

TASK FORCE ON ESTABLISHING AN ENERGY STRATEGY FOR THE ENERGY COMMUNITY

Chairman's report

Mandate and activities of the Task Force

The Ministerial Council on 6 October 2011 decided to set up a Task Force to establish a regional energy strategy for the Energy Community. The aim was to give an overview of the current situation and possible future paths in the energy sector, to set the main objectives and actions for the region, to identify projects that have impacts on a regional level and to attract new investment in the region. The members of the Task Force included representatives of Contracting Parties, the European Union, the Donors Community and the Investors' Advisory Panel. The Energy Community Secretariat assisted the work of the Task Force. Observers from the Regional Cooperation Council, Italian government, Bulgaria, and the Danube Strategy Coordinator for the Energy Priority Area also attended the meetings.

At its first meeting, the Task Force appointed Mr. Cristóbal Burgos, from the European Commission, as Chair. The Task Force had four sessions, during which the main elements and methodology of the Strategy were discussed.

Establishment of the Strategy

The Strategy is aimed to provide a brief, synthesized collection of the existing policy goals and plans within the Energy Community and match it with the main elements of national energy strategies. An overview of the national objectives in the regional context will help to highlight any possible inconsistencies with political commitments and to identify points where joint actions can lead to cost-efficient solutions.

A demand scenario analysis shows how the future energy consumption of Contracting Parties may develop and what are the possible costs of covering (or not covering) this demand.

The vast investment needs in energy infrastructure was one of the underlying reasons for the preparation of the Strategy and establishment of the Task Force. The identification of projects that benefit more than one Contracting Party is necessary to achieve maximum infrastructure capacity at the lowest costs. The Strategy represents a first step to identify these projects, by defining the required operational framework and methodology.

Over the next eight years, energy investments in the order of €44.6 billion are needed in the region to diversify existing resources and replace ageing equipment, as well to supply the increasing energy demand. Investment decisions and choices will have a long term impact, and will lead to structural changes in energy supply, partly resulting from changes in indigenous production.

Nevertheless, the "current trends" scenario presumes that the energy system will develop slowly (and inadequately) as seen in the past several years. It presumes that large combustion units that should be retired are delayed further (beyond 2020), and that little new generating capacity is built. Investment needs focus on keeping aging plant in service.

It is critical to note that under this scenario, electricity demand is not able to be met by 2020, with 15.1 TWh (assuming the demand growth as forecasted), implying curtailments or imports, and these shortages extend further into 2025 and 2030. These curtailments also contribute to higher losses, given the impact on technical losses on the electricity network. Of course, there is always the possibility of additional external imports of electricity into the region to make up such short-falls, but this should not be

relied upon as a sound and secure development strategy. Even though the investment needs are lower than with the other two scenarios, the supply costs are much higher due to reduced efficiency and substitution to other fuels.

The economic impact of such short falls must also be recognised; economic growth will be constrained if electricity demand cannot be met, or if there is a perception of an energy supply problem. Even the latter will constrain investor interest in the region by creating uncertainty as to the adequacy of electricity supplies to support business growth.

Drawing up the list of projects of Energy Community interest

The transition into an energy efficient and low-carbon economy will require significant investments in energy production, transport and storage in the Energy Community. It is therefore essential that those projects are materialised, which have the biggest possible impact with the least investment costs, and which are jointly backed by more than one Contracting Party. These projects should be identified based on objective criteria, and their planning, financing and regulatory procedures (e.g. permitting, licensing) should take place in a coordinated manner to ensure speedy implementation. The limited availability of both private and public financing also underpins the need for a coordinated approach.

The Strategy identifies:

1. the project categories that are eligible to be examined and evaluated;
2. the main criteria along which the projects will be evaluated;
3. the proposed methodology how to evaluate the projects.

Based on the Strategy, the collection of project details from promoters and their evaluation can be carried out in the second half of 2012. The proposed methodology is similar to the one that is being used in the regional groups on infrastructure development in the European Union. It involves the use of the Multi-Attribute Decision Analysis where projects are examined and scored along a set of criteria, which are weighted according to their importance as agreed by the Task Force. The sub-scores coming from the criteria will add up to an overall score for each project. In this way, it will be easy to see the general and specific strengths of each proposed project and the results will serve as a clearly understandable benchmark for investors as well. Comparing, competing projects with other will also be possible. When finishing the evaluation, projects can be grouped into categories of top, medium and low scores. Projects with high cross-border impact with an EU Member State would be included in the EU regional infrastructure development group discussions. The list of projects with the scores would be proposed by the Task Force and endorsed by the PHLG.

The aim is to establish a framework, where a high score would serve as a positive trademark (such as the TEN-E label in the European Union) and which in this way would indirectly attract more investors. In addition, tools, policy measures that would bring additional benefits to the high-ranking projects could be considered. These may involve accelerated and coordinated permit granting and licensing procedures, coordinated regulatory authorizations and coordinated tariff methodologies adoption, support from relevant European Union funds such as the WBIF and pre-accession funds, degree of fulfillment of criteria for IFI's financing, increased visibility for investors. It is important that national regulatory authorities will also be involved in the process.

Next steps and recommendations

The identification of projects should not be a one-off exercise but a regular action. It would make sense to prepare a first review of the identification process itself and of the progress of the high-ranking projects following 12-18 months after the first evaluation finished. An update of the project list could take place after 18-24 months once the first evaluation is finished.

It is important to stress that the Task Force has made much progress in its work on a regional energy strategy, but the efforts remain at an early phase. For the benefits of a regional strategy to materialize, there is a need for the mandate of the Task Force to be extended, to permit it to finalize the criteria and method for identifying projects of regional importance (the PECIs) in the second half of 2012 and first half of 2013, and to further efforts at identifying and rectifying the specific barriers and obstacles that have to date affected project development in the region.

It is strongly recommended that the Task Force decides on the framework (e.g. on the weighting of each criteria) and then tasks an external analyst/contractor to carry out the evaluation based on the pre-agreed methodology. Once the evaluation is done and each project received a score, the Task Force would meet only on an ad hoc basis if needed until the first review.

On this ground, the Ministerial Council is kindly invited to take note of the present progress report as well as to consider extension of the TF mandate till October 2013 with a key task of screening and identification of projects of Energy Community interests.