



**“8<sup>th</sup> S.E. Europe Energy Dialogue”  
Thessaloniki 11 – 12, June 2014**

Conference Overview  
and  
Conclusions

**Athens, August 2014**

## Contents

### Dialogue Synopsis and Conclusions

- *Background* *p. 3*
- *Conference Overview* *p. 4*
- *Conclusions* *p. 8*

### ➤ *Background*

IENE's "8th S.E. Europe Energy Dialogue", which took place in Thessaloniki on June 11 – 12, 2014, focused on the "**The New Energy Mix**", which gradually emerges in SE Europe and beyond. Held under the auspices of the Greek Presidency of the EU and organized in association with the World Energy Council (WEC), IENE's annual "SEED" attracted, once again, senior government officials from several SE European countries, top executives from various major energy companies of the region, senior executives from banks and financial institutions, as well as high ranking officials from major international organizations.

This regional forum which was organized by IENE, for the eighth consecutive year, provided the platform for the exchange of information and ideas, networking and the development of co-operation for the tackling of the increased global and regional energy and environmental challenges. The "Energy Dialogue" has been conceived by the IENE, as an open forum for furthering the idea of a S.E. European energy bridge involving all the countries of the region.

This year, the SE Europe Energy Dialogue meeting was highly topical in view of the ongoing debate between the EU and major suppliers with regard to the security of energy supplies, Europe's high dependence on hydrocarbon imports and the global concern for the development of viable alternatives. The implications on market operation from the introduction and application of EU's 3rd Energy Package and the revised goals for RES and Energy Efficiency targets for 2030 were also in the epicenter of discussions. Furthermore, the Dialogue concentrated on the latest developments of the region's evolving natural gas and electricity markets focusing on S.E. Europe's ever deepening energy partnerships with Russia, the Caspian Sea, the Persian Gulf, the East Mediterranean and North Africa.

After eight years of uninterrupted success the SEEED is now considered the seminal regional energy event that has managed over the years to engage not only the region's top policy-makers, financiers and entrepreneurs but also secure high-level participation from some of the world's leading energy and banking institutions, including the International Energy Agency (IEA), the European Commission, the Energy Community Secretariat, the Energy Charter, WEC, EUROPIA, Eurelectric, Eurogas, EFET, EPIA, COGEN, EBRD, EIB and the World Bank. The Forum's delegates and speakers over the last seven years have also included senior executives from well known international corporations such as BP, Shell, Gazpromexport, Statoil, EDF, GDF Suez, ENEL, RWE, EON, Endesa, PPC, Serbgas, Plinacro, Transelectrica, KESH, AERS, RAE, Bulgarian Energy Holding, CEZ, Edison, DEPA, DESFA, Energean Oil and Gas, Hellenic Petroleum and many others.

### ➤ *Conference Overview*

The "8th SEEED" opened on Wednesday, June 11, with a session dedicated to the **global and regional perspectives of energy**, with senior executives of regional and international energy organizations and institutions among its speakers and coordinated by IENE's Chairman, Mr. John Chadjivassiliadis. Mr. Slav Slavov, Regional Manager of World Energy Council (WEC), contributed the opening remarks of the conference, whereas Mr. Timur Topalgoekceli, Energy Analyst of the International Energy Agency (IEA) and Ms Barбора Jaksova, Advisor to EC Director of the Energy Community Secretariat, analyzed, respectively, the international and regional energy trends and the latest developments in Western Balkans and SE Europe. Mr. David Lippeat, (Counselor for Economic Affairs, U.S. Embassy in Greece) and Dr. Narsi Ghorban ( Secretary to the Environment and Energy Commission of the International Chamber of Commerce, Iran Committee, Tehran, Iran), were also speakers in this inaugural session of "8th SEEED". Mr. Costis Stambolis, IENE's Executive Director, in his introductory remarks to the session, presented an overview of all important developments in the region over the last 12 months.

Dr. Yurdakul Yigitguden, Co-ordinator of OSCE Economic and Environment Activities (Vienna), chaired the next session, which focused on the **electricity market priorities and infrastructure requirements** in SE Europe. Mr. Aleksandar Mijuskovic, Executive

Director of the Montenegro- based Coordinated Auction Office for South East Europe (SEE CAO) was this session' s keynote speaker, followed by Mr. Nikolay Iliev (Head of the ATEE Department, Electricity Market Department, National Dispatching Center, Sofia, Bulgaria), Mr. Pavlos Baxevanis (Head of Regulatory Affairs and International Market Section, Energy Management Department, Public Power Corporation S.A. -PPC, Greece), Mr. Serhat Metin (Assistant Manager, Turkish Electricity Transmission Corporation - TEIAS, National Load Dispatch – Control Center, Ankara, Turkey), Prof. Osman Sevaioğlu (Electrical Energy Sector Expert-Electrical and Electronics Engineering Department, Middle East Technical University, Ankara, Turkey), Dr. Vesna Borozan (Professor, Faculty of Electrical Engineering and Information Technologies, University "Sts. Cyril and Methodius", Skopje, FYROM), and Dr. Anastasios Garis (Chairman and CEO, Greek Electricity Market Operator S.A. - LAGIE, Greece). A lively discussion followed where all aspects of the fast changing regional electricity market were analyzed.

At the end of the first day of IENE's "8th SE Europe Energy Dialogue", the official conference **dinner** followed, with Greece's ex Minister of Environment and Energy, **Dr. Evangelos Livieratos, Professor of Geodesy and Cartography at the School of Surveying Engineering at the Aristotle University of Thessaloniki, as guest speaker.** Dr. Livieratos gave a concise, yet in-depth, analysis of the history, economy and geopolitics of SE Europe and Eastern Mediterranean as pictured in cartography since the antiquity.

The second and last day of IENE's "8th SEED", i.e. Thursday, June 12, started with a session on **SE Europe's expanding natural gas market.** The session's keynote speaker, Chris Walters, Managing Consultant of the UK-based energy consultancy group, Gas Strategies, provided a thorough outlook of the potential of the gas market of SE Europe, as well as a detailed outlook of the trends of the European gas market and production. The Director of Technical Activities Division at Greece's Public Gas Corporation (DEPA-IGI Poseidon/IGB), Mr. George Kostopoulos, Mr. Milan Zdravkovic, Development Sector Director, of JP SRBIJAGAS (Serbia), Mr. Vladimir Durovic (Manager, Development Division Dept., PLINACRO Ltd, (Croatia), Mr. Theodore Zafeiropoulos (Of Counsel, Norton Rose Fulbright, Greece) and Dr. Michael Thomadakis (Member, Regulatory Energy Authority -RAE, Greece), also participated in this session. Dr. John Desypris (Director, Regulatory Affairs,

Mytilineos Holdings S.A., Greece and past chairman of IENE) was the session's chairman.

The **gas market challenges in SE Europe** was the subject of the 4th session, with Mr. Roland Wolk, Head of Marketing & Sales, Central European Gas Hub AG (CEGH) (Vienna, Austria), as its keynote speaker and chaired by H.E. Petar Poptchev, Ambassador A.H. (Bulgaria). Mr. Gokhan Yardim (General Manager, Angoragaz Import Export Wholesale Inc., Turkey), Mr. Kostis Sifnaios (Business Development Director, Gas Trade SA, Copelouzos Group, Greece) and Mr. Panayotis Kanellopoulos (CEO, M&M Gas Co S.A., Greece) were also speakers in this session.

During this session, Mr. Costis Stambolis (IENE), Mr. Radamanthys Tsotsos (Hellenic Central Securities Depository (HCSD), Thessaloniki Branch and Ms. Argiro Roinioti, (Research Associate, IENE), made a joint presentation of IENE's project for the establishment of a Regional Gas Trading Hub in SE Europe, assessing the potential and necessity of the concept and formulated a number of scenarios related to its establishment after 2019, once adequate gas quantities become available in the region.

Mr. Hans Hutta, General Director of the Vienna-based International Academy for Petroleum & Industrial Management (ICM) was the 5th session's keynote contributor and chairman, which focused on the **regional investment and business opportunities in oil & gas exploration**. Mr. Hutta provided detailed data and analysis of the hydrocarbon exploration sector in the Eastern Mediterranean and the Black Sea. Mr. Ilija Gjermani (Regulatory & Management, Petroleum Sector, Ministry of Economy, Trade & Energy, Albania), Dr. Dinos Nikolaou (Petroleum Geologist & Member of IENE's BoD, MoB of the Cyprus Hydrocarbon Company, Cyprus), Mr. Dimitris Gontikas (CEO and Vice President, Kavala Oil, Greece), Mr. Yannis Grigoriou (D. General Manager, Exploration & Production of Hydrocarbons, Hellenic Petroleum S.A., Greece) and Mr. Valentin Kuniev (Executive Director, BBSPA) were also speakers in this session.

**"RES/Grid Transformation and Storage Revolution – Energy Efficiency and Cogeneration"** were the subjects of the conference's sixth session, chaired by Prof. Dimitris Mavrakis (Director, Energy and Policy Development Centre, National and Kapodistrian University of Athens, Greece). Mr. John Chadjivassiliadis, Chairman of IENE, was the session's keynote speaker, followed by Mr. Nicholas Sofianos

(Research Project Coordinator, IENE, Greece), Mr. Panayiotis Papastamatiou (Head of Research, ENTEKA S.A, Greece ) and Dr Sotirios Douklias (Senior Associate, Kyriakides Georgopoulos Law Firm -KG Law Firm, Greece). Also, a contribution by the Bulgarian Photovoltaic Association was made, on a strategy for sustainable development.

IENE's "8th SE Europe Energy Dialogue" concluded its proceedings with the 7th session, on **the changing energy landscape and the key policy issues facing SE Europe**. Chaired by IENE's Executive Director, Mr. Costis Stambolis, the session had Dr. Yurdakul Yigitguden(OSCE), as its keynote speaker, who described the major energy challenges for SE Europe, related to energy security issues and co-operation, and also covered aspects of environmental protection. Mr. Slav Slavov (WEC), Mr. Gus Papamichalopoulos (Secretary General of IENE and Partner of Kyriakides Georgopoulos Law Firm - KG Law Firm, Greece) and Mr. Costantin Synadino (Head of Lending Operations in Greece, European Investment Bank (EIB), Luxembourg) participated also in this session, with a detailed analysis on issues related to investment, policy and regulatory framework. Of particularly relevance to the region's investment needs was EIB's presentation.

As an overall assessment, it can be safely said that this year's "SE Europe Energy Dialogue" addressed the key challenges of the current energy agenda in the sense that it covered a wide variety of subjects all relevant to the region's needs and aspirations with contributions from industry leaders and acknowledged experts from most countries of the region but also from various regional and international organizations. Several useful contributions were made which collected in this special microsite present a very useful body of work.

## ➤ **Conclusions**

A confluence of geopolitical factors and a unique alignment of economic and political forces in SE Europe has taken place over the last 12 - 18 months which has enabled a number of decisions at political and financial level to be taken on key infrastructure projects. As a result, SE Europe's energy landscape is changing rapidly with some major cross border projects now under way, and key infrastructure works, especially in power generation, natural gas and in the upstream sector scheduled for completion over the next five years. Consequently profound positive implications for energy security but also for investment and finance are in the offing.

One of the most important observations and a main conclusion of the 8th SEEED is that despite the ongoing financial recession in the eurozone and the weak global economic growth, the SE European region is undergoing a phase of significant transformation concerning its energy infrastructure and its energy markets. Almost all areas of the energy sector are affected and a number of key infrastructure projects are currently under development covering the entire energy sector (electricity, natural gas, oil downstream and midstream, oil upstream, RES, energy efficiency, regulatory regime). These forthcoming developments, which concern both market operation and energy production/ transmission capabilities, inevitably affect the investment climate, contributing to a positive overall outlook which points to the reshaping of the entire energy landscape of the region. Consequently we are likely to see strong demand for the financing and for financial services related to small and mid scale energy projects in most countries of the region.

However, the region remains politically sensitive as global developments tend to affect it disproportionately to its size. In parallel, the SE European region retains its sizeable indigenous energy potential and its capacity to attract further investment. A key observation among conference participants was that the governments and their



agencies, in their effort to attract investments and develop their local energy resources shall need to:

- (a) promote and retain their independent assessment capability for projects and policies in order to ensure maximum economic and social returns
- (b) exercise maximum diligence and great caution in the selection and execution of projects and policies so as to avoid the emergence of adverse political and market conditions
- (c) Develop close cooperation at regional level and coordinate actions through formal and informal regional networks

Almost all countries in SE Europe rely highly on oil and gas imports, with most of them being above 70% dependent. As oil and gas prices move at historically high levels, this dependence becomes more acute and has dire financial consequences. Several Balkan countries are net importers of electricity as they do not have sufficient capacity to meet domestic demand. Therefore there is a need for additional base load capacity (natural gas, coal). In this respect a high level of local energy production together with a balanced energy mix is key to a successful energy security strategy.

### **Oil and Gas Upstream Sector**

There is wide recognition and broad agreement between experts of the fact that huge tracts in most countries of the region remain unexplored from a hydrocarbon potential view point. The need to increase indigenous oil and gas output and explore for new deposits, becomes all apparent together with the need to diversify energy resources by broadening the energy mix.

The need for large scale exploration of SE Europe's oil and gas deposits and the broader hydrocarbon development in the East Mediterranean is fast gaining support by the governments of the countries of the region. It is widely accepted that the region as a whole is under-explored while latest significant discoveries have opened new plays with further exploration efforts needed to redefine the future of the region. However, there are vast differences between the countries of SE Europe in terms of

their reserves, the length of exploitation of such reserves as well as how this exploitation will take place. Some countries have negligible production capacity (e.g. Bosnia, FYROM, Slovenia), other countries are beginning to explore their potential (e.g. Bulgaria, Montenegro, Greece, Cyprus), and others have been active for many years (Romania, Albania, Turkey, Croatia, Israel). In the case of Cyprus and Israel it is generally recognized that both countries' huge potential lies in the offshore areas which have only recently started to be explored. The increased international interest in the research, exploration and exploitation of the upstream market in SE Mediterranean region highlights the considerable developmental opportunities which exist, and allow for the rapid expansion of state income while strengthening the prospects for energy independence.

### **Oil and Gas Infrastructures**

With regard to the oil infrastructure, there have not been any spectacular changes over the last three years. No significant additional storage capacities or oil new terminals were built. By necessity the existing regional oil network infrastructure remains limited. Storage capacities in West Balkans amount to 8.8 mcm. Most of them are in use by refineries for their daily operations. The existing storage capacity is a long way short of the additional 12.5 mcm required to comply with EU's Directive 2009/119/EC. The oil markets in the Contracting Parties of the Energy Community (i.e. West Balkans) are relatively open. Suppliers can enter the market and gain access to networks and storage facilities. Greece and Turkey which between them dominate the region's refinery operations are reporting high throughput runs while Turkey is moving ahead with the construction of additional refinery capacity.

On the other hand, the major gas infrastructure projects in SE Europe were at the center of this year Energy Dialogue. It was agreed that plans for the construction of all South Gas Corridor projects must be accelerated so that new gas pipelines are in place by 2019/2020, in order to meet anticipated rising European gas demand and help with diversification of supplies. Therefore the growing volumes of transported gas through SE Europe and the opening up of alternative routes (see TAP, TANAP, South Stream) and new delivery points (i.e. land based LNG terminals and FSRUs) are bound to increase competition, both in terms of supplies and prices. Due to the

geographical position of Greece, which is placed between major gas sources in the East and the ones in North Africa, its network will need to be further expanded and developed alongside with Turkey's cross country trunk lines as they, between them, will provide the main axis to safeguard the transmission of sizable Azeri gas quantities to Europe.

Close cooperation between common gas infrastructure projects involving Romania, Bulgaria, Greece and Turkey, countries which are currently experiencing high gas prices, and with the exception of Turkey, low demand (but will be called in future to meet much higher demand), and energy security problems, is both desirable and necessary. To this end the creation of a regional gas price hub is currently being considered by Greece, Turkey and Bulgaria. The emergence of a Gas Trading Hub in SE Europe will help develop gas price competition and hence improve market conditions. At present, there is neither a market mechanism to buy or sell gas in an efficient manner in South East Europe, nor a price discovery mechanism to determine spot prices, and gas exchange is based on bilateral agreements. The establishment of a gas trading hub is anticipated to facilitate the wholesale trading of natural gas between participants in South Eastern Europe. Essentially, it will allow gas supply and demand to meet in a market place by providing a platform for physical and/or financial transactions. Furthermore it will enable competitive markets to function, even though it will probably have an administrative role in the beginning of its operation.

## **Electricity**

The challenges associated with the prospect of creating a truly functional regional energy market in Southeastern Europe were discussed extensively during the 8th SEEED. A general observation was that the internal market integration and decarbonisation progress has been hindered in most countries of the region following their own policies and regulations, which change regularly. The economic austerity and political/regulatory/financial uncertainty are predominant factors in SE Europe. In the electricity market the ultimate goals remain the removal of regulated electricity prices, the substantial easing of network congestion and the establishment of barrier free cross border exchanges of energy.

Meanwhile, existing support for low carbon generation is crumbling. Support schemes are costly, inefficient and prone to political risk. Many countries of the SE European region continue to invest in appropriate “green” type energy technologies passing the costs to consumers while substantial market intervention by Regulators in most countries, contributes to raising costs for consumers. It was generally agreed that consumers are “neglected” and companies have become “social workers” and “tax collectors”.

Most participants agreed that a successful Power Market needs an integrated Europe with a stable regulatory framework with political risk kept to a minimum. But how much regulation and who is going to pay for the integration, the private or the public sector, is a question to be answered. Another important observation was that there must be a balance between financiers, industry, consumers, customers and regulators in order to attract more investments. As many speakers at the 8<sup>th</sup> SEED pointed out, the need for electricity and gas interconnections at both national and regional level has acquired a new urgency in view of EU’s strategy on energy and environment, which calls for drastic reduction of CO<sub>2</sub> emissions and the formation of an integrated European electricity and gas market. It was also agreed that the further development of the region’s transmission grid and the proposed new cross-border electricity and gas interconnections is of paramount importance for advancing the unification of the SE European electricity and gas markets.

The 8<sup>th</sup> SEED also underlined the importance of the recent establishment of CAO [Coordinated Auctions Office] in Podgorica in Montenegro, as manager of the auction for regional electricity connections. Most participants agreed that this is a major step forward, towards the establishment of a regional electricity market. The need to further remove existing restrictions on cross-border infrastructure and to develop a coordinated investment strategy, emphasizing regional criteria for infrastructure development, was also underlined by several 8<sup>th</sup> SEED contributors. In this respect CAO is expected to provide an efficient and stable ground for regional electricity trading.

## **RES Sector**

At global and EU level renewable energy (RE) is established as an essential part of power production. This trend is expected to continue with renewables becoming the

world's second largest source of power generation by 2030. As far as European Union is concerned, beyond 2020, no additional RES targets are set. However, RES enabling policies, the ETS and some direct aids (depending on technologies and Member State) continue; the direct aids are assumed to be phased out at a pace depending on RES technology improvement.

At the 8<sup>th</sup> SEEED most contributors pointed out that In view of the current economic downturn, the key challenges faced by the EU in terms of RES development and penetration over the coming years will be to:

- improve the affordability of RES for governments and final consumers by reducing the cost of RES production;
- aim for full integration of RES into energy markets
- maintain investment at levels consistent with the 2020 EU climate objectives
- Facilitate bankability: guarantees, standard contracts

RES investments in the SE European region should be released together with large-scale strategic investments on grid infrastructures and interconnections. It was generally agreed that there is large potential for investments in the RES sector in SE Europe, however significant investments are needed to renovate and integrate the energy systems of the region. Energy market integration is to be continued according to EU energy objectives and goals, but adequate regulations should be adopted in order to attract substantial capital and financing. RES penetration has been rapid in Greece, Bulgaria, Romania and Turkey thanks to a combination of high priced incentives and public acceptability. However, this is fast changing following sharp reductions in FIT's for most countries but RES will continue their growth pattern but at a lower pace. Consequently, RES penetration in the West Balkans should be gradual on a step by step basis in order to avoid a rapid and unplanned build up of renewable energy based on high feed in tariffs as it occurred in other parts of SE Europe.

*Measures to be taken to facilitate the development of RES in SE Europe*

8<sup>th</sup> SEEED participants summarized their views on the measures that need to be taken to further facilitate RES penetration as follows:

- Development of large scale RES storage technologies as they are extremely important, for affordable, more reliable and high quality power supply

- Development of smart grids and new structures of the electricity market
- Introduction of new services and business model for the utilities
- Draw a road map for RES and smart grid integration and investment for the future electricity networks
- Increase the share of electricity in the overall energy mix, EV, heat pumps, economic development, global electrification
- Exploit most indigenous energy sources, with priority to RES, in order to reduce Europe's dependence from energy imports
- Encouragement of new ideas, innovative technologies, R&D actions and skilled human resources.

### **The Role of IENE**

SE Europe's geopolitical position is unique as a bridge for energy transmission and the build up of major energy networks. The establishment of an active energy dialogue and the fostering of regional co-operation are areas where the IENE can add value and play a catalytic role. The IENE is well placed to raise awareness and disseminate experiences on energy issues and related topics (such as environmental issues, good governance, etc). The proceedings of the 8th South East Europe Energy Dialogue (8th SEED) wrapped-up with the formulation of the main conclusions of this year's conference, with the realization, once again, that this international forum has now established itself as a leading regional event which promotes an active dialogue covering the entire energy agenda of South Eastern Europe.