



Financing Energy Infrastructure in the Context of the Economic Crisis

ENERGY COMMUNITY'S ROLE IN PROMOTING ENERGY INVESTMENTS IN THE REGION

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www.energy-community.org

Athens, 22 – 23 November 2010



ENERGY COMMUNITY

- a bridge between EU and the SEE Region

SECURITY of SUPPLY

- a field for persistent compromises

NEW ENERGY INFRASTRUCTURE

- in the context of a regional perspective

The WAY FORWARD

- building absorption capacity for new investments

ENERGY POLICY in EU

▪ **Three main OBJECTIVES**

- sustainability
- security of supply
- competitiveness

▪ **One SOLUTION:**



A common INTERNAL Energy Market

ENERGY POLICY in South East Europe

- **The same objectives only more STRINGENT**
 - no common legal framework
 - no regional enforcement
 - poor infrastructure
 - economic and social downside

- **Energy Community Treaty:**
 - follow-up of the Athens Process



Framework for a **REGIONAL Energy Market**

PARTIES to the TREATY (November 2010)

■ 8 Contracting Parties

- Albania
- Bosnia and Herzegovina
- Croatia
- The former Yugoslav Republic of Macedonia
- Moldova
- Montenegro
- Serbia
- UNMIK (pursuant to UNSCR 1224)

■ 4 Observers

- Georgia
- Norway
- Turkey
- Ukraine

■ 14 Participants

- Austria
- Bulgaria
- Cyprus
- Czech Republic
- France
- Germany
- Hellenic Republic
- Hungary
- Italy
- The Netherlands
- Romania
- Slovakia
- Slovenia
- United Kingdom

The TREATY is signed by all Contracting Parties and the European Commission *in Athens, on 25th of October 2005*

It came into force *on 1st of July 2006*

INSTITUTIONS of the TREATY

- **Ministerial Council (MC)**
- **Permanent High Level Group (PHLG)**
- **Regulatory Board (ECRB)**
- **the Fora**
 - **Electricity (Athens)**
 - **Gas (Maribor)**
 - **Oil (Belgrade)**
 - **Social**
- **the Secretariat (ECS)**



The Energy Community is coordinated with the **European Commission** who is the **Presidency of the Energy Community** together with one Contracting Party on a revolving basis for a period of one year.

The Energy Community cooperates with the **Donors' Community** (WB, EBRD, EIB, KfW, USAID and others)

Parties' COMMITMENTS under the Treaty (Title II)

■ implementation of the EU Acquis

- **Energy Markets** (for electricity / gas)
- **Access to the Networks** for electricity / gas transportation
- **Competition Environment**
Renewable energy sources
- **Security of Supply** of electricity / gas



■ compliance with a set of Generally Applicable Standards

Article 9: *The provisions and measures under [Title II](#) apply to the territories of **Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia** and to the territory under jurisdiction of **UNMIK***

Parties' COMMITMENTS under the Treaty (Title III)

■ operation of the energy markets

- establishing a single mechanism for **cross-border transmission** of energy
- **security of supply** of energy
- **customer protection, energy efficiency** and use of **renewables**
- **market compatibility** - reciprocity and free establishment
- **safeguard measures** in case of sudden crisis



Articles 26 & 27: *The provisions and measures under [Title III](#) apply to the territories referred to in [Title II](#) and to the territories of **Austria, Greece, Hungary, Italy, Slovenia, Romania and Bulgaria***

Parties' COMMITMENTS under the Treaty (Titles IV and VII)

■ creation of a single EU energy market

- alleviation of administrative **barriers to trade** of energy
- creation of a **single regulatory space**
- equivalent access in **imports / exports** with third countries
- **Mutual assistance** in case of disruption



■ regional Mechanism for Dispute Settlement

Articles 40 & 90 : *The provisions and measures under Titles IV and VII apply to the territories referred to in Title II and the territories to which the Treaty of the European Community applies*

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The WAY FORWARD

- building absorption capacity for new investments

ELECTRICITY Supply

▫ **Indigenous Generation capacity**

is not adequate to sustain the security of electricity supply in **Albania**, the **Former Yugoslav Republic of Macedonia**, **Montenegro**, **Moldova** and **UNMIK**

▫ **Balancing capacity**

is not adequately ensured in **Albania**, **Moldova** and **UNMIK** and not set on market-based principles in **All Contracting Parties**

▫ **Transmission system capacity**

is not sufficiently developed / not available in **Albania**, **Moldova** and **UNMIK** - regulatory framework must support needed investments in the networks

▫ **Monitoring**

annual demand forecast and planning instruments are implemented by ALL Contracting Parties, a coherent development strategy is missing in **Bosnia and Herzegovina**

All Contracting Parties need more effective **authorization** procedures, **transparency**, consistent **tendering** and obligations for **reporting**

Adequate regional **cooperation mechanisms** on Energy Community level are still missing

ELECTRICITY Market

▫ **Public Service**

applied as a **common framework** for supply in ALL Contracting Parties – customers' rights are not adequately enforced, collection rate and losses could be better

▫ **Market opening**

formally supported by ALL Contracting Parties but corresponding effects are not registered

▫ **Market rules**

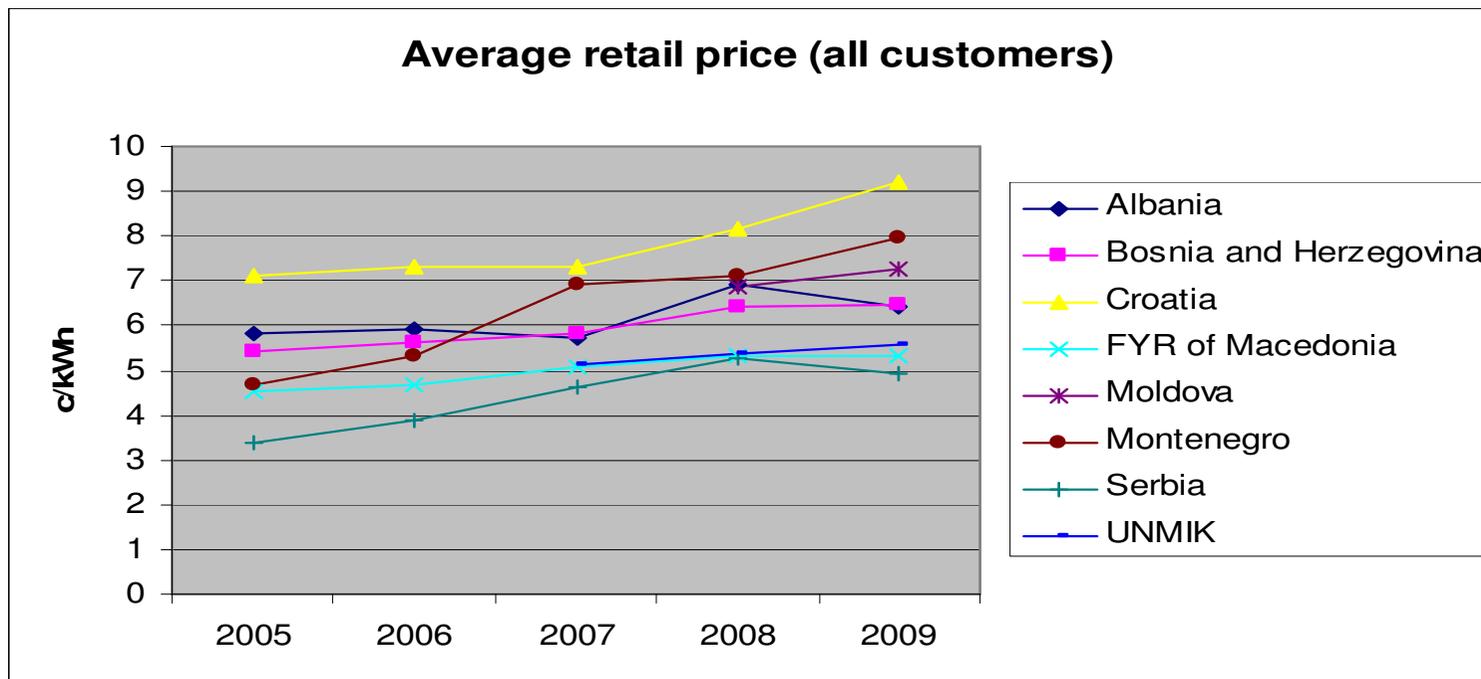
are only **provisionally developed** and applied – **balancing rules** need to be adequately addressed

▫ **Customer switching rules**

are **generally missing** – retail supply tariffs are available to all customers and practical switching of the supplier is almost non-existent (except in Croatia)

Recent development of the **legal framework** (new laws) and consequent **regulatory acts** (expected new grid codes and market rules) could represent a possibility for improvements

ELECTRICITY Tariffs

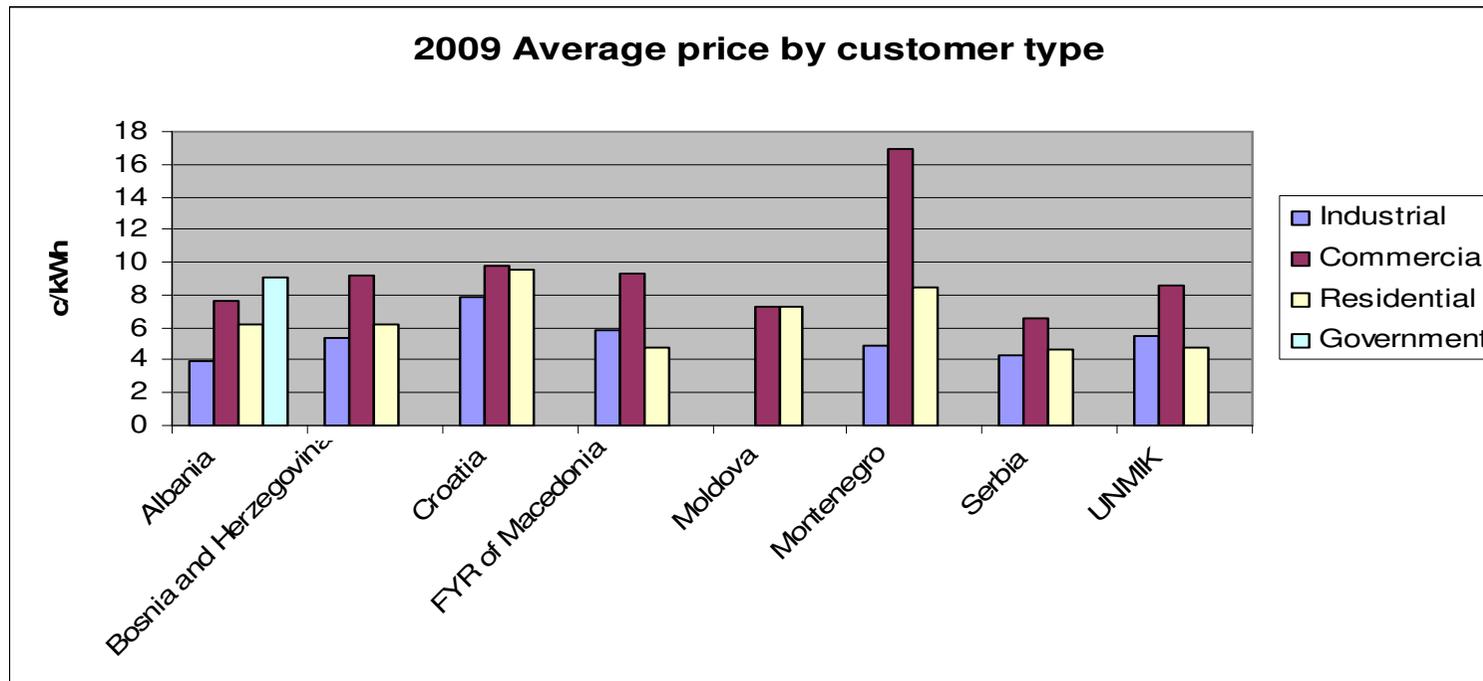


Source – ECRB, 16th Athens Forum, October 2010

Gradual increase of the *average end-user tariffs* could be observed in ALL Contracting Parties – however seemingly rather slow and with little sign of feedback by the market liberalization measures

Another feature is apparent **significant difference** between the level however also a trend of **convergence** over the time

ELECTRICITY Tariffs

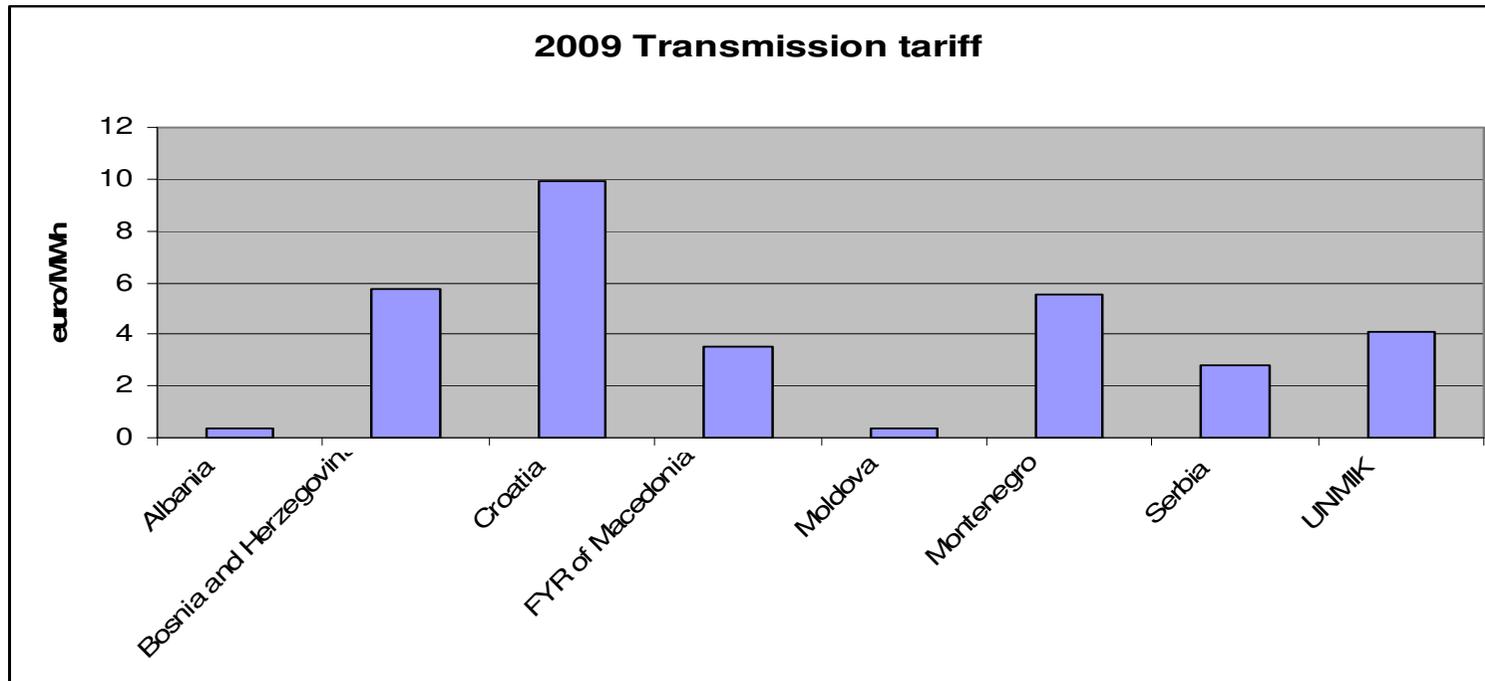


Source – ECRB, 16th Athens Forum, October 2010

Potential cross-subsidies are indicated by the significant differences in the **average end-user tariffs** between different classes of customers, present in ALL Contracting Parties.

Large industry consumer tariffs are indicative for their adverse effects on the liberalization of the electricity market

ELECTRICITY Tariffs



Source – ECRB, 16th Athens Forum, October 2010

Extreme differences in the level of the **transmission tariffs** is registered across the – indicating effects of the lack of transparency and cases of disputable cost-reflectivity.

GAS Market

▪ Legal framework

- **All Contracting Parties** have established **legal frameworks** - **Croatia** advanced in implementation
- **Albania, Montenegro** and **UNMIK** almost fully implemented the Internal market Directive although **no gas market** exists. **Moldova** is almost fully **in compliance**.
- **Bosnia and Herzegovina**, the **Former Yugoslav Republic of Macedonia** and **Serbia** are still missing some of the crucial provisions (e.g. **unbundling** requirements and third-party access **exemptions**)

▪ Regional dimension of the gas market

- **Network Tariffs** or approval of related **Methodologies** are developed by **All Contracting Parties** except in **Bosnia and Herzegovina**.
- **Market opening** is not defined in line with the acquis in **Albania, Bosnia and Herzegovina** and the **Former Yugoslav Republic of Macedonia**
- **Regulation 1775/2005** need to be progressing with the gas market emerging – now unsatisfactory level of implementation in **Bosnia and Herzegovina** and **Serbia**

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NEW ENERGY INFRASTRUCTURE

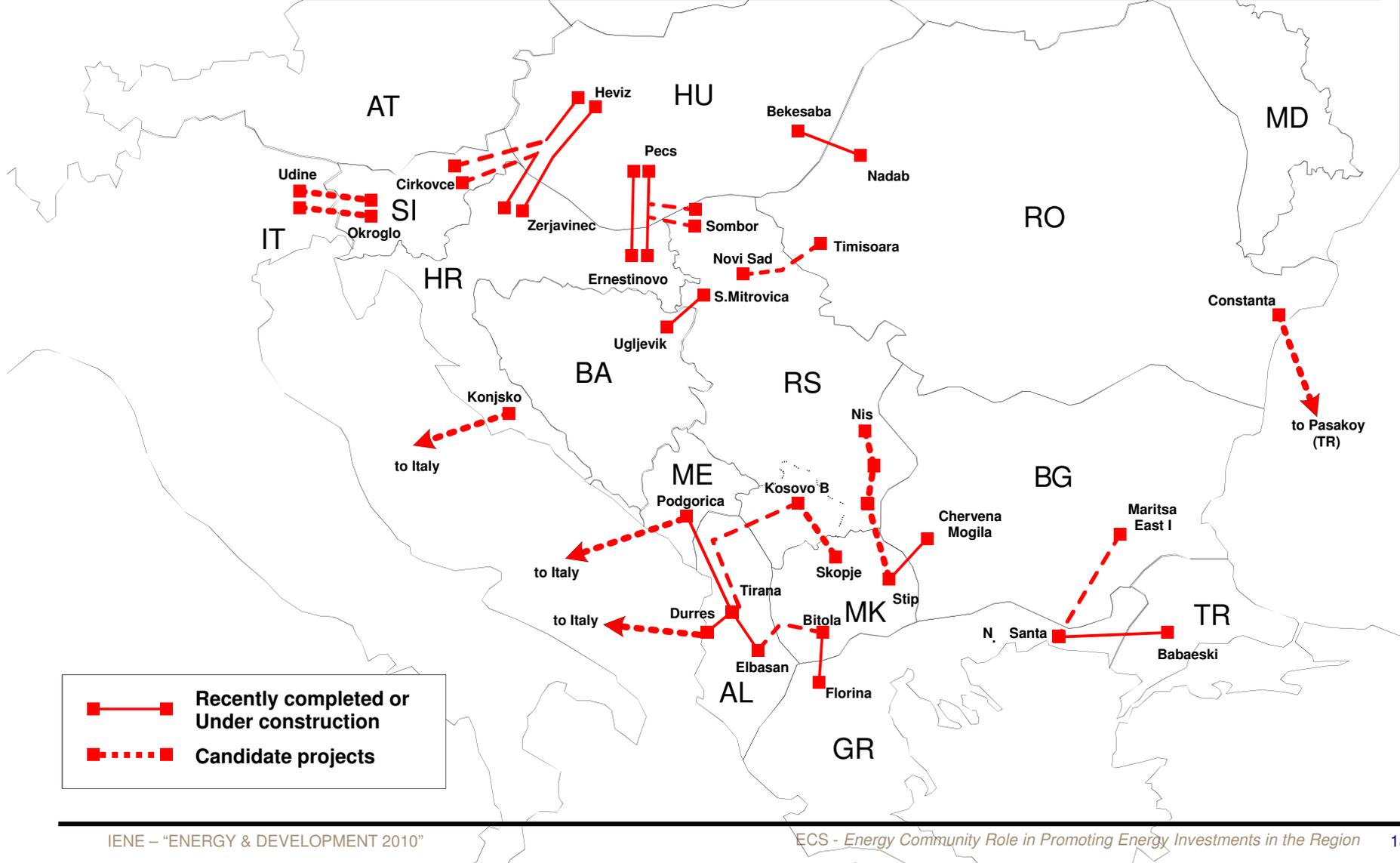
- in the context of a regional perspective

The WAY FORWARD

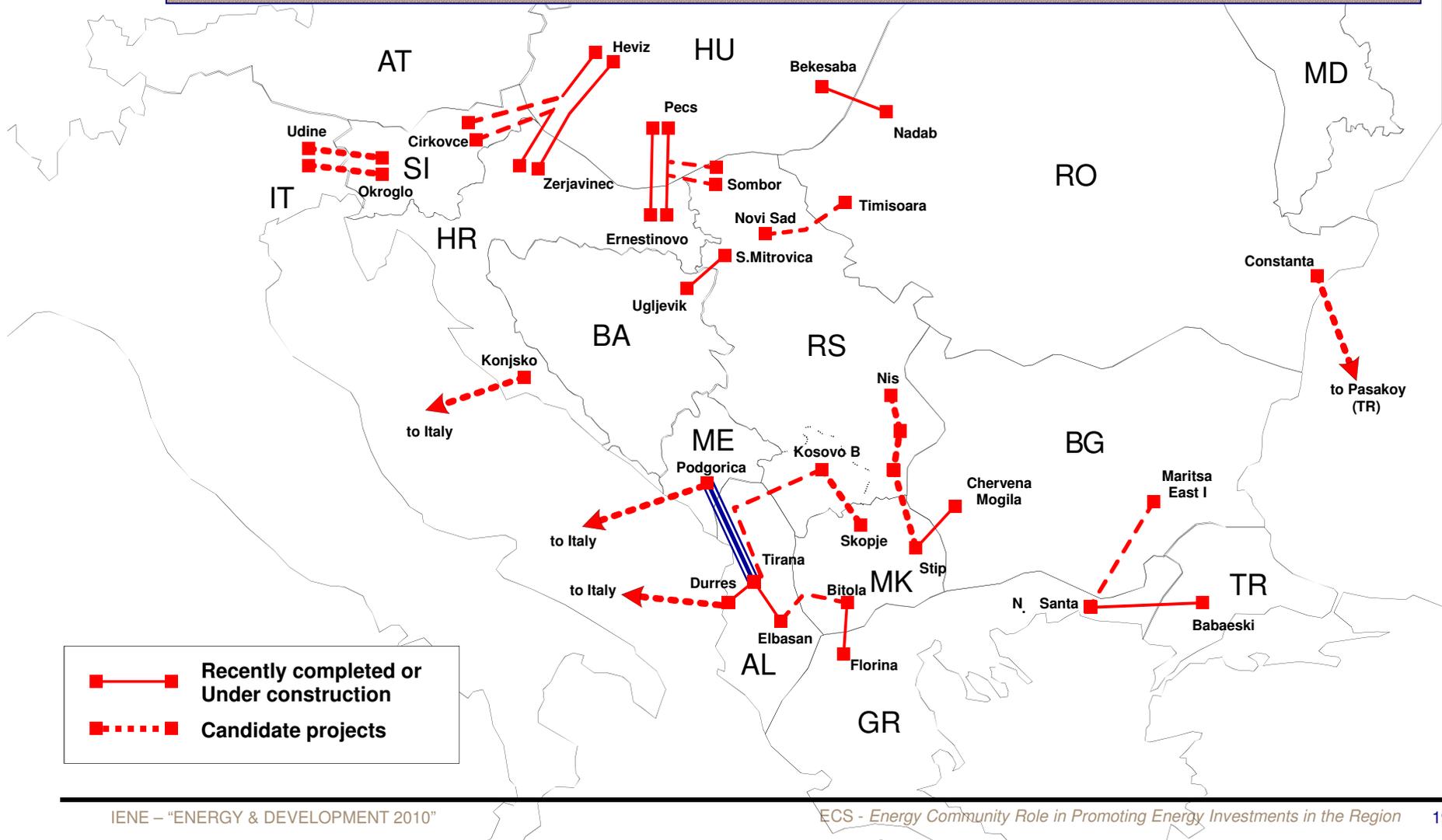
- building absorption capacity for new investments

New ENERGY INFRASTRUCTURE electricity

Potential investment projects for new transmission infrastructure
(source: SECI TSP Review, May 2008)

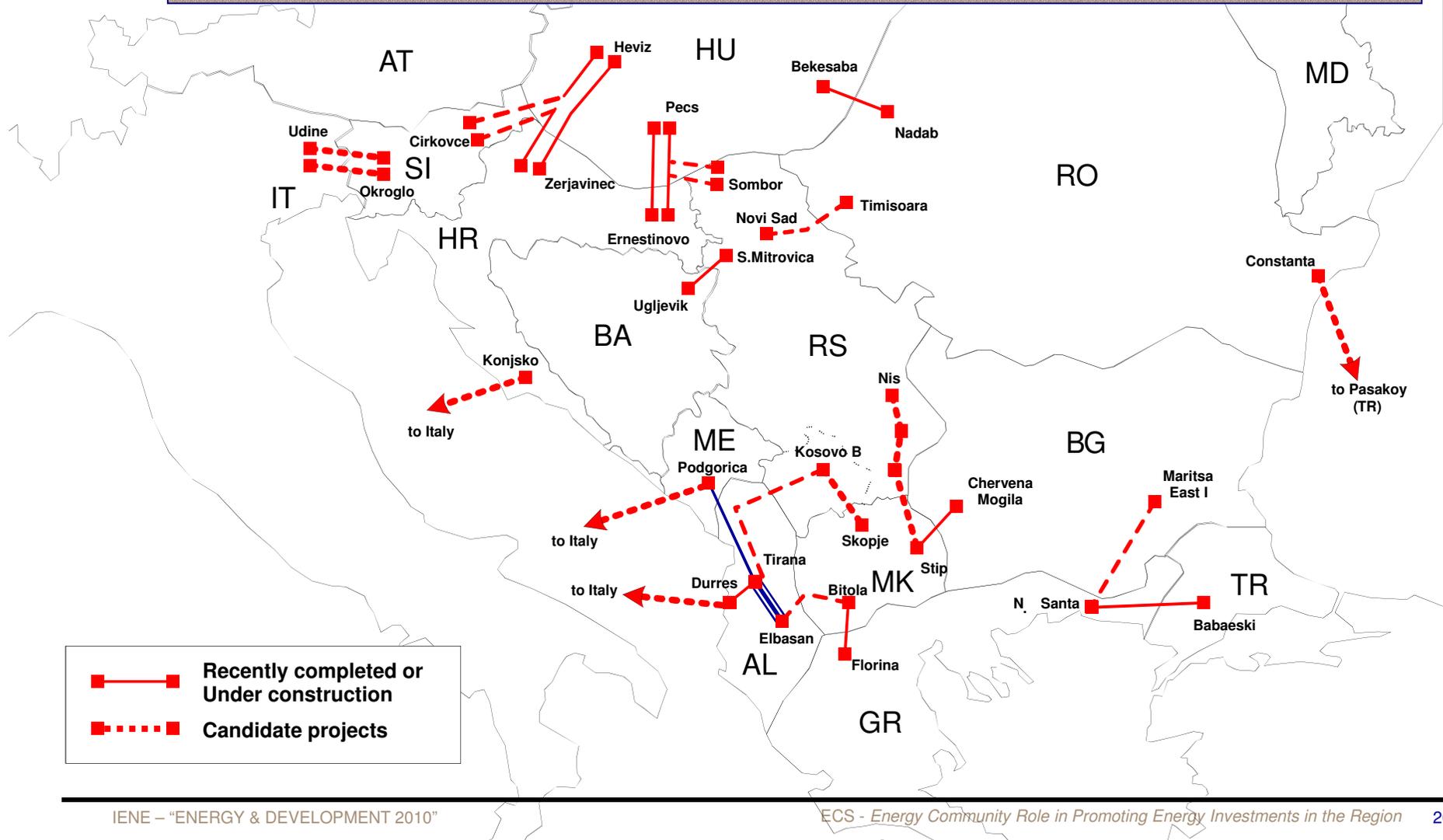


■ **New OHL 400 kV interconnection Tirana (AL) – Podgorica (CG)**
 Construction progressing on both sides
 - expected to be commissioned by end of 2010



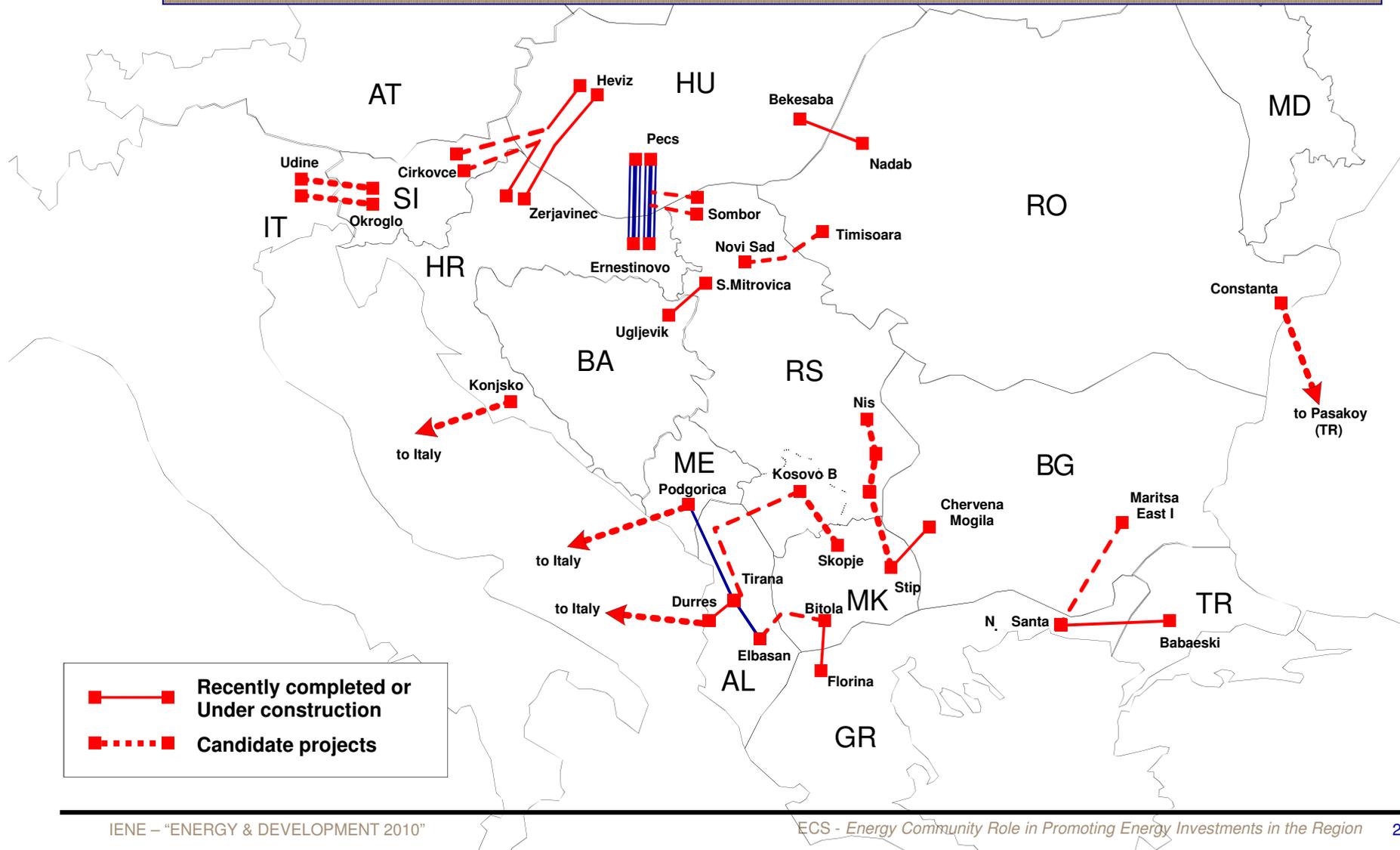
New ENERGY INFRASTRUCTURE electricity

■ **New 400kV transmission line Tirana – Elbasan (AL)**
 - Construction progressing
 - expected to be commissioned by April 2010



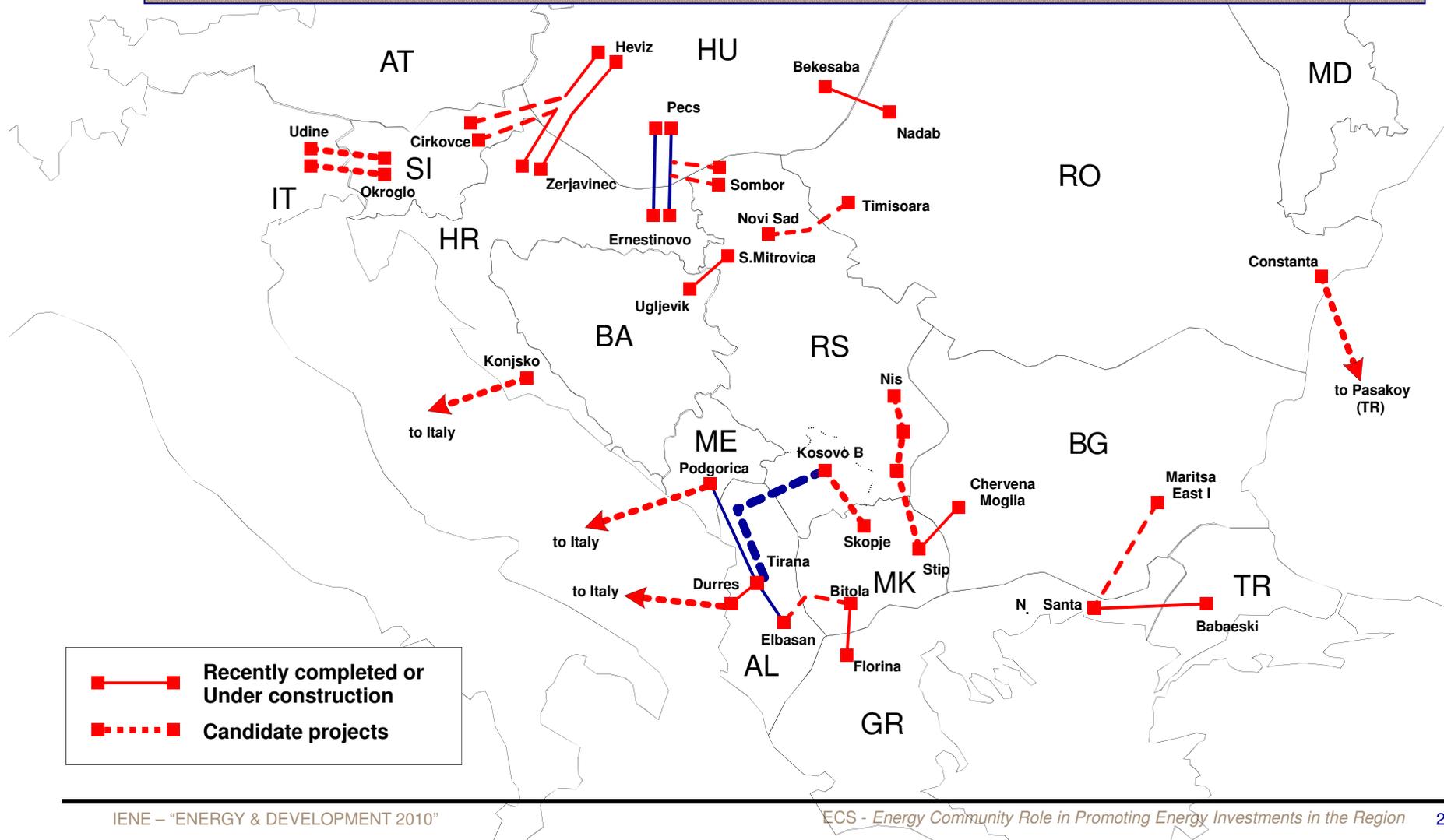
New ENERGY INFRASTRUCTURE electricity

● New OHL (2) 400 kV interconnection Ernestinovo (CR) – Pecs (H)
 - Near completion, expected to be commissioned in 2010



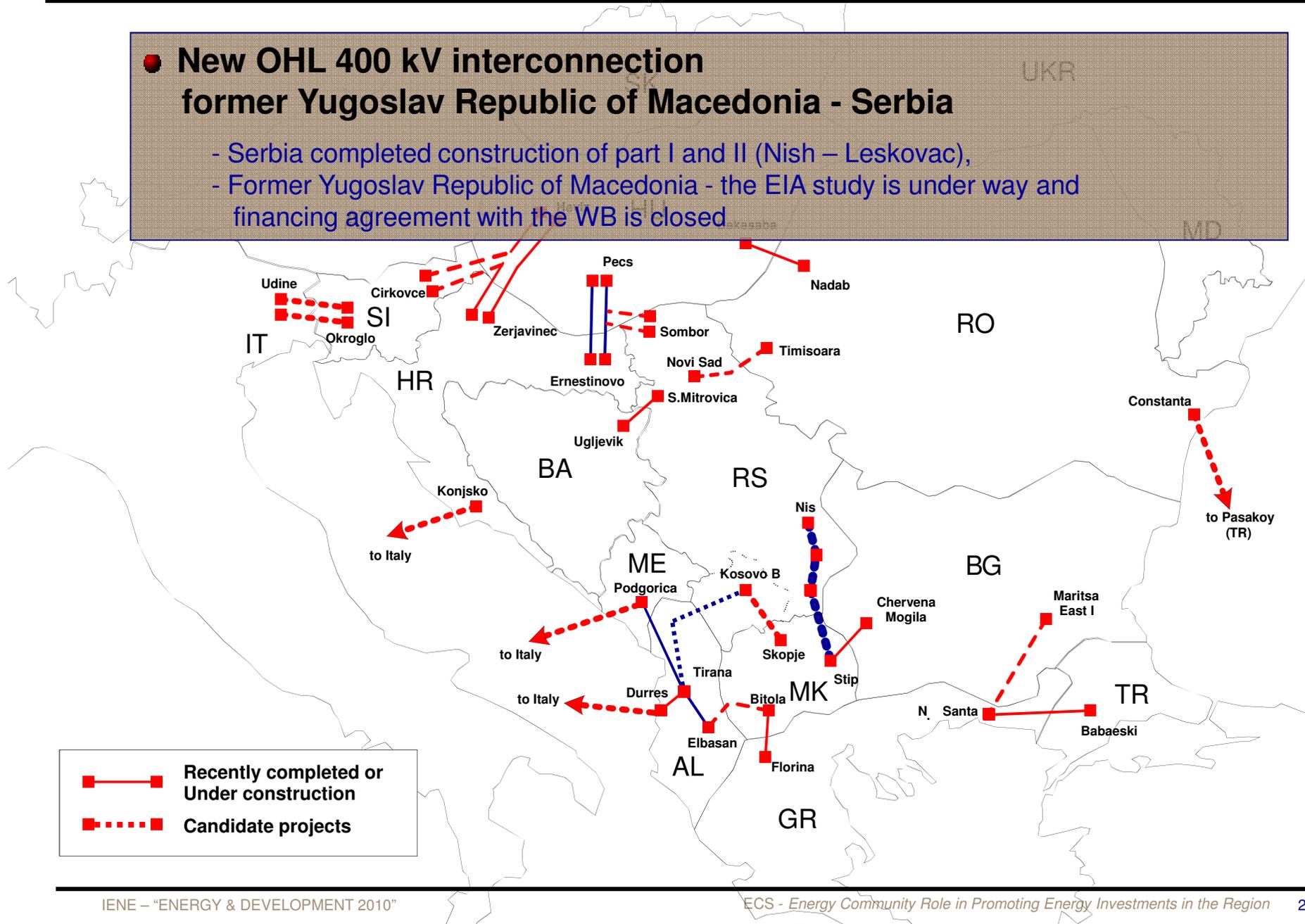
New ENERGY INFRASTRUCTURE electricity

● New OHL 400 kV interconnection “Tirana 2” (AL) - TPP “Kosovo B”
 - MoU between TSOs signed in 2008, financial agreement with KfW signed
 - construction expected to start in 2010 and finish 2012



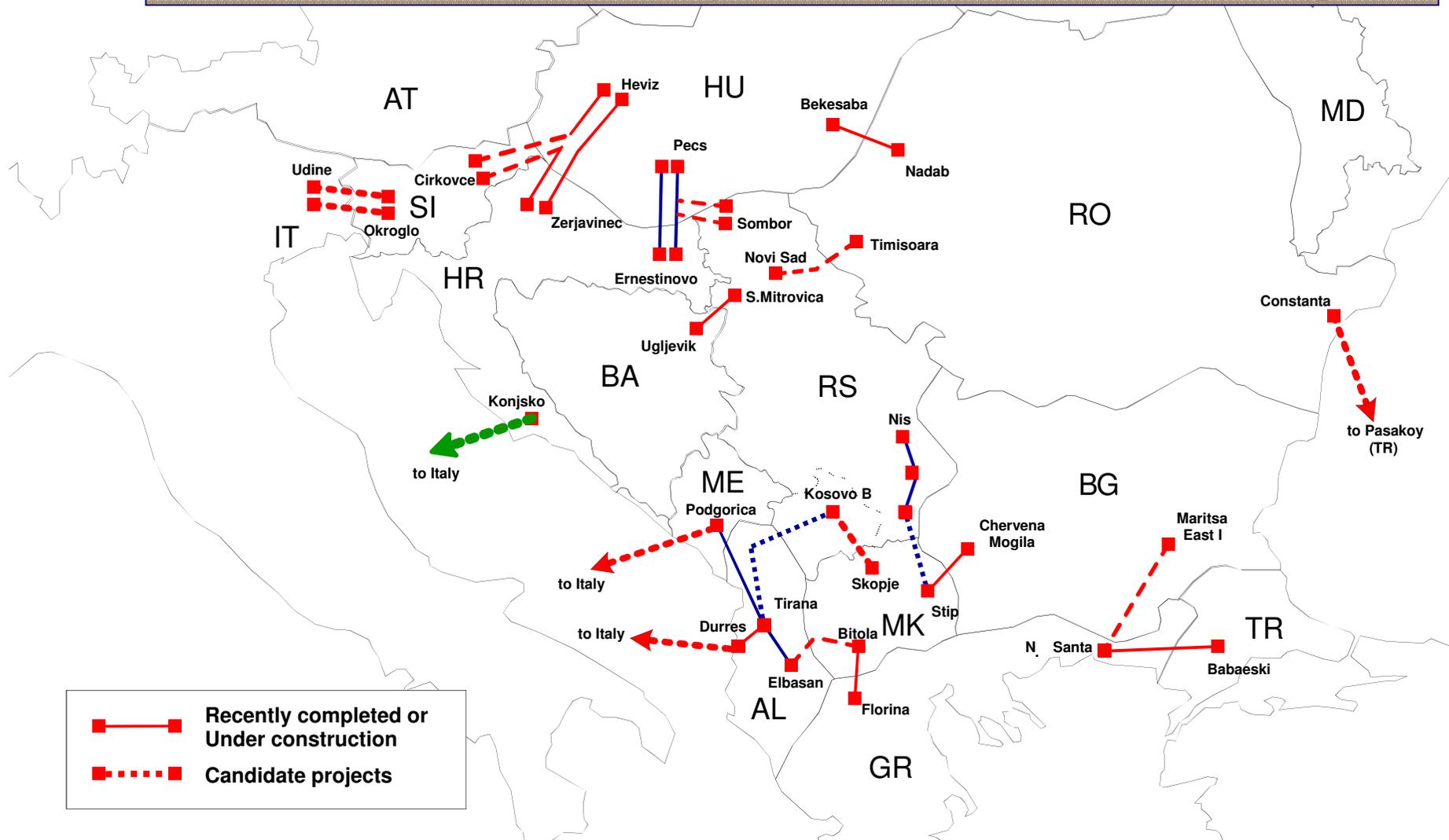
● New OHL 400 kV interconnection former Yugoslav Republic of Macedonia - Serbia

- Serbia completed construction of part I and II (Nish – Leskovac),
- Former Yugoslav Republic of Macedonia - the EIA study is under way and financing agreement with the WB is closed



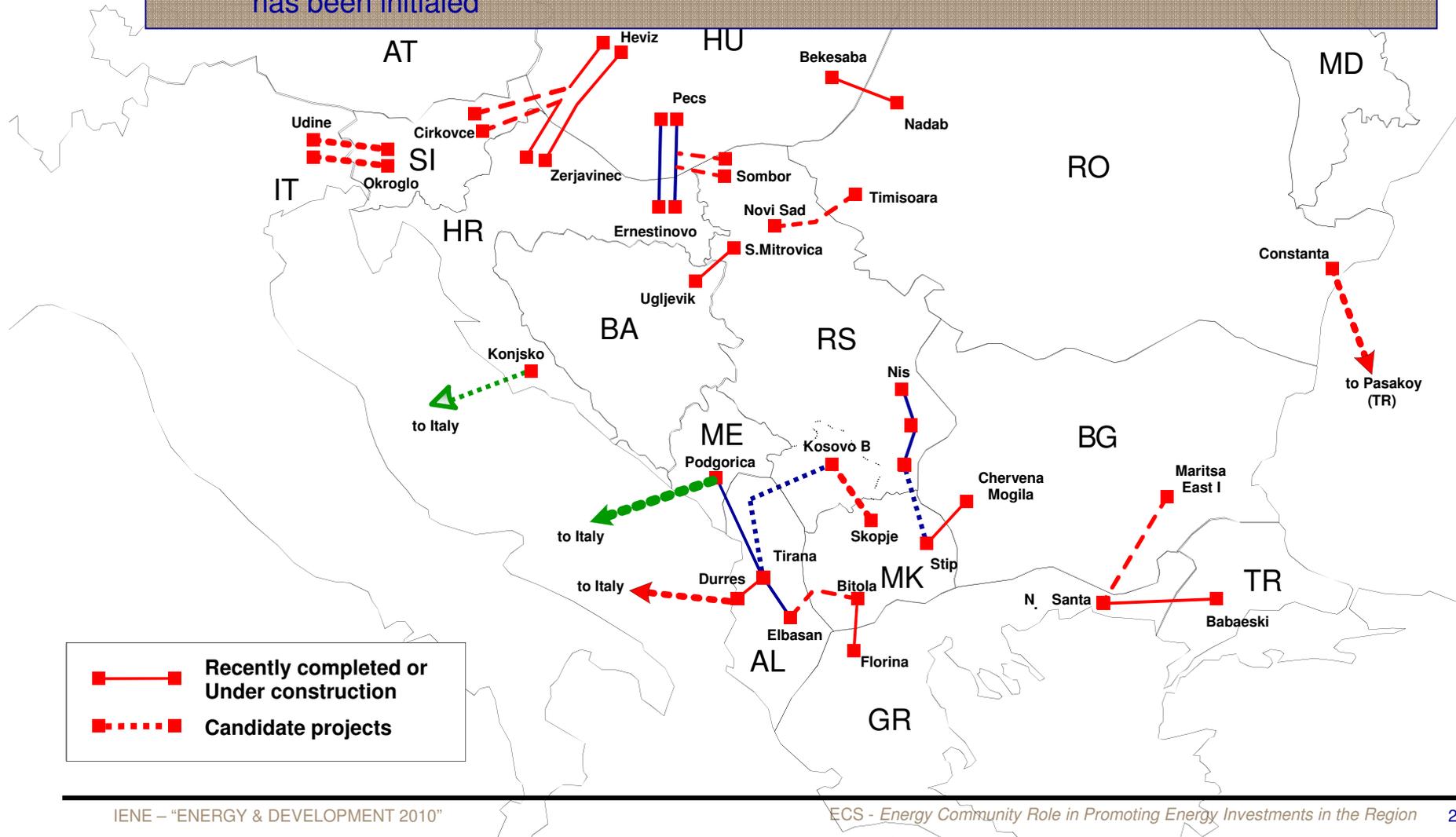
● New HVDC submarine interconnection Croatia – Italy

- Common feasibility study is under preparation by HEP-OPS and TERN



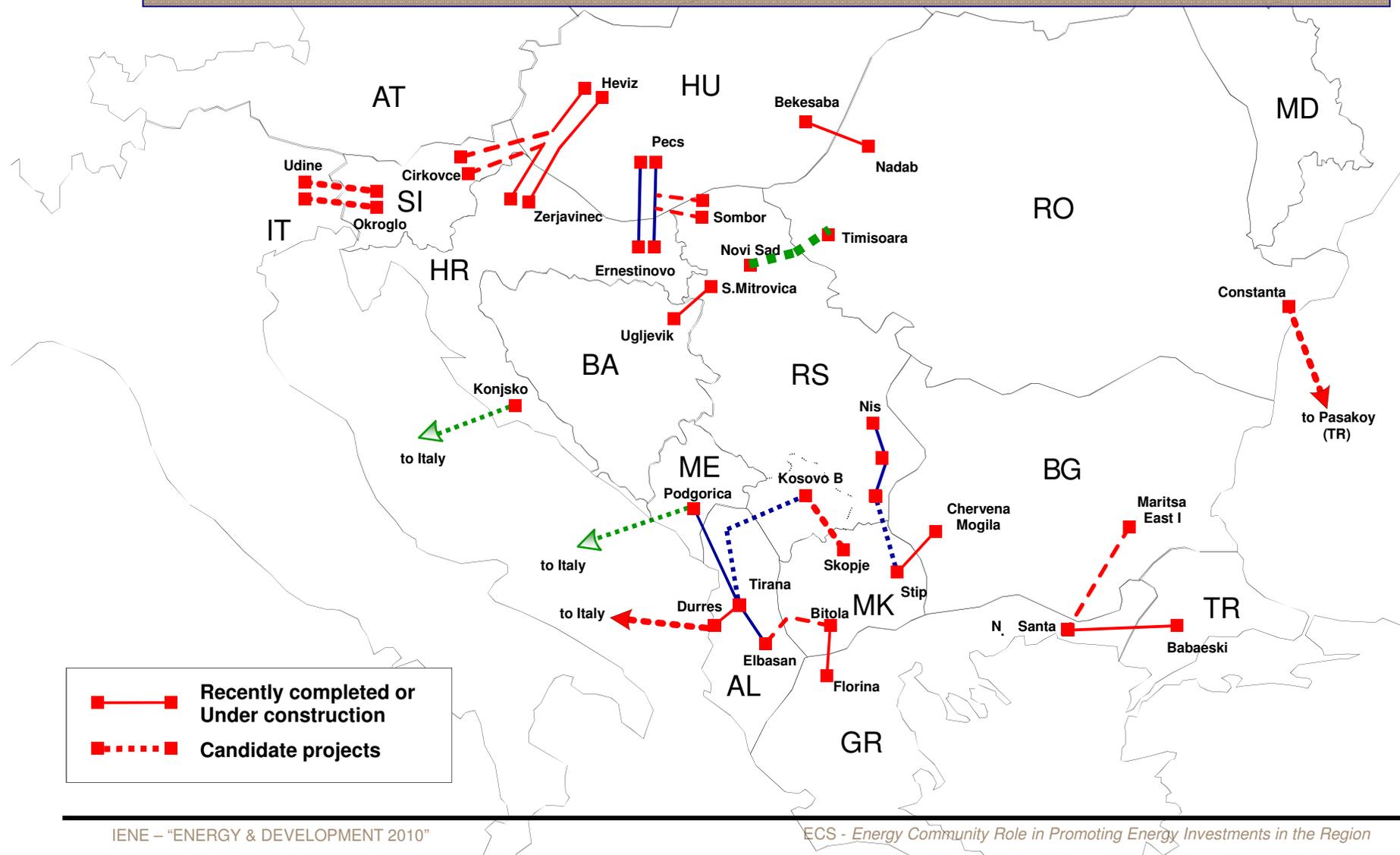
● New HVDC submarine interconnection Montenegro – Italy

- Feasibility study is completed in 2008 and project was accepted.
- Draft agreement for construction between TERNAS.p.A and Prensos AD has been initiated



New ENERGY INFRASTRUCTURE electricity

New OHL 400 kV interconnection Serbia - Romania
 - Feasibility study is finalized, other studies are under way



400 kV OHL Pancevo – Resita (October 2010)

▪ PROGRESS 2010

- Preparatory meeting - 20 May, Vienna: (Transelectrica, RO TSO, EC, ECS)
- Bilateral meeting - 21 June, Vienna : (EMS Serbia, Transelectrica, EBRD, ECS, EC)

Serbia: current status

- ✓ Preparation of the Feasibility study approved 2009
- Environmental and social impact study - in progress, Sept. 2010
- Basic Design for the overhead line - in progress, Sept. 2010
- Basic Design for new set of towers - in progress, Sept. 2010
- Contracting for urbanism plan - in progress, July 2011
- Approval of the route - in progress, after FS in Romania

Romania: current status

- ✓ Pre-feasibility Study - approved in Dec. 2009
- Feasibility Study - finalized Sept. 2010
- Environmental and social impact study - preparation Jan. 2012
- Contracting for construction - expected in Nov. 2012

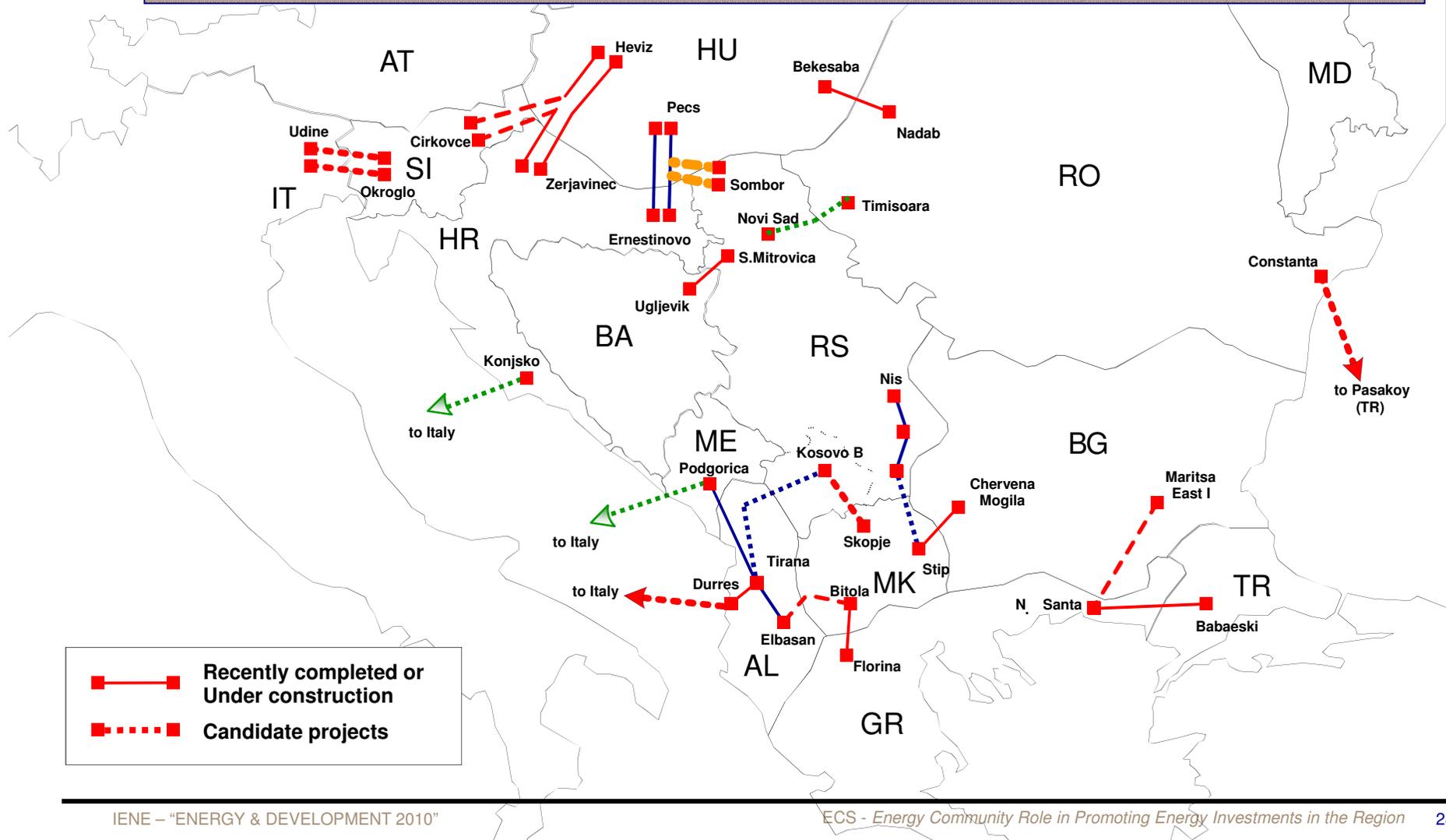
▪ FINANCING OPTIONS

Serbia: EMS's own resources, or jointly with a bank loan (EBRD expressed interest to finance it, in principle)

Romania: the European Regional Development Funds – Structural Funds: application in preparation; EBRD expressed interest to co-finance it, in principle

New ENERGY INFRASTRUCTURE electricity

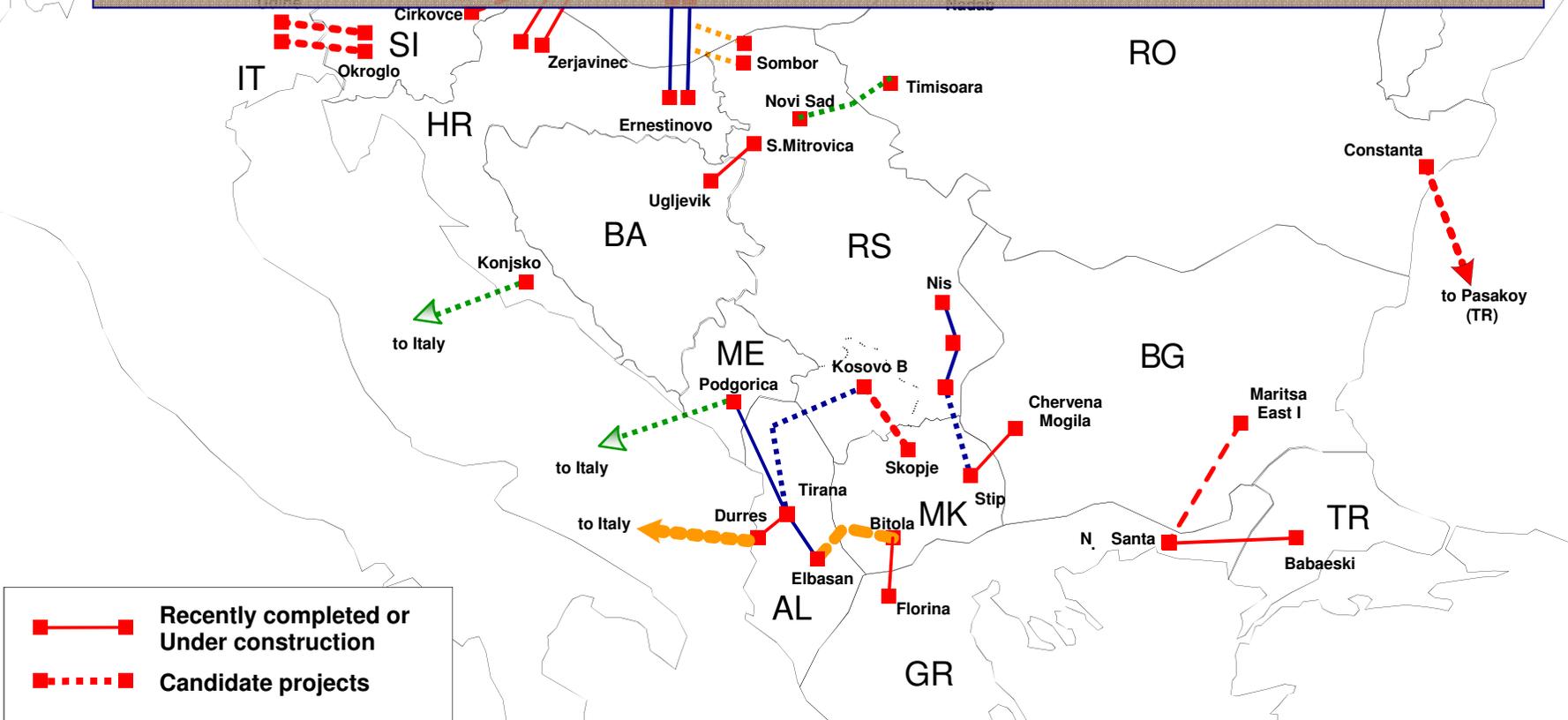
● OHL 400 kV interconnection Sombor (RS) – Pecs (H)
 - In 2008 listed for technical assistance under IPF however with insufficient political support



● Interconnection former Yugoslav Republic of Macedonia – Albania - Italy

- 2 part line [OHL 400 kV Bitola – Elbasan] –
[HVDC submarine line Albania – Italy]

-the feasibility study is under revision (MEPSO) due to the decision for development of the interconnection Montenegro - Italy



400 kV OHL Bitola – Elbasan (October 2010)

▪ **PROGRESS 2010**

- **Bilateral meeting - 16 April, Vienna: (OST Albania, MEPSO FYR of Macedonia, EBRD, ECS, EC) – both parties agreed to proceed with the project preparation**

▪ **CURRENT STATUS**

- **A Joint Statement of Intent signed in June 2007**
- **Feasibility study completed in February 2007 by SETEEC**
- **Indicated as one of the high priorities by Albania and former Yugoslav Republic of Macedonia**

▪ **NEXT STEPS**

- **Update the Feasibility study executed in 2007 and ESIA**
- **Application to the Western Balkans Investment Framework (WBIF); An application was prepared and submitted by EBRD under the IFIs window to the WBIF, on 7 September; Screening committee meeting approved it on 28-29 September! Decision by Steering Committee in December 2010**

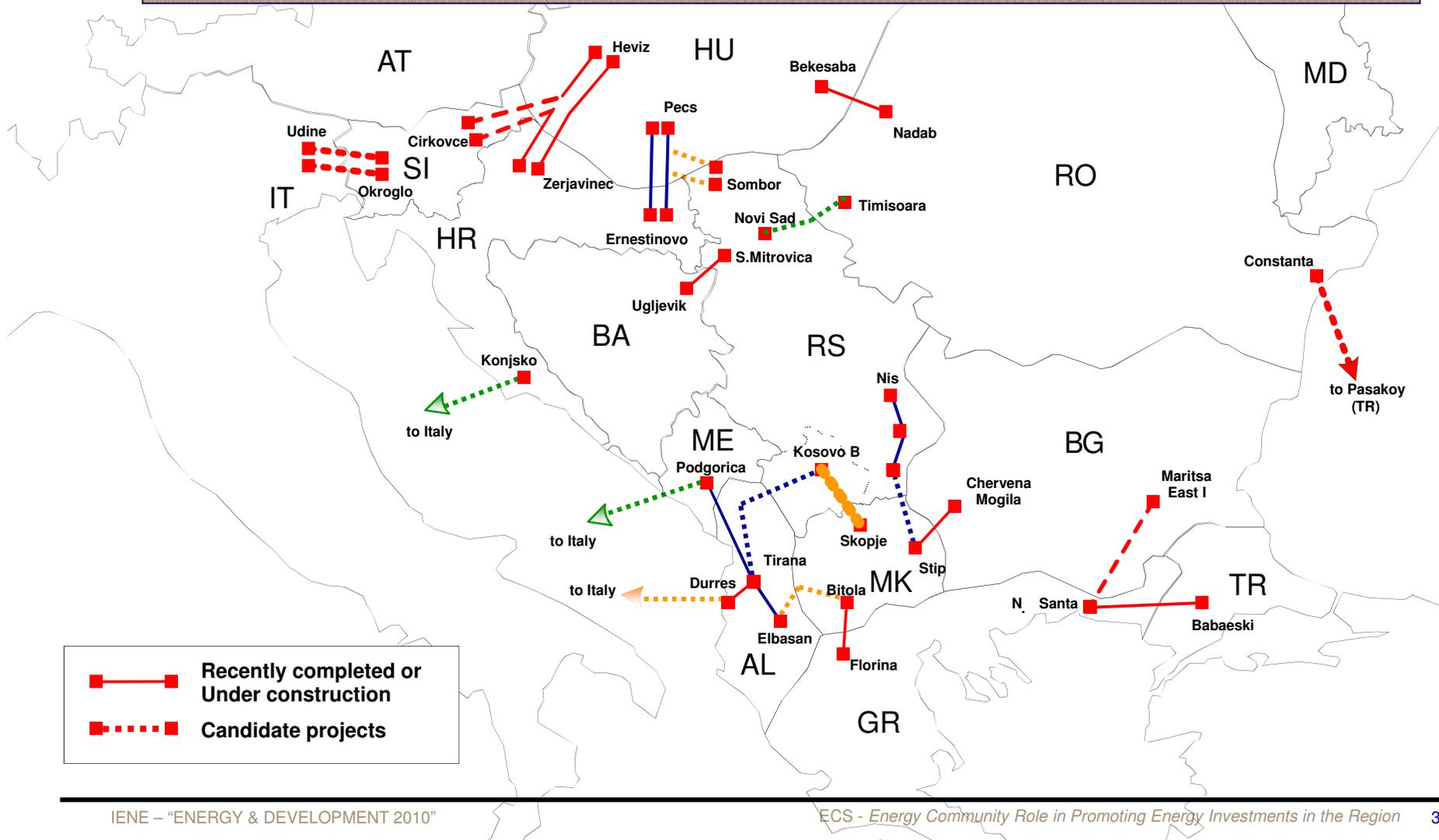
▪ **FINANCING OPTIONS**

- **Pending on the results of the FS, both EBRD and KfW expressed interest**

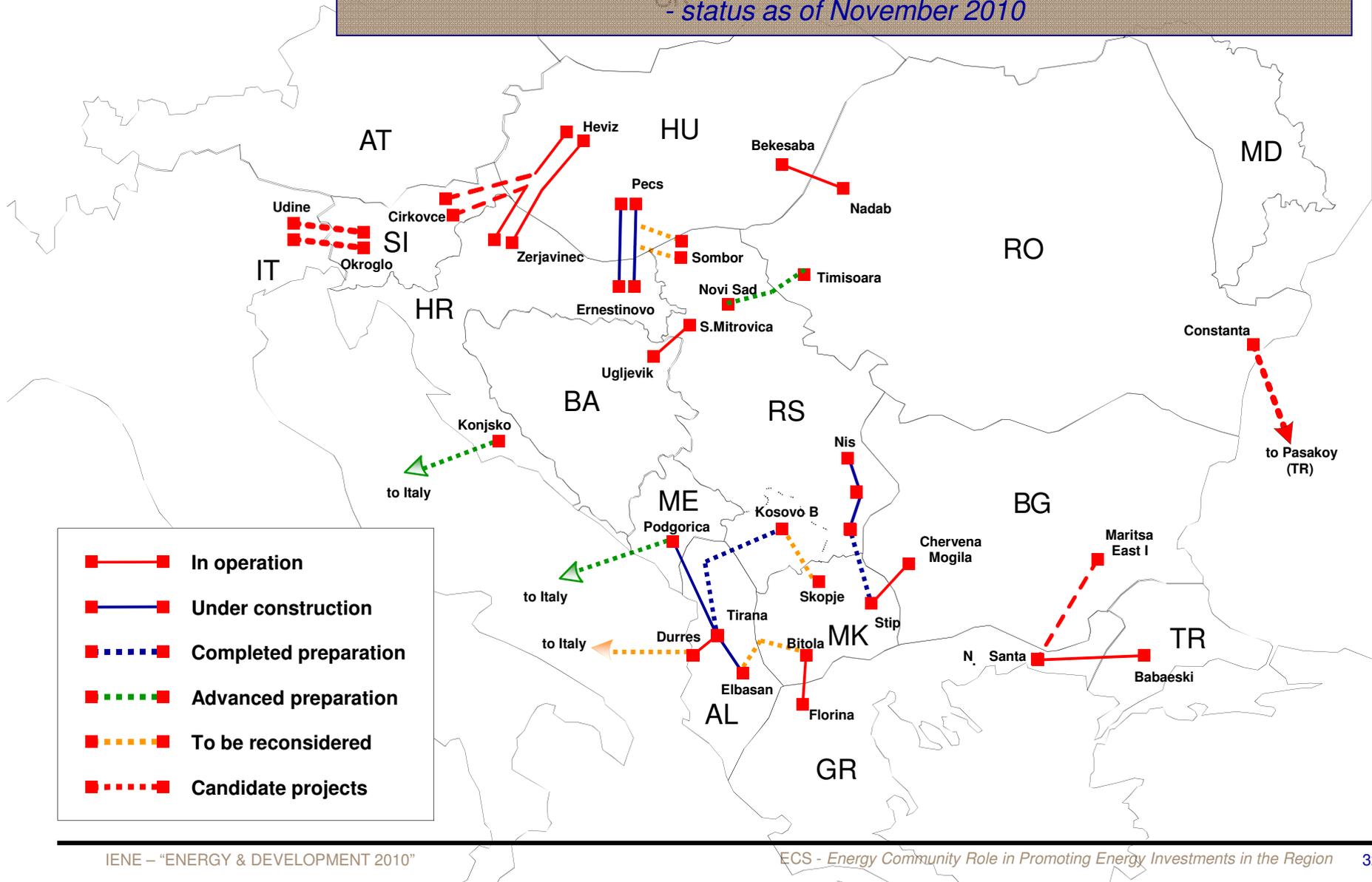
▪ **TIMETABLE (estimate)**

- **Contracting the consultant for FS/ESIA by the latest end Q1 2011.**
- **Preparation of the FS and ESIA (6-8 months): finalised during Q4 2011**
- **Finalisation of financing Q4 2011 to Q2 2012**
- **Tendering/ permitting, land use rights, and construction: 2 - 3 years: mid 2012 – 2014/ 2015**

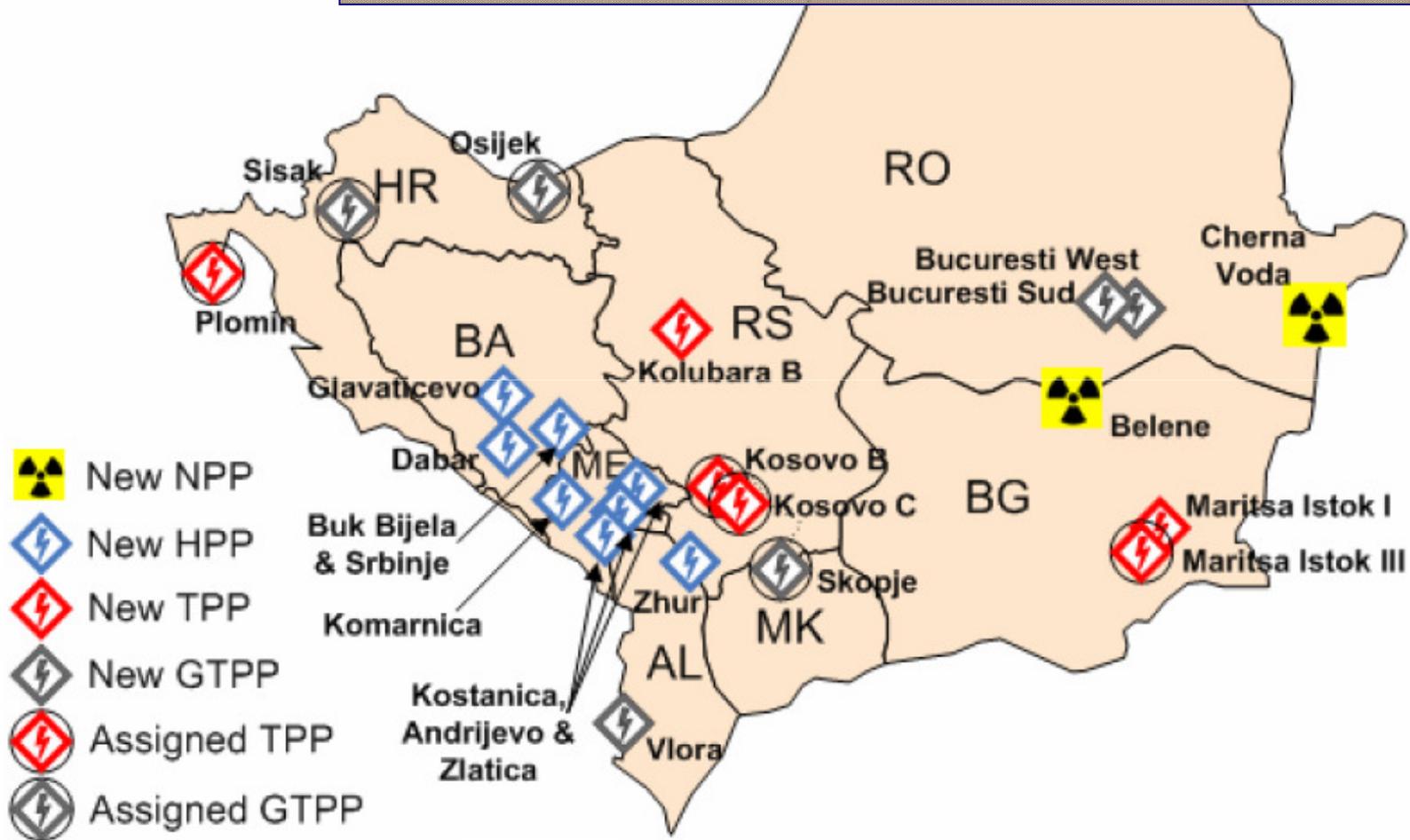
● OHL 400 kV interconnection Skopje – Kosovo B
 - old (decommissioned) 220 kV line to be refurbished to 400 kV interconnection - under consideration by the TSOs



Transmission infrastructure development - status as of November 2010



Investment planning in power generation - scenario
source: SECI – GIS Update - EIHP / EKC (USAID), November 2007



High Gas Price & Hydro

HPP Zhur – UNMIK (October 2010)

▪ **CURRENT STATUS**

- **Feasibility study - Reviewed in 2009, under a WB grant**
- **Preliminary environmental impact assessment prepared**
- **Preliminary social impact assessment prepare**

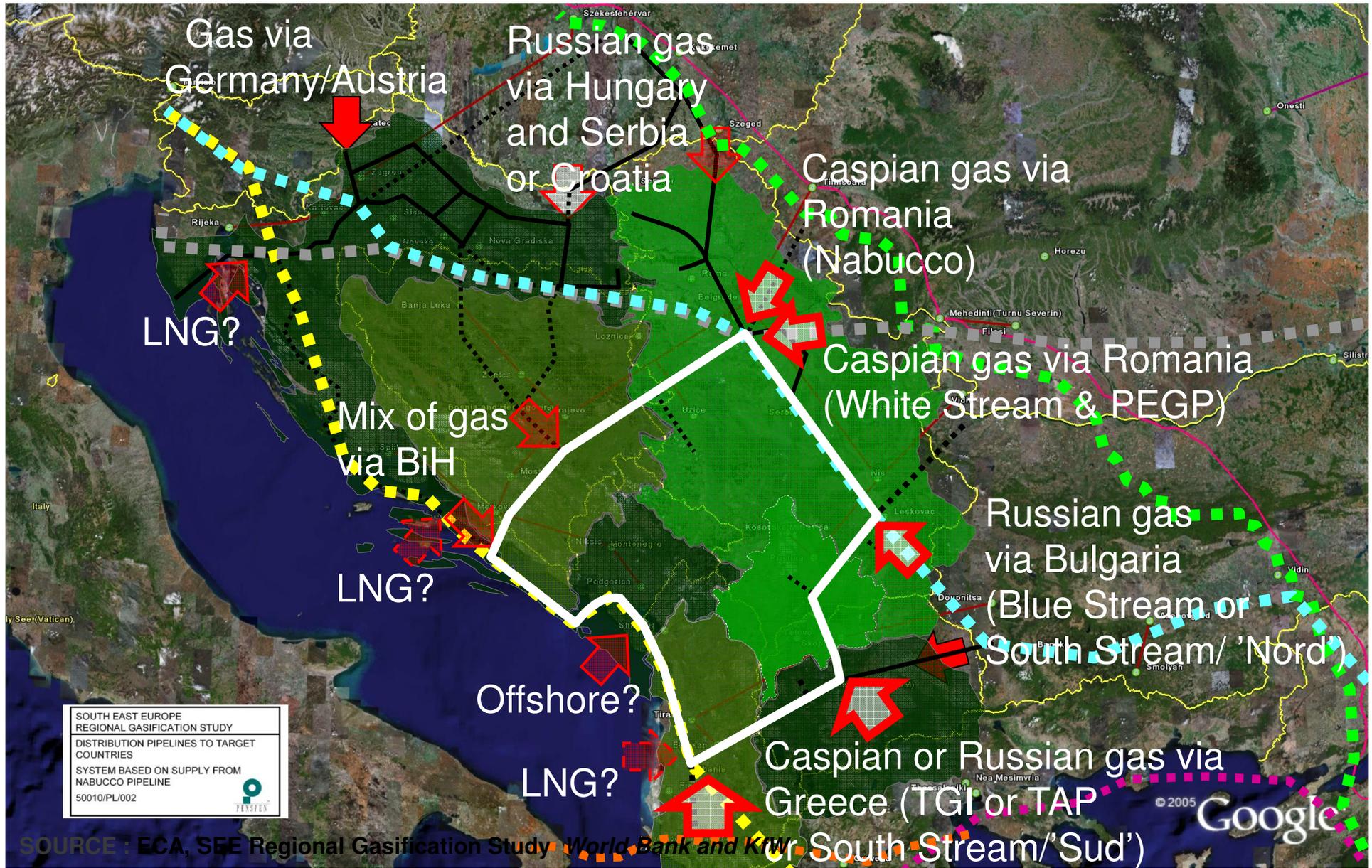
▪ **PROGRESS 2010**

- **Request for Expressions of Interest for Qualification published on 21 June 2010, with the deadline 26 August 2010**
- **The pre-qualified companies are:**
 1. **KI - Kelag International GmbH (Austria)**
 2. **A consortium of Parties Insaat (Turkey) & D Energy Union System Development Corporation (UK)**
 3. **Limak Group (Turkey)**

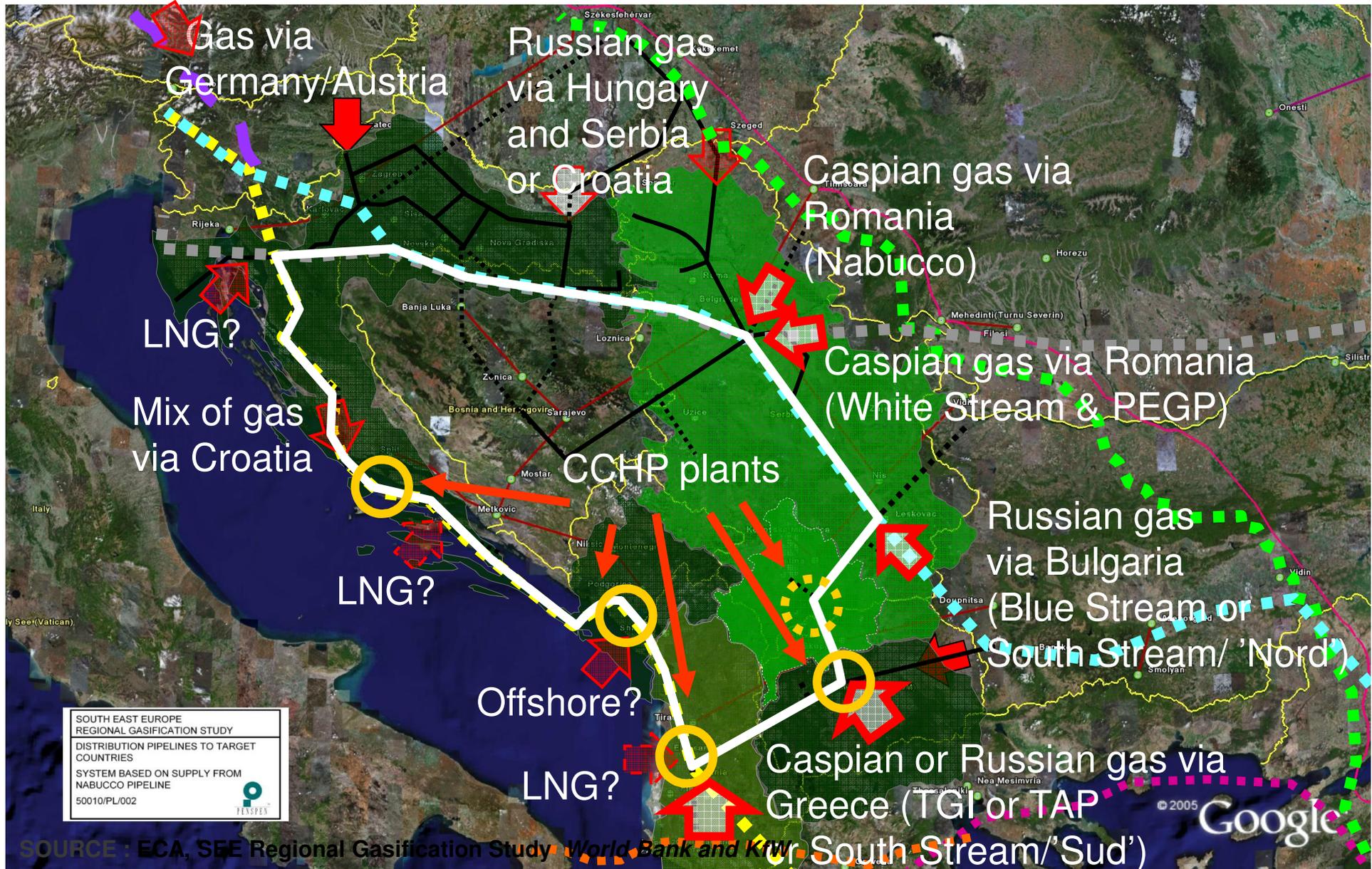
▪ **NEXT STEPS**

- **Selection of the Project Implementation Unit - tender dossiers by 10September 2010**
- **Selection of Transaction advisory services – deadline for dossiers: 13 September 2010**
- **ECS to be invited to clarification meeting with the investors, when selected**
- **Next meeting: pending on the date set for clarifications.**

New ENERGY INFRASTRUCTURE gas ring



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Investor's ADVISORY PANELL (November 2010)

▪ **RATIONALE**

- Develop a more structured dialogue between the private investors and the Energy Community

▪ **TOPICS**

- Legal and regulatory bottlenecks, competition hindrance and state aid rules, transparency issues, barriers to entry on the energy market, abuse of market dominant position, business practices that prohibit equal play field for all participants, and more...

▪ **MEMBERS, MEETINGS, OUTCOME**

- High level representatives of the main energy companies that are active investors in the Western Balkans.
- Meeting twice a year, in spring and in autumn, in Vienna; ECS will also provide assistance with the organization of meetings
- The IAP should provide its recommendations to the Secretariat, which will report to the PHLG and MC, on a yearly basis.

- The progress with investments has been temporarily slowed down by the **financial and economic crisis**
- The **regional approach** in security of the energy supply may provide substantial benefits in market liquidity, economies of scale, mutual support and investment incentives.
- Coherent **legal framework** is required to enforce the basic rights and commitments and reduce the risks in energy security and safety
- Well coordinated **measures** and transparent **rules** are crucial for effective implementation of the security principles
- Development of the **energy infrastructure** depends on good planning and on the priorities of the investor
- The **energy market** must work in favor of the supply – it is the ultimate regional factor for effective allocation of the investments

THANK YOU

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