

# **GAS INFRASTRUCTURE INVESTMENTS – STATE OF PLAY OF SELECTED PRIORITY PROJECTS**

## **I. BACKGROUND AND SCOPE**

One of the key tasks of the Energy Community in the context of promoting the investment process is to facilitate development of projects of regional value. This concerns both gas and electricity related investments.

Further to the development and update of the priority infrastructure project lists, a concrete format of work in promoting the investment process is via focusing on concrete projects. In this relation, all Energy Community institutions play specific role, uniting their efforts for achieving concrete results. Particular role in this process is being played by the Donors' Community, chaired by the European Commission. However, the relevant Contracting Parties, Participants and Observers, on whose territories the investment process should take place, are considered as the key motor for the progress of the relevant infrastructure developments.

The current report summarizes for information purposes the concrete and recent activities in relation to the promotion of selected gas infrastructure projects with regional value and outlines proposals for next steps.

## **II. PRIORITY GAS INFRASTRUCTURE PROJECTS UNDER CONCRETE CONSIDERATION**

A Donors' Community meeting was organized on 17 December 2009, upon proposal of the European Commission, with the aim to draw attention to three gas infrastructure projects of regional value, and namely:

- Serbia – Bulgaria gas interconnector (Nis-Dimitrovgrad –Sofia/Dupnica)
- the Ionian Adriatic Pipeline and
- the Adria LNG.

One of the aims of the meeting was to see if there is interest by the IFIs to finance these three projects and to agree on further steps as well as to identify sources of financial support for the preparation of project documentation, etc. The interest for further consideration of these projects was reconfirmed at this meeting and this was announced respectively at the PHLG and MC meetings in December 2009.

### **III. ACTIONS UNDERTAKEN AND NEXT STEPS**

#### **1. PROJECT BASED COORDINATOR**

The European Commission, as the Chair of the Donors' Community proposed at the Donors' meeting that Mr. Ian Brown (EBRD) is appointed as coordinator representing the donors' views and interests in relation to investing in selected priority electricity and gas infrastructure of the Energy Community. This nomination was confirmed by the present Donors' representatives.

#### **2. MEETINGS WITH PROJECT STAKEHOLDERS**

Following upon the Conclusions of the Donors' meeting, for each project identified above, a separate meeting with project stakeholders, IFIs and donors, the European Commission and the Energy Community Secretariat was organised, in order to identify existing obstacles from the stakeholders' perspective and find solutions to these.

##### **A. Meeting on Gas interconnection Bulgaria – Serbia: Pipeline Nis - Dimitrovgrad-Sofia/Dupnica)**

This meeting took place in Vienna, at the premises of the Energy Community Secretariat on 27<sup>th</sup> January 2010 and was attended by representatives of Srbijagas, Bulgartransgaz, the Ministry of Economy, Energy and Tourism and the Ministry of Regional Development and Public Works (Bulgaria), the EBRD/ Donors' Community Coordinator, EIB/ JASPERS Vienna Office and DG TREN.

The main issues discussed were:

- **The connecting point in Bulgaria:** From Bulgarian perspective, the connecting point of the pipeline in question to the transmission network, on the Bulgarian territory should be Sofia and not Dupnica for reasons including the shorter pipeline lengths, possible use of the gas storage near Sofia (Chiren), and the fact that there is currently no connection between the Bulgarian transmission system and transit pipelines (Dupnica entry point).
- **Preparation and funding of pipeline documentation: Feasibility Study and Environmental and Social Impact Assessment Study**

Although, it would be ideal to have a single study prepared for both sections of the interconnector, due to financing reasons, the studies will need to be split into two parts – one for the Serbian side and one for the Bulgarian side of the pipeline.

Regarding the Serbian part of the interconnector, the feasibility study for the pipeline Nis – Dimitrovgrad could be proposed for funding by the EU's IPA Investment Project Facility (IPF).

The study on environmental and social impact assessment could be also, in principle financed by IPA IPF funds for the Serbian side together with the feasibility study (i.e. as a single study). Regarding the Bulgarian side of the interconnector, two options were identified for executing the studies with tapping on DG REGIO's grant. The study could either be commissioned or implemented directly by the relevant ministries, or it could be contracted with the EIB JASPERS's programme support.

- **Timeline of the project preparation and construction**

Having in view the separation of the studies, EBRD and EC have underlined the importance of the good coordination of the activities from both sides. The coordination should start immediately, by the preparation of the detailed time line of activities. The deadline for putting the pipeline into operation is mid 2013.

- **Next steps**

1. The Commission will examine possible dates for signing the Ministerial Joint Statement with the new Energy Commissioner. Target date, agreed at the meeting is 5<sup>th</sup> March 2010. The revised Joint Statement shall be circulated for comments by EC. The Bulgarian and Serbian representatives should verify the availability of the energy ministers for that date.
2. The EIB and EBRD will send to all participants short reports on how they could proceed with funding the feasibility study (JASPERS for the Bulgarian side) by 29 January 2010 and EBRD after discussions with the relevant stakeholders for IPF funding in w/c 01 February.
3. A more detailed time schedule will be prepared and circulated by Srbijagas (in parallel for Bulgarian and Serbian side of the interconnector).
4. The Bulgarian representatives will provide written explanation why Sofia is considered as more preferred connection point than Dupnica, elaborating also on eventual TPA access and gas transit regimes issues and possibility of linking the interconnector with the LNG plants on the Greek coast.
5. Srbijagas will provide the text of the Governmental Decision (from 2006) on conferring the rights for the gasification of South East Serbia (the area where the pipeline Nis – Dimitrovgrad is placed) to Yugorosgaz.
6. By mid-February, Srbijagas will revise the pre-feasibility study (done in 2005, for Nis – Dimitrovgrad) and prepare and share with other parties a short report (executive summary), which shall: (a) present the most relevant finding of the study, (b) defend/dismiss the validity of the assumptions made for the initial study, (c) confirm the soundness of the technical parameters (e.g. 1.8 bcm throughput) as resulted from the study.
7. The next technical meeting (i.e. meeting of the Working Group) will be held on the occasion of the meeting for the signature of the Joint Ministerial Statement in Brussels.

## ***B. Meeting on the Ionian Adriatic Pipeline (IAP)***

The meeting took place in Zagreb on 1 March 2010 at Plinacro premises and was attended by representatives of EC (DG ENER), Plinacro (Croatia), EBRD, and the Energy Community Secretariat.

The main issues discussed were as follows:

▪ **The current state of play of the project**

An Intergovernmental Declaration for Ionian-Adriatic gas pipeline was initially signed between Albania, Croatia and Montenegro, in September 2007. In December 2008, Bosnia and Herzegovina signed also the Intergovernmental Declaration and by this has become party in the project; a MoU on implementation of this project between Swiss Company EGL and Plinacro Ltd. (Croatia) was signed in September 2007. A Working Group and Steering Committee at the project level was established.

The IAP is foreseen to run from Croatia (Ploče) – to Albania (Fieri) with a diameter 800-1000 mm/ and a pressure of 75 bar with reversed flow capability from N-S; the IAP will be part of the gas ring, when this will be constructed.

Two versions of IAP are being analyzed:

V1: Section in Croatia with a DN 500 mm and 2.5 bcm/annum capacity; Section in Montenegro of DN 700 and in Albania of DN750, with a joint capacity of 5.0 bcm/annum; this option will amount at 0.9 bn Euro.

V2: A single DN 800 pipeline from Croatia (Bosiljevo) to Albania (Fieri) with a total capacity 7 bcm/annum, of which 4.5 bcm/annum in Croatia and Montenegro. The cost is estimated at approx. 1 bn Euro.

▪ **Activities undertaken up to date**

In Croatia the following sections of the Croatian network are in progress, which may become part of the IAP: (i) the pipeline Bosiljevo – Split is being built with the capacity of 2.5 bcm/annum; the section up to Split is under construction; the pipeline is financed by PLINACRO through an EIB loan as part of the investment plan 2007-2011, and its own funds. (ii) In 2008, the pre-feasibility study for the entire IAP was done by ILF Consulting Engineers; (iii) The Hydraulic study and cost comparison for the section Bosiljevo – Split - Ploče was done in 2009; (iv) for the Ploče – Dobreč (Montenegro border), the following studies were performed: Routing study; Mapping; Spatial planning documentation; Geology survey; Hydrology survey.

▪ **Next steps**

- the EIA study to be prepared on the Croatian side of the gas route from Ploče – Dobreč (Montenegro border) by end of 2010;
- the decision on the section Split – Ploče with respect to the pipeline diameter ( 40" ) and pressure ( 75 bar) is still pending on the decision to go through with the entire IAP project;
- Plinacro ordered an energy study on the IAP gas markets: potential for usage of gas on the route, taking the gas ring into consideration; EIHP is doing the study by end 2010 or

early 2011; preliminary data are expected in the second half of 2010; based on the results, the demand for gas will be clearer and anchor loads will be also investigated;

- The progress with the TAP decisions needs to be closely followed and reported. According to the recent talks between EGL and Plinacro, the TAP Joint Venture EGL StatoilHydro intends to continue with the investment, but a final decision on this will be announced the in second half of 2011;
- **Operational conclusions**
- Further coordination with countries signatory of the MoU is needed; ECS expressed its willingness to facilitate such a meeting with the relevant ministries;
- The European Commission and the Secretariat will look into options for funding from the Western Balkan Investment Framework or other pre-accession funds a comprehensive feasibility study, as well as a Social and Environmental Impact Assessment Study for the entire route, to see if the project is still viable.

### ***C. Meeting on the LNG terminal on Krk Island***

The meeting took place in Zagreb on 1March 2010 at Adria LNG project premises and was attended by representatives of EC (DG ENER), EBRD, Adria LNG Project Team, and the Energy Community Secretariat.

The main issues discussed were as follows:

- **The current state of play of the project**

The project was reviewed in 2006 and the project company established in 2007 as ADRIA LNG, registered in Croatia; the new structure of the Consortium is as follows: E-ON Ruhrgas: 39.17; OMV: 32.47; TOTAL: 27.36%; Geoplin: 1%; Croatian Companies (reserved shares): 25%.

In 2009 significant progress was achieved: finalized the ESIA study; the public consultation process was also finished at the end of 2009; Croatia granted the status of project of state interest.

The main characteristics of the project:

- Location: Island of Krk, Croatia, on an unused petrochemical site (Croatian Government took the decision of the location at the end 2008)
- Re gasification Capacity: 10 to 15bcm/y
- Capital cost: 600 -800 Mio EUR, without the connecting pipelines;
- Status: permitting
- Planned start up : 2014
- Can receive ships with sizes from 75,000 cum to 265,000 cum
- Various LNG supply sources
- The European grid may be reached via the main crossing border point: CR/SL Rupa
- Meeting 12 % of the annual gas consumption in the region

- **Next steps**

- Expect a positive decision of the Ministry for Environmental Protection about the acceptability of the project for the environment;
- Acquire location permit by mid 2010
- Prepare the Front- End Engineering Design ( FEED) and related off-shore studies
- Determine the design and equipment for the project
- Preparation for Engineering, Procurement and Construction (EPC) phase
- Development of the Adria LNG Operational and Business models
- LNG Adria will request a TPA full exemption, prior to taking a Final Investment Decision (FID), most probably in 2010; the TPA regime granted to LNG Adria will have a significant bearing on the FID. It is expected to take between 1.5 to 2 years;
- Gas network codes in Croatia and Slovenia need to be harmonized to allow transportation of re-gasified LNG through the domestic network; this is a pre-requisite to be solved before the FID;
- FID is expected in 2012;
- Connecting pipelines to evacuate gas from the LNG terminal in Croatia as well as in Slovenia need to be build in parallel with the LNG terminal; the discussions with the relevant TSOs are on going; Contracts with the TSOs for transport of gas will be signed approx. 6 months before the FID decision is taken.

- **Operational conclusions**

The support of the EC and ECS is important in the sense to

- Clarify the role of the Commission with regards to granting the TPA exemption;
- Discuss with MINGORP the harmonization of the gas network code
- Discuss with MINGORP the status of the decision about Croatian companies' participation in the LNG Adria Consortium.

#### **IV. NEXT STEPS FOR 2010 AND CONCLUSIONS**

The gas infrastructure projects in focus are in different stages and with different regional coverage. The actions required are nevertheless outlined into the (same) following categories:

- Identification of investors, including private/public investors as well as IFIs; this is valid mainly for Bulgaria – Serbia Gas pipeline, and is even more stringent in the case of Serbia; in the case of Bulgaria, there is an expectation to be partially financed through DG REGIO funds; for ADRIA LNG most of the investors are identified; for the Ionian Adriatic Pipeline, private or public investors in Albania, Bosnia and Herzegovina and Montenegro need to be clarified;

- Preparation of projects documentation: feasibility study, environmental and social impact assessment study, engineering design, etc; the most important aspect is to have a good time coordination for these, especially with interconnection pipelines; the quality of the studies should be acceptable for IFIs if their financial involvement is expected. The Western Balkans Investment Framework (WBIF) should be used for preparation of project documentation as much as possible;
- Development of projects' timetables by the project developers in consultation with investors, with clear milestones.

The Energy Community Secretariat was tasked by the Donors' Community to:

- Support administratively in the further actions related to promotion of the projects;
- Monitor and report the concrete developments of the gas infrastructure projects in question regularly to the Donors' Community – the next report in this aspect is due in June 2010.