PROJECTS OF ENERGY COMMUNITY INTEREST - A TOOL FOR COOPERATION

INOGATE REGIONAL WORKSHOP, 10th December 2015

Violeta Kogalniceanu, Energy Community Secretariat
The Energy Community Treaty’s aim: Create a single market framework within a single regulatory space, to …

• increase energy trade

• **attract investments**

• enhance security of supply

• improve the environmental situation

• increase competition at regional level

➢ By means of regional cooperation, and a harmonized legal framework based on the EU Acquis on energy (electricity, gas, oil), energy efficiency, renewable energy, environment, competition, statistics, etc.
The Energy Community Strategy by 2020, endorsed by the Ministerial Council in October 2012

**Key messages from the Strategy:**

- Create a Pan-European Energy Market
- Introduce a common capacity allocation mechanism (coordinated auctions) & establish one or more power exchanges
- Phase out price regulation for large customers
- Adopt cost reflective energy network tariffs
- Adopt prices that reflect fully the cost of supply for all tariff customers
Why we have not more investments in the Energy Community?

✓ Small and fragmented markets (WBs, Moldova)
✓ Regulated, non cost reflective retail energy prices
✓ Dominant incumbent, state owned company, in rather poor financial conditions
✓ Difficult to do business – governance issues, transparency, red tape, ......
✓ Limited fiscal space for guarantees
✓ Coal/lignite dominance - difficult to finance
✓ Affordability issues – payment discipline
✓ Priorities shifting from one government to another....
Residential electricity prices, (€c/kWh) (excluding taxes)
## Ease of doing business – The World Bank report 2014

<table>
<thead>
<tr>
<th>Economy</th>
<th>Ease of Doing Business</th>
<th>Dealing with Construction Permits</th>
<th>Getting Electricity</th>
<th>Protecting Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank 2014</td>
<td>Change in Rank to 2013</td>
<td>Rank</td>
<td>Procedures (number)</td>
</tr>
<tr>
<td>Albania</td>
<td>90</td>
<td>-8</td>
<td>189</td>
<td>no practice</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>131</td>
<td>-1</td>
<td>175</td>
<td>17</td>
</tr>
<tr>
<td>Kosovo</td>
<td>86</td>
<td>+10</td>
<td>136</td>
<td>15</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>25</td>
<td>+11</td>
<td>63</td>
<td>12</td>
</tr>
<tr>
<td>Moldova</td>
<td>78</td>
<td>+8</td>
<td>174</td>
<td>26</td>
</tr>
<tr>
<td>Montenegro</td>
<td>44</td>
<td>+6</td>
<td>106</td>
<td>9</td>
</tr>
<tr>
<td>Serbia</td>
<td>93</td>
<td>-6</td>
<td>182</td>
<td>18</td>
</tr>
<tr>
<td>Ukraine</td>
<td>112</td>
<td>+28</td>
<td>41</td>
<td>10</td>
</tr>
</tbody>
</table>

*Note: The table details the ease of doing business in 2014, including rankings and changes from the previous year, as well as specific indicators such as the number of procedures, time required, and costs associated with dealing with construction permits, getting electricity, and protecting investors.*
WHAT TO DO ????
Setting Priorities: Projects of Energy Community Interest (PECIs)

- In 2013 - 100 projects submitted by project promoters from CP and EU MS
- Identifying those projects of regional importance that would benefit from additional interventions such as:
  - Technical assistance
  - Financing mechanisms
  - Policy and regulatory instruments
- Assessment and ranking of PECIs using CBA methodology and additional criteria
- Two Public Consultations
- Regulatory Authorities engaged
- A list of “Projects of Energy Community Interest” (PECIs) adopted by the Ministerial Council, October 2013
Project Assessment Methodology

1. Pre-assessment
   - Eligibility check
   - Identification of matching projects, complementarities, project clustering
   - Verification of project data

2. Economic Cost Benefit Analysis
   - Input data for modelling
     - Public sources; questionnaires
     - Modelling assumptions
     - Agreed with TF
     - Reference scenario
     - Presented to TF

3. Multi-Criteria Assessment
   - Criteria
     - Result of CBA
     - Enhancement of competition
     - System Adequacy
     - Progress in Implementation
     - Facilitation of RES
   - Indicators
     - Net Present Value
     - Competition Enhancement Index
     - System Adequacy Index
     - Implementation Progress Indicator
     - RES Support Indicator
   - Ability of each project to fulfil criterion
     - Score 1 to 5
   - Weights *
     - 0.47
     - 0.19
     - 0.17
     - 0.11
     - 0.06

   * Weights and criteria differ slightly for the different groups (electricity infrastructure, electricity generation and gas infrastructure). In this graph criteria and weights for electricity generation are presented.

Projects proposed by project promoters

Possible PECI projects

Agreed with TF

Modelling

Change in socio-economic welfare

Cost-Benefit Categories
- Project costs
- Security of supply
- Market Integration / Price convergence
- CO2 emissions

Public consultation

Criteria Weights *

Result of CBA
Enhancement of competition
System Adequacy
Progress in Implementation
Facilitation of RES

Net Present Value
Competition Enhancement Index
System Adequacy Index
Implementation Progress Indicator
RES Support Indicator

Score 1 to 5

Total score of each proposed project

Ranking of projects according to scores

Energy Community Secretariat
## Expected investment costs

<table>
<thead>
<tr>
<th>Area of intervention</th>
<th>Estimated investment costs (billion €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Generation (14 projects)</td>
<td>8.053</td>
</tr>
<tr>
<td>Electricity Infrastructure (9 projects)</td>
<td>0.669</td>
</tr>
<tr>
<td>Gas Infrastructure (10 projects)</td>
<td>4.025</td>
</tr>
<tr>
<td>Oil Infrastructure (2 projects)</td>
<td>0.608</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>13.355</strong></td>
</tr>
</tbody>
</table>
PECI Electricity Interconnections

400 kV OHL
Submarine DC cable
PECI Gas Infrastructure

- LNG Terminal
- Gas pipeline

Energy Community Secretariat
EBRD, 24 February 2014
Implementation of PECIs: the full package

✓ **Priorities identified:** a common list, PECI adopted by energy ministers in October 2013

✓ **Regulatory measures:** Regulation 347/2013/EU adopted in the Energy Community in 2015

✓ **Financing PECIs – Main sources and issues:**
  - Government /own resources (very constrained at present)
  - Commercial banks/private investors (financial and economic crisis, European energy policy – RE focus, market size and development)
  - IFIs (require sovereign guarantees; fiscal space, very narrow)
  - Confidence issues
  - Donor funded blending facilities and TA - e.g: Western Balkans Investment Framework and NIF (crucial to advance investments)

✓ **WHAT NEXT??**
## PECI – 2016 timetable

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Call for the consultant</td>
<td>29-Oct-15</td>
<td>23-Nov-15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sign the contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inception report - questionnaires</td>
<td>18-Dec-15</td>
<td>10-Jan-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call for projects</td>
<td>15-Jan-16</td>
<td>15-Feb-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishment and meetings of the Groups</td>
<td>25-Feb-16</td>
<td>28-Feb-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eligibility test</td>
<td>17-Feb-16</td>
<td>19-Mar-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eligibility test - Finalise eligible projects list</td>
<td>20-Mar-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Methodology + assessment interim report</td>
<td>10-Dec-16</td>
<td>10-Apr-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public consultations</td>
<td>01-Apr-16</td>
<td>30-Apr-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final scoring and report</td>
<td>11-Apr-16</td>
<td>10-Jun-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment - preliminary ranking (CBA, KPI, oppositions)</td>
<td>11-Jan-16</td>
<td>13-Sep-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessment - preliminary ranking - meetings of the Groups</td>
<td>11-Jan-16</td>
<td>13-Sep-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drawing up the preliminary list</td>
<td>14-Sep-16</td>
<td>06-Oct-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drawing up the preliminary list: meeting of the Groups</td>
<td>5-6 Oct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment of the ranking (CF, MS, EES and EC)</td>
<td>07-Oct-16</td>
<td>12-Oct-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presentation of the Draft Final List to the PHLG</td>
<td>13-Oct-16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Energy Community List of PECI adopted by the MC</td>
<td>by 31 Dec</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Inception Report

1st meeting of the Groups

List of eligible project

Draft interim report

Draft final report

Draft preliminary list presented to PHLG

PECI list adopted by the Ministerial Council
<table>
<thead>
<tr>
<th>No.</th>
<th>Next Steps, Priorities</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Each Contracting Party shall bring into force the laws, regulations and administrative provisions necessary to comply with Regulation (EU) 347/2013, as adapted by the Energy Community and shall inform the Secretariat thereof.</td>
<td>31 Dec 2016</td>
</tr>
<tr>
<td>2</td>
<td>Contracting Parties shall <strong>start with the implementation</strong> of provisions in accordance with Regulation (EU) 347/2013.</td>
<td>01 Jan 2017</td>
</tr>
<tr>
<td>3</td>
<td>The Ministerial Council shall establish (based on a preliminary list) the <strong>next PECI list</strong>. Thereafter, PECI list shall be established every two years.</td>
<td>31 Dec 2016</td>
</tr>
<tr>
<td>4</td>
<td>Contracting Parties shall designate one national <strong>competent authority</strong> responsible for the permit granting process for PECIs.</td>
<td>30 Jun 2017</td>
</tr>
<tr>
<td>5</td>
<td>Each Contracting Party (or a respective competent authority) shall publish a <strong>manual of procedures</strong> for the permit granting process applicable for PECIs.</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>No.</td>
<td>Next Steps, Priorities</td>
<td>Deadline</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>6</td>
<td>The duration of a permit granting process is limited to 3,5 years. (24 months for pre-application procedure, and 18 months for the statutory permit granting procedure). The process (which cannot be completed in 3,5 years) may be extended for 9 months upon a competent authority’s decision.</td>
<td>30 Jun 2018</td>
</tr>
<tr>
<td>7</td>
<td>National regulatory authorities (cooperating in the framework of the Regulatory Board) shall establish and make publicly available a set of indicators and corresponding reference values for the comparison of unit investment costs.</td>
<td>30 Jun 2018</td>
</tr>
<tr>
<td>8</td>
<td>National regulatory authorities shall submit to the Regulatory Board the methodology and the criteria used to evaluate investment in electricity and gas projects and the higher risks incurred by them.</td>
<td>30 Jun 2017</td>
</tr>
<tr>
<td>9</td>
<td>The Energy Community Secretariat shall publish a report on the implementation of PECIs and submit it to the Ministerial Council.</td>
<td>MC in 2018</td>
</tr>
<tr>
<td>10</td>
<td>The Energy Community Secretariat shall establish an infrastructure transparency platform that should be publicly available.</td>
<td>6 months after the adoption of PECI list</td>
</tr>
</tbody>
</table>
How could we enhance investments?

- **Improve the business/investment climate**
  - Rule of law, contract enforcement
  - ECS growing role in dispute resolution:
    - Mediation in the case CEZ / Albania DSO
    - Negotiations in the case KOSTT/EMS

- **Harmonisation of VAT treatment** - access to interconnectors – ECS policy guidelines (web)

- **Reform of electricity market model, electricity tariffs, and regulated electricity retail prices**
  - ECS policy guidelines (web)
  - ECS legal assistance for new electricity and gas laws (3rd energy package) – PSO (Ukraine, Moldova)

- **Working together: Dispute settlement mechanisms, Investors Advisory Panel**
Lessons learned

- **Too many priorities....**
  - Projects are not yet ready to be built (missing documentation,
  - Companies (mainly state owned) lack financial resources
  - Too many „construction sites“ unfinished

- **The right PECI candidates to be submitted**
  - In number and quality
  - Government support is essential

- **Proper and timely implementation of R 347 with the additional benefits**
  - Permitting streamlined and limited to 3.5 years
  - EIA requirements clearer (EC Guidelines)
  - Cost-benefits shared for cross border projects

- **EU technical and financial assistance through WBIF and NIF**
  - To be used more extensively, especially in NIF.
Thank you for your attention!

www.energy-community.org