

INSTITUTIONAL CAPACITY AND REGIONAL ELECTRICITY MARKET IN SOUTHEAST EUROPE

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Abstract

In the context of actual economic and energy crises when energy issues have become crucial development topic, the paper focuses the issue of regional electricity market in Southeast Europe. The electricity sector in Southeast Europe has gone through extensive economic reforms and the establishment of the regional electricity market has been an important step. In October 2005 the Treaty establishing the Energy Community was signed as the only legally binding document for all SEE countries. Although the Treaty is still in its implementation phase, the electricity trade among SEE countries grows significantly. The goal of the Energy Community is to improve the reliability and security of supply, achieve economies of scale and enhance complementarities between systems. It is expected to promote use of the most cost-effective capacities and reduce overcapacity of the existing base load, thereby reducing generation costs by around 10%. The regional market is an effective way to achieve a diversified energy mix and to optimize use of regional supply and production capacities. Besides short-term benefits, the final economic goal of Energy Community is to overcome the limited size of SEE national markets and to create large and more stable regional market that will be more competitive and more interesting for private investors.

The process and outcomes of the Energy Community implementation strongly depends on the institutional capacity of SEE countries and, on the other hand, the appropriate level of institutional environment is crucial in order to benefit from the reforms. These institutional resources are still missing and therefore the institutional capacity has become the biggest obstacle in the process of full implementation of electricity reforms. Although theory confirms the positive impact of institutional framework on electricity reforms' outcomes, there has been a limited number of empirical studies focusing this issue. Therefore the aim of the paper is to analyse the economic effects of regional electricity market in Southeast Europe within the wider institutional context and to investigate the importance of institutions in the process of the Energy Community establishment.

Key words: institutional capacity, regional electricity market, electricity reforms, Southeast Europe