INITIAL REPORT ON THE THEORETICAL COMPLIANCE WITH PLANNED MEASURES OF PROPOSED DRAFT NEW SOS REGULATION (REPEALING DIRECTIVE 2004/67/EC)

ENERGY COMMUNITY SECRETARIAT

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1 BACKGROUND AND SCOPE

At the 1\textsuperscript{st} Security of Supply Group meeting, which took place on 10\textsuperscript{th} September 2009 in Ljubljana, the Group asked the Secretariat (hereafter ECS) to assess what it would need for the Contracting Parties to comply with the planned measures of the draft proposal of the new SoS Regulation repealing Directive 2004/67/EC. An initial report should be passed to the PHLG meeting to take place 17\textsuperscript{th} December 2009.

The Report focuses on the main requirements of the mentioned draft new SoS Regulation. The leading criteria in this assessment is the consistency with the principles and the requirements of the acquis communautaire as in the Treaty and following the relevant discussions in the EU – MS as well as the discussion within the framework of the 1\textsuperscript{st} Security of Supply Group meeting.

The report has been prepared by ECS on the ground of Secretariat’s analysis, on the information provided by the Contracting Parties –if any, as well as data collected by third parties, and reflects the situation as of November 2009.

2 KEY REQUIREMENTS OF THE DRAFT PROPOSAL FOR THE NEW SOS REGULATION

The proposed draft new SoS regulation establishes measures aimed at safeguarding the security of gas supply so as to ensure the proper and continuous functioning of the internal market regarding both preventive action and the reaction to concrete disruptions of supply.

As experienced, the failure of the largest single gas infrastructure or supply source, the so called N -1 principle, is a realistic scenario. Using the failure of such infrastructure or supply source as a benchmark of what Contracting Parties should be able to compensate is a valid starting point for ensuring their security of gas supply.

Having said this, the above mentioned proposal requires – among others - the fulfillment of the so called:

- Infrastructure standards as well as the
- Supply standards.

These standards are the ones which most probably do have an impact on investments in gas infrastructure, namely interconnectors and storage facilities, hence might be a hurdle for the sound implementation by the Contracting Parties in terms of substance as well as from the time perspective.

Other crucial requirements, like:

- sufficiently harmonised security of supply standards,
- compensation mechanism,
- joint preventive action plans or
- coordination among the Contracting Parties
- etc.

are easier to be fulfilled, hence have not been analysed in this initial assessment.
Infrastructure standards

The competent authority in the Contracting Part shall ensure that 3 years after the entry into force at the latest that in the event of a supply disruption of the largest gas supply infrastructure, the remaining infrastructure (N – 1)\(^1\) has the capacity to deliver the necessary volume of gas to satisfy total gas demand of the calculated area during a period of sixty days.

The N – 1 requirement can be met on an appropriate regional level.

Additionally the TSOs shall enable permanent physical capacity to transport gas in both directions on all interconnections within two years from the entry into force of the proposed new SoS regulation, except in cases where at the request of a Competent Authority, the EC decides that the addition of a bi-directional flow capacity would not enhance the security for gas supply of any Contracting Party.

Supply standards

The competent authority of the Contracting Party shall take measures to ensure gas supply to the protected customers\(^2\) in the case of:

- extremely cold temperatures during a seven days peak period statistically occurring once every twenty years; and
- any period of sixty days of exceptionally high gas demand during the coldest weather periods statistically occurring every twenty years.

The competent authority shall take measures to ensure the gas supply to the protected customers for the period of sixty days also in the event of an Emergency\(^3\).

These supply criteria can be met on a regional or Community level.

3 KEY INITIAL RESULTS - REGIONAL DIMENSION

Natural gas is an essential component in the energy supply of those Contracting Parties which do have a more or less mature gas market at present. Having in mind that the Contracting Parties of the Treaty establishing the Energy Community were hit the most – beside Bulgaria – by the gas crisis which took place in January 2009, the intended further gasification of SEE and the decreasing domestic production – if any – and the reliance on one single route respectively one source by 100% (except Croatia which has a significant domestic production) there is a clear need to address security of supply aspects. The security of gas supply perspective has to be even more emphasized when taking the link between gas and electricity – which was evident in particular during the gas crisis in January 2009 - into consideration.

Taking the poorly interconnected gas grids and the lack of storage capacity as a basis, it is obvious that most of the requirements of the mentioned draft new SoS Regulation are difficult to be met – even on a regional level.

\(^1\) The N – 1 standard describes the ability of the gas infrastructure’s capacity to supply gas for maximal demand in the calculated area in case of disruption of the largest infrastructure

\(^2\) “Protected customers” means all household customers already connected to a gas distribution network, and, if the Contracting Party concerned so decides, can also include small and medium sized enterprises, schools and hospitals provided that they are already connected to a gas distribution network

\(^3\) “Emergency”: when an exceptional high demand occurs or when there is a disruption of the supply through or from the largest infrastructure or source and there is a credible risk that the supply standard to the protected customers can no longer be met with market based instruments alone
In particular the fulfillment of the infrastructure standard, namely the N – 1 standard and the bidirectional flow necessity – taking the intended implementation time schedule into consideration – face hurdles which are difficult to overcome. The same is valid for the fulfillment of one of the supply standard, namely the necessity to ensure gas supply to protected customers for the period of sixty days in the event of an Emergency.

On the other hand one of the key intentions of the draft new SoS Regulation, that is to say the harmonisation – being key for the functioning of a regional and European internal market could be achieved easier than in the EU – MS since harmonisation is per se crucial in the process of implementation of the requirements of the Treaty. Additionally at this stage of the implementation fo the legislation it seems to be feasible to achieve this goal because adoptions could be done in due time.

4 RESULTS OF THE INITIAL ASSESSMENT PER CONTRACTING PARTY

4.1 ALBANIA

Despite the lack of a gas market, Albania could probably benefit from the implementation of the draft new SoS Regulation because the possibility to fulfill the requirements of the proposal on a regional level could be supportive to the gasification of those Contracting Parties which do not have a gas market at present.

4.2 BOSNIA AND HERZEGOVINA

BiH has not provided the requested initial assessment of a theoretical application of the draft new SoS Regulation yet. Based on the impacts which occurred during the gas crisis in January 2009 it can be concluded that:

- The fulfillment of the N – 1 standard cannot be achieved at present, even when taking demand side measures into consideration which could contribute to compensation – taking the time line into account – of supply disruptions. At least another cross border transmission route is needed. Having in mind the foreseen extension of the gas grid, which is planned anyhow, the crucial point will be to properly design this extension from the route alternatives perspective as well as from the capacity point of view. In that sense, regional coordination might be the least cost approach.

- Gas supply to the protected customers for the period of sixty days also in the event of an “Emergency” cannot be ensured currently even if taking the demand side measures into consideration. Having in mind the geological conditions in BiH it is not very likely that a storage facility is economically feasible and even if it were economically feasible that it will be built in due time in BiH. Having said this, storage capacity should be contracted in neighboring Contracting Parties – if there is sufficient storage capacity available in the Contracting Parties (which will not be the case in the near future) and or for example in Hungary.

- It might also be difficult to ensure gas supply to the protected customers in the case of extremely cold temperatures during a seven days peak period statistically occurring once every twenty years (available upstream capacity is restricted) even if taking demand side measures into consideration.
4.3 CROATIA

Croatia has provided on a rough basis the requested initial assessment of a theoretical application of the draft new SoS Regulation. Based on the impacts which occurred during the gas crisis in January 2009 it can be concluded that:

- The fulfillment of the N – 1 standard cannot be achieved at present, even when taking demand side measures into consideration which could contribute to compensate – taking the time line into account – supply disruptions. At least another cross border transmission route or much more storage capacity or an LNG regasification terminal is needed. Having in mind the foreseen extension of the gas grid, which is planned anyhow, the crucial point will be to properly design these extensions from the route alternatives perspective as well as from the capacity point of view (related to the transmission pipeline as well as to the storage and LNG capacities. In that sense, regional coordination in particular with neighboring Contracting Parties is crucial.

- Gas supply to the protected customers for the period of sixty days also in the event of an “Emergency” can be ensured because of the significant domestic production. Bearing in mind the ongoing planning activities related to improvement of storage capacities and the therefore needed time storage capacity should be contracted in the meantime in neighboring Contracting Parties or Participants. In the near future storage capacity could be contracted for example in Hungary once the interconnector between Hungary and Croatia is in place and once this interconnector can be operated in both directions.

- Gas supply to the protected customers in the case of extremely cold temperatures during a seven days peak period statistically occurring once every twenty years (available upstream capacity is restricted) can be ensured because of the significant domestic production. Additionally the withdrawal rate of the storage facility will be increased by 25 000 m3/h from 1st January 2010 onwards. In parallel there are activities ongoing dealing with additional capacity of about 50 000 m3/h stemming from small fields.

4.4 THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

The former Yugoslav Republic of Macedonia has not provided the requested initial assessment of a theoretical application of the draft new SoS Regulation yet. Based on the impacts which occurred during the gas crisis in January 2009 it can be concluded that:

- The fulfillment of the N – 1 standard can be achieved at present when taking demand side measures into consideration (switch to alternative fuels, namely mazut) which contributed to compensation – taking the time line into account – of supply disruptions in January 2009. However, taking the environmental negative impact and the negative impact on the intended extension of the gas grid into account an additional route/feed in point makes sense – at least in the mid term. Having in mind the foreseen extension of the gas grid, which is planned anyhow, the crucial point will be to properly design this extension from the route alternatives perspective as well as from the capacity point of view. In that sense, regional coordination might be the least cost approach.

- Gas supply to the protected customers for the period of sixty days also in the event of an “Emergency” cannot be ensured currently without the demand
side measures (namely the switch to alternative fuels, here mazut). Bearing in mind the geological conditions in the former Yugoslav Republic of Macedonia storage capacity should be contracted in neighboring Contracting Parties – if there is sufficient storage capacity available in the Contracting Parties (which will not be the case in the near future) and or contracted for example in Bulgaria (very difficult because Bulgaria does not have sufficient storage capacity) or in Romania (once an interconnector between Romania and Bulgaria is in place or when flows from the system in Romania are possible towards the cross border transmission pipeline (bidirectional operation possibility).

- Gas supply to the protected customers in the case of extremely cold temperatures during a seven days peak period statistically occurring once every twenty years can be ensured because of sufficient capacity in the transmission pipeline in the Contracting Party as well as in the upstream pipeline in Bulgaria.

### 4.5 MONTENEGRO

Despite the lack of a gas market, Montenegro could probably benefit from the implementation of the draft new SoS Regulation because the possibility to fulfill the requirements of the proposal on a regional level could be supportive to the gasification of those Contracting Parties which do not have a gas market at present.

### 4.6 SERBIA

Serbia has not provided the requested initial assessment of a theoretical application of the draft new SoS Regulation yet. Based on the impacts which occurred during the gas crisis in January 2009 it can be concluded that:

- The fulfillment of the N – 1 standard cannot be achieved at present even if taking demand side measures into consideration (for example switch to alternative fuels) which could contribute to compensation – taking the time line into account – of supply disruptions. At least another cross border transmission route is needed and or even more storage capacity is needed. Having in mind the foreseen extension of the gas grid, which is planned anyhow, the crucial point will be to properly design of this extension from the route alternatives perspective as well as from the capacity point of view (capacity of the transmission pipeline and or the storage facility). In that sense, regional coordination might be the least cost approach.

- Gas supply to the protected customers for the period of sixty days also in the event of an “Emergency” cannot be always entirely ensured currently even if taking the significant increase of storage capacities as well as the demand side measures into consideration (for example switch to alternative fuels). Bearing in mind the ongoing activities related to the improvement of storage capacities and the therefore needed time, storage capacity should be contracted in neighboring Contracting Parties – if there is sufficient storage capacity available in the Contracting Parties (which will not be the case in the near future) and or storage capacity should be contracted for example in Hungary in the meantime (which has happened) or in Romania (once the interconnector between Hungary and Romania is in place and once this interconnector can be operated in both directions).
Gas supply to the **protected customers** in the case of extremely cold temperatures during a seven days peak period statistically occurring once every twenty years can probably be ensured.

### 4.7 UNMIK

Despite the lack of a gas market, UNMIK could probably benefit from the implementation of the draft new SoS Regulation because the possibility to fulfill the requirements of the proposal on a **regional level** could be supportive to the gasification of those Contracting Parties which do not have a gas market at present.

### 5 CONCLUSIONS AND NEXT STEPS

There is no doubt that investments would be needed to comply with the requirements of the draft proposal of the new SoS Regulation but most of the investments will be needed anyhow for further gasification of the Contracting Parties, hence regional co-operation which is very likely to provide the least costs, should be envisaged.

It also has to be emphasized that those Contracting Parties which do not have a gas market currently could probably benefit from the implementation of the draft new SoS Regulation because the possibility to fulfill the requirements of the proposal on a **regional level** could be supportive to the gasification of those Contracting Parties.

In addition, following efforts are still required related to a closer assessment:

- Provision of the initial assessment by all Contracting Parties which do have a gas market
- Discussion with the ECS
- Development of a common regional approach
- Assessment of the regional approach
- Provision of the assessment to the PHLG at the next PHLG meeting

These issues, among others, shall continue to be the focus of support, but also of intensive monitoring by the ECS.