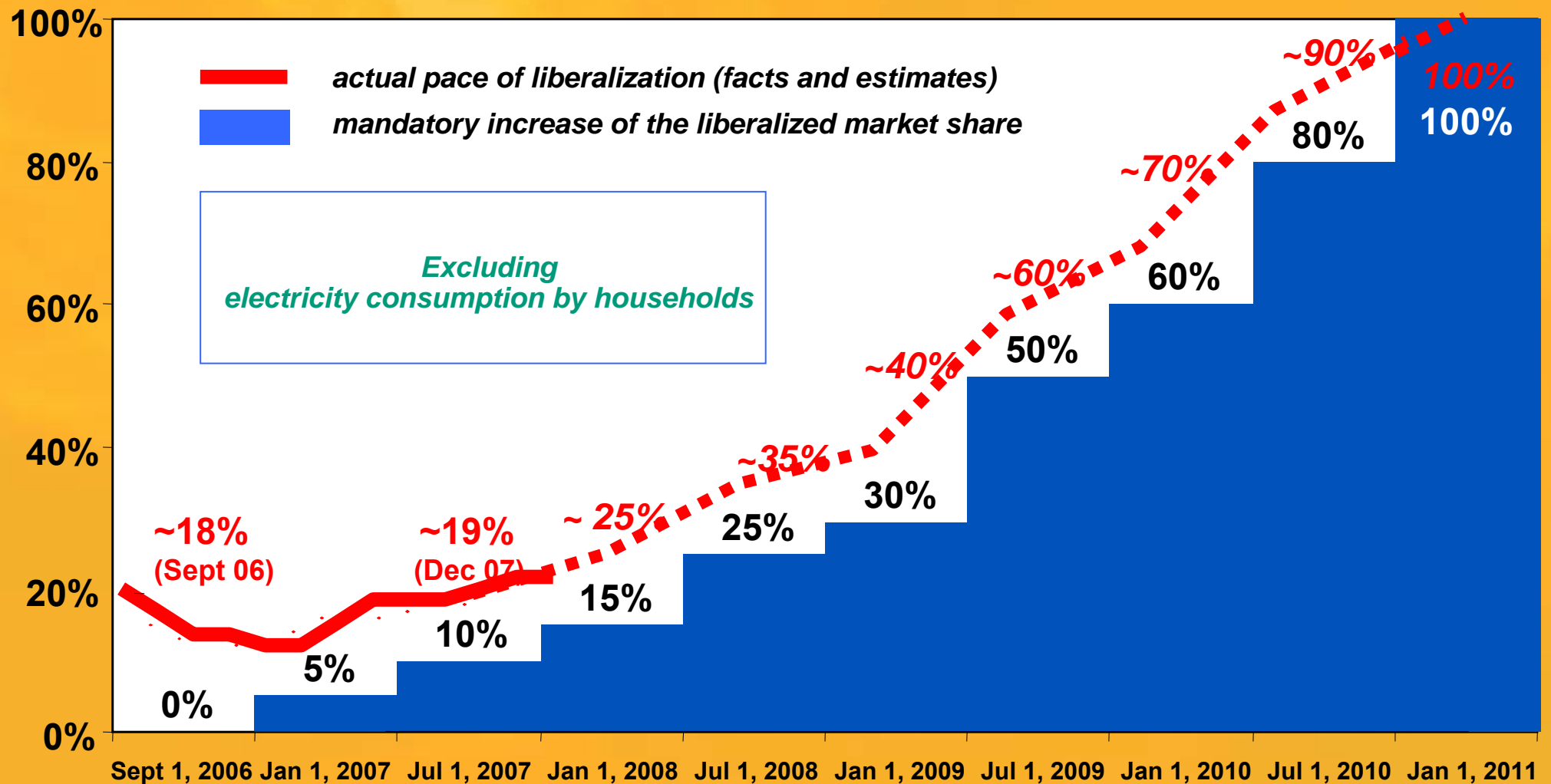
Energy

Day-ahead
market

Free bilateral
contracts

Balancing market

Pace of liberalization: government's plan and actual progress



Other Markets development

NOREM

Capacity

Regulated contracts

! Competitive trade after special Government Regulation

Non-competitive zones

Regulated trade by old rules

Target model – competitive market

Capacity

Competitive capacity market

Non-competitive zones

Regulated trade by New Rules (Yantar, Komi, Arkhangelsk, Far East)

Ancillary services market

Voluntary Load Limitation (VLL)

Financial Transmission Rights Trading

Derivatives market (futures, forwards...)

Our plans: the same rate as for electricity to be applied for capacity trading

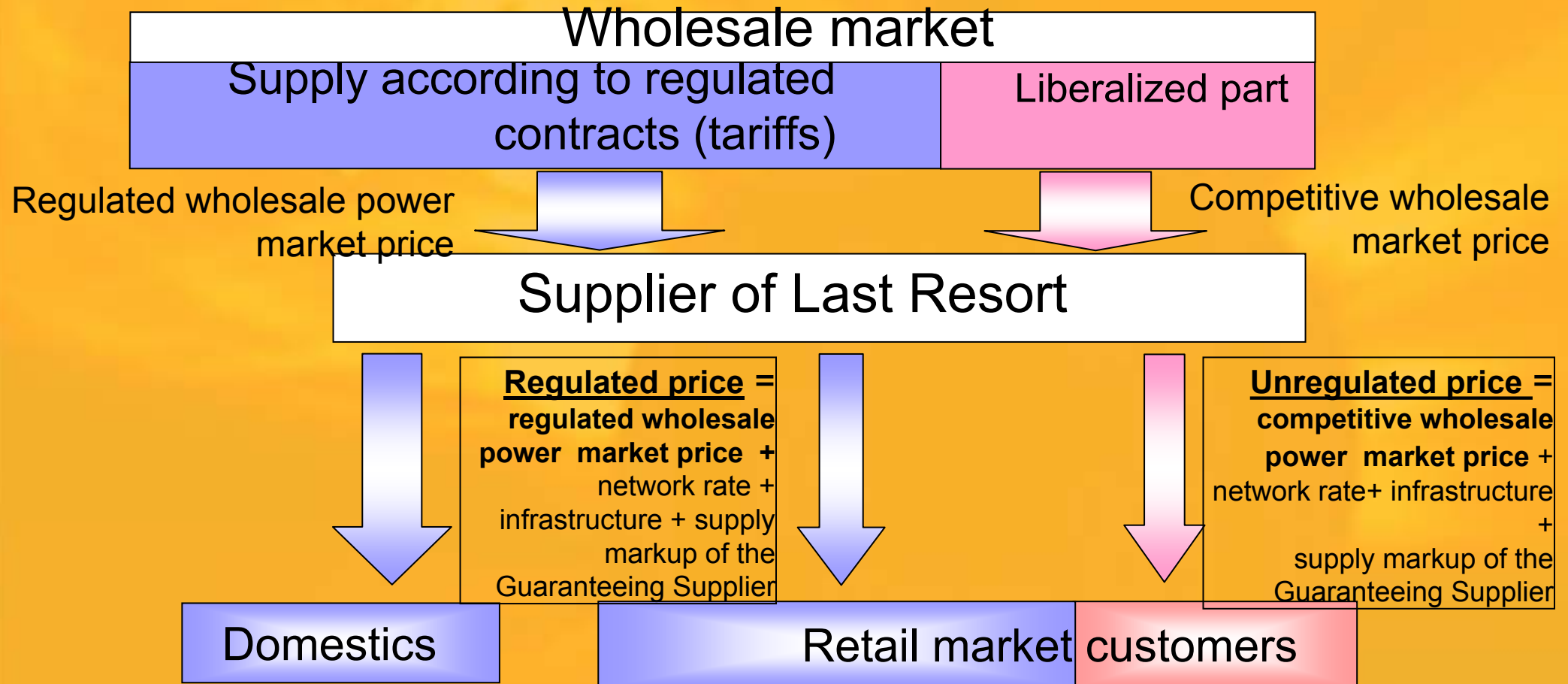
Government decree about New Rules is signed at 29.12.2007

The project of Government decree is in the Ministries for the reconciliation

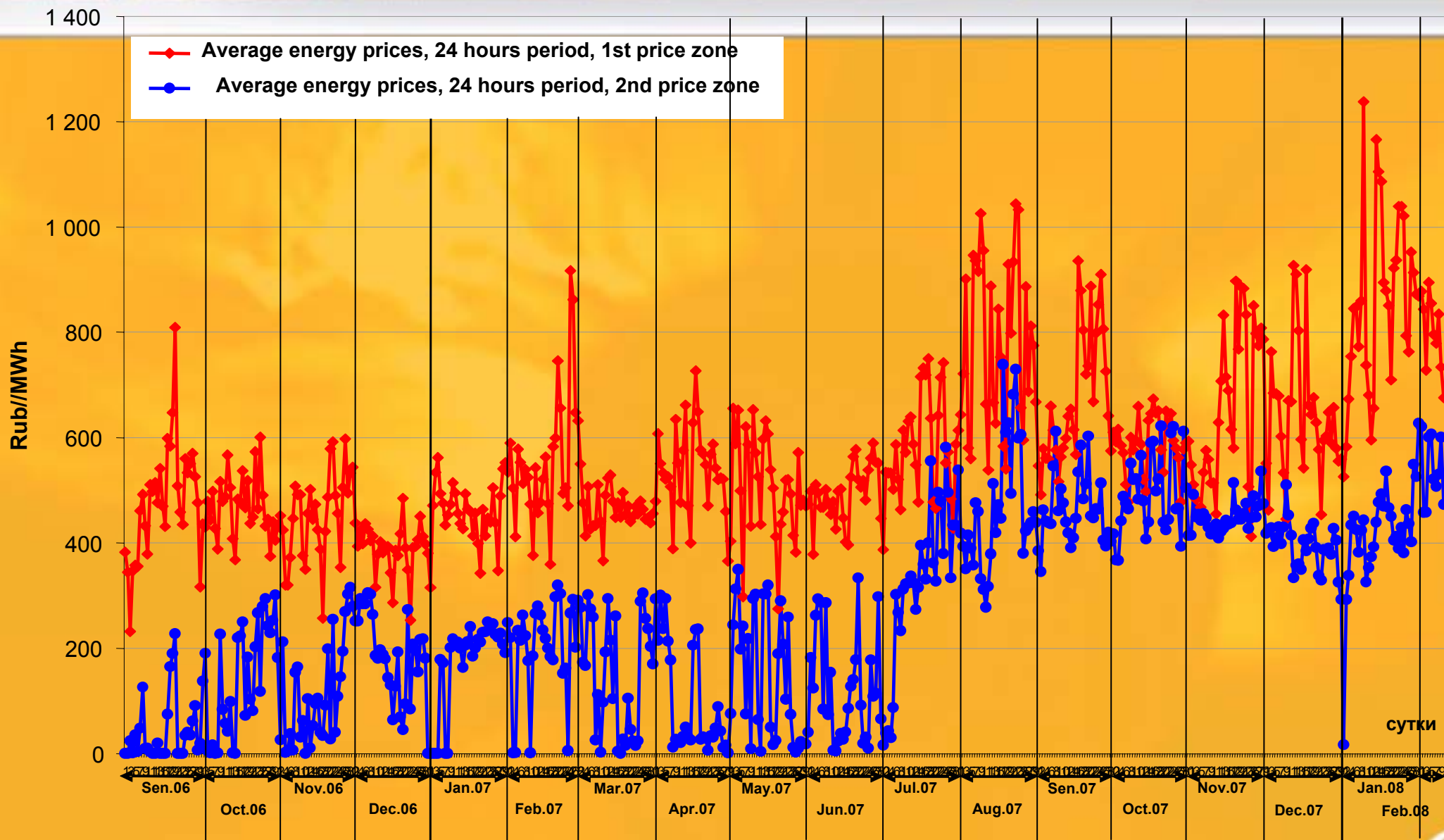
Under discussion

Parallel liberalization of the wholesale and retail markets starting from 1 September 2006

- Translation of wholesale market prices into retail market prices

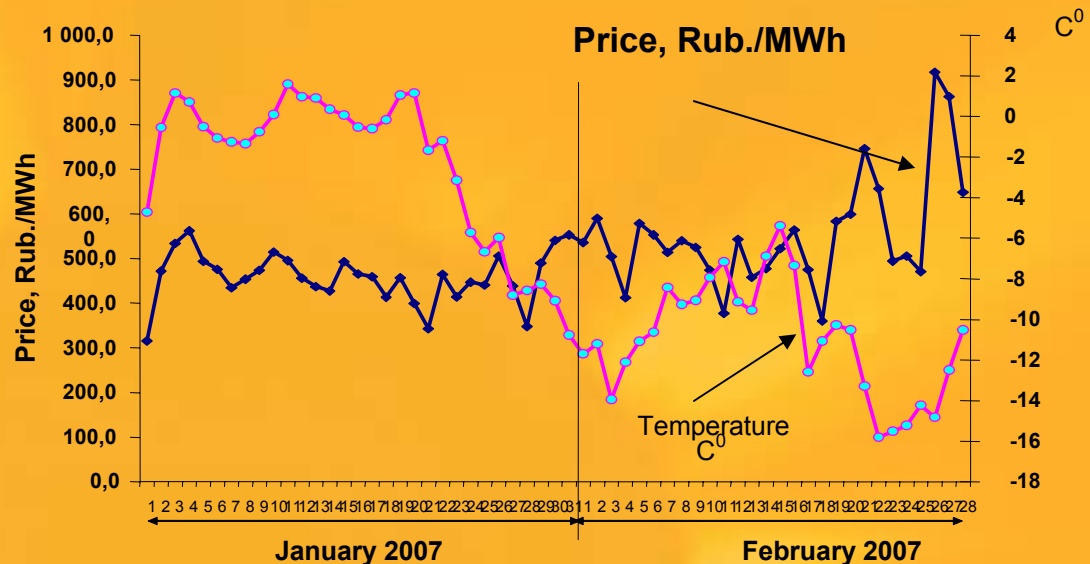
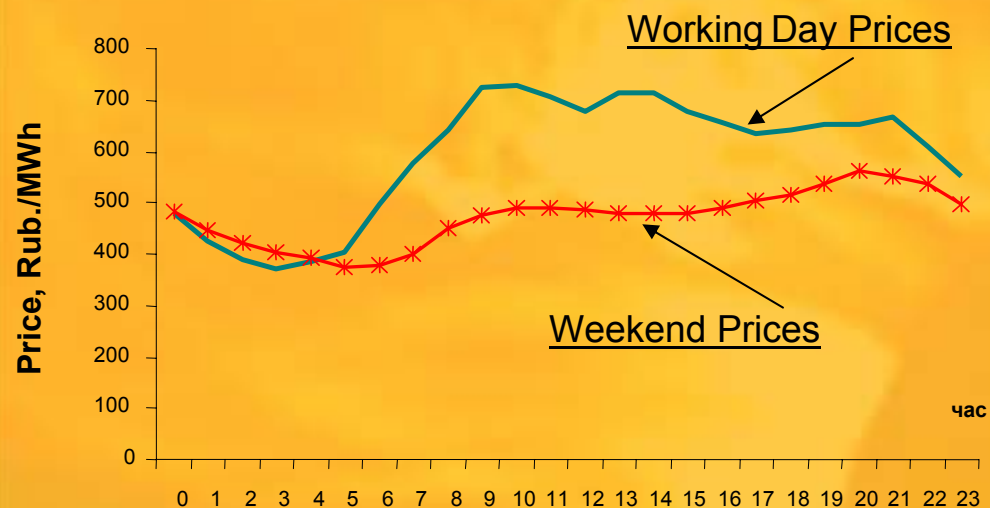


Competitive Market Price Indicators



Prices Depend on Demand/Supply

1st Price Zone



Regional Price Differences



- Competitive procedures for the selection of capacities for the following year – conducted before the start of that year, the results are in force during 1 year
- All capacity, included in the budgeted balance sheet of the FTS for the following year, is considered “selected” - as a result payment is guaranteed at a price no higher than the Capacity Tariff (exceptions are possible for new plants)
- New capacities do not receive payment for capacity, if they are not included in the balance
- Competitive selection procedures are conducted after the adoption of the budgeted balance sheet (including cost indicators)
- The following are determined as a result of the selection procedures:
 - ✓ «allocation» of capacities within free power flow zones
 - ✓ Weighted average buying price of capacity – in free power flow zones: on the basis of price bids of generators (NOT OVER the Capacity Tariff for the existing power plants, free for new power plants)

Possible ways to conclude free contracts for capacity in 2008-2011

New

- ❑ “Prolongation” of regulated contract at free price for liberalized capacity volume
- ❑ Stock market trading (by both buyers and sellers) in capacity together with energy for volumes that are not covered by regulated contracts (*in 2008 15% - in the first 6 months and 25% - in the remaining 6 months*)
- ❑ For new generation and new consumption free contracts for electric power and capacity may be concluded outside the stock market

Stock market trading

- ❑ Stock market trading– is conducted every month (the 1st till the 20th day of each month) for the following month.
- ❑ Standardized contracts for electric power and capacity are traded on the stock market (provisionally – basic, semi-peak, peak contracts)
- ❑ Each generator is obliged to put up for sale at the stock market all capacity that was not sold through regulated contracts and free contracts concluded outside the stock market in compliance to the Rules
- ❑ Buyers have no obligation to file a bid to the stock market
- ❑ Each supplier and buyer may determine at his own discretion the set of contracts to be offered at the stock market (balance of electric power and capacity volumes)
- ❑ Requirements for stock exchange rules and the compliance of existing stock exchanges to these requirements are set out by the Agreement on Power Market Participation (*under elaboration now*)

Power trade between Russia and Finland

- ❖ No great risk from Russian power market model for the trading between two markets
- ❖ All current risk and uncertainties related to export of Russian Electricity to Finland are carried directly by participants of buyers and sellers under current internal market rules

BUT:

- ❖ Possibility of liberalization of power export-import is preliminary being under discussion with the Government in Russia
- ❖ There are ideas to elaborate rules for cross border trading which should be comparable to NORD Pool's rules

Main topics here:

- ✓ Convergence of rules
- ✓ Allocation of cross border transmission capacity on the competitive principles between export-import participants
- ✓ Coordination of day ahead scheduling
- ✓ Responsibility of System Operators for the maintenance of agreed dispatch cross border flow
- ✓ Financial Settlements for deviation
- ✓ Mutual participation in the national balancing markets



THANK YOU FOR ATTENTION!