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**GENERAL COMMITTEE ON ECONOMY, INFRASTRUCTURE AND ENERGY OF
THE PARLIAMENTARY ASSEMBLY OF THE SOUTH EAST EUROPEAN
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R E P O R T

on

“ENERGY DEPENDENCY IN THE SOUTH EAST EUROPE”

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Abbreviation and Acronyms

ACER Agency for the Cooperation of Energy Regulators
CEE Central and Eastern Europe
CEFTA Central European Free Trade Agreement
CESEC Central and South-Eastern European Gas Connectivity
CP Contracting Parties
EBRD European Bank for Reconstruction and Development
EC European Commission
ECS Energy Community Secretariat
EE Energy Efficiency
EECG Energy Efficiency Coordination Group
EED Energy Efficiency Directive
EIB European Investment Bank
EnC Energy Community
EnCT Energy Community Treaty
EPBD Energy Performance of Buildings Directive
ESCo Energy Services Company
ESD Energy Services Directive
EU European Union
GDP Gross Domestic Product
GGF Green for Growth Fund
GHG Greenhouse Gas
GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit
IEA International Energy Agency
IFC International Finance Corporation
IFI International Financial Institution
MC Ministerial Council
MS Member States
NEEAP National Energy Efficiency Action Plan
PCI Projects of Common Interest
PECI Projects of Energy Community Interest
PMI Projects Mutual Interest
RCC Regional Cooperation Council
REEP Regional Energy Efficiency Programme
RES Renewable Energy Source
SEE South East Europe
SEECP South-East Europe Cooperation Process
SEETO South-east Europe Transport Observatory
SGC South Gas Corridor
SME Small and Medium Enterprise
SWP Strategy and Work Programme
TAP Trans Adriatic Pipeline
UNDP United Nations Development Programme
UNFCCC United Nations Framework Convention on Climate Change
USAID United States Agency for International Development
WB Western Balkan
WB6 Western Balkan 6
WBG World Bank Group
WBIF Western Balkans Investment Framework

I. Policy Context and Key Challenges

Today the European Union (“EU”) energy strategy puts forward a vision of a well-functioning integrated energy market that ensures secure and sustainable energy supplies at competitive prices, as essential for achieving economic growth and consumer welfare. At last, on 30 November 2016, the European Commission (“EC”) has presented a legislative package of measures called “Clean Energy for All Europeans”. The proposals cover energy efficiency, renewable energy, the design of the electricity market, security of electricity supply and governance rules for the Energy Union. To live up to this vision by the participants of the South-East Europe Cooperation Process (“SEEC”), a series of legislative proposals need to be addressed for guaranteeing security of energy supply in the policy mechanisms.

In line with the statutory mandate and the evolving regional challenges, operating under the political umbrella of the SEEC, and guided line of the triennial strategies and work programmes, the Regional Cooperation Council (“RCC”) has been focused in developing and supporting the implementation of regional programmes - among others in the areas of economic and social development, energy and infrastructure with the SEE governments - to address the needs of energy dependency. The overall implementation of the Strategy and Work Programme (“SWP”) 2014-2016 can be considered a success, but the performance across the priority areas has been uneven. The SEE 2020 Strategy has advanced on most fronts. In particular, a full political backing for infrastructure development has been coupled with initial resources. Key elements of the Strategy relating to Sustainable Growth have secured support from the Prime Ministers of Western Balkans (“WB”)s economies and several EU Member States (“MS”) in Berlin in August 2014. Priority energy projects along these corridors were identified, facilitating integration of power systems, coupling these agreements with a funding commitment on the EU side.

Then, RCC’s Strategy and Work Programme 2017-19 is being put forward in a significantly changed setting compared to the 2014-16 period. Several notable developments affecting the political and socioeconomic environment have materialised, profoundly altering the context in which the Strategy takes place. European Union integration remains a strategic goal for the South East Europe (“SEE”) region, but the enlargement approach has changed. Strong focus on regional cooperation has been maintained, with new high-level political initiatives emerging.

Expanding the scale and geographic scope of interventions is becoming fundamental and can be supported by the two EU macro-regional strategies that included SEE in their intersection.¹ Economic and fiscal conditions call for clear prioritisation to support fledgling growth and the introduction of economic governance, providing a welcome tool for doing this. Along with economic governance, the rule of law and public administration reform top the region’s agenda. Last, but not the least: availability of funding is reduced and the allocation priorities have shifted.

The overarching goal of RCC’s interventions over the next three years is greater economic integration through easier flow of capital, people, goods and services within the SEE and between the SEE and the EU. RCC also intends to contribute to better governance, improved functioning of the rule of law and enhanced security in SEE. RCC will implement the SWP 2017-2019 through grouping its efforts along three axes, with the specific objectives,

¹ The EU Strategy for the Danube Region (EUSDR) and the EU Strategy for the Adriatic and Ionian Region (EUSAIR) were endorsed with a differing geographical scope but with a common ambition - higher and more sustainable growth, prosperous societies, and greater integration - fully compliant with RCC’s own mission and goals.

implementing SEE 2020 Strategy through flagship approach, governance, rule of law and security cooperation, and horizontal and supporting activities.

The SWP 2017-2019 remains largely on the course set in the previous Strategy and Work Programme. However, the approach to implementation will undergo significant changes. RCC will implement the SEE 2020-related actions of the Strategy and Work Programme 2017-2019, among other through “A.2.3. Coordination and supporting activities”, in line with the regional needs, the existing measures and policy recommendations, as well as with the priorities noted under strategic frameworks in the energy field.

In addition to direct interventions under flagship and the partners involved (CEFTA, SEETO, e-SEE), RCC will continue its supporting and coordinating role in areas of energy. RCC will maintain its cooperation with the Energy Community (“EnC”) and its Secretariat, regarding enhanced connectivity in the energy area leading to integration of power systems, improvement and diversification of gas supply, as well as to the creation of a regional energy market with increased energy security at more affordable prices.

II. Issues of Energy Dependency in SEE and WB

EU dependency on energy imports, particularly of oil and gas, forms the backdrop for policy concerns relating to the security of energy supplies. Indeed, more than half (53.5%) of the EU-28’s gross inland energy consumption in 2014 came from imported sources. As a result of the shortfall between production and consumption, the EU is increasing dependency on energy imports from non-members.

Focusing here only on the energy landscapes of the SEE, one can see that they are very different. At the same time there are many features in common that may constitute strong and weak points, as well as the opportunities and threats. Although the small size of markets the current relatively low energy consumption per capita, gives an indication that the region is moving towards a relevant growth potential.

The region consists of small and fragmented markets, largely dependent on energy imports (for more find the list in Annex A). Natural gas, in particular, is mainly imported from a single source (Russia), via a main transit route (Ukraine). The prevailing gas networks are positioned at the end of import routes and lack interconnectors. The expansion of conventional capacities could be seen as only means that guarantee energy security at reasonable cost.

SEECF participants infrastructure capacities are very limited and prevent a flexible flow of gas. These limited infrastructure options, lack of a regulatory and non-discriminatory market framework result in a situation where any disruption of gas from Russia (through Ukraine route) has a very serious impact. In view of the lack of gas in the energy balance of Podgorica, Pristina and Tirana, the impact of a gas supply disruption can only be indirect – by an increase in the demand for electricity at a regional level.

Another trait in common, is the strongly dependents on crude oil and petroleum. Again, the main source of oil imports is Russia. In addition, domestic lignite and coal is available at very cheap prices, however a large share of the coal and lignite fired power plants either are close to, or have already passed their expected life spans. Investments in regional coal-fired power plants continue, the current relatively low cost of energy is expected to increase in compliance with the requirement of the EU laws (i.e. Large Combustion Plants Directive etc.).

The region’s greatest strength is the large and diverse renewable energy potential. Several recent developments at the EU level will have implications for the expansion of renewables in the SEE region. Almost all the WB6 participants are in an advanced stage of the implementation of the Renewable Energy Directive 2009/28/EC. In October 2014, the

European Council adopted the EU's 2030 Climate and Energy framework, which increases a renewable energy target of 27% at the EU level by 2030, but no longer foresees national binding renewable energy source targets.

The scarcity of sources increases the importance of the identification of priorities for any future development at EnC level. For this reason, the Contracting Parties ("CP") agreed to cooperate in the process of identifying those projects, which have the highest positive impact in the largest possible number of Parties. In 2011, the Ministerial Council invited the Contracting Parties to prepare the Energy Community Strategy within a participatory approach of relevant stakeholders.

The Strategy aimed to provide a brief, synthesized collection of the existing policy goals and plans within the EnC and match it with the main elements of –contracting parties energy strategies. A demand scenario analysis showed how the future energy consumption of CPs may develop and the estimated costs of covering (or not covering) this demand. As part of the work on the EnC's first Energy Strategy performed – with technical assistance sponsored by USAID – three analysis scenarios were selected. These scenarios demonstrate the importance of a regional energy strategy for the EnC.

The Energy Community Strategy acknowledged that the WBs need substantial investments (in the range of EUR 28,8/44.6 billion within the 2020) 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. Due to the economic crisis, public funding was limited and attracting private investment was likely to become more and more difficult.

Furthermore, the CPs – 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, and the scarcity of investment sources necessitates the identification of priorities for future development of electricity, gas and oil infrastructure at the EnC level.

For this reason, the CPs agreed to cooperate in the process of identifying those projects, which have the highest positive impact in the largest possible number of CPs, so called Projects of Energy Community Interest ("PECI"). In November of 2012, the Energy Community Secretariat ("ECS") invited the promoters to submit their project proposals in the area of electricity, gas and oil infrastructure.

In October of 2013, based on the results of assessment, the list of PECI was presented to the Ministerial Council ("MC") for adoption. Thereof on 24th of October, the EnCMC adopted the list of 35 PECI: 14 electricity generation projects, 9 electricity infrastructure, 9 gas infrastructure and 1 oil infrastructure projects were selected due to their importance for the development of energy markets in the region of SEE).

On the other hand, the market reforms are still incomplete and at different levels. A few incumbent companies dominate the power generation. Prices and tariffs are not reflecting the real costs of generation, network operation and supply.

The above mentioned situation, urge to build infrastructure diversify project sand for fostering sector reform in the region, as a prerequisite for energy security. This must be the subject of consistent actions at the highest political levels in SEE, and require a wider cooperation with international partners but first of all a better cooperation in SEERegion.

In this regard, based on the Agenda of General Committee on Economy, Infrastructure and Energy, Pristina has prepared this Report, aiming to contribute on the key dimensions of energy security, solidarity and trust, while also contributing to further strengthen the cooperation –within SEECP and other initiatives as well.

III. Inter-dependency in EU and among SEE &WB

Today, it is a unique political momentum in SEE, for substantial regional cooperation to achieve EU energy policy objectives, with an added impact on local and regional economic development. Concept of Energy Union has largely created a new context for forward-looking, in energy and climate cooperation.

The EU's energy policies are driven by three main objectives: secure energy supplies to ensure the reliable provision of energy whenever and wherever needed; ensure that energy providers operate in a competitive environment that ensures affordable prices for homes, businesses, and industries; energy consumption to be sustainable, through the lowering of greenhouse gas emissions, pollution, and fossil fuel dependence.

A strategy made up of five closely related and mutually reinforcing dimensions (policy areas): security, solidarity and trustfully integrated internal energy market; energy efficiency; climate action - decarbonising the economy; research, innovation and competitiveness. Moreover, the latest proposal on energy, published on 30th of November 2016, has three main goals: putting energy efficiency first, achieving global leadership in renewable energies and providing a fair deal for consumers.

To pursue its goals within a coherent long-term strategy, the EU has formulated targets for 2020, 2030, and 2050. The 2020 Energy Strategy defines the EU's energy priorities between 2010 and 2020. It aims to reduce greenhouse gases by at least 20%, increase the share of renewable energy in the EU's energy mix to at least 20% of consumption, and improve energy efficiency by at least 20%. The EU countries (means also the EU members from the SEE) have agreed to the objectives to be met by 2030 and this is also likely to be adapted for SEE countries close under the EnC framework.

Today, EU imports more than half of all the energy it consumes. Its import dependency is particularly high for crude oil (more than 90%) and natural gas (66%). The total import bill is more than €1 billion per day. Many EU countries heavily rely on a single supplier, including some that rely entirely on Russia for their natural gas. This dependence leaves them vulnerable to supply disruptions, whether caused by political or commercial disputes, or infrastructure failure.

In response to these concerns, the EC released its Energy Security Strategy in May of 2014. The Strategy aims to ensure stable and abundant supply of energy for European citizens and the economy. As part of the Strategy, including all EU countries, carried out energy security stress tests in 2014. The tests showed that a prolonged supply disruption would have a substantial impact on the EU. Eastern EU countries and EnC would be particularly affected. The report also confirmed that if there is a mutual cooperation of parties involved in the test, consumers would remain supplied even in the event of a six-month gas disruption.

Based on the analysis of the stress tests, a number of short-term measures were carried out in preparation of the 2014-2015 winter. Furthermore, the EU's Gas Coordination Group continues to monitor developments in the gas supply throughout the year. The Commission has also asked EU and Energy Community contracting parties to prepare regional energy security preparedness plans, which were reviewed and adopted in 2015.

Unfortunately, even these stress tests highlighted that some of WB's are vulnerable due to their dependence on one supplier. A regional approach in preparing a common contingency plan has not been developed yet, neither between the Contracting Parties nor in cooperation with the EU MSs. Only few contracting parties have prepared their own respective reports, pointing to any coordination undertaken or lack thereof.

The proposed Regulation, in consistence with the Union's goal to strengthen the EnC, state in the premises: *“An electricity crisis might extend beyond Union borders comprising also Energy Community Contracting Parties. In order to ensure an efficient crisis management on*

borders between the Member States and the Contracting Parties, the Union should closely cooperate with the Energy Community Contracting Parties when preventing, preparing for and handling an electricity crisis.”

Chapter VI of the Final Provisions, Article 18, Cooperation with the Energy Community Contracting Parties, specifically provides that : *“Member States and the Energy Community Contracting Parties are invited to closely cooperate in the process of the identification of electricity crisis scenarios and the establishment of risk-preparedness plans so that no measures are taken that endanger the security of supply of Member States, Contracting Parties or the Union. In this respect, EnC Contracting Parties may participate in the Electricity Coordination Group upon invitation by the Commission with regard to all matters by which they are concerned.”*

The Strategy also addresses the long-term security of supply challenges. It proposes actions consisting in five key areas: Increasing energy efficiency and reaching the proposed 2030 energy and climate goals and Increasing energy production in the EU and diversifying suppliers and routes. Completing the internal energy market and building missing infrastructure links to quickly, respond, to supply disruptions and re-direct energy across the EU where it is needed, speaking with one voice in external energy policy, and strengthening emergency and solidarity mechanisms and protecting critical infrastructure.

In this regard, the Treaty Establishing the Energy Community spells out far reaching obligations to its stakeholders. The concept of security of supply encompasses reduction of external dependence, enforcement of transport infrastructure and gas storage facilities and diversification of energy supply. Diversified supply structure puts those in question in a better position to counter threats of sudden energy disruption. It is essential that these efforts do not undermine, but supplement the overall liberalization of the energy markets.

One of the new elements introduced by the Energy Union is the concept of regional energy policy cooperation. Several areas of potential cooperation are mentioned in the Energy Union Package: prevention and emergency plans for energy crisis response; energy system adequacy assessments; regional action plans for electricity interconnections; regional cooperation groups and operational centres for cross-border electricity and gas flow management.

In order to facilitate the technical implementation of the Energy Union, the EC recommends new regional market arrangements for short-term markets in gas and electricity and the integration of the operations of transmission system operators (TSOs). The European Council Conclusions on the Energy Union of March 2015 confirmed the political commitment to *“developing a more effective, flexible market design which should go together with enhanced regional co-operation, including with neighbouring countries.”*

The EC makes the case that better market integration would address the region’s security of supply issues by improving the resilience of the energy system. It would also enhance the sustainability of the energy system by better exploiting existing energy efficiency and renewable energy potentials. To maximise political momentum, is vital the regional approach to EU energy policies.

IV. “Missing Links” within the Region and EU

To protect against gas disruptions, EU is working with those along supply routes to prevent supply disruptions as also building new transit routes such as the Southern Gas Corridor to diversify its supplies by bringing gas from the Caspian countries. An initiative proposed, in

its first time, by the EC's Communication in the "Second Strategic Energy Review" at the 2008.²

In the same document, the Commission proposes also the following with the priority the North-South Gas Interconnections and Oil supply, within Central and South-East Europe". Among others, states the need to be developed as a priority "*the building, notably on the New European Transmission System (NETS) initiative to create a common gas transmission system operator and the Energy Community Gas Ring*". Priority interconnections identified by the Energy Community ministerial in December 2007.

Two thirds of the world's proven gas reserves lay in Russia, as well as in the Caspian Sea regions and the Middle East, reserves that are enough to cover European demand for many decades to come. Actually, Europe currently relies only on Russian gas supplies. Therefore EU, has realized the strategic need to diversify its gas supply via Southern Gas Corridors. In which the Trans Adriatic Pipeline ("TAP") is foreseen the completing of the last part as the shortest gas transit route toward the Europe.

The TAP project, proposes simply the most direct, logical and cost-effective connection for transportation of natural gas from the Caspian - starting at the Turkish - Greek border, transiting Greece, Albania and the Adriatic Sea, and coming ashore in Southern Italy, filling the "missing link" to bring new gas supplies from the Caspian region, energy source. The Shah Deniz Consortium plans the first gas deliveries to Georgia and Turkey in late 2018; the first deliveries to Europe will follow approximately a year later.

At its arrival point in Southern Italy, TAP will connect with the national grid operated by Snam Rete Gas reaching the Italian virtual trading point from which all gas exits can be accessed to the rest of EU. The pipeline will give a Europe better access to the major reserves of natural gas located in the Caspian region and beyond. Above all, it will play an important role also in securing natural gas supplies in a period of crisis: that have made the pipeline project design to include physical reverse flow up to 8bcm.

Secondly, TAP is a logical element in a value chain, connecting existing and planned grids for natural gas transport in SEE with gas systems in Western Europe. The SEE is one of the region, which will benefit the most from the South Gas Corridor ("SGC"). SEE region depend heavily on Russian gas imports. For example, Sarajevo and Skopje rely on Russia for 100% of all domestic demand, Belgrade for 88%, and Zagreb 39%. Others, such as Tirana, Podgorica and Pristina are not yet connected to the gas grid and are reliant on the variability of renewable resource or oil and coal as their primary fossil energy sources.

In addition, SEE's strong economic growth is generating even higher energy demand. Coupled with the region's collective aspiration to EU membership, this means that it can opt not only in a more energy supply, but also in a more environmentally balanced energy portfolio, too. It will also enable the region to connect to new gas sources such as those in northern Africa as well as the gas market in Italy. All make to promote of economic development and political stability.

²The Commission among its six priorities infrastructure actions proposes: "*A southern gas corridor must be developed for the supply of gas from Caspian and Middle Eastern sources, which could potentially supply a significant part of the EU's future needs. This is one of the EU's highest energy security priorities. The Commission and Member States need to work with the countries concerned, notably with partners such as Azerbaijan and Turkmenistan, Iraq and Mashreq countries, amongst others, with the joint objective of rapidly securing firm commitments for the supply of gas and the construction of the pipelines necessary for all stages of its development*".

Modern energy infrastructure is crucial for the EU to integrate its energy market and to meet its energy and climate goals. To help build and finance important energy infrastructure, the EU identified a number of priority corridors under its Trans-European Networks (TEN-E) strategy. These corridors require urgent infrastructure development in order to connect EU countries currently isolated from European energy markets, strengthen existing interconnections, and help integrate renewable energy.

Based on the priority corridors, the EU draws up a list of Projects of Common Interest (“PCI”s). The projects selected, to be updated every two years, can take advantage of a number of benefits including faster permitting procedures and applying for funding from the Connecting Europe Facility. In 2014, in its European Energy Security Strategy, the Commission suggested extending its 10% electricity interconnection target by 2020 to 15% by 2030.

The above assessment permits the reaching of the core of the presentation of investment in infrastructure. By virtue of Decision D/2015/09/MC-EnC, the Ministerial Council adopted the Regulation (EU) 347/2013 with certain adaptations in Oct 2015. To priority infrastructure projects referred as PECIs projects of EnCin compliance with the adapted Regulation 347/2013, has joined the Projects of Mutual Interest (“PMI”). A year later, the 14th Ministerial Council adopted the list of 2016 PECIs and PMIs, along with a recommendation, to treat PMIs the same way as PECIs. (The 2016 PECI list is shown in Annex B).

In order to facilitate the development and implementation of infrastructure project, the EnC plans to strongly, encourage regulatory measures in order to remove the barriers to investment. Such measures may include enhanced dialogue and cooperation between regulatory authorities, particularly in the case of joint projects, permitting procedures, information for decision makers, cost-benefit analysis, incentives for projects with a joint impact, and others.

The interconnection of the SEE already in work need additional infrastructure to fill the gaps in the regional network, i.e. the upgrade and maintenance of electricity interconnectors as well as natural gas interconnectors with reverse flow capacity. An obvious area is to increase the coherence between the lists of PCIs and the PECIs and align them with other initiatives for example the Central and South-eastern European Gas Connectivity (“CESEC”) priorities, by agreeing on a ‘top’ priority list of projects.

Therefore, a Memorandum of Understanding on a Joint approach to address the natural gas diversification and security of supply challenges was signed on 10th of July 2015 as part of the CESEC initiative. The signatory countries expressed their commitments to jointly, resolve challenges related to security of gas supply and promote source diversification by implementing coordinated measures that should enable regionally optimal results.

Under the MoU, the signatories expressed their readiness to sustain the necessary political commitment to oversee the full and timely implementation of the CESEC. Action Plan, which includes selection of a limited number of key projects benefiting the CESEC region, identifying and addressing project-specific challenges, financing aspects, including the role of the European Investment Bank and the European Bank for Reconstruction and Development, addressing market integration challenges.

At the Vienna Summit on 27th of August 2015, the Western Balkans 6 Initiative (“Berlin process”) six CPs of the Energy Community in SEE, namely Tirana, Sarajevo, Pristina, Skopje, Podgorica and Belgrade decided to take steps to improve energy connectivity in the region by facilitating investments and prioritising electricity market development.

V. Effort to Create Liberalized Regional Electricity Market

The electricity market has fundamentally changed since 2009 when the Third Internal Energy Market Package was introduced. Through common energy market rules and cross-border infrastructure, energy can be produced in one EU country and delivered to consumers in another.

The WBs, representatives of transmission system operators, regulatory authorities, ministries of energy and power exchanges of the Western Balkans 6 (“WB6”) participants signed a Memorandum of Understanding on Regional Electricity Market Development, thus establishing a Framework for future cooperation (WB6 MoU) in Vienna, on 27th of April 2016. Notwithstanding, the openness of the MoU for signature by additional WB6 and EU neighbouring stakeholders which are willing and expected to assume a role in the market integration projects, the signature of Pristina representatives is pending the entry into force of the Connection Agreement between KOSTT and the relevant ENTSO-E members.

The above MoU sets out the general principles of cooperation as well as concrete actions to develop the regional electricity market, governance of its implementation projects and details of key technical solutions. Concretely, the MoU aims to implement the coupling of local organised day-ahead markets with at least one neighbouring WB6 participant or EU country by July 2018 and balancing cooperation between the WB6 participants by December of 2018. However, the proposal to cover this measure under an additional annex to the MoU on security of supply issues is still under discussion.

The Paris Summit of 4th of July 2016 reemphasised the need for closer cooperation on a regional level and integration of the markets of the WB6 into the pan-European one. Concretely, a dedicated roadmap was agreed, for setting up of a regional market for electricity connecting the WBs to the EU’s internal energy market. An implementation of the deliverables that will be reflected in the EU’s future funding decisions. In this context, a Grant Contract for technical assistance for connectivity was concluded between the EC and the Energy Community Secretariat in June 2016.

The technical assistance is targeting the implementation of the soft measures, at regional and local level. The regional measures consist of establishing spot markets (power exchanges) and their coupling, a regional balancing market and regionally coordinated capacity allocation and calculation. The local measures mainly focus on removing obstacles to regional electricity market development, by creating the appropriate market and regulatory framework. Later, on September and November of 2016, a Programme Steering Committee for the Day-ahead Market Integration (DA MI PSC) was constituted, and two meetings of DA MI PSC took place due to the engagements of the WB6 MoU’s signature on 27th of April 2016.

Closer cooperation between Western Balkan 6 participants and EU Member States can be achieved through joining the relevant neighbouring EU Member States’ entities to the governance and implementation projects resulting from the signing of the mentioned Memorandum. This would play a decisive role in reaching the regional implementation targets. For this reason, the Italian regulator has already signed the WB6 MoU, while other EU Member State entities are also considering becoming signatories.

Invite participants to overcome disputes in operational and commercial area and ensure implementation of mutual agreements in this regard.

Lastly, speaking at the event “Shifting into a higher gear for Central and South East European energy market integration” on 2nd of February, outlined that in order to reach the goal of establishing a common trading area in South East Europe, a number of existing issues, such

as the implementation of network codes, still require a sound legal solution, in particular for the interfaces between Member States and Contracting Parties. Extended scope of CESEC could be beneficial in fostering proper solutions to these issues.”

VI. Need to Well-integrated Competitive Pan European Gas Market

Central and South-Eastern Europe have mostly limited gas source diversity due to historical lock-in to long-term supply contracts from a single supplier and missing interconnections or alternative sources. Effective regional cooperation has been recognized as key to achieving the region’s energy policy objectives and addressing challenges that EU Member States and Energy Community Contracting Parties face in the gas sector.

It does not have to be re-emphasised that security of supply does not only depend on available network capacities and grid interconnectivity, but is also a function of competitive and well-integrated gas markets. Completing gas market reforms in Ukraine must, in this context, be considered as an indispensable pillar of any future European gas market design in Central East Europe (and beyond) as related steps in the WBs CPs are for South East Europe, and vice versa.

Then, first and foremost, underlines the need for European gas market reforms to go beyond the mere EU borders and provide a legally and conceptually holistic approach for the entire gas system of Continental Europe, including the Contracting Parties. In this context, it is to be noted that the Treaty Establishing the Energy Community (“EnCT”) already provides a legal framework for meeting the aforementioned reciprocity requirement.³

Achieving a true level playing field between CPs and EU and, thus enabling successful delivery of existing and future European gas market strategies requires a number of Treaty reforms that should be made a central part of the future European gas market strategy ‘*Quo vadis EU gas market regulatory framework*’ discussions. The SEECP PA, in this case urges EU policy makers and SEECP to overcome manifold deadlocks experienced for security of supply, gas market integration and market liquidity in the EnC Region.

First of all, by creation of equal conditions and ensuring reciprocal obligations between Contracting Parties and EUMS, including their authorities and market participants.

Then, by assuring clear and uniform decision-making rules, also rights. Single regulatory decision making competence for cases involving a Contracting Party, should be introduced provided CPs’ regulators being granted the same rights and powers within ACER as a regulatory authority of a MS and provided the relevant CP complies with the aforementioned level playing field conditions.

Gas transmission tariff reforms, establishment of a single or, at least, regional entry-exit zone(s), abolishment of price differences via zonal merger: gas import prices at Energy Community are higher compared to those of neighbouring EU countries and proof that lack of market interconnectivity and market integration allow gas suppliers to exercise significant market power.

At the same time, tariff levels at interconnection points, bringing spot gas to Central and South East Europe (including the Contracting Parties) are critical for competition and market integration. Tariff reforms must be undertaken to abolish these shortcomings and address the limiting factor for bringing new gas sources to markets resulting from pancaking of tariffs that is specifically relevant for the multiple small markets in the Title III EU EnC Region.

³Namely, legislative acts included in the Energy Community acquiscommunautaire based on Title III of the Treaty develop legally binding measures for all EnC and neighbouring EU members (hereinafter: ‘Title III EU EnC Region’).

Increasing variability of gas flows by improving system use and interconnectivity: various analytic studies rightly outline the availability of and access to gas infrastructure as indispensable precondition for increasing variability of gas flows, including the adequate connection of LNG terminals. Then, there is the need to overcome the persisting failure of MSs neighbouring CPs to comply with EU legislation; and replacement of the existing artificial separation and legal eligibility conditions for PCI in the EU and EnC.

Delivering ample investments: gas markets in the EU and the Energy Community should allow that ample and competitive supply would be secured to flow to Europe, given a worldwide increase in gas demand. A well-designed regulatory framework must ensure that investments in gas networks will be delivered in spite of the uncertainty of future gas demand and its changing patterns.

Lastly, there is a need of integration of varieties. Even the discussion papers shared by the EC on the preparation of a study "*Quo vadis EU gas market regulatory framework*", rightly acknowledge that the gas markets across the EU are at different level of maturity – this is even more the case for the EnC. A properly designed gas market will recognize regional differences to reach common objectives.

VII. Further Reforms on Renewable Energy Deployment

[The EU's Renewable energy directive](#) sets a binding target of 20% final energy consumption from renewable sources by 2020. On 1 February 2017, in its Second State of the Energy Union Report, European Commission rules that in terms of greenhouse gas emissions, energy efficiency and renewable energy, Europe is on track to reach its 2020 targets. By using more renewables to meet its energy needs, the EU lowers its dependence on imported fossil fuels and makes its energy production more sustainable.

SEE is at a pivotal moment in deciding on the optimal strategy for achieving a future with reduced carbon emissions and clean, sustainable power sources to drive future economic growth. The broad region – encompassing the new European Union (EU) member states and others in the EU-led Energy Community – has adopted near-term renewable energy targets for 2020. It also aims to align itself with the EU commitment to achieve at least 27% share of renewables in energy consumption by 2030. Renewable energy development is still at an early stage in South East Europe. The energy systems vary significantly across the region in terms of the energy resource base, indigenous energy production vs. energy import dependency, and the energy supply mix. Apart from the large hydropower capacity, mostly constructed several decades ago, renewables have just started to take off. Bulgaria, Romania and Ukraine are the only ones in the region that already have significant solar PV and wind energy capacity, with this totalling some 7.8 GW in 2015.

The major identified barriers include: the absence of a long-term strong and stable renewable energy policy environment in the region; inadequately designed Power Purchase Agreements (PPAs) that do not meet investor requirements; high administrative barriers, adding to transaction costs for businesses; and a lack of sufficiently attractive and consistent renewable energy support systems. In addition, several technical challenges exist, such as grid limitations and insufficient experience with the grid integration of variable renewables.

With improved economics and a better understanding of renewable energy technologies (RETs), the different RES options are taken more seriously in SEE. The costs of renewable energy technologies continue to fall; however, this could not be captured efficiently in most of the support schemes currently in use. The State Aid Guidelines for Environmental Protection and Energy 2014-2020 call for more exposure of renewable energy producers to

market signals. Access to support schemes has to be granted by a competitive auction process where the demand reveals the real cost of individual projects.

Certain progress has been made in Western Balkan with the preparation of legislation introducing market-based support schemes, e.g. in Albania and Montenegro. In terms of concrete implementation, however, the delay in the establishment of organized day-ahead markets and the complexity of the new auction scheme will put additional pressure on the administrative capacity. Citizens shall be able to exercise their rights in the political, economic and social dimension of energy policy. The WB6 participants should implement effective strategies and legislation allowing citizens to play an active role in the energy system, for example by producing energy from renewables and in demand side management. The promotion of community energy projects is important as it develops the local economy, contributes to energy independence and increases acceptance of renewables.

The region already possesses solid foundations to attract large-scale investment in renewables, but more needs to be done to ensure a successful energy transition, such as strengthening enabling policies as well as regulatory and institutional conditions, and providing strong support schemes for renewables. Despite some on-going activities in the region, the WB6 participants are still lacking fully qualified experts, and it is recommended to take a coordinated approach to the requirements established in different directives.

Finally, existing renewable energy, development plans may also need to be revised. Renewable energy targets for 2020 have been introduced throughout the SEE, and to achieve the required penetration level per the targets set. Most of these plans, however, face challenges in implementation unless the current policy and regulatory frameworks are strengthened. In addition, in line with recent developments in the European Union (EU), new commitments up to 2030 are expected.

VIII. Improvement on the Governance of Energy Efficiency

Energy Efficiency is often described as the EU's biggest energy resource, the "first fuel", as it is competitive, cost effective and widely available. Energy efficiency will also enhance energy security, while at the same time decreasing emissions. This is why the EU has ambitious energy savings targets for 2020 and 2030, and 'energy efficiency first' is one of the principles of the Energy Union project.

Through their participation -at the Energy Community, the WB Contracting Parties have already committed to adopting EU Energy Efficiency rules, norms and standards. The energy intensity of the WB region is very high compared to the average of the EU. Notwithstanding the significant progress made over the past 15 years and declined by approximately 20% - 25%, the WB6 remain 3 times more energy intensive than the EU28 at large and 1.6 times more than new member states from Central and Eastern Europe ("CEE").

WB region, therefore have an efficiency potential unrivalled in Europe. Various IEA and World Bank estimates point to potential savings in the WB6 of up to 10% in the transport sector, 10- 35% for households, 35- 40% in the public sector, 10-30% in services and 5- 25% in industry and commerce. Tapping it will contribute towards much-needed economic growth and reduce reliance on imported hydrocarbons. In monetary terms, public buildings and households alone could yield savings valued at €805 million by 2020 according to the EnC.

Lately, the EnC Energy Efficiency Coordination Group ("EECG") has been mainly focused on National Energy Efficiency Action Plan ("NEEAP") for reduction of energy consumption through EE measures for the achievement of EE objectives at local level for each WB6

participant. In order to fulfil their obligation, WB6 participants are engaged to fully transpose into their EE legislation the Energy Efficiency, Energy Performance of Buildings, Energy Labelling of Products EE Law, EPB Law.

However, a proper legal framework is only part of the story. The necessary efficiency investment must be financed for the potential to be harvested. Besides, it is necessary that the capacities of the institutions for implementation of the energy efficiency policy and following of its effects, be strengthened. The EU, international financial institutions, and donors have all made substantial contributions to make dedicated energy efficiency finance available and affordable. They have also worked to create the right framework to encourage efficiency investments, and to build up capacity to manage these investments.

In addition, the EC is providing a €30 million grant to implement the next phase of the Regional Energy Efficiency Programme (REEP). On 9th of February 2017, European Neighbourhood Policy and Enlargement Negotiations Commissioner Johannes Hahn signed an agreement in the amount of 50 million euros with international financial institutions (EBRD, EIB and KfW) at the Western Balkan 6 energy ministerial in Skopje. The grant will assist Western Balkan 6 participants in preparing or upgrading their energy efficiency laws, support energy efficiency measures, help municipalities to attract private investment in the public sector and, finally, provide incentives to soften the investment burden on consumers.

Then, much more remains to be done that SEE to reach EU energy efficiency standards. The regulatory framework must be improved to facilitate investment. Initiatives are needed to bring in new actors and impact markets such as the residential sector or develop waste-to-energy. The region's leaders should embrace the 'energy efficiency first' principle to improve the energy security, and seems that we WBs are still only at the beginning to reach the EU's engagement in this sector.

IX. Forward Moving Final Proposes of the SEECF PA

The SEE regional cooperation has the potential to build an effective security of supply strategy and to improve the resilience of energy systems. While some decentralisation is important to allow for region-specific solutions, in the absence of an EU framework to offer guidance it is not self-evident that regional initiatives will be automatically in line with EU energy objectives. Then, both the 'European framework' and the region-specific 'master plan' would need a trust and political support for regional governance structures in South East Europe, which are currently missing.

To support mutual trust building and to gradually help, to develop robust governance, there are recommended voluntary opt-in to address geographical definition. In the past, regional energy cooperation initiatives in South East Europe have been held back, *inter alia* because of political fragmentation and the inability to agree on a geographical definition. While all the SEECF participants have an interest in natural gas, it is not clear whether other priorities will be shared too.

To avoid operating at the lowest common denominator on issues beyond natural gas, a voluntary opt-in mechanism is suggested to allow others to join specific 'thematic groups' on various issues of concern. Several thematic group topics could be envisaged: response coordination to natural gas and electricity supply disruptions; electricity and natural gas market integration and coupling; electricity infrastructure development; cooperation on renewable energy; energy efficiency; and heating and cooling, etc.

To further moving forward, there is a need of an external dimension of regional cooperation. While the ‘SEE regional initiative’ is firmly embedded in the EU and EnC framework(s), activities in the region influence the whole area. A step towards a ‘mechanism for cooperation’ is the adopted EU Energy Diplomacy Action Plan signed on 20 July 2015 as part of the Foreign Affairs Council Conclusions. The plan includes a commitment by the EU to “develop specific proposals for common EU messages on energy diplomacy”.

However, there is nothing to stop EU member states from drawing up regional plans with non-EU members. A statement by European Commission Vice-President Maroš Šefčovič that candidates and potential candidates from WB can become Energy Union members before becoming EU members at an EnC Conference held in Sofia on September 2015, signals a determination to seek the formal engagement of non-EU members in European energy cooperation initiatives.

Further, the SEECP can contribute to strengthening enforcement of EU laws, to both for EU members and EnC contracting parties. The role of SEECP could be advanced to support building better policy climate and cooperation between its participants to reduce energy dependency and further to build capacity, notably in the area of internal market implementation but also energy efficiency, renewables, and district heating.

A contribution may also come through aligning financial support with priorities in regional cooperation. A regional cooperation framework could provide for a gradual convergence of existing financial instruments eventually making it easier to finance regional projects between EU and non-EU members through a single financing instrument. A single financing instrument, for inter-projects, would need to address the issue of project aggregation, for example in energy efficiency, distributed generation or energy cooperatives.

Other output may come by addressing energy poverty issues. The recent report assess arising levels of energy poverty in the region related to the fact that by the end of 2016 regulated prices should be phased out, which has aggravated fears of increasing electricity prices. Energy poverty in the region is also partly related to the energy inefficiency of buildings, including ageing housing stock, poor insulation, and lack of individual metering.

Further contribute may be given in the governance, providing by SEECP guidance and framework for regional cooperation. There have been various attempts to enhance regional cooperation in SEE. The most notable ones are the EnC and CESEC. They apply different tools, while common policies on energy related issues are not yet formulated. The SEECP has the potential to create better policy atmosphere for cooperation in this area especially in implementing projects related to priority areas for common policies.

In conclusion, what here above proposed, should aim to make the energy markets work better and help the region meet its targets as well as allowing new business models to emerge, and empower consumers. All proposals made with purpose to aim toward reducing the dependency on energy imports. Our region is on the brink of energy revolution, and we can only get this right if we work all together!

In this regard, it is useful not to forget that the energy cooperation field was itself at the birth of the EU, which developed rules to pool coal, steel and nuclear power. This was a powerful tool for reconciliation in Europe. Working together on energy systems can play a similar role in South-Eastern Europe as an example of regional co-operation and reconciliation at work. Now we have to count on this assemble and the representatives of all our SEECP participants to make it a reality!

Annexes

Annex A

Statistics on energy dependency along the 2015 in EU, and SEE member and not- member EU (source EUROSTAT).

EU (28 countries)	54.1
Belgium	84.3
Bulgaria	35.4
Czech Republic	31.9
Denmark	13.1
Germany	61.9
Estonia	7.4
Ireland	88.7
Greece	71.9
Spain	73.3
France	46.0
Croatia	48.3
Italy	77.1
Cyprus	97.7
Latvia	51.1
Lithuania	78.4
Luxembourg	95.9
Hungary	55.6
Malta	97.3
Netherlands	51.9
Austria	60.8
Poland	29.3
Portugal	77.4
Romania	17.1
Slovenia	48.7
Slovakia	58.7
Finland	46.8
Sweden	30.1
United Kingdom	37.4
Iceland	16.5
Norway	-585.9
Switzerland	:
Turkey	77.5
Western Balkans (6 participants)	30.24
Montenegro	29.8
Former Yugoslav Republic of Macedonia	52.6

Albania	14.0
Serbia	27.2
Bosnia and Herzegovina	:
Kosovo*	27.6

Annex B - List of Projects of Energy Community Interest

The table below lists the Projects of [Energy Community Interest 2016](#) based in the Decision 2016/11/MC-EnC of the 14 Oct 2016

No	Project ID	List of PECEI in Electricity
01		Transbalkan corridor consisting of the following five PECEI projects:
	El_1	400 kV OHL Resita (Romania) - Pancevo (Serbia)
	El_1	400 kV OHL Kragujevac (Serbia) - Kraljevo (Serbia)
	El_1	400 kV OHL Obrenovac (Serbia) - Bajina Basta (Serbia)
	El_1	400 kV OHL (Bajina Basta (Serbia) - Visegrad (Bosnia and Herzegovina) - Pljevlja (Montenegro)
	El_3	Grid section in Montenegro
02	El_13	Interconnection between Albania and former Yugoslav Republic of Macedonia: 400 kV OHL Bitola-Elbasan

No	Project ID	List of PECEI in Gas
01	Gas_09	Serbia - Bulgaria Interconnector
02	Gas_11	Serbia - former Yugoslav Republic of Macedonia Interconnector
03	Gas_13	Albania - Kosovol Interconnector

No	Project ID	List of PECEI in Oil
01	Oil_01	Ukraine - Poland oil pipeline (Brody - Adamowo)

Annex C - List of Projects of Mutual Interest

The table below lists the [Projects of Mutual Interest](#) between Contracting Parties and Member States of the European Union based in the Recommendation 2016/01/MC-EnC of the 14 Oct 2016

No	Project ID	List of PMI in Electricity
01	El_06	Interconnection between Romania and Republic of Moldova: Back to back station on 400 kV OHL Vulcanesti - Issacea and new 400 kV OHL Vulcanesti - Chisinau
02	El_09	Interconnection between Ukraine and Slovakia: Rehabilitation of 400 kV OHL Mukacheve - V. Kapusany

No	Project ID	List of PMI in Gas
01	Gas_02	Bosnia and Herzegovina - Croatia Interconnector (Licka Jesenica-TrzacBosanska Krupa)
02	Gas_03	Bosnia and Herzegovina-Croatia Interconnector (Zagvozd - Posusje – Novi Travnik with a main branch to Mostar)
03	Gas_04B	Greece - former Yugoslav Republic of Macedonia Interconnector
04	Gas_10	Serbia - Croatia interconnector
05	Gas_14	Development of a new Poland-Ukraine reverse flow connection
06	Gas_15	Development of Hungary-Ukraine reverse flow (new firm capacity)
07	Gas_16	Interconnection Croatia - Montenegro - Albania (IAP)
08	Gas_18	Interconnector Romania - Republic of Moldova (Ungheni - Chishinau)