PROJECTS OF ENERGY COMMUNITY INTEREST - A TOOL FOR COOPERATION

INO_GATE REGIONAL WORKSHOP, 10th December 2015

Violeta Kogalniceanu, Energy Community Secretariat
The Energy Community Treaty’s aim: Create a single market framework within a single regulatory space, to

• increase energy trade

• **attract investments**

• enhance security of supply

• improve the environmental situation

• increase competition at regional level

➢ By means of regional cooperation, and a harmonized legal framework based on the EU Acquis on energy (electricity, gas, oil), energy efficiency, renewable energy, environment, competition, statistics, etc.
The Energy Community Strategy by 2020, endorsed by the Ministerial Council in October 2012

**Key messages from the Strategy:**

- Create a Pan-European Energy Market
- Introduce a common capacity allocation mechanism (coordinated auctions) & establish one or more power exchanges
- Phase out price regulation for large customers
- Adopt cost reflective energy network tariffs
- Adopt prices that reflect fully the cost of supply for all tariff customers
Why we have not more investments in the Energy Community?

- Small and fragmented markets (WBs, Moldova)
- Regulated, non cost reflective retail energy prices
- Dominant incumbent, state owned company, in rather poor financial conditions
- Difficult to do business – governance issues, transparency, red tape, ....
- Limited fiscal space for guarantees
- Coal/lignite dominance - difficult to finance
- Affordability issues – payment discipline
- Priorities shifting from one government to another....
Residential electricity prices, (€c/kWh) (excluding taxes)
# Ease of doing business – The World Bank report 2014

<table>
<thead>
<tr>
<th>Economy</th>
<th>Rank 2014</th>
<th>Change in Rank to 2013</th>
<th>Ease of Doing Business</th>
<th>Dealing with Construction Permits</th>
<th>Getting Electricity</th>
<th>Protecting Investors</th>
<th>Extent of disclosure index (0-10)</th>
<th>Extent of director liability index (0-10)</th>
<th>Ease of shareholder suits index (0-10)</th>
<th>Strength of investor protection index (0-10)</th>
<th>Rank</th>
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<td>128 5 2</td>
<td>6 4,3</td>
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</table>
WHAT TO DO
Setting Priorities: Projects of Energy Community Interest (PECIs)

- In 2013 - 100 projects submitted by project promoters from CP and EU MS
- Identifying those projects of regional importance that would benefit from additional interventions such as:
  - Technical assistance
  - Financing mechanisms
  - Policy and regulatory instruments
- Assessment and ranking of PECIs using CBA methodology and additional criteria
- Two Public Consultations
- Regulatory Authorities engaged
- A list of “Projects of Energy Community Interest” (PECIs) adopted by the Ministerial Council, October 2013
Project Assessment Methodology

1. Pre-assessment
   - Eligibility check
   - Identification of matching projects, complementarities, project clustering
   - Verification of project data

2. Economic Cost Benefit Analysis
   - Input data for modelling
     - Public sources; questionnaires
     - Modelling assumptions
       - Agreed with TF
       - Reference scenario
       - Presented to TF

3. Multi-Criteria Assessment
   - **Criteria**: Result of CBA, Enhancement of competition, System Adequacy, Progress in Implementation, Facilitation of RES
   - **Indicators**: Net Present Value, Competition Enhancement Index, System Adequacy Index, Implementation Progress Indicator, RES Support Indicator
   - **Ability of each project to fulfil criterion**
     - Score 1 to 5
   - **Weights** *
     - 0.47
     - 0.19
     - 0.17
     - 0.11
     - 0.06

* 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.

- Total score of each proposed project
- Ranking of projects according to scores

Possible PECI projects

Agreed with TF

Change in socio-economic welfare

Cost-Benefit Categories
- Project costs
- Security of supply
- Market Integration / Price convergence
- CO2 emissions

Public consultation

Projects proposed by project promoters
<table>
<thead>
<tr>
<th>Area of intervention</th>
<th>Estimated investment costs billion €</th>
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</thead>
<tbody>
<tr>
<td>Electricity Generation (14 projects)</td>
<td>8.053</td>
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<tr>
<td>Electricity Infrastructure (9 projects)</td>
<td>0.669</td>
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<tr>
<td>Gas  Infrastructure (10 projects)</td>
<td>4.025</td>
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<td>Oil  Infrastructure (2 projects)</td>
<td>0.608</td>
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<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>13.355</strong></td>
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</table>
PECI Electricity Interconnections
PECI Gas Infrastructure
Implementation of PECIs: the full package

✓ **Priorities identified**: a common list, PECI adopted by energy ministers in October 2013

✓ **Regulatory measures**: Regulation 347/2013/EU adopted in the Energy Community in 2015

✓ **Financing PECIs – Main sources and issues**:
  - Government /own resources (very constrained at present)
  - Commercial banks/private investors (financial and economic crisis, European energy policy – RE focus, market size and development)
  - IFIs (require sovereign guarantees; fiscal space, very narrow)
  - Confidence issues
  - Donor funded blending facilities and TA - e.g: Western Balkans Investment Framework and NIF (crucial to advance investments)

 ✓ **WHAT NEXT??**
## PECI – 2016 timetable

<table>
<thead>
<tr>
<th>Task name</th>
<th>Start</th>
<th>Finish</th>
<th>Oct '15</th>
<th>Nov '15</th>
<th>Dec '15</th>
<th>Jan '16</th>
<th>Feb '16</th>
<th>Mar '16</th>
<th>Apr '16</th>
<th>May '16</th>
<th>Jun '16</th>
<th>Jul '16</th>
<th>Aug '16</th>
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<th>Oct '16</th>
<th>Nov '16</th>
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- **Inception Report**
- **1st meeting of the Groups**
- **List of eligible project**
- **Draft interim report**
- **Draft final report**
- **Draft preliminary list presented to PHLG**
- **PECI list adopted by the Ministerial Council**
<table>
<thead>
<tr>
<th>No.</th>
<th>Next Steps, Priorities</th>
<th>Deadline</th>
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<tbody>
<tr>
<td>1</td>
<td>Each Contracting Party shall bring into force the laws, regulations and administrative provisions necessary to <strong>comply with Regulation (EU) 347/2013</strong>, as adapted by the Energy Community and shall inform the Secretariat thereof.</td>
<td>31 Dec 2016</td>
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<tr>
<td>2</td>
<td>Contracting Parties shall <strong>start with the implementation</strong> of provisions in accordance with Regulation (EU) 347/2013.</td>
<td>01 Jan 2017</td>
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<tr>
<td>3</td>
<td>The Ministerial Council shall establish (based on a preliminary list) the <strong>next PECI list</strong>. Thereafter, PECI list shall be established every two years.</td>
<td>31 Dec 2016</td>
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<tr>
<td>4</td>
<td>Contracting Parties shall designate one national <strong>competent authority</strong> responsible for the permit granting process for PECIs.</td>
<td>30 Jun 2017</td>
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<tr>
<td>5</td>
<td>Each Contracting Party (or a respective competent authority) shall publish a <strong>manual of procedures</strong> for the permit granting process applicable for PECIs.</td>
<td>31 Dec 2017</td>
</tr>
<tr>
<td>No.</td>
<td>Next Steps, Priorities</td>
<td>Deadline</td>
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<td>6</td>
<td>Duration of a <strong>permit granting process is limited</strong> to 3,5 years. (24 months for pre-application procedure, and 18 months for the statutory permit granting procedure). The process (which cannot be completed in 3,5 years) may be extended for 9 months upon a competent authority’s decision.</td>
<td></td>
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<tr>
<td>7</td>
<td>National regulatory authorities (cooperating in the framework of the Regulatory Board) shall establish and make publicly available a <strong>set of indicators and corresponding reference values</strong> for the comparison of unit investment costs.</td>
<td>30 Jun 2018</td>
</tr>
<tr>
<td>8</td>
<td>National regulatory authorities shall submit to the Regulatory Board the <strong>methodology and the criteria used</strong> to evaluate investment in electricity and gas projects and the higher risks incurred by them.</td>
<td>30 Jun 2017</td>
</tr>
<tr>
<td>9</td>
<td>The Energy Community Secretariat shall publish a <strong>report on the implementation of PECIs</strong> and submit it to the Ministerial Council.</td>
<td>MC in 2018</td>
</tr>
<tr>
<td>10</td>
<td>The Energy Community Secretariat shall establish an <strong>infrastructure transparency platform</strong> that should be publicly available.</td>
<td>6 months after the adoption of PECI list</td>
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</table>
How could we enhance investments?

➢ Improve the business/investment climate
  ▪ Rule of law, contract enforcement
  ▪ ECS growing role in dispute resolution:
    • Mediation in the case CEZ / Albania DSO
    • Negotiations in the case KOSTT/EMS

➢ Harmonisation of VAT treatment - access to interconnectors – ECS policy guidelines (web)

➢ Reform of electricity market model, electricity tariffs, and regulated electricity retail prices
  ▪ ECS policy guidelines (web)
  ▪ ECS legal assistance for new electricity and gas laws (3rd energy package) – PSO (Ukraine, Moldova)

➢ Working together: Dispute settlement mechanisms, Investors Advisory Panel
Lessons learned

- **Too many priorities....**
  - Projects are not yet ready to be built (missing documentation,
  - Companies (mainly state owned) lack financial resources
  - Too many „construction sites“ unfinished

- **The right PECI candidates to be submitted**
  - In number and quality
  - Government support is essential

- **Proper and timely implementation of R 347 with the additional benefits**
  - Permitting streamlined and limited to 3.5 years
  - EIA requirements clearer (EC Guidelines)
  - Cost-benefits shared for cross border projects

- **EU technical and financial assistance through WBIF and NIF**
  - To be used more extensively, especially in NIF.
Thank you for your attention!

www.energy-community.org