

SE Europe's expanding Natural Gas Market

SERBIA PERSPECTIVE

JP SRBIJAGAS

Milan Zdravković

IENE: 8th SEE Energy Dialogue
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Key issues for the Region

- **Gas supply projects to Europe crossing the Region = New main routes + New sources - Strategic interests – missing Regional Infrastructure**
- **Need for a Sustainable EC policy toward Market development in the Region**

SEE Gas Market



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

Length of the route – 422,4 km

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

Number of CSs - 2 pcs

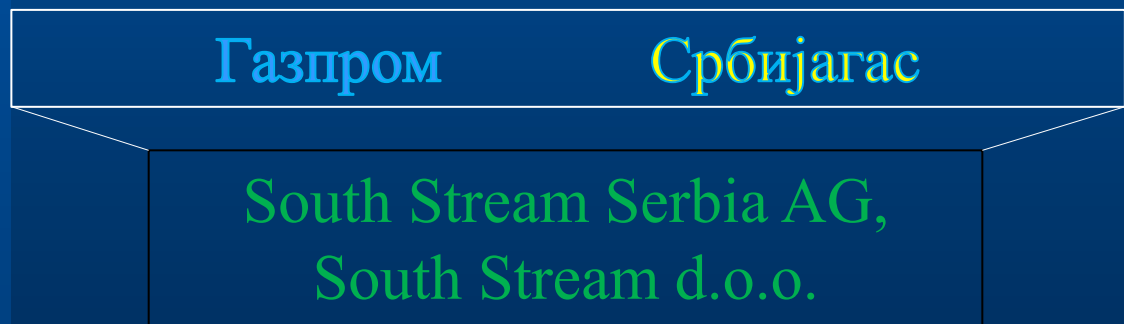
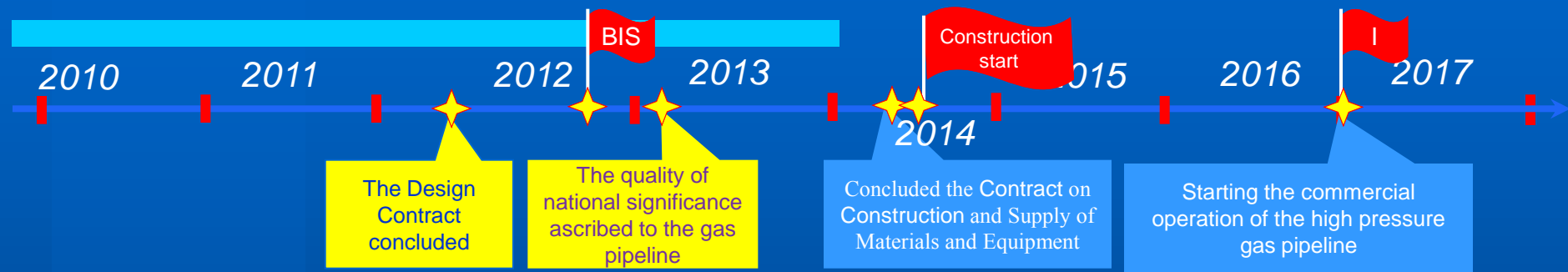
Capacity of CSs - 160 MW

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



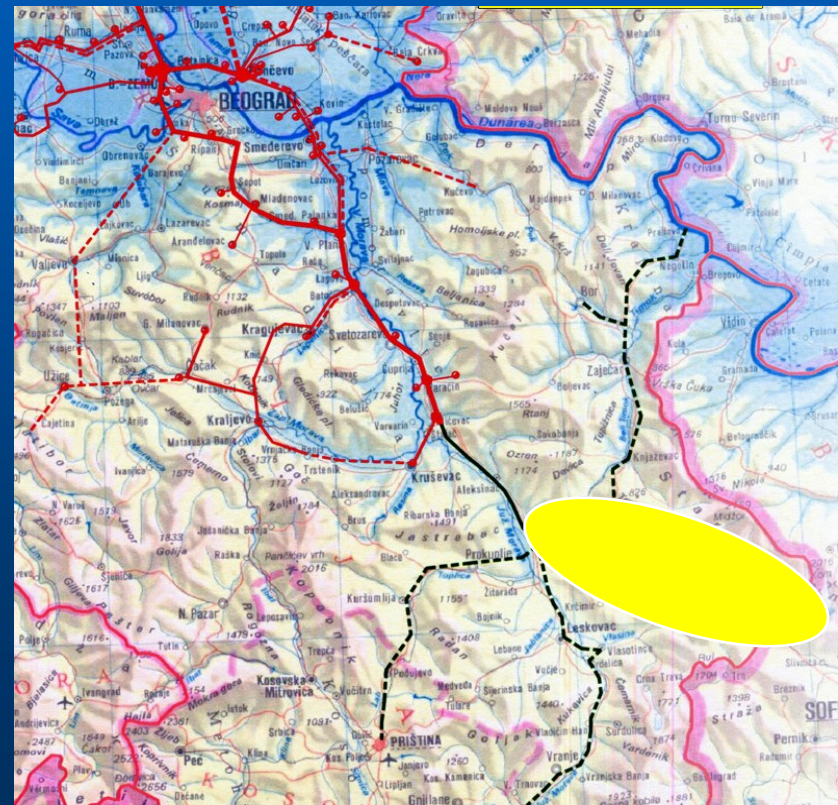
Regional Infrastructure Development



Gas Interconnector Development

● Interconnector Serbia - Bulgaria

- 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
Contracting Technical Design&Construction
permitting ToR available
- Financial structure: EBRD loan with IPA grant support



Gas Interconnector Development

- **Interconnector Serbia - Bulgaria**

Current Status:

As agreed on the joint Project Steering Committee Group, Srbijagas in 2013 prepared the ToR for the Consultant Services Procurement for Technical Documentation including Obtaining a Building Permit for Transmission Gas Pipeline on Serbian territory (to the Bulgarian border), and delivered it to the stakeholders for the final approval.

Not providing the ToR verification EBRD expressing as a precondition the need of reorganization of PE Srbijagas, the process of Project implementation has been stalled.

Infrastructure Development vs. Strategy and Actions



Source: Energy Community Secretariat
ENERGY COMMUNITY STRATEGY AND PROJECTS OF
ENERGY COMMUNITY INTEREST, page 18 – 1 November 2013

Infrastructure Development 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 internal market for

(2) Experience in implementing the Directive has shown that there are benefits that may result from a common approach in terms of efficiency and standards of service. However, significant progress is being made in improving the functioning of the internal market, notably concrete provisions relating to the playing field and to non-discriminatory transmission through access to the network, published prior to their entry into force that the rights of small producers are

(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.

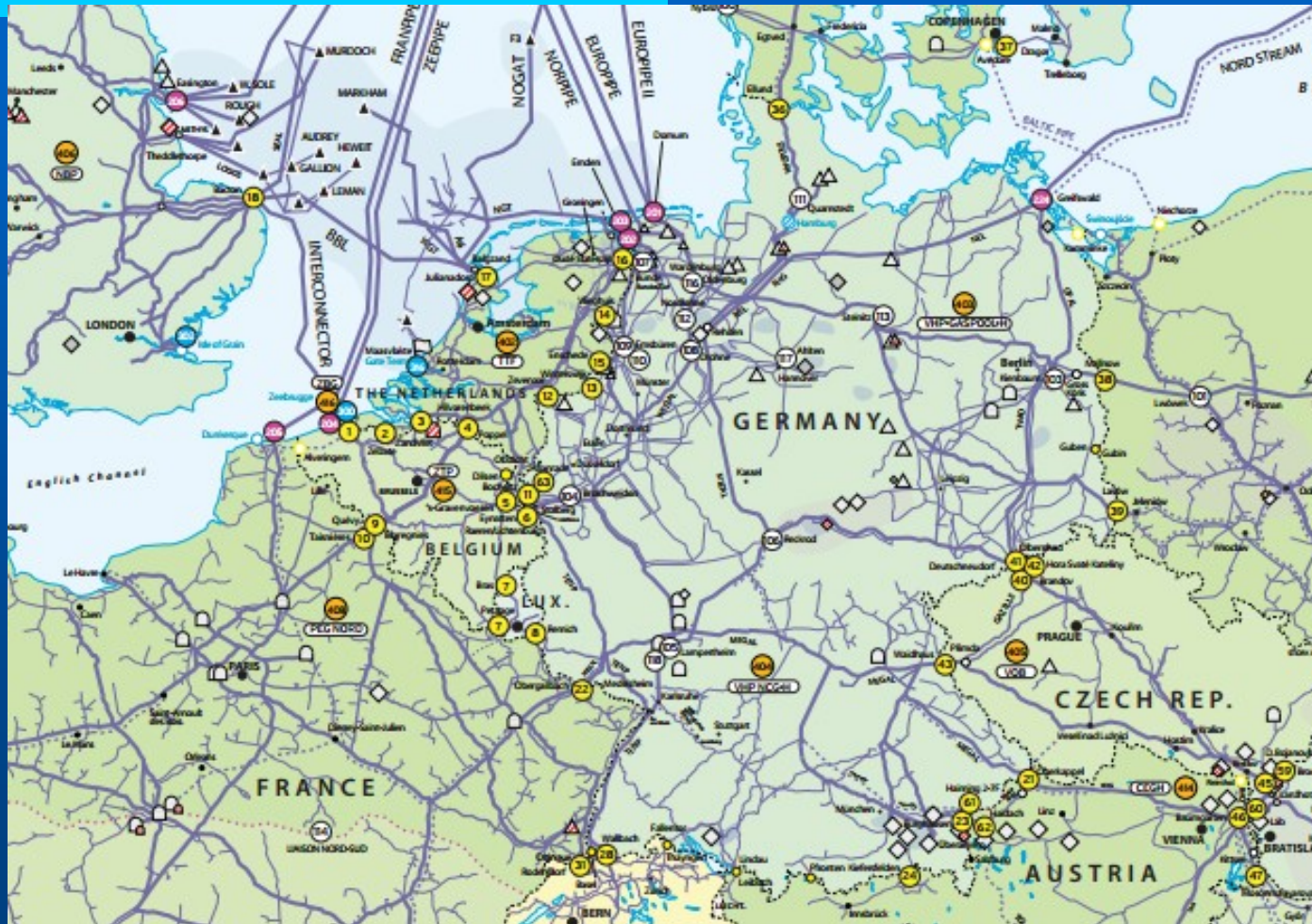
at a fully operational and relate to, amongst other network, access to storage, lity between systems and ening between Member

network access must be ad fairly priced.

internal gas market, the network of the ... and distribution system operators is of paramount importance. A transmission or distribution



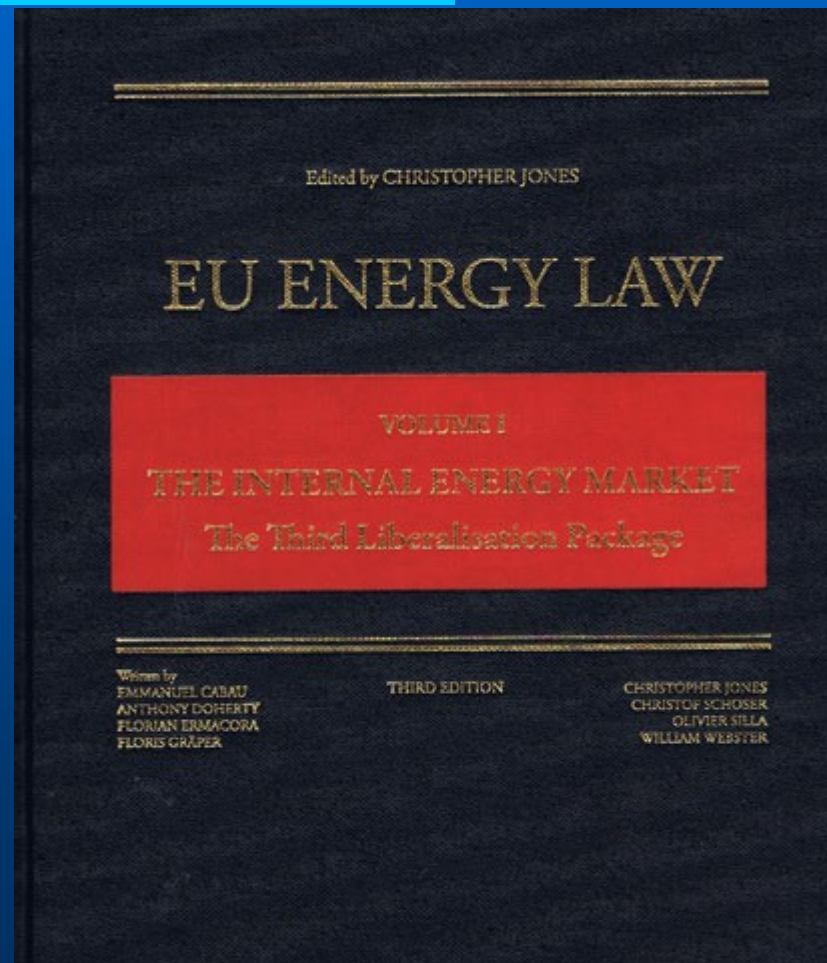
Infrastructure Development vs. Strategy and Actions



Infrastructure Development vs. Strategy and Actions



Infrastructure Development vs. Strategy and Actions



Infrastructure Development vs. Strategy and Actions

Report No1

Eight years after the Energy Community Treaty entered into force, several of the key expectations remain unfulfilled, including: complete reforms of the markets' structure, introduction of cost-reflective prices, creation of a favourable and predictable investment climate, regional market integration or elevation of environmental standards.

Missing Infrastructure ??????

*It is to be recalled that while the Energy Community pursues goals comparable to those of the European Union, the Contracting Parties – in their socio-economic structure and capability of attracting investment – **face different challenges** than most EU Member States. **Thus, it can hardly be expected that “exporting” EU energy rules to the Contracting Parties would yield results comparable to those of the European Union.***

Taking all the above into consideration, it can be concluded that the achievement of the ambitious goals will not be possible without a reform of the Community's legal, procedural and institutional set-up.

Conditional funding?????

Financial sanctions?!?!?!?

Infrastructure Development vs. Strategy and Actions

Report No2

Regional Gasification Study – Final Report, 2009

A key issue highlighted in the Gas Ring proposal was the fact that West Balkan gas markets are small in terms of current and future gas consumption. This would make the prospect of developing and financing infrastructure for new gas consumption a major challenge.

Increased gasification requires large up-front investments in transmission infrastructure to bring the gas to market. That in turn requires creditworthy off-takers with a sufficiently large quantity of demand soon after the completion of construction ('anchor' loads) to make the investment economic and bankable.

Infrastructure Development vs. Strategy and Actions

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, the 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 and deadlines, as well as, regional integration. The region can also build on the experience of the past forms of regional cooperation.

Weaknesses

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

Opportunities

A recent World Bank study listed the numerous opportunities to be realized in the region.¹ **Above all, higher electricity prices are expected to attract new investments, and the security of supply.** The wholesale market opening would enable an easier market entry for new suppliers. A common, well integrated market would attract new gas suppliers to the region. Thanks to competition, consumers would benefit from a wider product and service assortment.

Threats

The sheer size of the investment required to refurbish, or replace the aging coal and lignite power plants poses a serious challenge for the region.

¹ South East Europe Wholesale Market Opening, study April 2010



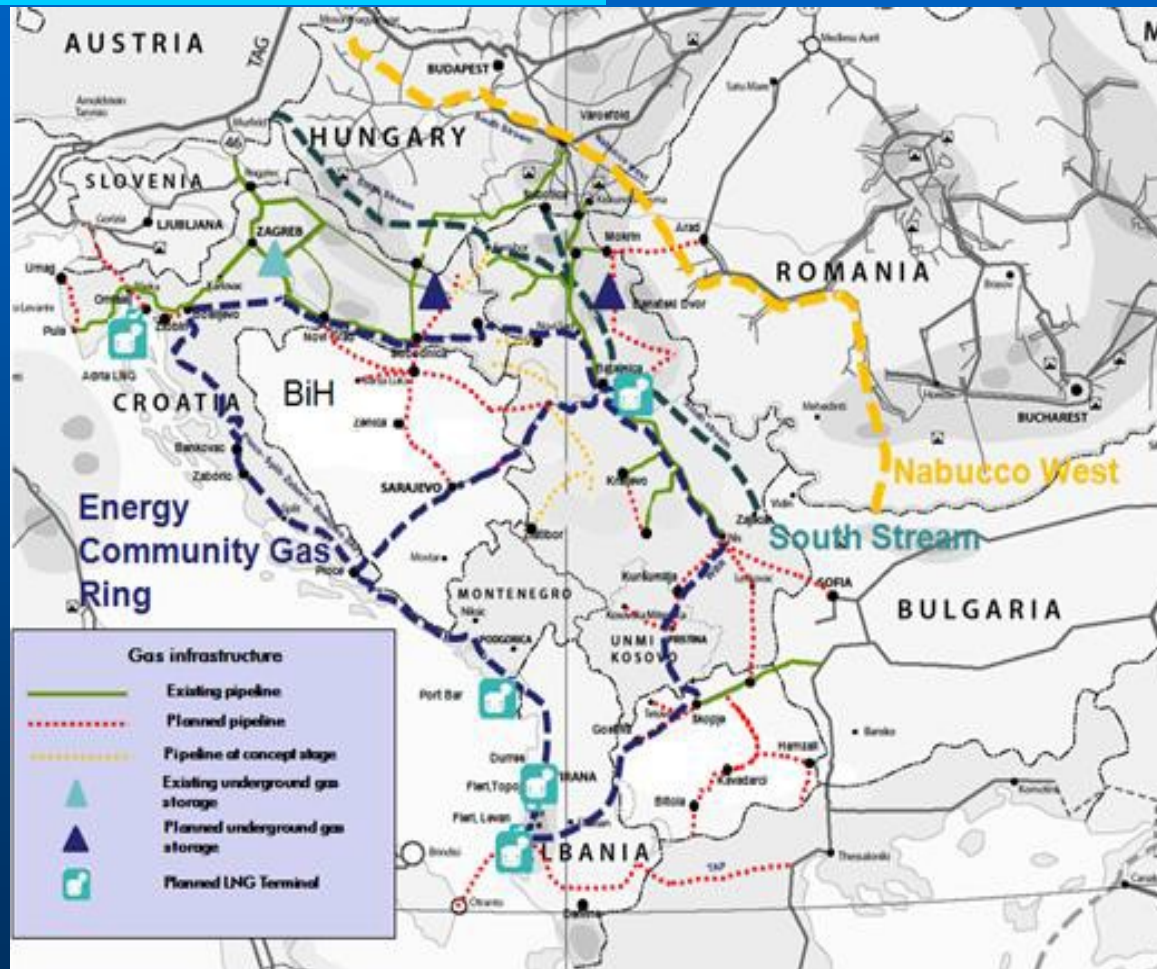
Infrastructure Development vs. Strategy and Actions

Report No3

In line with the practice at EU level for the identification of Projects of Common Interest (PCI), a number of pipeline and LNG projects within the West Balkan region have been identified as priority projects by the Energy Community Secretariat and its Contracting Parties. These projects were selected on the basis of a social cost benefit assessment and labelled as Project of Energy Community Interest (PECI). PECI projects are prioritized as key Regional gas projects and their selection results in a higher likelihood (though not certainty) of funding from European and/or international financing institutions.

Gas Infrastructure		
Contracting Party	Project ID	Project
AL-ME-HR-BiH	G008	Ionian Adriatic Pipeline (IAP)
GR-AL-IT	G022	Trans Adriatic Pipeline (TAP)
AL	G002	EAGLE LNG Terminal
BiH - HR	G006	Interconnection Pipeline BiH - HR (Slobodnica-Bosanski Brod-Zenica)
BiH - HR	G003	Interconnection Pipeline BiH - HR (Ploce - Mostar - Sarajevo/Zagvozd - Posušje/Travnik)
BiH - HR	G007	Interconnection Pipeline BiH - HR (Lička Jesenica-Tržac-Bosanska Krupa)
HR	G010 G011	LNG Terminal in Croatia + Pipeline Zlobin-Bosiljevo-Sisak-Kozarac-Slobodnica
HR - RS	G009	Interconnection Pipeline HR - RS (Slobodnica-Sotin-Bačko Novo Selo)
RS	G013	Interconnection Pipeline RS (Nis) - BG (Dimitrovgrad)
UA	G021	Modernization of Urengoy-Pomary-Uzhgorod Pipeline

Infrastructure Development vs. Strategy and Actions



Conclusions

- SEE Region becomes a primary strategic corridor for future natural gas supply to Europe.
- At least 2 new major supply routes will cross the Region
- The Region faces with a significant lack of primary gas infrastructure, having respectively relative low consumption .
- Projections of gas demand in a next 10 years for the Region exceeds doubled present value (15bcm).
- Developing and financing infrastructure for new gas consumption will be a major challenge
- The ambitious goals will not be possible without a reform of the Energy Community's legal, procedural and institutional set-up in a direction of minimizing conditional approach toward new infrastructure projects as a precondition for complete reforms of the markets' structure and regional market integration.

**Thank you
for your attention**



Milan Zdravković
Development Sector Director