

Projects of Energy Community Interest

Explanatory Note

1. Introduction

In 2011 and 2012, the Ministerial Council of the Energy Community invited the Contracting Parties to prepare the Energy Community Strategy and the list of Projects of Energy Community Interest (PECI), in a participatory approach of stakeholders. For this scope a Task Force was set up that undertook these commitments. The Strategy was prepared and approved by the Ministerial Council in 2012 and the preparation of the PECI list continued in 2013. The present paper reflects the work of the Task Force and the results of assessment of PECI, presented to the PHLG in June 2013.

Energy infrastructure remains the backbone of economic development while meeting the policy targets and commitments that the Contracting Parties submitted themselves to as part of the Energy Community. Developing a modern and efficient energy infrastructure will enable the Energy Community to create a properly functioning regional energy market, enhance security of supply, increase energy efficiency, and integrate more renewable energy sources.

The Energy Community Strategy acknowledged that Contracting Parties need substantial investments, in the range of €44.6 billion¹ in the energy sector to maintain the supply-demand balance in the coming decade, and even more financial resources to manage the transition into a low-carbon economy. Because of the current economic crisis, public funding is limited and attracting private investment is likely to become more and more difficult.

The scarcity of investment sources necessitates the identification of priorities for future development of the electricity, gas and oil infrastructure at Energy Community level.

Furthermore, Contracting Parties – with the exception of Ukraine – represent small markets with relatively small investment projects, which may be less attractive to investors than bigger ones. Due to the logic of economies of scale, it will be definitely more expensive, if each Contracting Party pursues full energy independence and strives to achieve security of supply alone rather than cooperating and planning together its infrastructure developments with its neighbours and increasing the reliance on the regional energy trade.

For this reason, the Contracting Parties have agreed to cooperate in the process of identifying those projects which have the highest positive impact in the largest possible number of Contracting Parties, so called Projects of Energy Community Interest (PECIs). The selection of these projects was achieved in a collaborative process undertaken by the same Task Force that contributed to the preparation of the Energy Strategy; the Task Force was chaired by the European Commission and facilitated by the Energy Community Secretariat, and benefited from technical assistance of consultants sponsored from the Secretariat budget. These have prepared the methodology and assessed each project based on its merits and ranked them in accordance with criteria and weights agreed with the Task Force.

In order to facilitate the development and implementation of PECIs, the Energy Community plans to adopt a holistic approach, in which regulatory measures will be strongly encouraged in order to remove some of the barriers to cross border investment; these may involve enhanced dialogue and cooperation between national regulatory authorities (NRAs) in particular in the case of cross-border projects, permitting procedures, information for decision makers, cost benefit analysis, incentives for projects with a cross border impact, and others. To complement these, more innovative financial instruments will be taken into account, and special funding mechanisms for PECIs will have to be adequately designed, using the pre-accession funds or other similar instruments. The Western Balkans Investment Framework

¹ This figure represents the estimate of the costs, through 2020, of the new projects the CPs have noted.

focusing on supporting strategic projects in the Energy Community is a potential channel to secure financing for priority investments and to finance relevant sectoral studies that can contribute to the implementation of PECIs.

2. Candidate PEI projects

The identification of the first list of PECIs, was based on an open call for PEI candidates published on the website of the Secretariat. Project promoters from both Contracting Parties and EU MS submitted a total number of 100 projects, based on a detailed questionnaire prepared by the Secretariat. This was similar to the one used by the European Commission for the collection of candidates for Projects of Common Interest (PCIs).

The summary of submissions by categories is presented in Table 1.

Table 1.

| Contracting Party/Project Promoter Country | Electricity transmission | Electricity generation | Gas infrastructure | Oil infrastructure | TOTAL |
|--|--------------------------|------------------------|--------------------|--------------------|------------|
| ALBANIA | 2 | 2 | 2 | - | 6 |
| BOSNIA AND HERZEGOVINA | 3 | 15 | 4 | - | 22 |
| CROATIA | 4 | 2 | 4 | 1 | 11 |
| FYR of MACEDONIA | 2 | 3 | - | - | 5 |
| KOSOVO* | 6 | 4 | - | - | 10 |
| MOLDOVA | 2 | - | 1 | - | 3 |
| MONTENEGRO | 3 | 2 | - | - | 5 |
| SERBIA | 6 | 13 | 9 | 2 | 30 |
| UKRAINE | 2 | 2 | 2 | 1 | 7 |
| TAP (Company) | - | - | 1 | - | 1 |
| TOTAL | 30 | 43 | 23 | 4 | 100 |

3. Project assessment methodology

General Approach

The project assessment methodology aimed at identifying Projects of Energy Community Interest (PECIs) that provide the highest benefits at least costs to the Contracting Parties. For this purpose an economic Cost-Benefit Analysis (CBA) was chosen and applied. The results of the CBA were complemented by the use of additional criteria that are relevant for the project assessment but cannot be evaluated within the CBA. Oil infrastructure projects were only assessed within a CBA framework.

Based on the general principles discussed above the following criteria were used in the project assessment:

Change in Socio-Economic Welfare

Market Integration

Security of Supply

CO2 Emissions

Enhancement of Competition

System Adequacy

Progress in Implementation

Facilitation of renewable energy sources

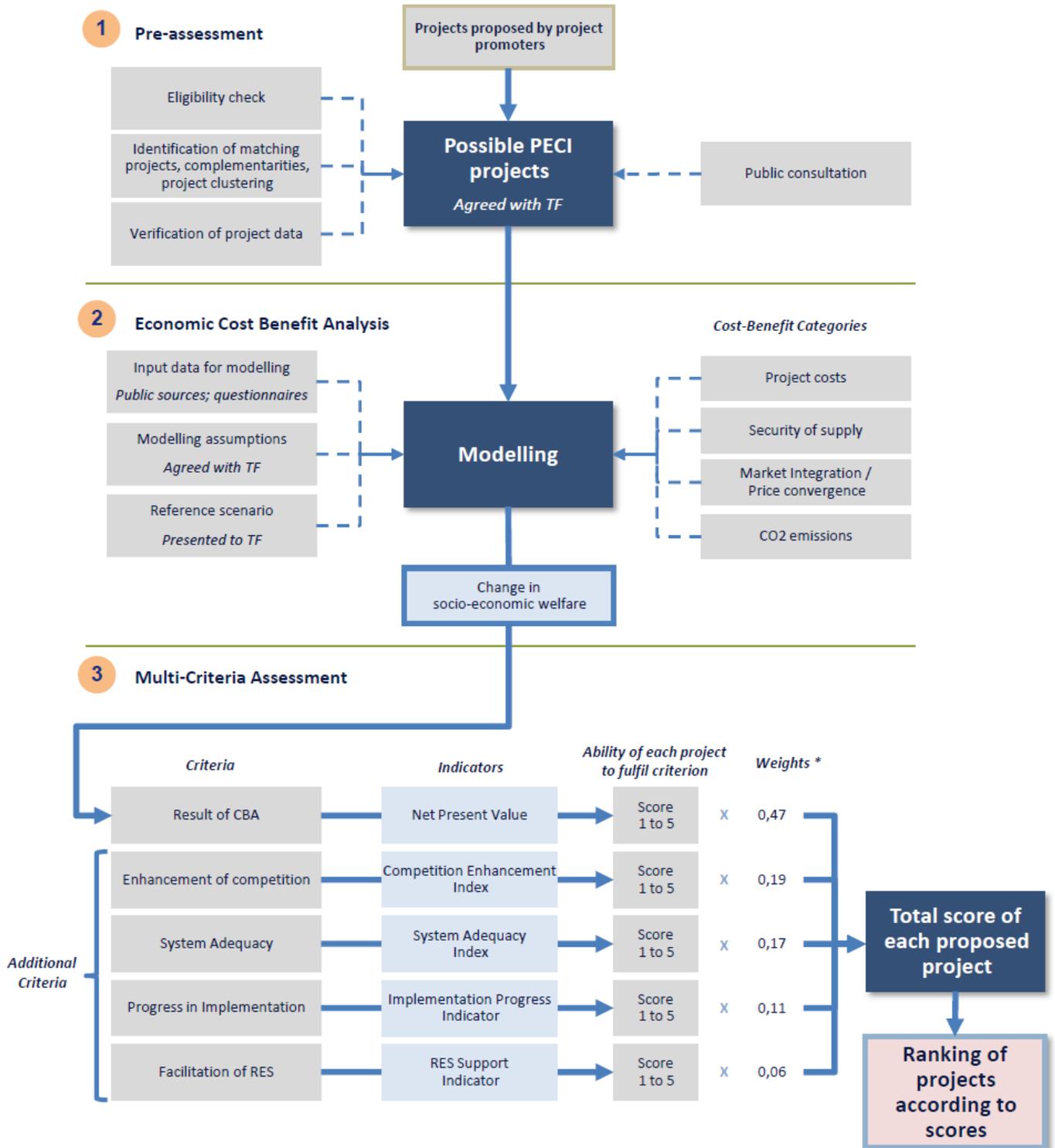
For the overall integration of the CBA results and the additional criteria, weights were set for each criterion, and these were discussed in the Task Force. The weights are based on a pair wise comparison of the relative importance of a criterion against any other criterion.

Finally, criteria focussing only on the investors' perspective such as the commercial strength of the project, or on the national perspective such as the support from national governments or local communities are not considered as indicators for the economic assessment.

The chart explaining the process and the weights is presented below. The process was identical for each project category; however the weights included in the table below refer to the category of electricity generation.

The PEI candidates were also submitted to the Regulatory Authorities for their opinion and were subject to a public consultation that had run between 7 March and 29 April 2013 and between 14 May and 23 May 2013.

Proposed Project Assessment Methodology to be conducted for each investment project



* Weights and criteria differ slightly for the different groups (electricity infrastructure, electricity generation and gas infrastructure). In this graph criteria and weights for electricity generation are presented.

The weights for electricity and gas infrastructure projects are as follows: result of the CBA 48%, enhancement of competition 20%, system adequacy 18%, and progress in realization 14%.

List of proposed PECl – selection

Based on the ranking provided by the assessment and additional sensitivity analysis of high and respectively low gas demand scenarios conducted by the Consultant, and on the discussions during the Task Force meetings of 14 and 29 May, Task Force Chair on behalf of the Task Force submitted the PECl list to the PHLG, in June 2013.

The PHLG upon discussions endorsed the list of PECl's proposed by the Task Force. The PHLG agreed to submit the PECl list (Annex 22) to the Ministerial Council for adoption in October 2013 and took note of the second list of eligible projects (Annex 23).

The list presented in Annex 22 contains projects proposed for PECl label² in each category: electricity generation, electricity transmission, gas, oil. These have been considered to be a priority, to have a regional impact, to contribute to security of supply, to generation adequacy, to contribute to the targets for renewable energy.

Because of their regional importance, it is imperative that the implementation of PECl's takes place in full compliance with the Energy Community acquis and the relevant national legislation. Furthermore, the PECl label is without prejudice to the results of an environmental impact assessment to be carried out in line with the Contracting Parties' obligations under the Energy Community Treaty, as well as any other relevant standards and procedures applicable under national or international law. Where there is evidence that the Energy Community acquis or national legislation is breached, or an environmental impact assessment has not been performed properly, the Secretariat may initiate infringement action and propose the PHLG that the project's PECl label is removed.

Similarly to the EU practice, the PECl list should be revised and updated every 2-3 years and the Task Force role should be discussed.

² The list is organized on alphabetical order of the Contracting Parties