REPORT ON ‘PROJECTS IN FOCUS’ RELATED TO ELECTRICITY INFRASTRUCTURE INVESTMENTS IN THE ENERGY COMMUNITY

I. BACKGROUND AND SCOPE

On 17 December 2009, the European Commission chaired a Donors’ community meeting with the scope of identifying a ‘short priority list of infrastructure investments’ both in electricity and gas sectors of the Energy Community, that would need a supplementary attention and support to materialize.

The information on the selected gas infrastructure projects was also shortly presented at the PHLG and MC Meetings on 17 and 18 December 2010.

Following the model of the selection of gas projects, the Secretariat was invited to identify and propose a similar short list of electricity infrastructure projects, after consultation with the Donors’ coordinator.

This short list has been selected from the ‘Priority investment projects’ – updated and presented by the Energy Community Secretariat at the Ministerial Council meeting on 18 December 2009.

The criteria for identifying the ‘short listed projects’ were based on the following:

- The projects’ importance for the development of the regional electricity and gas market
- Their importance for electricity interconnection and trade
- Their merits in case that new gas anchor loads will be developed and the gasification of the Energy Community will further materialize;
- These new transmission or generation capacities are also listed as priority in the SECI or the UCTE/ENTSO reports, the GIS study, etc.
- Their need for further facilitation between different project beneficiaries (in case of a cross border projects) as well as the identification of either a private investor(s) or an International Financing Institution interested in financing these projects.

Once selected, the plan is to organize joint meetings between the project sponsors (companies), the Donors’ community (chaired by the European Commission) and the Energy Community Secretariat, in which to confirm the state of play of each project, as well as possible obstacles in its way to financing and implementation; and also look for solutions to remove these, and after that, follow up the progress with the relevant parties in the projects and report to the Donors' Community and the PHLG.
II. PROPOSAL FOR ELECTRICITY PROJECTS TO BE FACILITATED

Based on the above and after briefly investigating the latest status and interest of each of the potential candidate projects through enquiries with the TSOs and the PHLG members, as well as the IFIs concerned, the ECS with the Donors’ Community Coordinator (Mr. Ian Brown of EBRD) identified the following electricity projects that should be getting a special attention:

1. Interconnection between the former Yugoslav Republic of Macedonia and Albania

A 400 kV OHL interconnection between Bitola (Former Yugoslav Republic of Macedonia) and Elbasan (Albania) has been proposed (OHL length ~ 200 km) by both Transmission System Operators and the respective ministries responsible for energy as a priority project.

These two elements are supposed to be a part of the backbone of Corridor 8 (EBRD – gas, oil and energy connection between the Bulgarian coast of the Black Sea and the Albanian coast of the Ionian Sea). The interconnection is also proposed in the SECI report as part of the Corridor 8 project under new options; the project will support the connection between EU member states and non-member states, especially candidate countries.

Initially this line was expected to be connected with the undersea cable to be build linking Albania with Italy. Nevertheless, at present Italy is given priority to another undersea cable built between Montenegro and Italy.

State of play:

- Joint Statement for Energy Infrastructure Cooperation confirming the intentions to support the energy infrastructure projects along the route of European Corridor Nr. 8 signed in 2005 by the Ministers of Energy of Bulgaria, Former Yugoslav Republic of Macedonia, Albania and Italy, including the above mentioned project.
- In addition and in support of this, a Joint Statement of Intent has been signed in June 2007 by the TSOs of Italy, former Yugoslav Republic of Macedonia and Albania and a Project Group was established in June 2007 with experts from the three TSO’s.
- Nevertheless from September 2007 the Project Group is not functioning and up to date there has been no further steps on the implementation of the Project, in spite several requests from the Albanian side to re-start the cooperation between the TSO’s in order to initiate the Project. For this Project, Albania has received the expression of interest from the EBRD for financing it.
- Former Yugoslav Republic of Macedonia is also considering the investment in the light of the new developments with the Montenegro – Italy undersea cable.

Next steps:

- Organise a joint meeting with the two TSOs and the respective ministry representatives involved, the IFIs, the European Commission and the Energy Community Secretariat in the 3rd week of April 2010; the objective of the meeting is to confirm the intend of the TSOs and the governments to proceed with the investment, sound the interest of the IFIs to finance it, look into the potential obstacles and agree on the actions needed;
- Identify sources, including the Western Balkans Investment Framework, to finance a pre-feasibility study to see if the interconnection is still a valid option from the view point of the regional electricity market.
- Identify the potential obstacles and agree on the actions needed;
- Prepare a timetable for each action, indicating the responsible institution(s);
- Follow up on the realization of the actions proposed.

2. Interconnection between Serbia – Romania

Six options for a new 400 kV OHL interconnection between Serbia (55km) and Romania (80km) have been taken into consideration within a system study completed in July 2007. The study proposed three options to be further investigated as part of a feasibility study that will follow up the system study. The interconnection is recommended also by SECI Transmission Planning report. The estimated cost is between 27 to 40 Million Euro for both sides.

State of play:

The contract for Consultancy services for the preparation of the Feasibility study, Cross-border study, Preliminary design study and Environmental and Social Impact Assessment study (ESIA) was signed in Serbia, in May 2009. The Feasibility study was prepared and will be adopted soon. The Preliminary design study and ESIA study expected to be finished in June 2010. A Second Joint Position paper – paper between the two TSOs was expected to be signed before the end of 2009.

EBRD expressed interest to finance it.

Next step(s):

- Organise a joint meeting with the two TSOs and the respective ministry representatives involved, the IFIs, the European Commission and the Energy Community Secretariat in the 3rd week of May 2010; the objective of the meeting is to sound the interest of the IFIs, especially the EBRD to finance it;
- Identify the potential obstacles and agree on the actions needed;
- Prepare a timetable for each action, indicating the responsible institution(s);
- Follow up on the realization of the actions proposed.

3. Kosovo¹ - New generation capacity HPP “Zhur”:

The HPP has a planned installed capacity of 305 MW, and is expected to be developed with a private investor. The estimated investment cost is 330 Million Euro and the commissioning term 2015. Kosovo² is currently importing approx 8 % of the consumption and it bases its domestic production largely on the two lignite fired power plants Kosovo A and B that are both requiring major retrofit and life extension, in the period 2010-2014. Therefore, a new HPP will not only contribute to the power balance, but also improve the power generation energy mix using renewable energy. The HPP is listed in the GIS update as cost efficient new generation plant (rank 2) under the medium gas price forecast scenario, in 2012. The HPP will be utilized as peak load plant with large storage capacity; this will offer flexibility and reliability in Kosovo³ and the region.

State of play:

The World Bank (WB) has provided financing for the review of the project pre-feasibility study and pre-Environmental and Social Impact Assessment study in June 2009. The Ministry of Energy and Mining has prepared Terms of Reference for hiring Transaction Advisors and the

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¹ Pursuant to UNSCR 1244
² Pursuant to UNSCR 1244
³ Pursuant to UNSCR 1244
WB reviewed these. The tendering process is expected to start early 2010. Nevertheless the WB is not providing the investment funds.

The Government’s intention is to launch a tender and invite private investors in 2010.

**Next step(s):**

- Organise a joint meeting with the company and the respective ministry representatives involved, the IFIs, the European Commission and the Energy Community Secretariat tentatively in June 2010, after the tender is launched and the responses from investors received; the objective of the meeting is to sound the interest of private investors to finance it;
- Identify the potential obstacles and agree on the actions needed;
- Prepare a timetable for each action, indicating the responsible institution(s);
- Follow up on the realization of the actions proposed.

**III. CONCLUSIONS AND NEXT STEPS in 2010**

On the ground of the information above, the Secretariat considers that timely specification and organization of next steps on concrete promotion of the indicated projects is needed. Therefore, the Secretariat asks PHLG to consider the following conclusions:

1. The PHLG endorses the selection of projects to be further facilitated;

2. The Energy Community Secretariat is hereby invited to organize the meetings for each of the projects mentioned above and report to the Donors’ community in June 2010, following the recommendations of the last Donors’ meeting;

3. The Energy Community Secretariat is invited to follow up further implementation of the actions agreed in line with the timetables proposed at the joint meetings and reports to the PHLG and the Donors’ community on the progress.