INFRASTRUCTURE PROJECTS

Progress update for the 5th Ministerial Council meeting

Background

This annex accompanies the report and lists more in detail the progress registered with the projects in the initial priority list (Part A and B).

Infrastructure priority projects: progress update

The progress was monitored on both Part A and B projects and is reflected below.

The projects listed below include only those which made significant progress either in starting construction works, concluding contracts with private investors or financing institutions, or being in an advance stage of tendering for selecting a strategic investor. Many others have made some progress which is registered in an additional column added to the list, but not in this narrative report.

The following projects have made significant progress:

ELECTRICITY INTERCONNECTIONS (PART A):

The interconnection lines that have started construction in 2008, and are listed below are very important for the creation of the regional electricity market and the security of supply.

Construction of new 400 kV transmission interconnection line Tirana (Albania) – Podgorica (Montenegro): In Albania, the construction contract signed and entered into force in Nov. 2007; in Montenegro, the contract for the construction was signed with the Croatian firm the „Dalekovod“ in 2008; 75% of expropriations completed; part of equipment already manufactured.

Construction of the new 400kV transmission interconnection line Tirana – Elbasan (Albania): The construction contract was signed in February 2008.

Construction of the overhead transmission line 2x400 kV Ernestinovo (Croatia) – Pecs (Hungary): The construction contract was signed in November 2007 and the works started in autumn 2007 in Hungary, and in summer 2008, in Croatia.

ELECTRICITY GENERATION (PART A):

The investments in generation power plants that are important for the security of supply and have made significant progress in 2008 are as follows:

Construction of the Combined Cycle Power Plant at Vlore (Albania), 97 MW, dual fired on distillate oil/natural gas: The construction works that started in 2008, based on a single EPC contract, are in progress, according to the schedule. The works are expected to be completed by May 2009.
New TPP Stanari, 410 MW lignite fired (Bosnia and Herzegovina): In February 2008, the Bosnian Government awarded a 30 year concession to the Energy Financing Team (EFT) to construct and operate the plant. The EIA was approved by the Ministry of Spatial Planning, Construction and Ecology in April 2008; negotiations for the equipment are currently conducted, and the works expected to start in 2008 and finished in the second half of 2012.

New unit TPP Gacko 2, lignite fired (Bosnia and Herzegovina): A Joint Venture between the CEZ and RITE Gacko TPP was announced in February 2008 by the Government, to modernize the existing Gacko I plant, build a new coal fired capacity of 600-700 MW as well as develop the adjacent coal field. The new expected construction terms: 2009 – 2014. Nevertheless, there are talks between the Government and CEZ to have a revision of the deal, based on the declared Government’s plans for a new share issue, which may postpone the deadlines.

TPP Kosovo C (Kosovo) has made progress with environmental and social safeguards Issues, legal and regulatory issues and transaction related issues. Nevertheless, the selection of investor is not expected before mid 2009, if everything goes according to the planning.

GAS TRANSMISSION NETWORK AND LNG TERMINALS (PART A):

Although in gas, the progress achieved was less significant, there are a few pipelines that advance, either in the preparation of documentation, or in construction works, as follows:

Gas Construction of the Trans - Adriatic pipeline (TAP- Albanian part): The feasibility study and basic engineering has been concluded; a construction decision is expected in 2008.

Gas Transmission Pipeline Bosiljevo – Ploče (Croatia): The construction of the first segment Bosiljevo – Split is in the final phase.

IONIAN – ADRIATIC PIPELINE (IAP): Gas Transmission system Albania (Fier) – Croatia (Ploce): The feasibility study is under preparation.

Gas Transmission Pipeline System: Dravaszerdahely (Hungary) – Donji Miholjac (Croatia) – Slobodnica (Croatia) – Basonski Brod (Bosnia and Herzegovina): The three segments are in different phases; EIA completed for phase I and II and in progress for phase III; Basic design is either completed or in progress.

ELECTRICITY INTERCONNECTIONS (PART B):

Some of the projects listed under PART B (that included projects less advanced in preparation or which did not have financing assured) have made progress that qualifies them for upgrading to the PART A of the list.

Construction of the OHL 400 kV line from the 400/220/110 kV “Tirana 2” (Albania) substation to “Kosovo B” (Kosovo) substations: A Memorandum of Understanding between the two TSOs for the construction of the line signed on 28 June 2008; the German Government committed funds during intergovernmental negotiations with Kosovo in September 2008 and with Albania in October 2008 within the scope of Financial Cooperation; KfW is currently engaged in financing negotiations to provide Development Loans to Kosovo and Albania; the construction expected to start in 2009 and en 2011. This is a priority project that was recommended also by the SECI report as key to facilitate power exchanges between Kosovo and Albania, especially having in view the construction of the power plant “Kosovo C”.

Construction of the OHL 400 kV interconnection between the former Yugoslav Republic of Macedonia and Serbia: In the Former Yugoslav Republic of Macedonia, the Government has tendered the project and selected the World Bank as financier; In Serbia, the works are more advanced, as

---

1 Pursuant to UN Security Council Resolution 1244.
follows: section 1 of the line (Substation Nis - Leskovac) is expected to be finished by early 2009; the construction contract of section 2 (Substation Leskovac – border) was signed in September 2008.

The progress with the financing of the Macedonian part is very important for making the cross border connection between the two Contracting Parties.

**Construction of the OHL 400kV Serbia (SS Sombor 3) - Hungary (Pecs):** Preparation of ToR for Pre-feasibility study and Feasibility study for the Substation Sombor 3 starting from Sept.2008 with WYG International under IPA – IPF assistance.

**Construction of the OHL 400 KV Serbia (Novi Sad) – Romania (Timisoara):** Ongoing tender for consultancy services for Feasibility study, Cross border study, Preliminary design study and EIA study. The Contract is expected to be signed in dec.2008 and the studies to be finished by end of 2009.

**ELECTRICITY GENERATION (PART B):**

From the power plants listed under Part B, the most significant progress was made by the Albanian HPPs that were given as build-operate-transfer concession, as follows:

**Construction of Ashta HPP in Drin River watershed Capacity 50-80 MW (Albania):** The METE has invited pre-qualification applications by February 2008 for a concession contract involving design, financing, construction, operation and maintenance of the hydro – power plant. IFC is the lead adviser of the government. A Consortium of Austria’s Verbund and EVN signed on 30 September 2008, a 35 years concession agreement to build and operate. This project is recommended to be “upgraded” to Part A.

**Construction of 3- 4 HPP on Devoll’s River, in cascade; Capacity up to 370 MW (Albania):** The tender was awarded to EVN Austria in January 2008; three storage HPP with a combined power of appr.400 MW; construction expected to start late 2009. This project recommended to be “upgraded” to Part A.

**New generation unit at TPP TUZLA VI, unit 7, 1x 370 MW , coal fired (Bosnia and Herzegovina):** Tuzla VI unit 7 was in principle awarded; the decision of the Parliament is still pending, although the Government approved in December 2007 the selection of EnBW Germany as the strategic partner for the construction and exploitation of the power plant. The permits for construction are expected to be released in 2009 and the plant to operate in 2016.

**New generation unit, TPP KAKANJ 8, 1x230 MW (Bosnia and Herzegovina):** Kakanj 8 was in principle awarded (decision of the Parliament is pending, but the government has approved the selection) to KazTranGaz and the Swiss Kazakh group BMG as strategic partners for the construction and exploitation of the power plant. The permits for construction are expected to be released in 2009 and the plant to operate in 2017.

**HPP Buk Bijela on the Drina river ((Bosnia and Herzegovina and Serbia):** the power company EPRS in Bosnia and Herzegovina and its subsidiary signed a protocol of understanding with EPS, the power company in Serbia in February 2008 for the establishment of a joint venture to build, own and operate the Gornja Drina (former Buk Bijela) hydro power plant. The current cost estimation (2008) is 200 Mil. Euro and the current capacity option (2008) is 150 MW (400 GWh/year).

**New HPP Cebren (3x 110.85 MW) and HPP Galiste (3x 64.50 MW) with the associated dams – (former Yugoslav Republic of Macedonia):** Verbund and the consortium from RWE and Holding Slovenske Elektrarne submitted offers, responding to the tender launched by the Government by end of April 2008. No decision was announced to the date of this report.
New HPPs in cascade on Morača river (Montenegro): In February 2008, the Government received 145 bids for a series of SHPP in Montenegro, including those in Moraca river; this will be based on Design, Build, Operate and Transfer basis with a concession of 30 years. IFC was selected as the Government Lead Advisor.

New unit of 225 MW (coal fired), installed at TPP Pljevlja 2 (Montenegro): The power company EPCG selected a Slovenian consortium of consultants to prepare the EIA, the feasibility study, general design and other analysis as a first step before the selection of the strategic investor in Pljevlja 2. The Government decided in March 2008 on the PPP model for developing the new unit.

New hydropower plant Zhur, 292.8 MW installed capacity (Kosovo²): The WB has provided finance for the review and update of the feasibility study, which is expected to be finalized by end of 2008; The tendering process for the selection of investor is expected to start early 2009.

GAS TRANSMISSION NETWORK AND LNG TERMINALS (PART B):

Gas transmission pipeline Bijeljina – Banja Luka – Novi grad (pipeline Sava) (Bosnia and Herzegovina): The main contractor for the project was selected in 2008 through a tender, and is Habau (Austria) and the related PPS Pipeline Systems. The EBRD has approved a €100 million loan for the project, which is contingent on the approval of the governments of both FBiH and RS. This project is recommended to be “upgraded” to Part A.

NEW PROJECT PROPOSALS

Two Contracting Parties have proposed two new projects that appear to be important for the region, to be introduced in the Part B of the list, as follows:

New HVDC undersea interconnection Montenegro – Italy (375 km): In December 2007, the Ministers of economic development of Montenegro and Italy signed an intergovernmental agreement to develop the interconnection; this was followed by the inter companies agreement between EPCG (Montenegro) and Terna (Italy). The feasibility study was finalized in April 2008 and its conclusions were accepted by the project’s steering committee. The expected overall cost is 700 Mio. Euro.

New Generation unit TPP Nikola Tesla B3, lignite-fired 700 MW (Serbia): The pre-feasibility study and the General plan for urbanism are completed; the pre-qualification tender launched in 2008.

² Pursuant to UN Security Council Resolution 1244.