INVESTMENT ISSUES

Criteria for Energy Community Priority Projects

by

Energy Community Secretariat

www.energy-community.org

6th PERMANENT HIGH LEVEL GROUP MEETING

17 October 2007
Vienna, Austria
Energy Community Investment Conference, 28 September, 2007 Athens

- Attended by over 200 participants
- 6 Contracting Parties and 2 Observers (Moldova and Turkey) presented priority investment projects
- Investors present: EBRD, EIB, KfW, WB, IFC, AES, CEZ, ENEL, EVN, Electrabel, E.ON, RWE, PPC, DEPA, ContourGlobal, TERNA, EDISON, ENI, EnBW, Raiffeisen Investment, OMV, others.

Highlights of key remarks:

- Regional approach to investment planning is important
- PPP could be a good model for transmission investments
- The progress with market design is a pre-requisite
Highlights of key remarks (cont.):

- Functional and liquid market is needed and not PPAs

- The deficit of power is growing daily and with it the need for huge investments in the near term

- Lack of transparency and predictability costs time and money, and hence the need for good advisers

- There is no “one fix it all” solution

- At present: no regional market, but small national markets

- Sourcing of equipment is difficult: increase in price by 40% in the past 6 months; timeline for delivery 2014-2015

- Fair and predictable regulations are needed
Highlights of key remarks (cont.):

- Power prices that reward investors are required
- Allocation of cross border capacity remains primary area of importance
- Need for co-ordination between long term planning and energy efficiency
- The European Commission will examine the possibility to use pre-accession instruments for project preparation
- Environmental assessments to be done prior to investment decisions
- The Conference welcomed the tentative list of projects and future prioritisation of regional projects
154 Projects proposed by the Contracting parties:

- Organised in two parts:
  - Part A - Projects under implementation or with financing secured: 45
  - Part B - Projects under examination or preparation: 109
- Electricity projects: 127
- Gas projects: 26
- Oil project: 1

Example of project description in the first indicative list
<table>
<thead>
<tr>
<th>Code</th>
<th>Title</th>
<th>Type</th>
<th>Location (Contracting Parties and Observers)</th>
<th>Project value (approx./ estimate) Euro</th>
<th>Status/ start-end date</th>
<th>Financing by source(s) (Euro)</th>
<th>Relevance to GIS, SECI, TEN E Guidelines, other</th>
<th>Significance national/bilateral/regional</th>
</tr>
</thead>
</table>
PROPOSED CRITERIA

1. EU Trans-European Networks for Energy guidelines (Decision No.1364/2006/EC)

- Projects shall be in line with the *priorities for action*:
  - Adapting and developing the energy networks in support of the operation of a regional energy market (solving problems of bottlenecks, congestions and missing links, and ensure interoperability within the Community)
  - Developing natural gas networks to meet the consumption’s needs and diversification of natural gas sources and supply routes

- The projects shall fall into the *following categories*:
  - In electricity networks:
    - High voltage lines excluding those of distribution networks, and submarine links, provided that this infrastructure is used for interregional or international transmission or connection
    - Any equipment or installations essential for the system in question to operate properly, including protection, monitoring and control systems
  - In gas networks (transporting natural gas or olefin gases):
    - High pressure gas pipelines, excluding those of distribution networks, making it possible to supply regions of the Community from internal or external sources
    - Underground storage facilities connected to the above mentioned high-pressure gas pipelines
CRITERIA FOR PROJECT PRIORITISATION

PROPOSED CRITERIA (Cont.)

– Reception, storage and re-gasification facilities for liquefied natural gas (LNG) and also LNG carriers according to the capacities to be supplied
– Any equipment or installation essential for the system in question to operate properly, including protection, monitoring and control system

- The projects shall display **economic viability**
- The projects are of **cross-border nature** or have a significant impact on regional generation/transmission capacity
- The projects shall be compatible with **sustainable development** and meet the criteria
- The projects were **approved** by the Contracting Party/Parties involved.

2. Least cost planning and interconnected power systems are applied (Generation Investment Study Update)

- The new generation project shall be (preferably) listed in the **Base case capacity expansion plan**
- The rehabilitation projects shall be (preferably) listed in the **Justified rehabilitation plan**
- New Hydropower plants shall have **Benefit/Costs ratio larger than 1.**
CRITERIA FOR PROJECT PRIORITISATION

PROPOSED CRITERIA (Cont.)

3. Technical and economic criteria for transmission network investments (SECI Transmission Investment Optimization Plan)
   - The new transmission investments shall be (preferably) recommended by the SECI report, which takes into consideration the SEE regional perspective

4. Security of supply requirements
   - Increasing the power available to meet the new demand through additional capacities
   - Reducing power transmission congestions
   - Diversifying gas sources and/or routes

5. Being part of a major gas pipeline under development or possibly connected to it (e.g. Energy Community Gas Ring)

6. Additional benefits: advanced preparation stage and/or having financing already aligned
• ECS will organise the first indicative list of projects, based on the criteria mentioned above in a shorter, priority list with a tentative indication of the regional significance of the project; maximum number of projects per Contracting Party: 5

• The list will be circulated for comments and recommendations to the Contracting Parties, and will be updated accordingly by the ECS, prior to the 7th PHLG meeting on 17 December 2007

• The PHLG will endorse the final list and the ECS will start monitoring the progress achieved in the implementation of these projects

• Project Preparation Facility for Infrastructural Investments (CARDS Programme) may be used for (pre) feasibility studies, technical design, advice on financing aspects, projects documentation, tender documents, etc.; estimated budget 16 Million Euro; provisional commencement date: March 2008.