

(Agenda Item nr. 2, The 5th PHLG Meeting, 28 June 2007, Becici, Montenegro)

EXPLANATORY NOTE ON THE STATEMENTS ON MONITORING SECURITY OF SUPPLY

Legal Basis

Article 29 of the Treaty establishing the Energy Community calls for statements on monitoring of security of supply one year after the entering into force of the Treaty. In particular the statements should cover: a) diversity of supply, b) technological security, and c) geographical origin of the imported fuels. The statements shall be updated every two years. The Secretariat shall give guidance and assistance with respect to the statements.

Development

The Secretariat has given guidance and assistance with respect to the security of supply statements in the following order. At first, participants at the Expert Meeting of 14-15 September 2007 in Vienna asked the Secretariat to propose a draft structure for the statements compulsory under the Treaty. The Secretariat provided the structure for the 1st PHLG Meeting of 17-18 October 2006 in Vienna. After thorough discussion the Contracting Parties started to draft the statements within the 1st half of 2007 having in mind their submission for the 5th PHLG Meeting of 28 June 2007 in Becici. By the end of June 2007, all Contracting Parties (except the former Yugoslav Republic of Macedonia) and Romania have communicated the statements to the Secretariat, which made them available to any Party to the Treaty by dissemination through the web page of the Energy Community.

Structure

The Secretariat based the structure of the statements on the energy *Acquis* from the Treaty. Article 4 of the Directive 2003/54/EC and Article 5 of the Directive 2003/55/EC require statements on monitoring of security of supply in the electricity and gas markets, in particular of: a) supply/demand balance on the national market, b) level of expected future demand and available supplies, c) envisaged additional capacity being planned/constructed, d) quality and level of maintenance of the networks, e) measures to cover peak demand, and f) measures to deal with shortfalls of one or more suppliers. The Commission of the European Communities has indicated that the obligations under the Treaty should not go beyond the EU *Acquis*. Therefore, it was sufficient to comply with the security of supply requirements under the existing energy *Acquis* (1 July 2006 – 30 June 2007).

Reference

Under the reporting requirements in the Directives 2003/54/EC and 2003/55/EC, the Commission assisted by the European Regulators Group for electricity and gas (EREG), developed in 2005 the structure of the so called "National Reports". The purpose of the National Reports is to gather the necessary information from each EU Member State and to inform the Commission on the state of play in regulation, competition, security of supply and public service obligation. The first and second editions of the National Reports were published in 2005 and 2006, followed by the 2005 and 2006 Annual Reports prepared by the Commission. The National Reports were prepared by the energy regulatory authorities and they are still available at the EREG website. The Secretariat proposed the structure of the statement compatible to the chapter on the security of supply from the National Reports.

Structure

Electricity [Directive 2003/54/EC, Article 4]

A general description of the ongoing supply-demand situation with the following indicators included (reference should be made to TSO projections where available):

- Current levels of electricity peak demand (MW) and expectations for the next three years (i.e. 2007-10);
- Currently available generation capacity;
- Forthcoming generation investments for the next three years (authorised and actually in process of construction);
- Current generation fuel mix and expected developments;
- Actual investments commissions / or retired during 2005 including: 1) net new coal/oil capacity (GW); 2) net new gas capacity (GW); 3) net new renewables capacity (GW); 4) net new CHP capacity (GW); and 5) net new other capacity (GW).

A description of the role of regulatory or other authorities should be included, specifically:

- Authorisation criteria for new generation investments and the role of long term planning; and
- Implicit and explicit incentives to build capacity (e.g. explicit payments, capacity options, design of balancing mechanism).

Finally, any progress shall be reported on the major infrastructure projects and in particular important interconnection projects between or within Parties, including the regulatory framework under which they will operate.

The TSO processes for planning new network built should be described, and how they are integrated with congestion management and the functioning of wholesale markets.

Gas [Directive 2003/55/EC, Article 5]

A general description of the ongoing supply-demand situation with the following indicators included (reference should be made to TSO projections where available):

- Current levels of gas consumption (bcm) and expectations for the next three years (i.e. 2007-10);
- Currently available production and import capacity (bcm);
- Forthcoming production and import investment for the next three years (authorised and actually in process of construction).

A description of the role of regulatory or other authorities should be included, specifically:

- requirements relating to supplier of last resort;
- incentives to increase production/import capacity or any type; and
- requirements relating to the availability of storage for public service reasons.

Finally any progress shall be reported on the major infrastructure projects and in particular important interconnection projects between or within Parties, including the regulatory framework under which they will operate.

Expected Outcome

Such structure of the statement and the statements themselves are identical to the ones from the chapter on security of supply from the National Reports, which EU Member States (or their regulatory authorities) submit to the Commission on a yearly basis. The Secretariat proposed such structure in order to avoid duplication of work and overlapping of activities, as the Contracting Parties would in this case have at least one chapter elaborated (on the security of supply) when their National Reports come to the agenda.

The content of the statements is divided in two parts: electricity and natural gas. Each of the two parts refers to a particular Article from the EU Directives 2003/54/EC (Article 4) and 2003/55/EC (Article 5). As both Directives belong to the *Acquis* on energy as given by the Treaty (Article 11), their provisions related to the security of supply become obligatory for the implementation. In addition to these, there are two more EU Directives which treat the security of supply (2005/89/EC for electricity and 2004/67/EC for natural gas), but as they are not currently part of the *Acquis* on energy as given by the Treaty, it is up to the Contracting Parties to take into account their provisions on a voluntary basis.

To get a flavour of what is expected to be found in the statements (extent, volume and level of the information), several excerpts from the National Reports of the EU Member States were sent away into explanatory purposes to the Contracting Parties. These excerpts enabled better understanding of and deeper insight into the expectations from the statements. In other words, they enabled the Contracting Parties to conduct a mutual comparison on the same platform and to get a feeling to which depth it is expected to go when drafting the statement.

Based on the previous remarks, the Secretariat informed the Contracting Parties that it expected the statements to be in volume of 10-20 pages, but if any Contracting Party wishes to submit extended version of the statement, it may do so but preferably by introducing the annexes into the statement where an interested reader might find extended and additional explanations.

Essentially, the statement is to be based on existing supply/demand balances and their projections in near future (several years in advance), and on the development plans of electricity/gas undertakings (mostly TSOs, but also GenCos/DisCos in case of for example public service obligation). Numerical indicators and figures are preferred over the sole text. Textual explanations are to be given in short, noting the literature (articles from the laws, regulations, ordinances, codes) where an interested reader might find wider explanations (in other words, not to transcribe articles from the laws, but just to provide its reference - title, number, article, web page where it can be found).

The statement is expected to provide information at least on the following items:

- role and responsibilities of different players in the electricity and gas market;
- legal framework related to security of electricity and gas supply as a public service obligation;
- protection of electricity and gas supplies for household customers;
- continuity of electricity and gas supplies;
- summary of the investment programmes in electricity and gas;
- regulatory framework in place which supports electricity related investments (generation, transmission, distribution);

- regulatory frameworks to provide adequate incentives for new investment in exploration and production, storage and transport of gas and of LNG;
- requisite measures to safeguard electricity and gas supply in the event of a sudden crisis;
- cross-border co-operation in relation to security of electricity and gas supply;
- clear policy in place to maintain the balance between electricity and gas supply and demand;
- trend rate of growth of electricity and gas demand;
- degree of diversity in electricity generation in order to ensure a reasonable balance between different primary fuels;
- renewal of the electricity transmission and distribution networks to maintain performance;
- use of new technologies (RES);
- extent to which gas supply is covered by new long-term contracts for imports from third countries;
- long-term gas supply contracts concluded by companies established and registered on their territory, and in particular their remaining duration;
- existence of adequate liquidity of gas supplies;
- levels of storage capacity;
- level of working gas in storage and of the withdrawal capacity of gas storage;
- degree of interconnection of the national gas systems;
- foreseeable gas supply situation concerning specific geographic areas;
- competitive impact of the measures taken to implement the Directives;
- ...

Result and Next Steps

By the end of June 2007, all Contracting Parties (except the former Yugoslav Republic of Macedonia) and Romania have communicated the statements to the Secretariat. The Secretariat put them on the Agenda of the 5th PHLG Meeting (Becici, 28 June 2007) for discussion. In this way, the Secretariat made the statements available to any Party to the Treaty for mutual comparison and identification of possible gaps which need to be bridged. The statements are also disseminated through the web page of the Energy Community.

In the period to come, the statements should be thoroughly read both by the Contracting Parties and the Secretariat. The Contracting Parties may provide additional information into current versions of their statements in order to bring them at the same information level. Once the statements are fully finalised in conformity to the expected outcomes, the Secretariat will draw findings and common conclusions, having in mind their presentation at one of the next PHLG meetings. It might appear as necessary to launch a study which would provide further introspection into the security of supply issues.