

## 2nd PECE/PMI Gas and Oil Group Meeting

Energy Community Secretariat, Vienna  
10:00 – 18:00 12 December 2017

### Introduction

- Energy Community Secretariat (ECS) welcomed the participants and presented the schedule of the PECE/PMI process, leading up to the Ministerial Council approval of the PECE/PMI list in October 2018. The Secretariat proposed 4 meetings in total (+1 if necessary). The third meeting will be on 14 February, and the 4<sup>th</sup> meeting is proposed to be held by end of May, after which the draft preliminary list should be proposed to the decision making body of the group (PHLG).
- The Secretariat has reminded the Contracting Parties that, in line with the Regulation, the list of PECE/PMI 2018 will replace the 2016 List and that the CPs and project promoters need to fulfil their obligation and send to ECS the missing data on projects and the country data, by 17 January 2018. Moreover, ECS presented the assessment process and the decision making process. It was emphasized that the Gas – Oil Group is the technical body that needs to prepare the draft preliminary list and the Ministerial Council is the political decision making body on the final PECE/PMI list.

### Presentation 1 – EU PCI Gas 2017

- EC presented PCI selection process, its context and regulatory background together with the CBCA mechanism specifics, underlining differences between PECE/PMI and PCI processes especially when it comes to the usage of the investment funds (CEF). EC representative also summarized ongoing COM initiatives: CESEC and Energy Union Strategy.

### Presentation 2 – Progress report on the first list of PECE /PMI, Main obstacles in implementation, Difference between a PECE and a PMI

- The Secretariat emphasized the importance of data collection also for the countries and the projects, as without proper data submission, the projects cannot be properly analysed, which is detrimental to the process as a whole and the project promoters in particular. Along with the data collection, it has been mentioned that country-consent letters will be collected during Q1 of next year.
- The Secretariat has pointed at the importance of implementing the Regulation 347/2013, namely the implementation of the Competent Authorities, as without them being in place, the promoters cannot utilize the permit granting related benefits as defined in the Regulation 347/2013.
- The Secretariat asked for the active, but timely cooperation of the representatives within the group. It was highlighted that the process is a tight one with set deadlines and thus active participation of the group members are necessary at the given agenda points. Already passed agenda points cannot be reopened due to time concern. The Secretariat and the Consultant aim at running a transparent process which enable the participants to get the necessary understanding of each step and the methodology of the process. In order to gain the necessary understanding, the Secretariat asks for active cooperation and questions during and outside the meetings.

### Q&A of presentation 2

**Q:** *Srbijagas: What if an EU member state does not apply for PCI label?*

**A:** *COM clarified that it is up to the project promoters to apply and no one can force a company to apply. COM has also clarified why a project linking a CP and an EU MS has to be PCI first in order to become PECE. In order to avoid obligation on a Member State in case an eventual project is not in its interest or not proposed by its promoter or in order to avoid a “back-door” opportunity for such projects not wanted by MSs.*

**A:** *ECS has clarified that it was taking action in the form of interpretation proposals to the regulation sent to DG Energy, participation on the Regulation 347/2013 public consultation organised by DG Energy and by backing such project’s PCI applications on the Gas Regional Group meetings. COM has confirmed it. Based on the information provided by COM, ECS has informed the Group Members that the current COM does not plan to reopen the Regulation 347/2013 of the EU; furthermore ECS has clarified that there is no reality to reopen the Regulation 347/2013 as adapted and adopted for ECS CPs.*

**Q:** *Plinacro: Where could the peripheral MSs apply to grants, as CEF is not available for CP-MS projects which do not reach PCI status and even if they are PMI, MSs cannot access WBIF funds, as that is available only to CPs.*

**A:** *COM: Cohesion funds would be there, apart from that the situation is true.. Point taken and will be forwarded.*

## 1. Methodology for assessment of PECE/PMIs

### Presentation 3 – Eligibility check and verification of data. Proposed project-specific analysis methodology

- REKK presented the draft methodology for the PECE/PMI 2018 selection process. The process flow is very much the same as the one used for the PECE/PMI 2016 selection process.
- Objectives and process itself was explained by REKK and ECS. Draft methodology has already been distributed in the form of “Explanatory note on a draft methodology for the project assessment”.
- EGMM-European Gas Market Model was presented by REKK. The same model was used for PECE/PMI2016. This time, as an innovation, the consultant is proposing to use iterations between the gas and electricity models to refine the gas demand in power generation and equilibrium wholesale gas prices.
- The situation concerning the overestimation of benefits in newly gasified countries was presented. In short, the methodology treats newly gasified countries as if there was no other fuel used before the newly appearing gas demand. This implicit assumption means that social welfare (and thus NPV or B/C indicators) generated by the new gas demand is not a substitution from other fuels (bio-mass, coal, oil, lignite already used in household and service sector and partially in power generation, which already generates social welfare) like in the case of other, already developed gas markets, but appears as a new benefit from zero. This phenomenon means that the benefit of these projects are overestimated compared to other projects, which are realized in more developed gas markets. Of course, the Secretariat and the Consultants realize the importance of gasification and the positive externalities associated with it, nevertheless the previous 2016 analysis has indeed highlighted this overestimation issue in case of such projects.
- It has also been highlighted that in a newly gasified country the costs associated with a new interconnector will not enable the country to actually consume that gas and thus realize the social welfare associated with the new gas demand, since related investments also have to be carried out. These investments include: DSO system, household appliances for the household, service and industrial demand; appliances in service and industry sector even if directly linking to the TSO system. Not including these costs (or an estimate/benchmark from renowned sources) in the cost part of the analysis, further distorts the evaluation of these projects.
- There are two proposal to handle the above two issues:
  - Decrease the social welfare generated by such projects with an “expert estimate” by e.g. stating that gasification projects welfare shall be decreased by X% for the purpose of the comparison on the multi-criteria assessment.
  - Costs of the gasification shall be included, possibly from the gas master plans’ cost scenario corresponding to the provided demand or by using estimates from renowned documents, benchmarks.
- Demand input data will be used in newly gasified countries only from the year, when the interconnector is commissioned.
- The group has not contested the issue itself, but has expressed different opinion about the extent of the issue and the realization of the solution. Proposals in this matter are expected from the group members by 15 January 2018 in a written form.
- Srbijagas proposed the usage of the SEE Gasification study as benchmark.
- **The preliminary conclusions on this point are the following:**
  - **Ministries of the countries in question (Albania, Montenegro, Kosovo\*, FYR of Macedonia) should provide demand breakdown by sector (household, power generation, industry, service) by 17 January 2018.**
  - **In addition, these countries, when available, should provide gasification cost estimate based on the gas master plans scenarios or otherwise, in line with the provided demand figures by 17 January 2018.**
- REKK has also explained that B/C ratio would be better to be used for the monetized project assessment benefit instead of NPV, because the NPV favours bigger project size.

#### Q&A of presentation 3

**Q:** Albania: Although an important role of the Energy Community, no progress on gasification of W-Balkan countries was made in the last decade. Such PECE/PMI process is too bureaucratic to enable proper assessment of the projects. Projects that gasify a country, should have a separate methodology.

**A:** ECS has clarified that the only mandate given to the group is carry out the PECE/PMI assessment as defined in the Regulation 347/2013 being part of the legal based on the decision of the Ministerial Council. The Regulation defines one type of methodology, projects have to be comparable the same approach is taken as in the EU. Work related to other aspects of preparing the gasification of the W-Balkan countries is ongoing by setting the market rules, implementing gas laws, preparing for the implementation of the Network Codes, but that work is going on in other groups of the EC based on other regulations.

**Q:** MNBonus: Would the welfare calculations be available before the last meeting to the project promoters?

**A:** ECS has acknowledged the importance of seeing the results before the last meeting – the same way as the methodology guidance has been sent out upfront. ECS and REKK-DNV have clarified that the summarized indicator tables (including NPV, B/C, non-monetized indicators) can be sent to the promoters with their own results and to the country representatives with every projects’ result on the territory of the country, couple of weeks before the last meeting when the group proposes the draft, preliminary list. Although it has to be emphasized, that the promoters or country representatives will not able to “run” the modelling “in head” and might even draw wrong conclusions but trying to do so. The results though can be explained upfront or during the meeting.

**Q:** MNBonus: Can the modelling input data be made available?

**A:** ECS and REKK-DNV have clarified that this is one of the purposes of the present meeting to share the source of the data, to discuss the reference scenario input assumptions and to highlight the missing data from the countries and promoters. The presentation slides and Methodological Guidance Document includes the source of the public data; other source of the data is the promoters and countries themselves. As a summary, below is a table with data sources:

<b>Demand by countries (Annual and Peak)</b>	Data submitted by the Ministries
<b>Domestic Production</b>	Data submitted by the Ministries
<b>Long Term Contracts (Volume and prices)</b>	EuroStat Foreign Trade accounts and REKK collection
<b>Infrastructure: IPs, LNG, UGS</b>	ENTSO-G
<b>Tariffs for transmission, LNG, UGS</b>	Regulatory Authorities’ website
<b>Assumptions</b>	As presented and agreed during the meeting
<b>Modelling Tool + methodology</b>	Property of REKK + as presented in the methodological presentation and the Guidance Document

**Q:** GAMA: How to verify the modelling tool?

**A:** REKK and ECS have explained that the same modelling tool has been used in recent years for similar tasks concerning gas infrastructure assessment within the EU (CESEC, Quo Vadis study). Also, in cases when it could be verified by the reality, the modelling tool has generated results greatly in line with the reality. Modelling is the only known way to analyse such complex systems, which inevitably comes with simplifications and assumptions. This is the reason why the quality of the input data and agreement on the assumptions and the methodology is important.

**Q:** Srbijagas: What is the energy content/cm used in the modelling? How does the modelling ensure that the energy content is treated consistently in the input data.

**A:** REKK has explained that the modelling tool utilizes only TWh units and GWh/day capacity figures which data is supplied by the project promoters and ministries for the EnC CPs and by Primes and ENTSO-G for the EU MSs. There is indeed no way to make sure that the data providers used the same conversion. ECS added that every ministry and promoter should be aware of the energy content of their own supply and provide TWh values in line with that.

**Q:** Srbijagas: Are internal bottlenecks treated in the modelling?

**A:** REKK has explained that the model is not handling internal bottlenecks, as each country is a single “node”. It is assumed that the capacity data is provided in a way by the promoters, which already handle internal issues and that the capacities provided for the projects are determined so, that such firm transit values can always be achieved.

**Q:** Georgian Ministry: What assumptions will be made to assess production costs in Caucasus region?

**A:** REKK would require input in this regard from the Georgian colleagues. Currently REKK is using a World Bank report to estimate production costs for each country.

## Presentation 4 - Multi-criteria analysis

- DNV GL presented proposed methodology for the multi-criteria project assessments, and the proposed indicators in their weights.

## Q&A of presentation 4

**Q:** MNBonus: Where do the weights come from? Project maturity should be weighted more.

**A:** REKK explained that the proposed weights are the same as during the last assessment. Input from the group members is welcome. Non-Monetized indicators of the MCA however should not be given higher share in total, because they are static, calculated indicators, whereas the monetized indicators (be it NPV or B/C ratio) include the monetized social welfare, and cover the majority of benefits that has to be assessed according to Regulation 347.

**Q:** Srbijagas: SoS could be valued more.

**A:** REKK explained that the NPV or B/C ratio includes monetized SoS as well with 5% weight. ECS has added that the 5% weight assumes 100% chance of occurrence of one month full Ukrainian disruption within the next 20 years, which is a strong statement and this means that SoS is strongly considered together with the calculated indicator.

## Presentation 5 – Country-specific data, modelling assumptions and reference scenario, sensitivity analysis

- REKK presented a summary of country-specific data submission, proposed modelling and reference-scenario assumptions and proposed sensitivity analysis.
- The issue of Georgia as a peripheral country was presented. REKK proposes to use the European Gas Market Model extended by Armenia, Georgia, Turkmenistan and Azerbaijan.
- The proposed infrastructure to be included in the reference scenario was presented, which would cover the latest, public ENTSOG TYNDP's existing + FID projects + TAP+TANAP+SCP1 as being under construction. The issue of KRK was raised, whether it should be included in the ref. scenario or not. Anyways, either of the decisions is made, sensitivity analysis will be run on the other option to show the importance of KRK in the region and the impact of not having it on certain projects.
- **The group accepted the proposal of DG Energy to include phase 1 of the KRK LNG in the reference scenario.**
- **The group furthermore accepted the proposal of Srbijagas to use latest available CESEC commissioning dates for the projects in the region. DG Energy is asked to provide this data to REKK.**
- REKK presented the tariff assumptions to be used for existing and new projects in the modelling tool.
- **The group accepted the proposal to use the existing SEE average tariffs for the new infrastructure in the region.**
- REKK suggests that extreme tariff outliers on EU-EU and EU-EnC borders in the assessed geographical region should be decreased to the regional average in the reference case throughout the assessed time horizon.
- Demand data as provided by the countries was presented. The aggregated demand figures show huge demand growth. This demand growth has to be seen in the context of energy efficiency and renewable targets of the countries. The gasification of some countries is of course acknowledged.
- It was noted by the ECS that usage of inflated or unrealistic demand in the assessment will lead in reality to stranded assets, which is not in the interest of the countries themselves (regulators, ministries).
- Commission emphasized the importance of alternative, decreased demand scenario or alternatively sensitivity on the demand.
- **Countries who did not yet submit the demand data (country data questionnaire) are required to do so ASAP (Ukraine, Montenegro, Bosnia and Herzegovina).**

<https://www.energy-community.org/regionalinitiatives/infrastructure/selection/2018.html>

- Long term contract assumptions were presented.

### Q&A of presentation 5

*Discussion emerged on the points mentioned above, question mostly came from REKK regarding the assumptions. The conclusions on the discussed points were included above.*

## Presentation 6 – Project submission summary – introduction of project clusters

- Project promoters presented the new projects submitted to the PECE/PMI 2018 selection process.
- Trans-Caspian and White Stream projects were not presented due to lack of time and opportunity will be given during the next meeting.
- REKK presented the missing information from the project submissions.
- Project Promoters are required to provide the missing information by 17 January 2018, based on the table presented at the meeting by REKK.
- The assessment of the Southern Corridor will be handled as a cluster (the same way as in the EU PCI process) and will be assessed with the TOOT approach because these projects are already under construction (TANAP, SCPX).
- REKK noted that the UA-MD Trans-Balkan Reverse Flow project depends on the projects in Romania and Bulgaria. This means that information is necessary regarding these projects in order to be able to analyse the submitted project **by 17 January 2018.**
- Promoters are welcome to think about and propose additional project clusters by 17 January 2018.
- The Group agreed to assess the Southern Druzhba Oil project submitted after the deadline.

## Next Steps:

- **The next meeting is scheduled for 14 February in Vienna, ECS premises. The participants are requested to register at the Energy Community website. Would you encounter problems with the registration, please contact [Adam.Balogh@Energy-Community.org](mailto:Adam.Balogh@Energy-Community.org) .**
- All presentations and the Minutes will be saved at the event area of the ECS web site
- Promoters shall provide missing project data by email sent to [PECl@Energy-Community.org](mailto:PECl@Energy-Community.org), by 17 January 2017 based on the missing project data table of the presentation.
- Ministries, which so far did not send the country-specific data (Montenegro, Ukraine, Bosnia and Herzegovina) , shall be sent to ECS ASAP [PECl@Energy-Community.org](mailto:PECl@Energy-Community.org), <https://www.energy-community.org/regionalinitiatives/infrastructure/selection/2018.html>
- Group members are encouraged to provide written comment on all aspects of the methodology by 17 January 2018 but especially on :
  - The treatment of newly gasified countries in the assessment based on the discussions during the meeting
  - On the weights to be used within the Multi Criteria Assessment.
- Ministries of the countries in question (Albania, Montenegro, Kosovo\*, FYR of Macedonia) should provide demand breakdown by sector (household, power generation, industry, service) by 17 January 2018.
- In addition, these countries, when available, should provide gasification cost estimate based on the Gas Master Plans' scenarios or otherwise, in line with the provided demand figures by 18 January 2018.