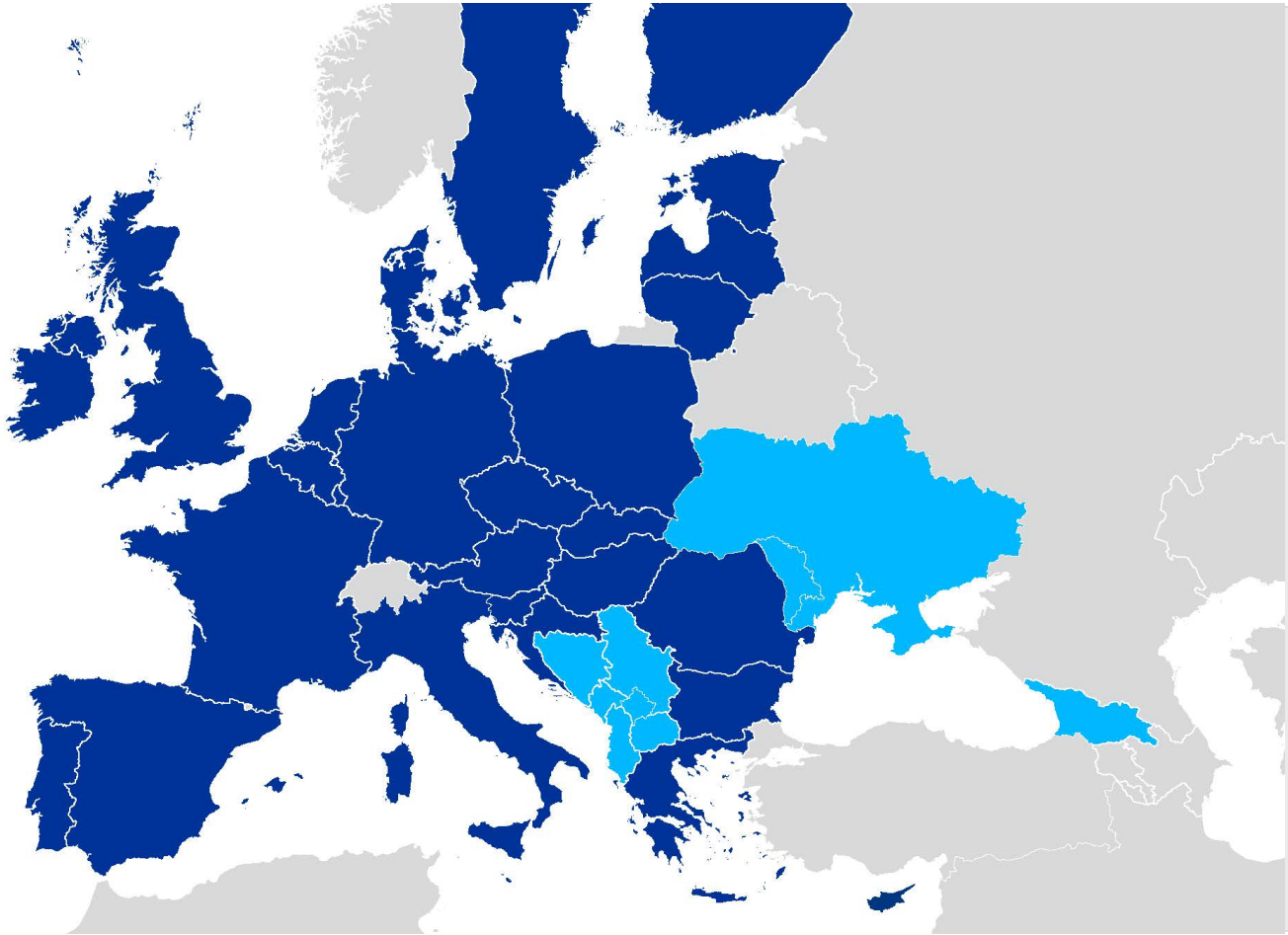
Towards clean, secure and affordable energy systems in Southeast Europe

Vienna 16 November 2018, organized by Agora



Internal energy market

Is it really?

Critical issues in Western Balkans – needed action

- ***Resistance to establish electricity market***
- ***Legal gap between EU and Energy Community CPs***
- ***Fossil fuel subsidies vs. RES subsidies***
- ***High country risks – high capital costs***
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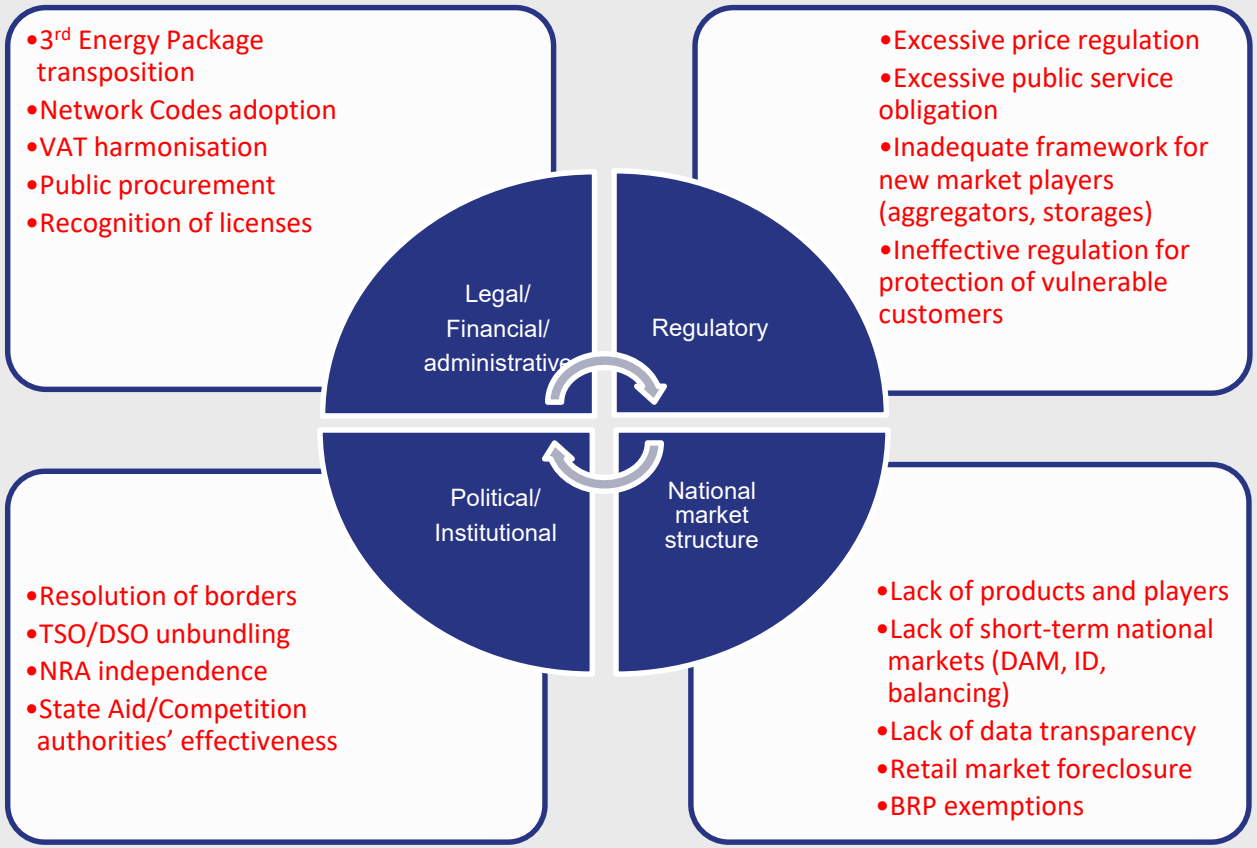
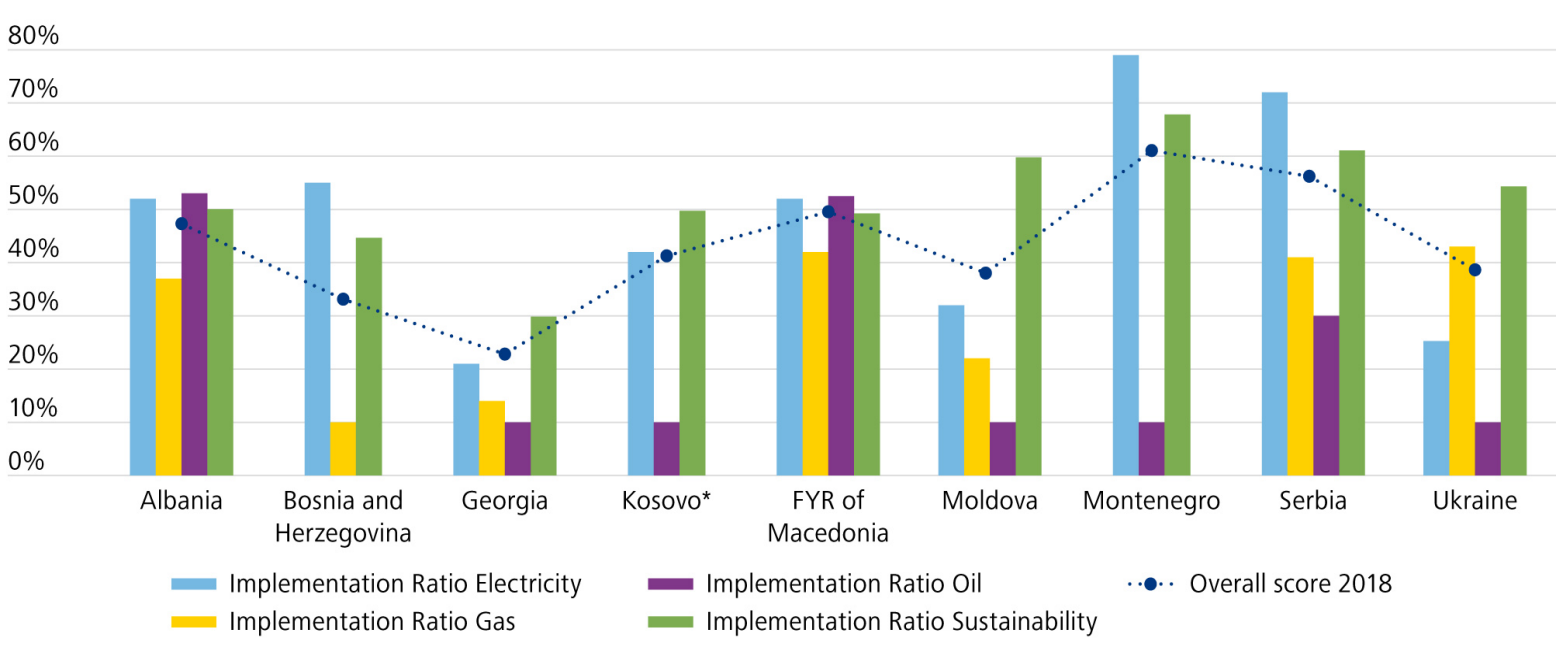
- ***Underestimated state aid***
- ***No job transformation policy, no hope for fossiles***

Vicious circle of challenges to cross-border cooperation -



Implementation indicator



Impact on social welfare – the case of SEE region 2016

Benefits of cross border trading

(integrated Vs isolated markets)

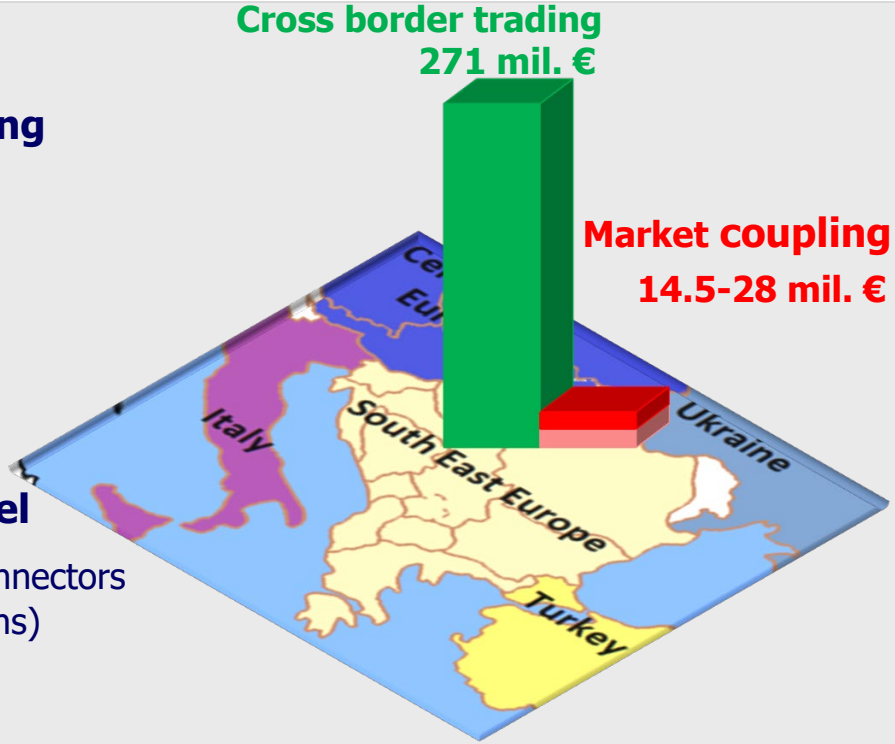
271 mil. € on annual level

Benefits of market coupling

In range of:

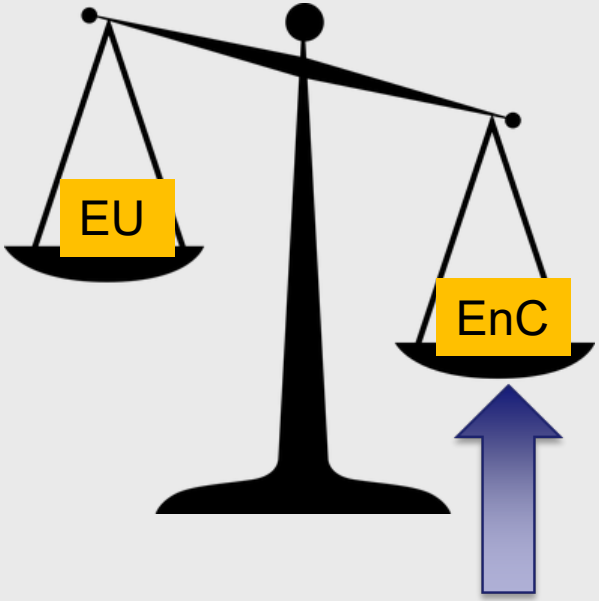
14.5 - 28 mil. € on annual level

(for 10%-20% more efficient interconnectors utilization compared to explicit auctions)



The main finding is that the gains from market coupling implementation are considerable in absolute terms, and at least an order of magnitude larger than the costs; still, it should be recognized that they are rather modest compared to the total value of wholesale turnover

Challenges for the beginning of second transition in the EnC



- No liquid markets
- Higher risk premium
- Years of low regulated prices and non investment create security problems and energy intensity

Rule of law
Donors coordination
Conditionality

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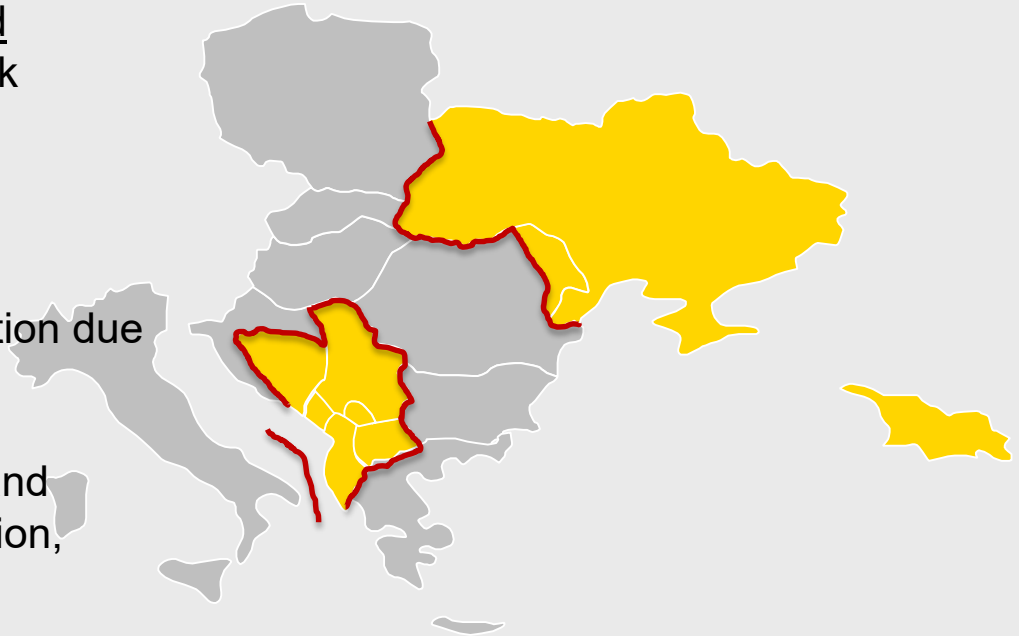
Legal gap between EU and Energy Community CPs

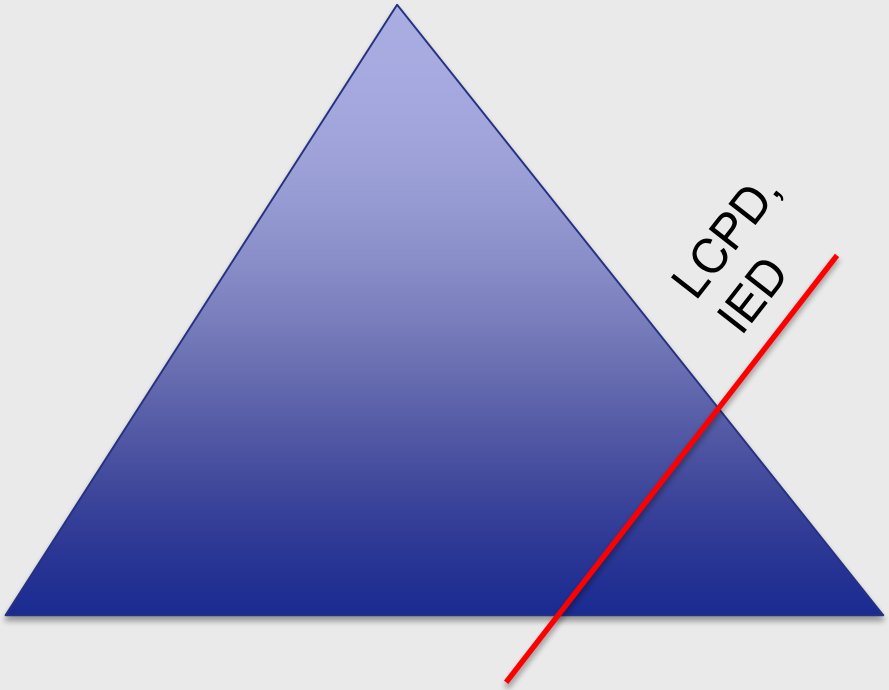
- For EU MSs Contracting Parties are „third countries“, thus implementation of network codes only voluntary
- No cross border cost allocation
- SoS Regulation – postponed implementation due to same non-solved interfaces
- Missing acquis: VAT Directive, State aid and Competition acquis, Governance Regulation, SoS Regulation, ETS Directive



Cases: BG ban on export of electricity 2017, CO2 leakage, state aid in planned Kosovo C and Tuzla 7 coal power plants

Challenges of policy integration – second transition

Energy efficiency
EED, EPBD, ELD



2020:
20 – 15 – 0

2030:
?

Renewables
RES Directive

CO2
ETS, Governance
Regulation

CARBON PRICE DEVELOPMENTS IN THE EU ETS

Source: M. Voogt, Using carbon pricing to support coal transition in the WB, 2018

*In the past years, prices on the European carbon market did not have a significant impact on new investments in the energy sector. This is changing → **new ETS regime** with improved stability measures leading to **higher prices level***

***Carbon price** need to be incorporated also **in the power sector of WBs** (e.g. carbon tax or ETS) → global climate shift is already making it difficult to attract financing or insurance for TPP with high carbon footprint. Power companies in the WBs are currently faced with this challenge (e.g. Kosovo, BiH, Serbia)*

REGIONAL COOPERATION UNDER NECPs

Art. 3 of the adopted **Recommendation** on preparing for the development of integrated National Energy and Climate Plans (NECPs) focuses on **Regional Cooperation:**

*1. National plans should **complement and where possible reinforce each other**, using **national strengths to address regional challenges** in the most secure and cost-effective way. Contracting Parties should identify areas suitable for joint or **coordinated planning** and **consult with each other** early on in the preparation process. Particular attention should be paid to ensuring a **coordinated approach** concerning the development of **new energy resources and infrastructures**.*

*2. **Coordination of national policies** should also prevent adverse incentives, allow for **exploiting synergies** and **mitigate inconsistencies** between national policies of CPs. National Plans should therefore contain an assessment of how the envisaged objectives and policies in the plans will **impact on other Contracting Parties** and how **cooperation across policy areas** and sub- sectors should be strengthened*

*3. The Secretariat should actively engage in the process and **support cooperation** activities described above, including **through the Energy and Climate Committee**. In particular, the Secretariat should facilitate timely **consultation** between Contracting Parties on the draft national plans.*

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Fossil fuel subsidies in the WB6

Contracting Party	Estimated fossil fuel subsidies (% of GDP) 2005-2009	Energy subsidies (% of GDP) 2015
Albania	7-8%	1.9%
BiH	9-10%	37%
FYR of Macedonia	8-9%	18.7%
Kosovo*	35-36%	N/A
Montenegro	10-11%	16.7%
Serbia	7-9%	34.7%

Source: adapted from 'Fossil Fuel Subsidies in the Western Balkans', UNDP, 2011 and REN 21 "Renewable Energy Status Report", UNECE, 2017

Fossil fuel subsidies

- ***Direct financial transfers – grants to producers; grants to consumers; low-interest or preferential loans to producers.***
- ***Preferential tax treatments – rebates or exemption on royalties, duties, producer levies and tariffs; tax credit; accelerated depreciation allowances on energy supply equipment.***
- ***Trade restrictions – quota, technical restrictions***
- ***Energy-related services provided by government at less than full cost – direct investment in energy infrastructure; public research and development.***
- ***Regulation of the energy sector – demand guarantees and mandated deployment rates; price controls; market-access restrictions; preferential planning consent and controls over access to resources.***
- ***Etc.***

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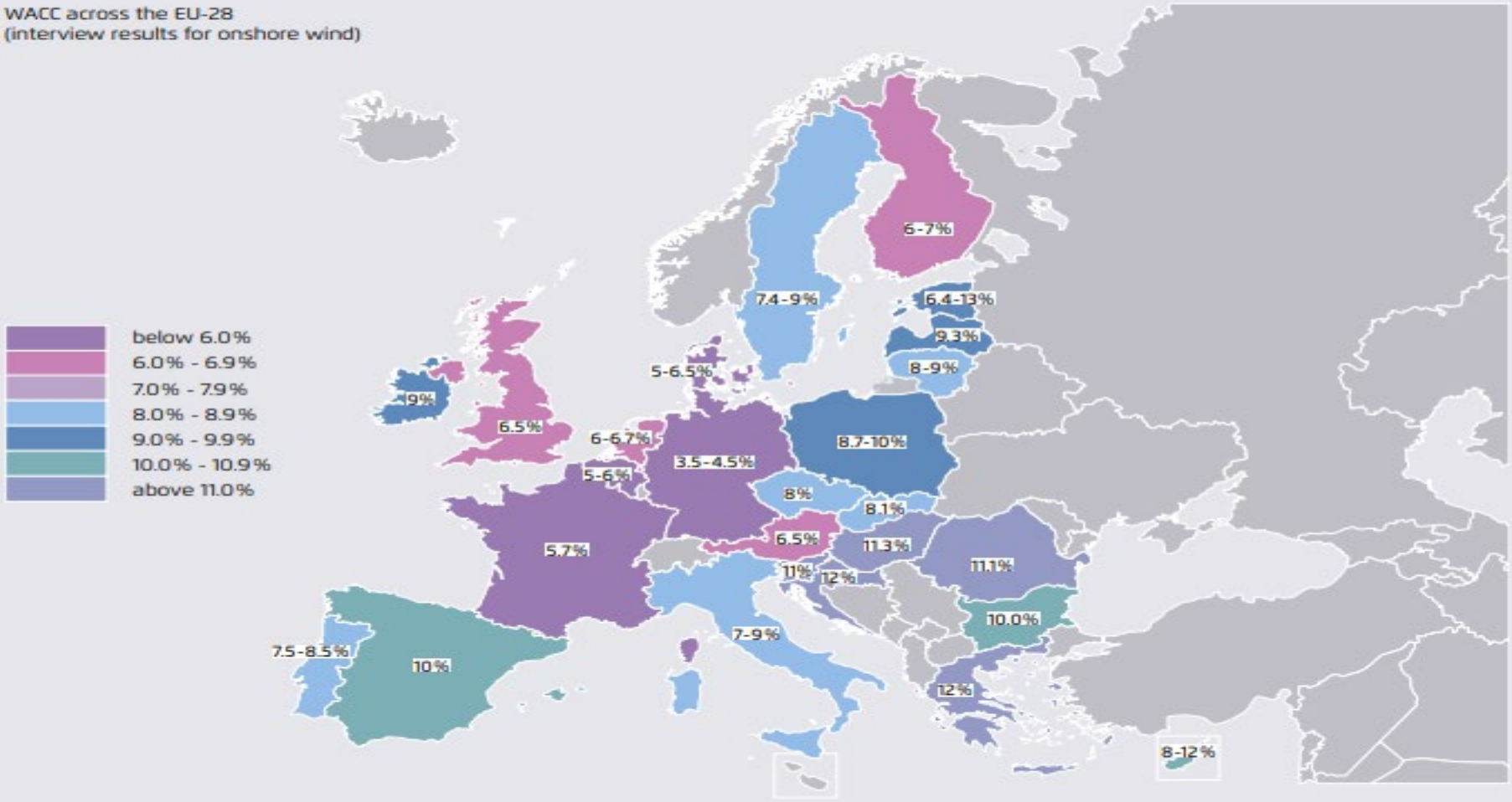
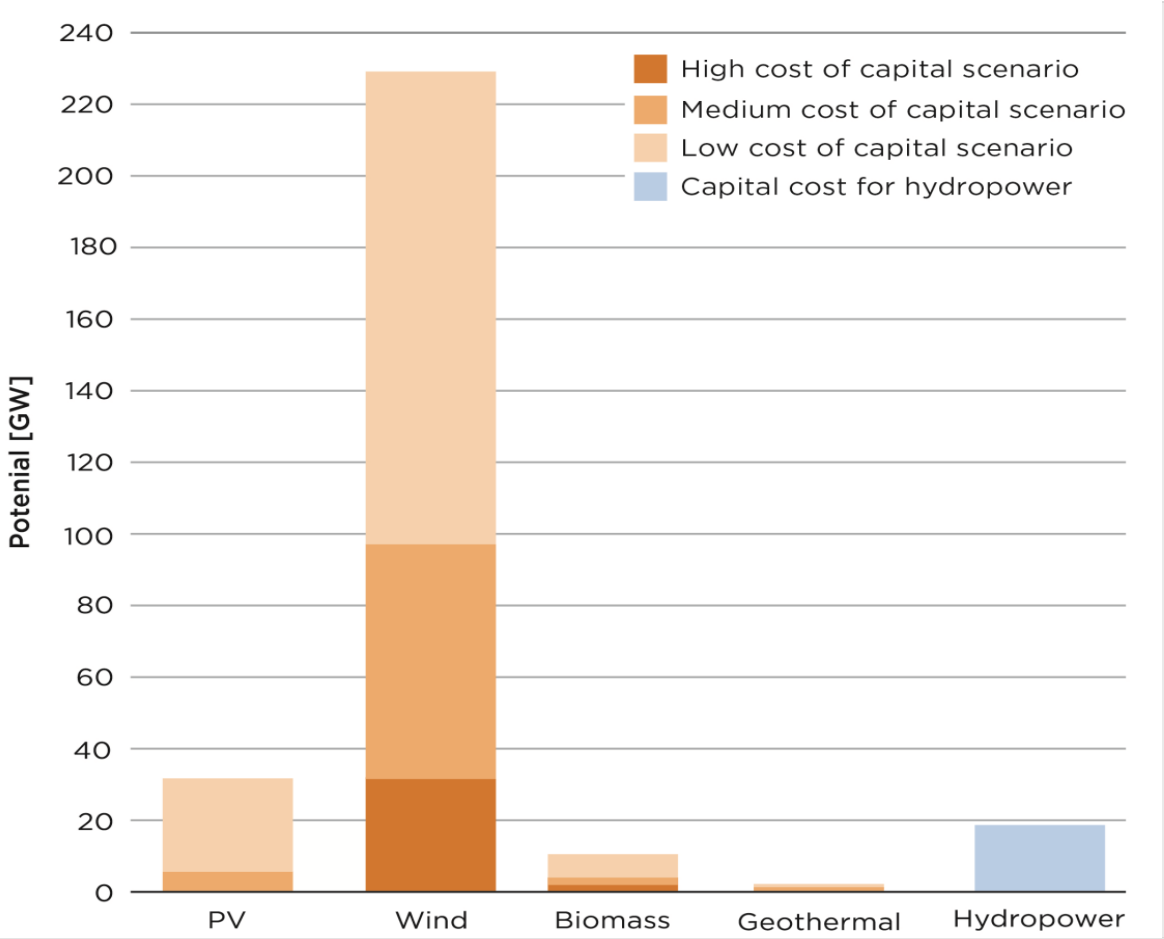
Cost of capital estimations for onshore wind projects in Europe in 2014 Figure 2



DIA-CORE (2016) "The impact of risks in renewable energy investments and the role of smart policies"

Impact of cost of capital in CESEC region



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Support for Renewable Energy in the WB6

Contracting Party		PV	Wind	Biomass	Hydro	Biogas	Waste	Geothermal	PPA	Links
Albania		10	7,6	-	5,63	-	-	-	15 yrs.	http://www.ere.gov.al/doc/Tarifate_e_miratuara_nga_ERE_Prill_-_Dhjetor2017.pdf; http://www.ere.gov.al/doc/VENDIM_NR.120_2017.pdf
BiH- FBiH		27,2 - 15,78	17,86 - 7,1	16,1 - 11,61	14,84 - 6,33	36,37 - 14,26	-	-	12 yrs.	http://www.ferk.ba/_ba/images/stories/2017/prilog_1_odluka_gc_bs.pdf
BIH-RS	FiT	15,06 - 10,3	8,45	21,53 - 11,55	7,87 - 6,36	12,28	-	-	15 yrs.	http://www.reers.ba/sites/default/files/FeedInPrices_RES_290616.pdf
	FiP	11,07 - 6,32	4,21	8,1 - 7,32	3,63 - 2,12	-	-	-		
Kosovo*		13,64	8,5	7,13	6,747	-	-	-	12 yrs. except hydro 10 yrs.	http://ero-ks.org/2016/Vendimet/V_810_2016_eng.pdf
FYR of Macedonia		16 - 12	8,9	15	12 - 4,5	18	-	-	15 yrs. - PV, biomass, biogas; 20 yrs. – wind, hydro	http://shpp.moepp.gov.mk/Upload/Document/EN/uredba-za-povlasteni-tarifi.pdf
Montenegro		12	9,61	13,71 - 12,31	10,44 - 6,8	15	9	-	12 yrs.	http://www.oie-res.me/index.php?page=uredbe-i-pravilnici
Serbia		14,6 - 9	9,2	13,26 - 8,22	12,6 - 7,5	18,33 - 15	8,57	8,2	12 yrs.	http://www.mre.gov.rs/doc/efikasnost-izvori/Uredba%20o%20podsticajnim%20merama%20ENG20092016.PDF

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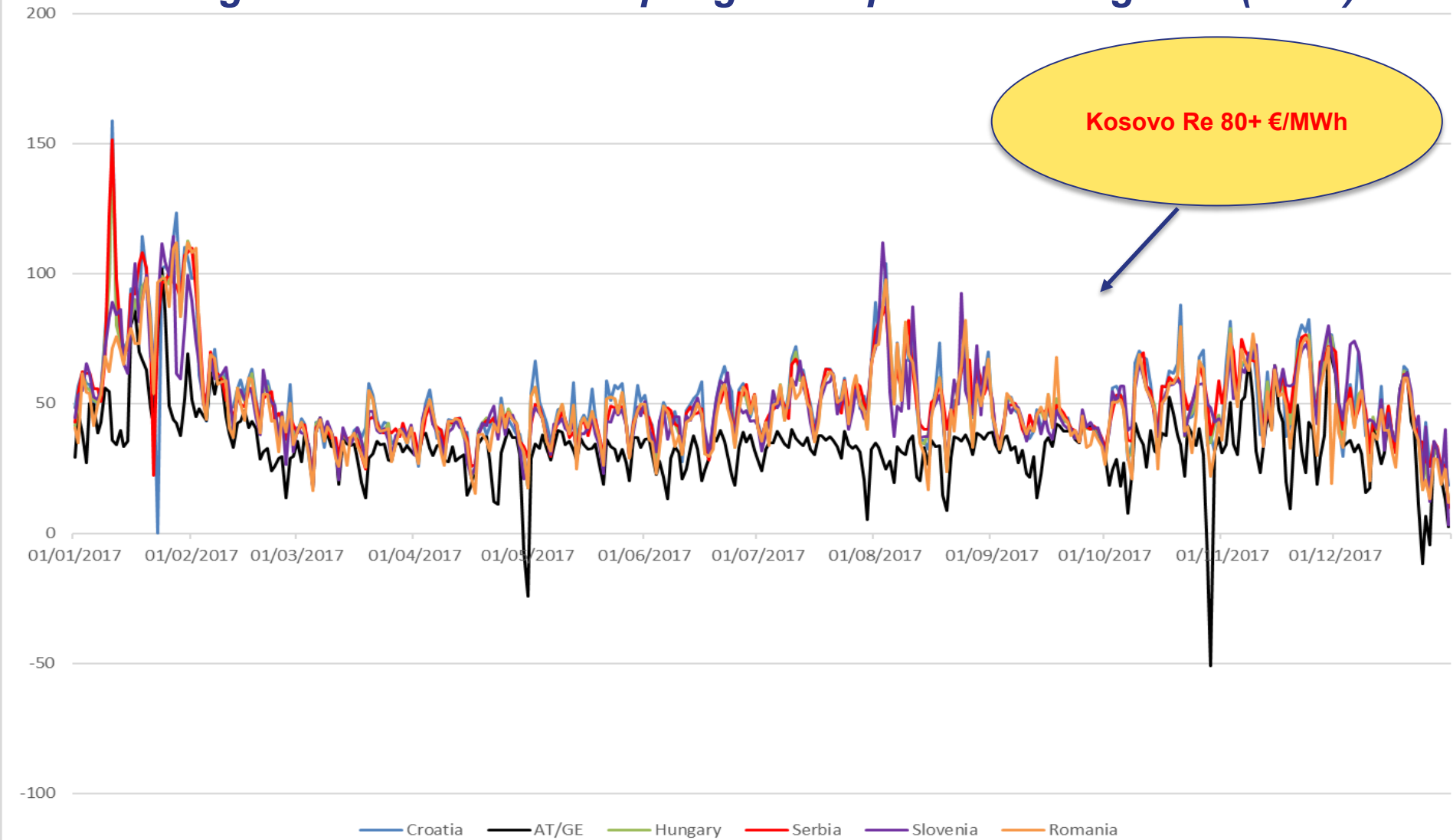
Moving towards market coupling - SEE price convergence (2017)



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Name them (fossil subsidies), don't fame them

Actions

1. ***Make electricity regional – liberalize national markets***
2. ***Kick EU to unite internal energy market with acquis area***
3. ***Name them, don't fame them! – fossil fuel subsidies***
4. ***Make RES also financially sustainable – lower cost of capital***
5. ***Save taxpayers' money 1 - replace feed-in tariffs with auctions***
6. ***Save taxpayers' money 2 – fight against state aid***
7. ***RES and energy efficiency as an opportunity***

8. ***RULE OF LAW***

Thank you
for your attention!

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