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On 5th July 2010, the Federal Antimonopoly Service (FAS Russia) held a session of the Expert Council on Electric Power Industry. Its agenda included two items:

1. The FAS Russia's proposals on eliminating shortcomings of the current pricing model on the wholesale market of electric power and capacity (further on referred to as the wholesale market) by increasing the role of end-customers in pricing on wholesale and retail markets.

2. A technique for verifying economic justification of price bids for transactions, developed by FASA Russia in accord with Clause 5 of No.238 Decree of the Government of the Russian Federation of 13th April 2010.

Earlier FAS Russia sent its proposals for improving market relations in electric power industry to federal executive bodies. These proposals are aimed at preventing infringements of the interests of market participants and were developed with due account of the outcomes of antimonopoly cases considered by FAS Russia.

The objective of the session of the Expert Council was to determine the position of the expert community regarding the current situation and prepare proposals towards its improvement.

The current market model has several systemic problems, some of which stem from "vertical" translation of the prices, formed on the wholesale market, to consumers. A positive side is absence of pricing "gaps" between the wholesale and retail markets; a negative side is unilateralism of such type of pricing.

For instance, an electric power consumer can find out about the price level for the current month only the following month and cannot influence the level of prices and respond to price changes by increasing or reducing consumption of electric power.

Currently market prices are formed by a relatively close group of power producers. Most of other producers are price-takers (nuclear plants, hydro-electric plants, thermal power plants in a heat-extraction mode). Buyers (typically, providers of last resort) mostly file volume bids. Only a few end consumers - participants of the wholesale market file volume bids along with volume bids.

Another significant problem of the electric power market is lack of transparent retail pricing as a result of a complex calculation model and possibility for provides of last report to unilaterally change the method of price calculation for retail consumers, which can lead to considerable increase of electric power prices for such consumers.

Executive bodies of the constituent territories of the Russian Federation do not have a unified approach to pricing regulation, particularly, for differentiating group of consumers depending on the number of hours of using committed power capacity per year.

Another negative aspect of the existing market model is that in some cases reduction of consumption of electric power means that a customer should be transferred to a different tariff group (with fewer hours of using committed power capacity per year), which results in increase of price per unit of consumed electric power and in general increase electricity costs. Impeded entry of consumers and energy suppliers to the wholesale market explains insufficient level of compeittion on retail markets.

Speaking to the Expert Council, Anatoly Golomolzin, Deputy Head of FAS Russia, said: "Cumulatively, these problems diminish positive effects of competitive markets of electric power as they do not stimulate energy efficiency and energy saving". The Expert Council suggested several proposals to improve organization of the electric energy market in order to overcome the above problems.

It is essential to provide a possibility to consumers to know the price of electric power at least a day before the actual consumption takes place to be able, if necessary, to change consumption volume depending on the market movements.

It is also essential to create conditions when consumers can affect the price of electric energy by filing volume and price bids on both wholesale and retail markets.

Filing bid on the wholesale markets, the providers of last resorts must take into account changes in the quantity demanded by particular retail customers as well as buyers in general in the zone of operations of the provider of last resort, depending on the price level.

The group of consumers who can file price and volume bids at the tenders on the wholesale market of electric energy should be expanded.

The procedures for consumer entry to the wholes sale markets (including end- consumers of electric power) should be simplified by streamlining the procedures for entry to the wholesale market as well as by softening requirements to consumer "competence" for participation in the wholesale market.

"In the end, it is important to ensure balanced competitive bidding, when price bids are filed by both producers and consumers of electric power. It is this price, which is formed as a result of competitive actions of electric power producers and competent consumers of electric power, that should be translated to other consumers", pointed out Anatoly Golomolzin.

Members of the Expert Council agreed upon the FAS Russia's analysis of the current market situation and in general supported the FAS Russia's initiatives. They also put forward additional proposals to change the existing model of performance of electric energy markets.

In view of the importance and complexity of the issues in question and new proposals, the work on modifying the model of coordinated performance of wholesale and retail electric energy markets will be continued and the results will be discussed at the next meeting of the Expert Council.

The second item of the agenda was continued work on improving information openness and transparency of FAS Russia's exercising its responsibilities. FAS Russia presented to the Expert Council a draft technique for verifying economic justification of price bids.

This technique was developed due to launching in 2010 long-term competitive power take-off s on the wholesale market of electric power and capacity and FAS Russia has been assigned responsibility to assess economic justification of the bids (No.238 Decree of the Government of the Russian Federation of 13th April 2010).

The proposed technique will serve as a basis to form the level of ceiling prices in the free power transfer zones of the wholesale market with restricted competitive conditions as well as the level of economically justified prices used in procedures aimed to prevent price manipulation in the free power transfer zones with competitive conditions.

"It is important to adopt this document before launching long-term electric capacity market as these price targets should facilitate sustainable development of the electric power industry, by on the one hand, increasing investment potential of enterprises in the electric power industry and, on the other hand, protecting the interests of consumers", said Anatoly Golomolzin.

Members of the Expert Council actively discussed the techniques and put forward several proposals on improving the project. Reasonable proposals of the members of the Experts Council on changing the technique will be submitted within five days and then within three days FAS Russia will present a project improved in view of the new proposals.

"In the FAS Russia's opinion, the session of the Expert Council gives a positive example of an open discussion of the pressing issues for the performance of the electric power market, enabling to learn about reasonable positions of all market participants, find solutions given the balance of interest of market players, and chose an effective course for developing competition in this field", pointed out Anatoly Golomolzin.