

Major gas interregional projects in SE Europe vs. Market Integration

SERBIA PERSPECTIVE

JP SRBIJAGAS

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Key issues

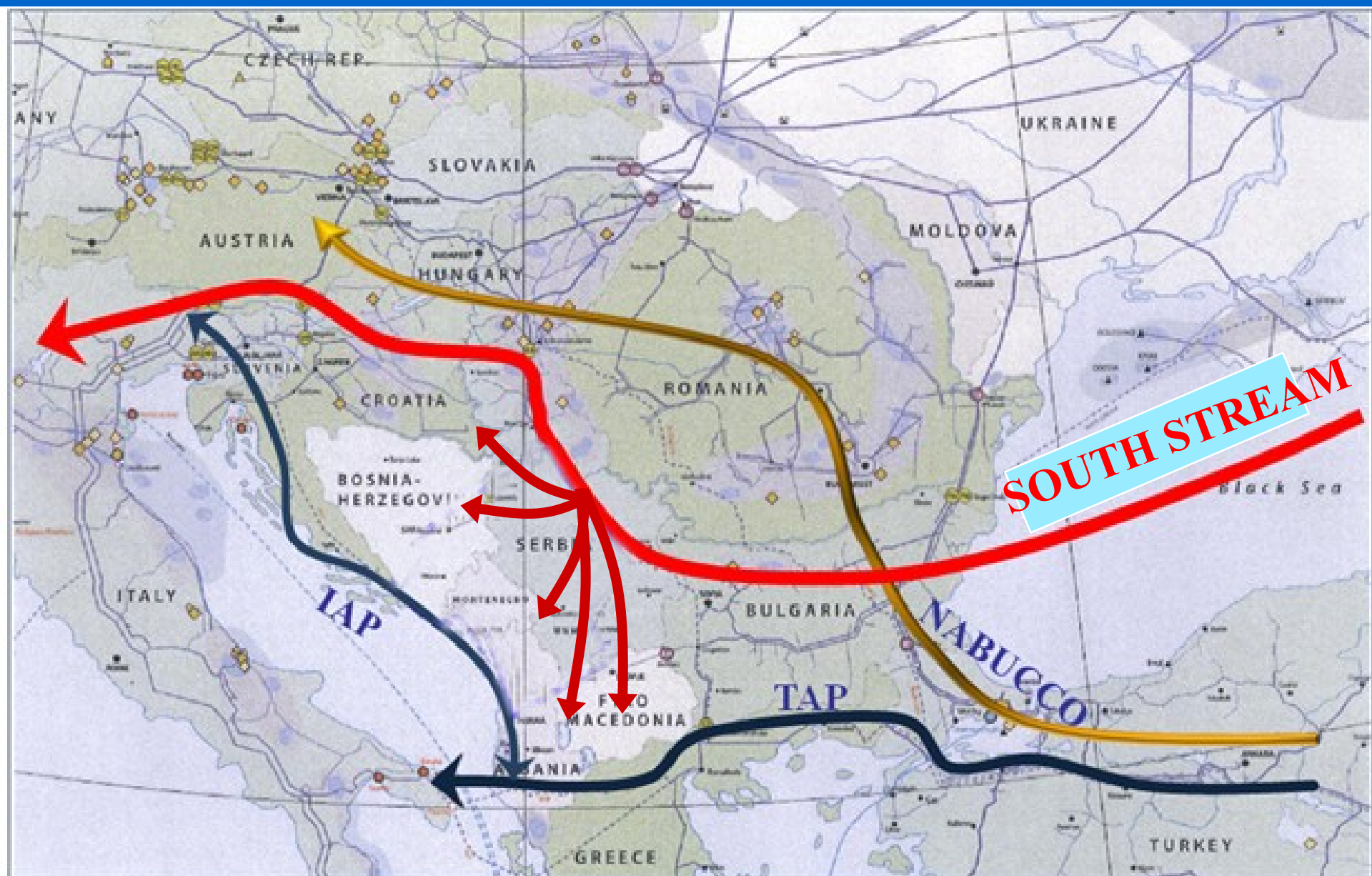
- **Gas supply projects to Europe – New routes & New sources & Strategic interests**
- **Need for Regional Infrastructure development**
- **Sustainable Consumption increase / Market development**

SEE Gas Market

Gas Supply Projects

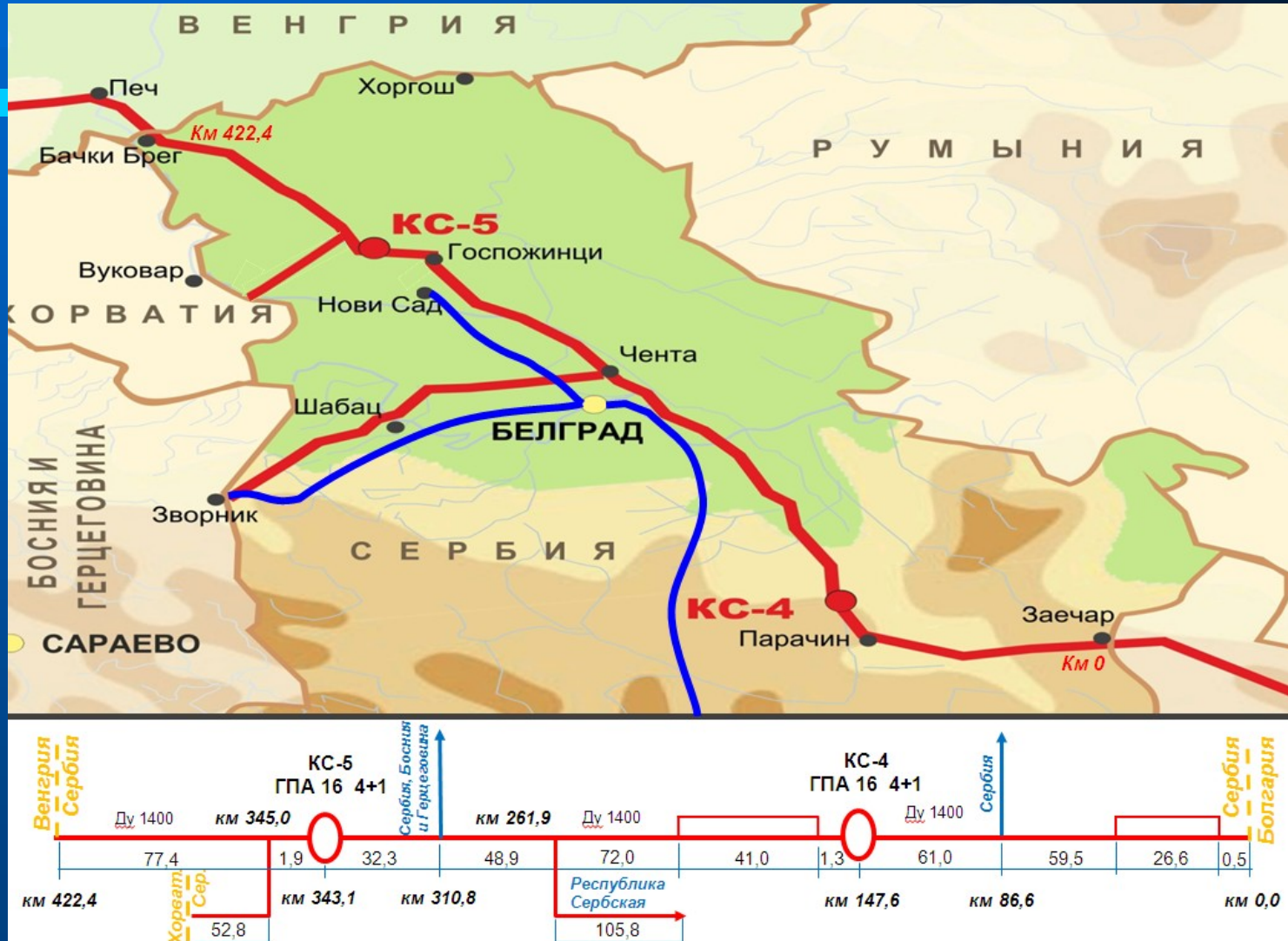
- South Stream
- SEEP, TAP, NABUCCO WEST
- LNG Terminals
- InterConnectors

SEE Gas Market - Serbia



Implementation of the South Stream project on the territory of the Republic of Serbia

The South Stream high pressure gas pipeline on the territory of the Republic of Serbia



The South Stream high pressure gas pipeline on the territory of the Republic of Serbia



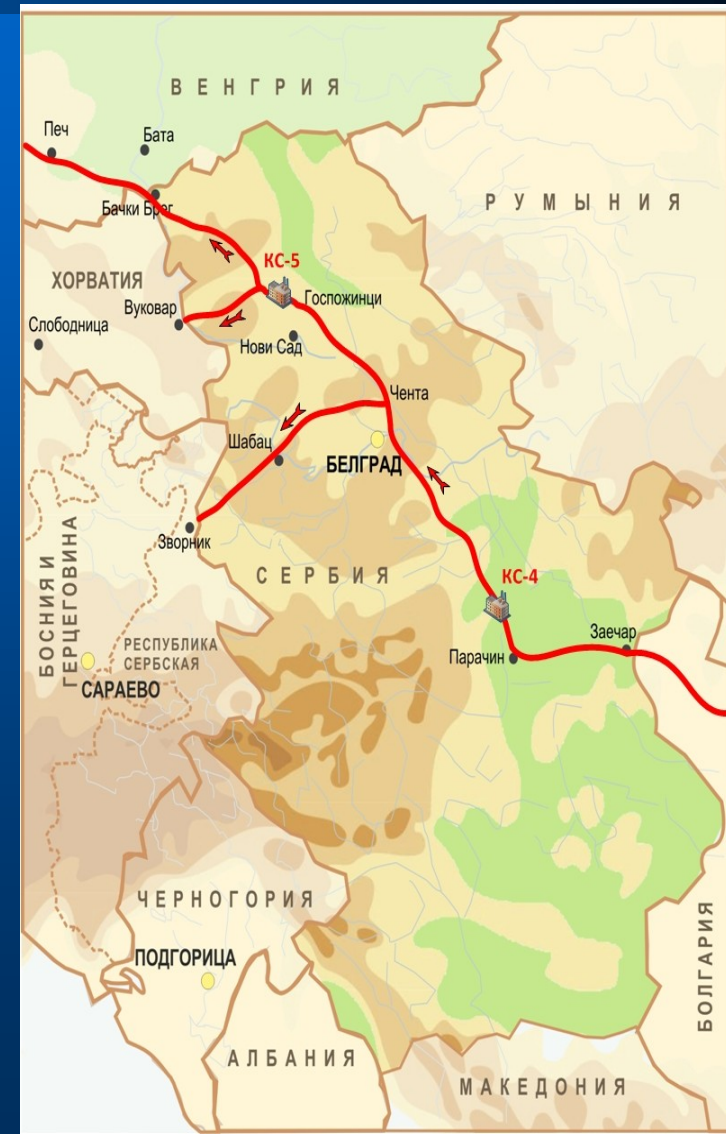
Length of the route – 422,4 km
Length of the pipework to be laid – 648,6km

Number of CSs - 2 pcs
Capacity of CSs - 160 MW

Gas pipeline branch to the Republic of Srpska – 105,8 km
Gas pipeline branch to the Republic of Croatia – 52,8 km

Annual gas transmission quantities in line with the Feasibility Study (bcm/year)

- Transit to Hungary – 32,56;
- Gas supplies to Serbian customers – 3,9;
- Transit to the Republic of Croatia– 2,7;
- Transit to the Republic of Srpska - 0,5;
- Transit to Bosnia and Herzegovina- 0,7.



Basic phases completed within the South Stream project on the territory of the Republic of Serbia

On January 25, 2008 the Russian Federation and the Republic of Serbia signed the Intergovernmental agreement.

In June 2011 the consolidated feasibility study for Serbian section of the South Stream project was finished and approved.

In November 2011 established South Stream d.o.o — subsidiary of a joint design company South Stream Serbia AG, City of Zug, Switzerland (51 % — OAO «Gazprom», 49 % — JP «Srbijagas»).

On October 29, 2012 OAO«Gazprom» and JP «Srbijagas» adopted the final investment solution at the General Shareholders Meeting of the joint design company.

On February 21, 2013 the Government of the Republic of Serbia adopted the Law On Establishing Public Interest and Special Procedures for Expropriation and Obtaining Documentation Necessary for the Construction of the South Stream Project.

Current status of the activities regarding the gas pipeline section on the territory of the Republic of Serbia

Executed Activities

On October 25, 2012 OAO «Gazprom» and South Stream d.o.o agreed on the part of the project Base of Design for the South Stream high pressure gas pipeline structure on the territory of the Republic of Serbia.

On November 15, 2012 the Agency for Spatial Planning Serbia finished development of spatial plan in the territory of special significance for the main gas pipeline route.
In December 2012 Serbian authorities approved the Spatial Plan in the Territory of Special Significance for the main gas pipeline route.

On April 03, 2013 the Consortium submitted the General Design documentation “The South Stream High Pressure Gas Pipeline on the Territory of the Republic of Serbia” to the Project Management Department of OAO “Gazprom” and South Stream d.o.o for review .

Upon reviewing the project’s General Design the experts of OAO «Gazprom», JP «Srbijagas» and South Stream d.o.o have prepared the Conclusion on outcomes of reviewing the submitted documentation, including recommendations on amendment. On April 30, 2013 the Consortium newly submitted the General Design amended according to the recommendations given by OAO «Gazprom» and South Stream d.o.o.

Current status of the activities regarding the gas pipeline section on the territory of the Republic of Serbia

Upon acquiring a location permit (June 2013) the General Design shall be submitted to the State Expertise Authority for review.

The expected deadline for issuing conclusions of the State Expertise on the General Design is August 2013.

June 2013 – Finishing development of the General Design and submitting the Project to the State Expertise for review.

August 2013 – Starting development of the Executive Design, including structure division in construction sections.

The corporate budget in 2013 amounting to EUR 150 million has been agreed with Serbian partners, waiting for the approval of OAO «Gazprom».

Planned deadline for acquiring construction permit is end of 2013.

The South Stream high pressure gas pipeline on the territory of the Republic of Serbia

Environmental impact assessment and environmental measures

Finishing development of Environmental Impact Assessment – May 15, 2013

Submission of the EIA to the relevant Ministry for review – May 16, 2013

Joint consultations with the NGO representatives - May 2013

Joint public debates in Belgrade, Novi Sad and Paraćin - June 2013

Review of the EIA by the Technical Committee - July 2013

The South Stream high pressure gas pipeline on the territory of the Republic of Serbia

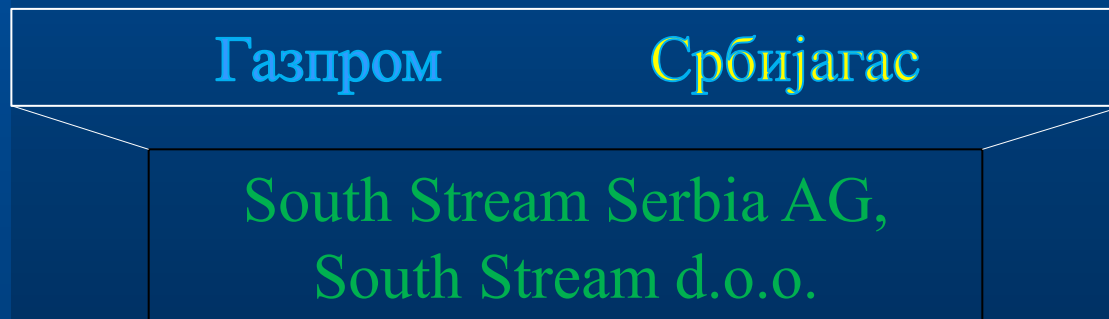
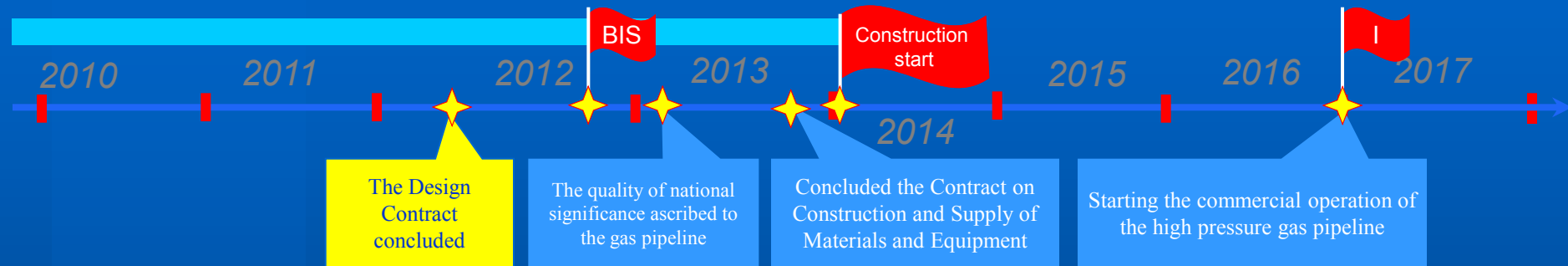
Current status of tender documentation development

Finishing development of tender documentation for the selection of equipment and material supplier with extensive production period and of construction contractors.

Tender procedures for the selection of equipment and material supplier with extensive production period shall be carried out in the period June – August, with evaluation and contract signing in September 2013.

Tender procedures for the selection of organisations-contractors for construction and assembly works shall be carried out in the period July – September, with the evaluation and contract signing in October 2013.

Basic stages of realization of the project on the territory of the Republic of Serbia



Regional Infrastructure Development



Regional Infrastructure Development

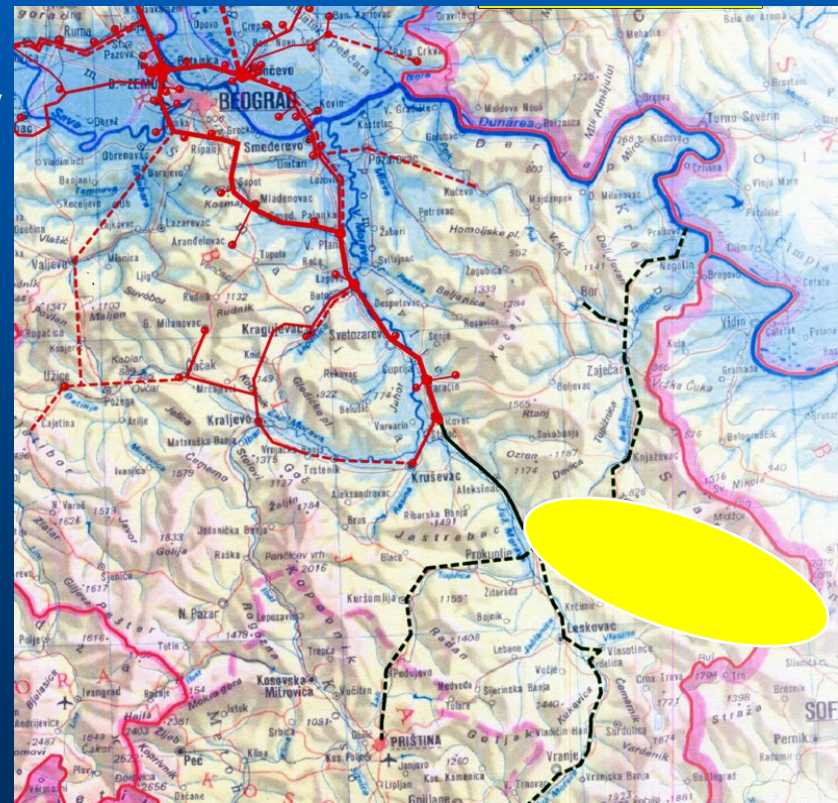
● Current Status

- Poor interconnectivity in the Region
- Low dynamics of implementation of the Interconnection projects
- Western Balkans Energy Gas Ring concept still beyond implementation, looking for a Momentum

Gas Interconnector Development

● Interconnector Bulgaria – Serbia

- Interconnection location: *Niš - Dimitrovgrad (Serbia) – Sofia (Bulgaria)*
- *Technical parameters (Serbian part):*
 - Pipeline Capacity 1.8 bcm/y
 - Pipeline length 108 km
 - Pipeline Diameter 700 mm
 - Input Pressure 55 bar
- Investment cost (*Serbian part*): 68m €
- *Project Status*: FS with ESIA done
- Financial structure: EBRD loan with IPA grant support
- Operational date: end 2015



Infrastructure Development vs. Market Development

● Brainstorming:

- Natural gas Market development requires Infrastructure.
- Natural gas Infrastructure development requires sustainable market development.
- If the individual markets are seen and even obliged to integrate into the integrated regional market, should the responsibility to build the missing infrastructure be shared between local TSOs or with the Concept promoter as well?

Natural Gas Market in WB

Infrastructure Development Need vs. Strategy and Actions

DIRECTIVE 2003/55/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 26 June 2003

concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF
THE EUROPEAN UNION,

Having regard to the Treaty establishing the European
Community, and in particular Article 47(2), Article 55 and
Article 95 thereof,

Having regard to the proposals from the Commission ⁽¹⁾,

Having regard to the Opinion of the European Economic and
Social Committee ⁽²⁾,

Having consulted the Committee of the Regions,

Acting in accordance with the procedure laid down in Article
251 of the Treaty ⁽³⁾,

Whereas:

(1) Directive 98/30/EC of the European Parliament and of
the Council of 22 June 1998 concerning common rules
for the internal market in natural gas ⁽⁴⁾ has made
significant contributions towards the creation of an
internal market for gas.

(2) Experience in implementing Directive 98/30/EC shows the
benefits that may be achieved in terms of efficiency and
standards of service. However, significant obstacles remain for
improving the functioning of the market remain, notably concrete provisions are needed to ensure a level
playing field and to reduce the risks of market
dominance and predatory behaviour, ensuring
non-discriminatory transmission and distribution tariffs,
through access to the network on the basis of tariffs
published prior to their entry into force, and ensuring
that the rights of small and vulnerable customers are
protected.

(3) At its meeting in Lisbon on 23 and 24 March 2000, the
European Council called for rapid work to be
undertaken to complete the internal market in both
electricity and gas sectors and to speed up liberalisation
in these sectors with a view to achieving a fully
operational internal market. The European Parliament,
in its Resolution of 6 July 2000 on the Commission's
second report on the state of liberalisation of energy
markets, requested the Commission to adopt a detailed
timetable for the achievement of accurately defined
objectives with a view to gradually but completely
liberalising the energy market.

(4) The freedoms which the Treaty guarantees European
citizens — free movement of goods, freedom to provide
services and freedom of establishment — are only
possible in a fully open market, which enables all
consumers freely to choose their suppliers and all
suppliers freely to deliver to their customers.

(5) In view of the anticipated increase in dependency as
regards natural gas consumption, consideration should
be given to initiatives and measures to encourage
reciprocal arrangements for access to third-country
networks and market integration.

(6) The main obstacles in arriving at a fully operational and
competitive internal market relate to, amongst other
things, issues of access to the network, access to storage,
tarification issues, interoperability between systems and
different degrees of market opening between Member
States.


(7) For competition to function, network access must be
non-discriminatory, transparent and fairly priced.

(8) In order to complete the internal gas market,
non-discriminatory access to the network of the
transmission and distribution system operators is of
paramount importance. A transmission or distribution

Regional Infrastructure in WB

Infrastructure Development Need vs. Strategy and Actions

Regional Infrastructure in WB



Energy Strategy of the Energy Community

7. → SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis of the Energy Community Contracting Parties, as a region

A short analysis of the strong and weak points, as well as the opportunities and threats of the region, as a whole, leads to some interesting common features, as presented below.

Strengths →

The current, relatively low energy consumption per capita, gives an indication that the region has a good growth potential. Similarly, although markets are small, in the Western Balkans and Moldova, they are rapidly growing. When considering the region's labour costs, the price of land or raw materials, the region has a comparative advantage in energy production.

A strong political will to become members of the European Union unites most of the Contracting Parties. Under the Energy Community Treaty, the nine Contracting Parties committed to binding reform obligations and deadlines, as well as regional integration. The region can also build on the experience gained from the past forms of regional cooperation.

Weaknesses

....., the region consists of small and fragmented markets. It is largely dependent on energy imports., there is a large gap between the need for and the actual investments inflow in the energy sector, at approximately 44.6 billion Euros.

Opportunities

..... market

enabling attract new gas suppliers to the region, consumers would benefit from broader product and service assortment.

Conclusions

- European Commission recognized SEE Region as a primary strategic corridor for future natural gas supply to Europe.
- SEE Region is faced with poor interconnectivity between national pipeline systems.
- Individual energy markets in the Region are relatively small, which results in commercial unprofitable character of interconnection projects.
- Missing interconnection infrastructure is a basic precondition for the Regional natural gas market implementation.
- Evaluation of the Projects of Regional interest should be based on the same principals as it was done for PCI. Those selected projects do need to be included in the Connecting Europe Facility.

Natural Gas Market in WB

**Thank you
for your attention**



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