Gas Infrastructure in the Energy Community (SEE)

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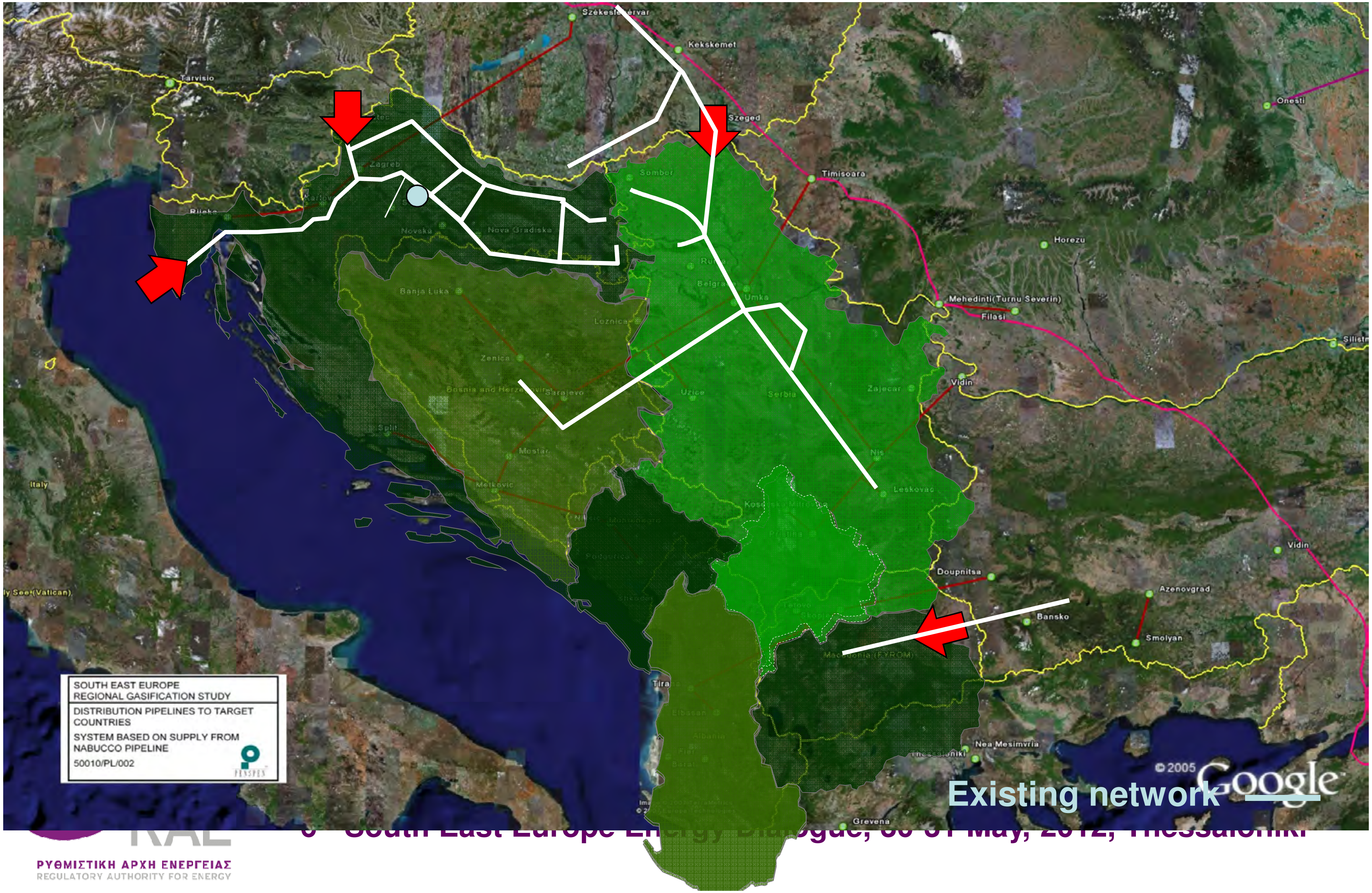
Southern Gas Corridor

Current Gas Transmission System

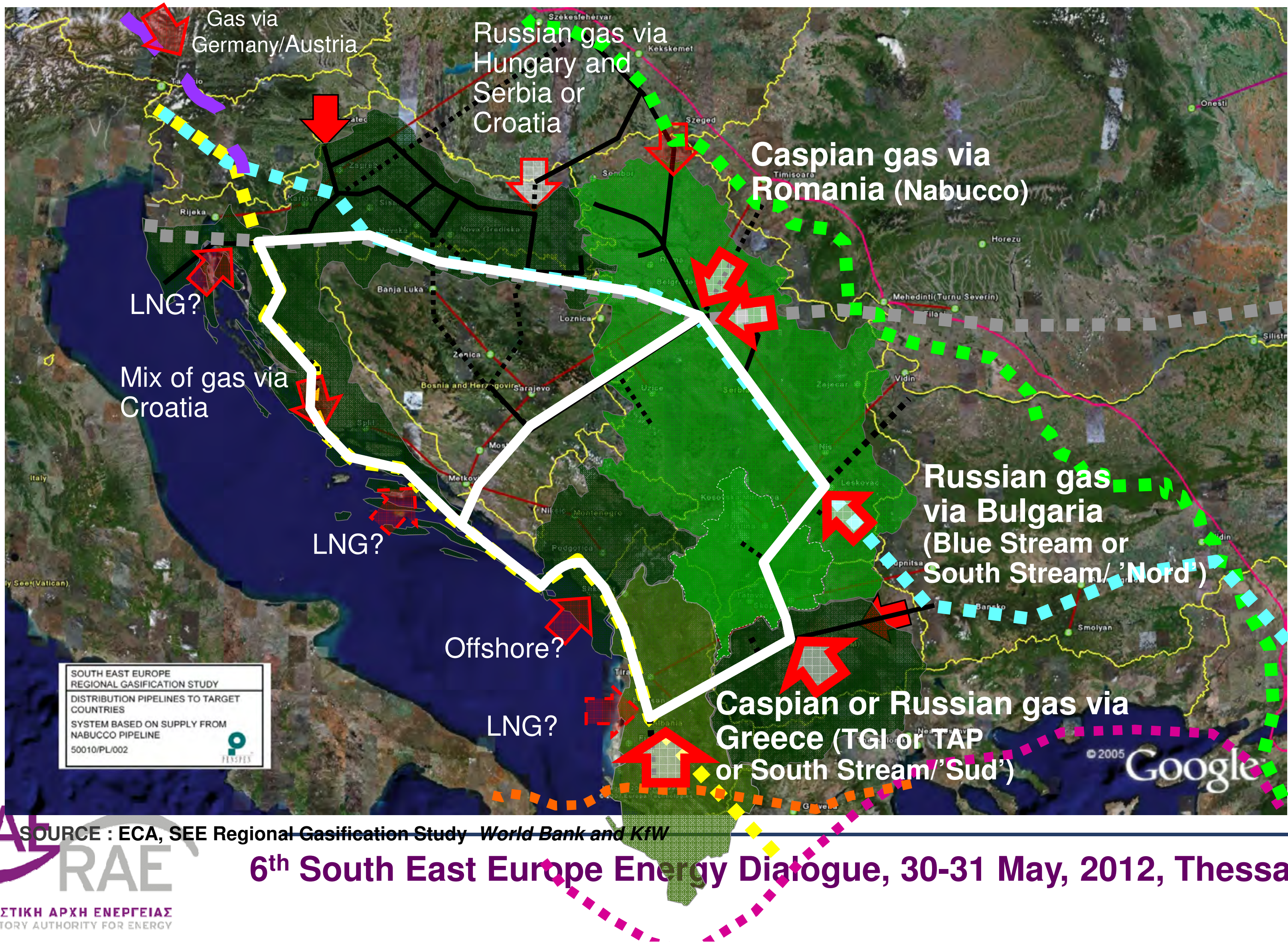


RAE
ΡΥΘΜΙΣΤΙΚΗ ΑΡΧΗ ΕΝΕΡΓΕΙΑΣ
REGULATORY AUTHORITY FOR ENERGY

The Energy Community Treaty

- The countries of the region and the EU have entered into the Energy Community Treaty (2005)
- All countries are now committed to implement the 3rd EU Energy Package by 2015-2017
- Energy Community is one of the main pillars of the EU External Energy Policy
- Efforts for the “gasification” of the region started immediately (but with very poor results so far)
- All countries have a “gasification plan”

The Energy Community Gas Ring



SOURCE : ECA, SEE Regional Gasification Study *World Bank and KfW*

Benefits of the Gas Ring

- Reach ungassified areas
- Enhance security of energy supply (diversification of routes, diversification of fuels, interoperability of networks)
- Facilitate regional gas trading and integration to EU gas market
- Eventually, foster the development of a "SEE Gas Hub"

The Challenge

- How to fund the gradual completion of the Gas Ring?
- What are the obstacles to attracting capital investment?
- What needs to be done to overcome these obstacles?
- How we could formulate a framework for the completion of the Ring in the future?
- How to implement compatible “market-based” rules?

Risk Management

- Political and legal risks must be addressed through the establishment of a sound legal and regulatory framework. ***This is an essential prerequisite***
- The main commercial risk is volume and price risk (anchor loads, price of gas and electricity, RES, affordability issues)
- Risk management tools may be required to address these
- Regulators, along with governments, the EU and IFIs can use risk management measures to manage such risks

Potential Risk management measures

- Implementation of harmonized regulatory framework (3rd package: tariffs, capacity allocation, balancing, planning, cross-border cost sharing, etc.)
- Risk reduction:
  - “Reasonable” use of TPA exemption
  - Offering monopoly access to an area under licence
  - Grants (projects of “common interest”)
- Risk transfer
  - Cap and collar regulatory regime (passing some risks to consumers)
  - Government guarantees
- Risk sharing
  - PPP (very promising option)

Recommendations

- Provide government guarantees to also attract investors, where few or no gas consumers exist
- Identify commercial entities willing to invest in commercial capacity (anchor loads) e.g. through open tender (gas-to-power initiative from the EU and WB)
- Use commercial interest to develop incremental capacity for national/regional customers and future market development
- Undertake full end-to-end risk assessment on potential projects
- Design appropriate risk management measures to address identified high level risks – including in relation to incremental non-commercial capacity

Evolutions…

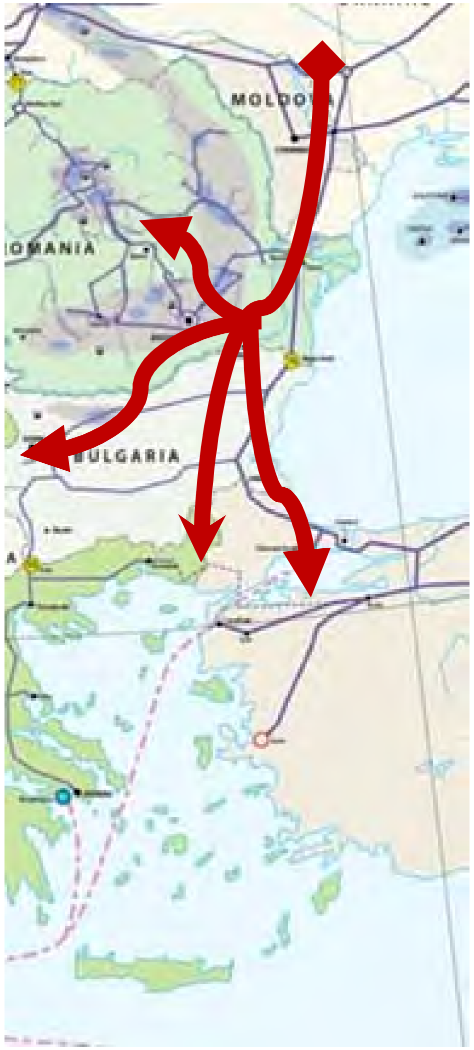
- SEE region has been incorporated into the "Connecting Europe Facility":
  - Southern-Corridor Group
  - North-to-South Group
  - SEE Group
- Southern Corridor projects are progressing
- Electricity market developments in SEE are promising (Coordinated Auction Office, wholesale market design)
- Gradual, slow but steady convergence to the EU energy framework
- Knowledge basis increasing in the region
- It needs time, increasing efforts, commitment, **political support and leadership…**

…New Supply sources (?)

Source: South East Europe Gasification Study (www.energy-community.org)

What about existing ones?

Eastern Balkans: North-to-South



- Today some 20+ bcm/year flow from North to the South
- The capacity belongs to Gazprom
- For each cubic meter of **physical flow** there is another cubic meter of potential (virtual or "commercial") **reverse flow**
- Under the EU (and the Energy Community) legislation, third party access is **obligatory**
- This means that, sooner or later, the "reverse" capacity will be free to users (EC is already putting forward efforts for this)

Eastern Balkans: South-to-North (?!)

- Should this capacity become available, then gas of up to 20+ bcm/year could be *virtually* transported to the North from the South **(without any major new investments!)**
- These are part of the possibilities that the new EU (and EnC) could facilitate
- The same is already happening in many countries in the Central and Western Europe
- Could be extremely useful in cases of disruptions on new gas sources
- This could also be to the benefit of the current holder of the capacity

Thank you for your attention!

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