

## INFRASTRUCTURE INVESTMENTS IN THE ENERGY COMMUNITY

### Progress update

#### **I. FOLLOW UP ON THE SELECTED PRIORITY PROJECTS**

At the last Ministerial Council meeting in September 2010, a different approach to facilitating the investment process was proposed; this was based on the selection of a limited number of projects that should be promoted, facilitated and monitored with priority.

The new approach also included working closely with the Western Balkans Investment Facility that can finance the investment's documentation like Feasibility Studies, Environment and Social Impact Assessment Studies, etc.

It also included organising a significant number of meetings with projects stakeholders in order to identify the barriers, agree on Terms of Reference for the studies, prepare new applications to WBIF, discuss with the IFIs and the incumbent companies and agree on milestones and deadlines, etc.

In addition, the progress updates reports also on other investments that made progress, and proposes also a few new investments to be monitored and facilitated.

With respect to the projects on the 2010 priority list, the following progress update is worth mentioning;

#### ***A. Electricity infrastructure***

- 1. Interconnection, 400kV line Serbia (Pancevo)- Romania (Resita):** In the period June 2010 – June 2011, 3 project meetings were held. The Feasibility study on the Romanian side was finalized in the 4<sup>th</sup> Quarter of 2010 and the cross border parameters of the interconnection were agreed in the Serbian Romanian Meeting of 28 January 2011; further project documentation is being prepared in Serbia and Romania. Romania will apply for the investment funding at the Structural Funds in the second half of 2011 and Serbia is ready to finance the line from own budget, with possible EBRD loan.
- 2. Interconnection 400 kV line Albania – former Yugoslav Republic of Macedonia** The application for the Feasibility Study (FS) and the Environmental and Social Impact Assessment (ESIA) was submitted by the EBRD on behalf of both countries and was approved by the Steering Committee of the Western Balkans Investment Framework, in December 2010. The ToRs for the entire interconnector were agreed by all parties in a meeting on 19 April 2011 in Vienna organised by the ECS, and the FS/ESIA is expected to start in June/July 2011; KfW and EBRD confirmed their interest to finance the respective lines, in Albania and respectively in former Yugoslav Republic of Macedonia.

### 3. ZHUR Hydro Power Plant

The Feasibility Study was reviewed in 2009, under a World Bank grant and the Preliminary environmental impact assessment was prepared; also the preliminary social impact assessment was prepared;

On 21 June 2010, the Request for Expressions of Interest for Qualification was published, 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).

Nevertheless, the the project is currently put on hold, conditioned by an international agreement to be reached with Albania for the use of international waters; bilateral talks are conducted currently; Albania has given a number of HPP concessions downstream the same river, and Zhur HPP if constructed will change the Albanian hydro potential.

### 4. 400 KV INTERCONNECTION ROMANIA (Suceava) – MOLDOVA (Balti)

A MoU was signed between Moldelectrica, and Transelectrica Romania in 2010. A joint application was submitted before the deadline of 31 March 2011 by Moldova, Ukraine and Romania to the Joint operational programme, for funding the feasibility study on the conditions of Moldova and Ukraine to join ENTSOE; the application phase I was approved and phase II with detailed project proposal is in preparation: the deadline for final financing decision by the Joint Programme is 1 July 2011.

In Moldova, the project is also on the EU Indicative pipeline of operations in the Eastern Region 2010-2011 of the Neighbourhood Investment Facility.

ENTSOE will prepare the FS for accession of Moldova and Ukraine by 2013 (approx. 27 month); the Consortium for the Study is managed by TRANSELECTRICA RO, and is funded by Eastern Partnership programme

## B. Gas infrastructure

**1. Interconnection gas pipeline Nis (Serbia) – Dimitrovgrad – Sofia -/Dupnica (Bulgaria):** The application for the FS and ESIA on the Serbian side of the pipeline was approved by the WBIF in the 2<sup>nd</sup> Quarter of 2010 and the respective ToRs were prepared and coordinated with the Bulgarian ones; EC and ECS organised 4 meetings to facilitate the developments. the studies on the Serbian side started in the 1<sup>st</sup> Quarter of 2011 and for the Bulgarian side are being contracted in the first half of 2011.

**2. LNG terminal Croatia:** The investment decision by the Adria LNG Consortium has been postponed to 2012; the location permit was granted and the ESIA approved by the Croatian Government in 2010; However, Croatia independently submitted the application for the FS & ESIA for LNG terminal with smaller capacity, as kind of pre-terminal for transitional period till the big LNG terminal will be built.

**3. Ionian Adriatic Pipeline:** An Interstate Committee on IAP project was set up in June 2010 and had its first meeting in November 2010 and the second one in April 2011; a coordinated application for the FS and ESIA was made by Croatia, with the support letters from Montenegro, Albania and Bosnia and Herzegovina to the WBIF in February 2011, which was screened positively and will be finally approved in June 2011.

#### **4. Gas interconnection Romania (Iasi) – Republic of Moldova (Ungheni)**

The project is supported by both governments of RM and Romania. It is also promoted to Joint Operational programme Romania - Ukraine - Republic of Moldova 2007 - 2013 for financing the Moldavian side.

The first meeting of working group in Iasi during 16 - 17.09.2010 with the participation of Ministry of Economy and Moldovagaz (Moldova), and SNTGN Transgaz (Romania). By 31 May 2011, the Feasibility Study and the Environment and Social Impact Assessment studies were finalised by both Parties (MLD and RO).

Moldova and Romania have made a joint application for 7 Mil Euro grant to Joint Operational Programme which was approved: 3 Mill Euro for Moldova and 4 Mill Euro for Romania. EBRD expressed interest to finance Moldova pipeline, pending on the FS results; decision is pending; TRANSGAS RO plans to finance it from own sources.

## **II. ADDITIONAL PROJECTS THAT REGISTERED PROGRESS AND COULD BE INCLUDED IN THE PRIORITY LIST**

A number of additional projects seemed worth considering for further facilitation in 2010, and respectively 2011, and their progress is as follows:

### **A. Electricity infrastructure**

#### **1. Gas fired CCGT power plant 300 MW in Kakanj – BiH (FBiH)**

The Federal Ministry of Energy, Mining and Industry of FBiH announced this project in April 2010 in its strategic development plan, and therefore ECS decided to put in among the new possible priority projects.

This project is interesting as a potential anchor load, for the Ionian Adriatic gas pipeline (IAP), especially if the capacity would be increased to minimum 300 MW.

Nevertheless, in 2011, FBiH has applied to the WBIF for the support to prepare FS and ESIA for a new unit (8) of 300 MW at TPP KAKANJ, based on coal, which indicates the intention to develop a coal based and not gas fired unit. The application was not positively screened by the WBIF.

#### **2. HPPs Cebren (333 MW) and Galiste (116 MW) on Crna River, former Yugoslav Republic of Macedonia**

On January 28th 2011, a public call for granting water concession for electricity production from hydro power plants on Crna river and participation in public private partnership with AD ELEM was announced. International Finance Corporation (IFC), which is the financial transaction advisor to the Government.

Ten out of 16 that expressed interest were invited to submit offers for construction of hydro and Cebren and Galiste and operation of HPP Tigves, by May 2011, as follows:

EVN AG (Austria); AES Electric (United Kingdom); Energo pro (Czech Republic); Edison (Italy); Kosep-Daelin (Korea); Lanco-Komipo-KHNP (India); PPC (Greece); Strabag (Austria); Porr, Landsvirkjun (Austria/Island), and CWE&CTGPC (PR China).

The deadline for submission of final bids is 29 July 2011.

#### **3. 12 Hydropower plants on Vardar River, 325 MW, former Yugoslav Republic of Macedonia**

On April 11, 2011, the Government signed a Memorandum of Understanding (MoU) with China International Water & Electric Corp. (CWE) and the Chinese Development Bank (CDB) for the construction of 12 hydropower plants on river Vardar with total installed capacity of 325 MW, annual

production of around 1050 GWh; the project will be funded by the government (15 %) and CDB (85 %), total costs will amount to € 1.5 Billion. These are expected to be completed in the next 12 to 15 years.

#### **4. HPP Komarnica, 168 MW, Montenegro**

The project was listed as a priority by Montenegro in 2007. The construction of HPP Komarnica is included in the spatial and hydraulic plans of Montenegro. It is also listed in the Montenegro Government's Energy Strategy for commissioning in 2015. This project was announced as priority in December 2007.

In 2009, in the framework of the bilateral cooperation between Montenegro and Austria, the Prefeasibility study is done by Poyry Consultants and financed by Voith Siemens (AT). The scope is verifying the technical economic merits of the project and validating the investment decision, to be taken by the Assembly of Montenegro. Detailed Spatial Plan and ESIA are being prepared in 2011 and the decision on the technical solution and tender documentation will follow. KfW expressed interest in financing the investment.

#### **5. Four HPPs on Moraca River, 238 MW, Montenegro**

IFC was selected as advisor for the tendering process in 2009, and four investors were prequalified in February 2010.

The Detailed Spatial Plan and ESIA were prepared in 2010 and tender documentation was approved by the Government. Out of the four pre-qualified investors, three companies were invited to submit final bids by 30 September 2011.

#### **6. TPP Kolubara B, 700 MW (2X350 MW) lignite fired, Serbia**

Following the tender pre-qualification announced in 2008, a number of three private investors were pre-qualified in August 2009 and the tender documentation submitted to investors in September 2009.

On July 29, 2010 the government adopted the draft Conferral Act for activities of general interest as well as relevant amendments and annexes to JP EPS founding acts, securing PE EPS's ownership rights over the assets which are necessary for the realization of the Projects. The submission of final tender documentation was initially expected by December 2010, and later extended. Finally, a bid was received from the Italian company EDISON (20 May 2011) and the evaluation of the technical and financial proposal is undergoing.

7. In addition, the following applications for different project documentation were submitted to the WBIF in March 2011, and were positively screened, the final decision is taken on 23-24 June:

- Electricity network expansion to connect renewable energy generation in Montenegro: Technical and management assistance and Feasibility Study;
- Pljevlja renewable energy heating, in Montenegro: Technical and management assistance, Assistance to tendering process and Co-Financing;
- 400 kV Electricity interconnection Serbia – Montenegro – BiH: Feasibility Study and Environmental Impact Assessment.

### **B. Gas infrastructure**

#### **1. Gasification of former Yugoslav Republic of Macedonia**

This is a potentially interesting project to monitor for its links to other gas developments in the region, including IAP and Greece possible interconnection with both Albania and former Yugoslav Republic of Macedonia.

The Ministry of Transport announced in December 2009 that Klechovce - Bitola and Skopje - Tetovo - Gostivar as national priority directions for the construction of gas infrastructure;

The Ministry has already published an advertisement for selection of a company that will prepare the technical documentation at the level of basic and executive design for national line of the gas pipe-line system, presented in four packages.

2. In addition, the following applications for different project documentation were submitted to the WBIF in March 2011, and were positively screened, the final decision being taken on 23-24 June:
  - LNG Regasification Vessel - Croatia: Environmental Impact Assessment, Preliminary Design;
  - LNG Evacuation Gas Pipelines Omišalj-Zlobin-Rupa(Slovenia), Croatia: Economic and Financial Assistance.

### **III. CONCLUSIONS**

Based on the discussions with IFIs, private investors and the incumbent companies, the main barriers to investments appear be:

- Incumbent companies seem to be genuinely interested in investments but clearly lacking the financial means to engage in large scale investments; International Financing Institutions are in many cases interested in financing, but the companies' creditworthiness, or their borrowing capacity based on their current debt levels is fairly low;
- The governments' preferred model for investments appears to be through tendering procedures, for which in almost all legal frameworks exist provisions; nevertheless, the tendering for new capacity should be used only if the authorization procedure is not enough to achieve the investments;
- The tenders are in many instances not going smoothly, and some causes for this include:
  - Lengthy preparation of project documentation (pre-feasibility study, feasibility study, the Environmental Impact Assessment, the Strategic Environmental Assessment, etc) ; by the time this is approved, the figures are no longer valid and an update is needed;
  - The model of communication and decision making, mainly in case of interconnections appears to be „stop and go“ with large time gaps between phases;
  - The tender documentation seems rather frequently, to be not well enough prepared and this leads to very lengthy and sometimes unsuccessful tender procedures;
- The treatment of CO<sub>2</sub> emissions (the possibility to trade with EU MS) is not clear in what regards the Energy Community, and this raises many concerns with regard to coal fired power plants;
- The regulatory framework, although in evident progress, is not fully in line with the EU Acquis especially with regards to capacity allocation and third party access, as well as tariff structure and cost recovery of investments;
- In some Contracting Parties there are still import and export fees on energy, that together with the treatment of VAT are hampering trade and making energy more expensive;
- The treatment (incentives) of investments done by one TSO in another country is not clear and hence should be further discussed. An ECRB paper in this respect was prepared and was presented at the PHLG meeting in June 2010, at least as the starting point for future relevant discussions.

ECS will continue its assistance to the Contracting Parties to remove some of the barriers mentioned above through actions including:

- regular follow up meetings with all the projects;
- monitoring the progress and signal delays or bottlenecks;

- working with the Contracting Parties to better prepare applications for technical assistance, with an emphasis on the Western Balkan Investment Facility;
- working with the Donors' community to identify the best source of financing for each project;
- reviewing the tender documentation for compliance with the Acquis prior to its public announcement, based on the request by the Contracting Parties;
- regular monitoring of the implementation of the Treaty, with a focus on the non compliance that hinders the advancement of investments.