

SLOVAK ELECTRIC - MEMBER OF OPEN MARKET WITH ELECTRICITY

Vincent Pillár

Chairman of the Board of Directors and Director General Slovak Electric, plc.

Hraničná 12

827 36 Bratislava

Slovak Republic

Phone: +421 2 53417585

Fax: +421 2 50693552

E-mail: pillar_vincent@hq.seas.sk

Speaking about electricity market liberalisation we have to realise the current situation of the Slovak power industry. Everybody knows that market liberalisation is closely linked with the adjustment of the laws and standards of the Slovak Republic to those of the European Union.

For the power sector in our economic environment that means also the change of hitherto functioning organisation of relations among the production, transfer, distribution and final customer – consumer. The Government of the Slovak Republic declared the effort to establish healthy competitive environment with exactly defined rules. According to the Government representing the country, fundamental steps towards electricity market liberalisation were decisions to restructure power sector, to define time schedule of the inner market opening and the approval of an Act establishing the Regulatory Office for Network Industries. In compliance with these decisions, one converted three electricity distribution companies into shareholder companies. Part of the shares was then offered in tenders for privatising, which is now in the phase of final transactions. From the Slovak Electric plc. two shareholder companies were separated – Heat and Power Plant Košice plc and Slovak Power Grid plc. Thus Slovak Electric became a company oriented solely at the electricity and heat production and trading. At present our company undergoes the privatising process. One cannot view the process of market liberalisation purely from our limited Slovak situation – current trend in the World is globalisation!

Current trend - globalisation

- fusions already implemented and currently under way

recently emerged company E.ON Energie = Bayernwerk + PreussenElektra

one currently implements a fusion VEAG, BEWAG, LAUBAG and HEW into the new company Vattenfall Europe (subsidiary company to the Swedish Vattenfall Co)

ČEZ – the Government of the Czech Republic approved the transfer of all government shares in distribution companies into ČEZ

Slovak Electric aim: To stand up to hard competition in the market using comparative advantages

Important changes in Slovak Electric plc. trade policies

- Since the year 1999 the change from the imports – preferring orientation towards the exports preferring one – net exports 43 GWh (new production units – NPP Mochovce 1 and 2, Hydro power plant Žilina, GTCC Bratislava)
- Allocation of excess production in foreign markets:
 - ⇒ process of goodwill establishment
 - ⇒ establishing a complete logistics of electricity selling
 - ⇒ optimising of operation on the short-term basis – effort to sell all excess electricity from NNPs
- In the coming years growing rate of exports (2,67 TWh in the year 2000 and 3,77 TWh in 2001, during the first half of of the year 2002 more than 2 TWh)
 - ⇒ massive entry of Slovak Electric, plc. into neighbouring electricity markets

Slovak Electric, plc. operation in foreign markets

- In the year 1999 main trading territories Hungary and Serbia (via consumption island Subotica)
- year 2000 - 400 kV transmission line Hévíz (Hungary) – Tumbri (Croatia) in commercial operation = new trade positions in Croatia and Slovenia
- Slovak Electric, plc. has begun this year to develop „Trading“ – buying electricity for instance in Poland, Czech Republic, and then selling it in South-Eastern Europe
- Such business transactions have been often implemented wholly outside the Slovak territory, for instance electricity sale to Albania:
 - ⇒ purchase in Slovenia ⇒ transmission through the Croatian power grid + separation of one production tyrbine at hydro power plant Dubrovník into the second synchronne zone of ⇒ transmission via the power grid of Republika Srpska in Bosnien - Herzegowina ⇒ transmission via Montenegro ⇒ Supply at the Albania border

Entry into liberalised markets

- The effort of Slovak Electric to establish themselves in the liberalised electricity market in Germany
- In 2001 the establishment of „Balance Group“ of Slovak Electric, plc. at the German power grid operator E.ON Netz (virtual trading group – new system of trading) – simplicity

Advantages:

- ✓ Allocation of the excess production of the Slovak Electric, plc. during the periods when transmission capacities to other markets are overfilled
- ✓ Access to liquid market – the development of trading
- ✓ presentation – gradual acceptance of the Slovak Electric, plc. as an equal partner by strong partners

Disadvantages:

- ✓ Significant transmission costs through the Czech power grid and fees for transmission capacity at the German profile

Trade with countries within UCTE framework

- Slovakia (at present Slovak power grid plc.) is a member of UCTE (Union for the Co-ordination of Transmission of Electricity)
- Slovak Electric trades mainly within the UCTE framework

Slovak Electric, plc. as one of the few companies is experienced in trading with the countries of the second synchronone zone of UCTE

Trading partners

➤ Central Europe:

Poland, Czech Republic, Hungary, Slovakia

➤ Southern Europe:

Slovenia, Croatia, Bosnien and Herzegowina, Montenegro, Albania, Serbia, Romania

➤ Western Europe:

Austria, Germany, Great Britain, the Netherlands, Switzerland

Aspects of trading with electricity in a liberalised environment

- Bilateral contracts – general contracts + telephone records
- Space for brokers – widely known web platforms are OTC and GFI Net
- Establishment of stock exchange with electricity – EEX European Energy Exchange

- Minimum fees at trading within Very High Voltage
- Significant penalties at deviations from the balance of the Balance Group
- Increased importance of such problems as Risk Management, Production Portfolio Management, Credit Risk Management

Changes in organisation structure

- Separation of the Department of Foreign Trade with electricity
- project ROVE – Management of trade and production of electricity
- preparation of the establishment of trade & production dispatching aiming at the optimum production and selling of electricity
- preparation phases at the establishment of the Trading Floor

Short – term tasks

- » establishment of Trading Floor
- » software & hardware outfit for trading
- » separation of new organisational units such as Risk Management
- » access to the liberalised market in Austria (establishment of subsidiary corporation of Slovak Electric in order to found a balance group)

Slovak Electric and market liberalisation in the Slovak Republic

- Need to resolve
 1. Elimination of cross-subsidies
 2. Problem of stranded costs
 3. Price regulation
 4. Assessment of auxiliary services

Slovak Electric plc. aims in the liberalised electricity market in Slovakia

- Guaranteed electricity supply for its customers at acceptable price conditions
- After domestic market opens– establishment of the trade strategy aiming at the capture of market share as big as possible
- Proceeding in the trend launched already in the foreign trade sphere.