Gas Markets of the Energy Community Contracting Parties
Panel VII, Market Integration II: Emerging Central European Gas Market

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The Energy Community – Extending the EU internal energy market

Where?
South East Europe and Black Sea Region

Why?
Creating single regulatory and market framework to:

- increase energy trade,
- attract investments,
- enhance security of supply,
- improve environmental situation and
- increase competition in the energy market

How?
By the Rule of Law
Demand and import dependence

- Demand of gas in the EnC CPs on average decreased, due to the substantial drops in UKR and MDA consumption

- Import dependence

<table>
<thead>
<tr>
<th>EnC CP</th>
<th>Consumption in TWh</th>
</tr>
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<tbody>
<tr>
<td>BIH</td>
<td>2,08</td>
</tr>
<tr>
<td>MKD</td>
<td>1,31</td>
</tr>
<tr>
<td>MDA</td>
<td>9,99</td>
</tr>
<tr>
<td>SRB</td>
<td>20,06</td>
</tr>
<tr>
<td>UKR</td>
<td>368,15</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>Percentage of 2015 demand covered by imports</th>
<th>Countries of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bosnia and Herzegovina</td>
<td>100%</td>
<td>Russia</td>
</tr>
<tr>
<td>FYR of Macedonia</td>
<td>100%</td>
<td>Russia</td>
</tr>
<tr>
<td>Moldova</td>
<td>99,99%</td>
<td>99,88% Russia, 0,11% Romania</td>
</tr>
<tr>
<td>Serbia</td>
<td>84,59%</td>
<td>100% Russia</td>
</tr>
<tr>
<td>Ukraine</td>
<td>48,61%</td>
<td>40% Russia, 60% EU countries</td>
</tr>
</tbody>
</table>
Average gas wholesale prices (in EUR/MWh)

- Average yearly price of gas at the border of the importing country in 2015 (in EUR/MWh)
- Average Q IV 2015 price of gas at the border of the importing country (in EUR/MWh)
- Average gas wholesale sell price in country in 2015 (in EUR/MWh)

Regulation of wholesale prices abandoned, except in UKR for public supply of households and district heating companies.
## Wholesale market dominance

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of companies selling at least 5% of available gas</th>
<th>Shares of 3 biggest companies in the market (in %)</th>
</tr>
</thead>
</table>
| FYR of Macedonia | 1*                                                      | 1  
| Moldova          | 3                                                      | 2  
| Serbia           | 2                                                      | 3  
| Ukraine          | 1                                                      | 1  

* | 35 | - | -  
3 | 63,60 | 8,9 | 6  
2 | 79,5 | 20,5 | -  
1 | 88,41 | 4,45 | 3,16  

* Two companies import gas directly for their own needs; their consumption is remaining 65% of total consumption in the country
**Tariffs and network access**

- Entry-exit regimes implemented only in Serbia and Ukraine (for IPs)
- CAM, CMP and BAL related provisions of Regulation 715:
  - transposed since end 2014 in Serbia, implementation waiting for unbundling
  - transposed and implemented to the great extent in Ukraine as of 2016
- Transparency to be improved!

<table>
<thead>
<tr>
<th>Contracting Party</th>
<th>Average transmission tariffs in 2015 (in EUR/GWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FYR of Macedonia</td>
<td>2,497.07</td>
</tr>
<tr>
<td>Moldova</td>
<td>145.71</td>
</tr>
<tr>
<td>Serbia</td>
<td>2,292.60</td>
</tr>
<tr>
<td>Ukraine</td>
<td>433.91</td>
</tr>
</tbody>
</table>

**UKR tariffs 2016 (REKK presentation May 2015)**
EUR/MWh for standard 1-year product:
- UA-PL 6,31
- PL-UA 3,16
- UA-SK 7,28
- SK-UA 3,33
- UA-HU 7,40
- HU-UA 3,12
- UA-RO 7,20 and 6,07
Some conclusions on current status of gas markets of the EnC CPs

Illiquid and non-competitive gas markets

Short-term improvements

- Increased transparency
- Full implementation of non-discriminatory TPA rules
- Lower financial guaranties
- Reduced administrative burden (e.g. seat requirements, licensing and registration costs)

Long-term improvements

- Cross-border market integration
- Renegotiation of long-term contracts
- Infrastructure investments

Long-term commitments to supply, cross-border capacity and storage reservations

Lack of transparency and non-discrimination

Lack of adequate gas infrastructure
How to improve?

Some instruments of the Energy Community:

- Regulatory framework - Network Codes
- Infrastructure investments - PECIs
- Security of Supply Regulation

Central European Energy Conference X, Bratislava, 2nd December 2016
Adapted Regulation 347/2013 – PECI/PMI

Application area of the Regulation:

• PECI/PMI Project selection process
  o Projects with Cross-Border dimension
  o Benefits outweigh costs
  o PECI – If crossing EU-EnC border only in case of PCI within EU; if within EnC can be PECI
  o PMI – If crossing EU-EnC border, but no PCI label within EU
  o Message is to provide the same treatment for PECI/PMI in the CPs

• Permit Granting Treatment – Competent Authority
  o CPs’ implementation role

• Regulatory Treatment – Incentives and Cross-Border Cost Allocation:
  o Regulators’ and ECRB’s role
  o Only voluntary CBCA with EU MS

• (In the European Union CEF Funding for studies and works)
  o WBIF and NIF not linked to PECI/PMI Status
PECI/PMI 2016 selection process – project assessment workflow and methodology

1. ECS bi-annual call for project submission
2. Project Eligibility check
3. Input Data Verification: Project data, Methodology Assumptions
4. Cost-Benefit Analysis
   - Electricity: Network and Market simulation
   - Gas: Market simulation
5. Multi Criteria Analysis:
   - Monetized results
   - Competition
   - System Adequacy
   - Maturity
6. Relative Project Ranking:
   - Draft Preliminary List
   - PHLG
   - MC decision

Project Implementation and Monitoring tasks – One-Stop-Shop Permit Granting
**List of PECI**

<table>
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<tr>
<th>Project name</th>
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<tbody>
<tr>
<td>Gas_09 Serbia (Nis) - Bulgaria Interconnector</td>
</tr>
<tr>
<td>Gas_11 Serbia (Vranje) - Macedonia, FYR (Klechovce - Sopot)</td>
</tr>
<tr>
<td>Gas_13 Albania Kosovo* Interconnector (Fier - Lezha - Pristina)</td>
</tr>
</tbody>
</table>

**List of PMI**

<table>
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<th>Project name</th>
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<tbody>
<tr>
<td>Gas_02 Bosnia and Herzegovina (Trzac-Bosanska Krupa) - Croatia (Licka Jesenica) Interconnector</td>
</tr>
<tr>
<td>Gas_03 Bosnia and Herzegovina (Posusje-Novî Travnik with a main branch to Mostar) - Croatia Interconnector (Zagvozd)</td>
</tr>
<tr>
<td>Gas_04B Greece - Macedonia, FYR (Hamzali - Stojakovo) Interconnector</td>
</tr>
<tr>
<td>Gas_10 Serbia (Futog)-Croatia Interconnector</td>
</tr>
<tr>
<td>Gas_14 Development of Poland (Hermanowice) - Ukraine (Bilche Volytsya) reverse flow</td>
</tr>
<tr>
<td>Gas_15 Reverse flow, new firm capacity Hungary (Beregdaróc) - Ukraine</td>
</tr>
<tr>
<td>Gas_16 Ion Adriatic Pipeline (Fier, AB - Split, HR)</td>
</tr>
<tr>
<td>Gas_18 Interconnector Romania (Iasi) - Moldova (Ungheni - Chisinau)</td>
</tr>
</tbody>
</table>
Including Gas NCs in the EnC acquis

… in a meaningful way that:

1. addresses the CPs’ ability to implement the NC provisions content and time wise → reflecting the development status of the CPs’ gas markets; and thus

2. bases on EU experience related to:
   - Pre-conditions (market reforms) that need to be in place in the CPs’ national gas markets for implementing NCs
   - Time allowed/needed for NC implementation

3. proposes a step-by-step implementation path that targets:
   - Possible implementation “packages” for each NC → which Articles are 1st, 2nd … priority and interlink

4. adds realistic implementation deadlines for the implementation “packages” for each NC; but
   - does not lose sight of the final scope of implementing the entire NCs; and
   - leads to implementation of the NCs not only at CP-CP IPs but also at CP-MS IPs
Level playing field and how to reach it

- ! implementation of NCs on CP-CP IPs only (UA-MD and SR-BiH) will not justify the implementation effort and/or add value in terms of market integration
- Title III EnC Treaty - complete solution

- Title II EnC Treaty
  + switch-on clause or
  + binding agreement to treat CP-MS IPs as if they were EU-internal - making use of existing 3rd country clause authority of NRAs
Current status of Gas NC implementation

- 3 meetings of TSOs and NRAs of the EnC CPs and neighboring EU MSs organized, also on IP-IP basis (July-October 2016)
- NC discussed: interoperability, congestion management and capacity allocation
- IO and CMP texts agreed (both will go in one step)
- Declaration by EU NRAs on the application of network codes on interconnection points between EnC CPs and EU MSs sent for comments, signature expected before EC proposal for NC adoption in the EnC (targeted March 2015)
Security of supply in the EnC CPs

- Serbia, Ukraine, Albania, Moldova, Montenegro, Kosovo* – transposed the 3rd package in primary legislation – SoS provisions in place, in line with the Third package and Directive 2004/67

- FYR of Macedonia and Kosovo* - secondary acts in place

- Moldova, Serbia and Montenegro – the laws require new secondary acts, however they are still missing

- BIH legal framework - insufficiently developed

- Ukraine, Serbia and Montenegro transposed a part of Regulation 994/2010
Regulation 994/2010 – proposed amendments regarding EnC Contracting Parties

Reciprocal Obligations

Extension of the application of the regulation to the Contracting Parties of the Energy Community (Article 15)

- Risk assessment, preventive action plans, emergency plans
- Enabling reverse flows
- Commitment not to take measures that negatively impact security of supply of the neighbours
- Participation in solidarity
- Participation in the Gas Coordination Group on certain issues

Switch-on

- Joint Act of the Ministerial Council of the EnC introducing reciprocal obligations on the side of Contracting Parties in the relations with the Member States
- Contracting Parties of the EnC implement the Joint Act including a request for the application of the provisions
- Energy Community Secretariat notifies the implementation and a request to the Commission to confirm the applicability of reciprocal obligations
- Commission confirms the reciprocal character of the obligations by a decision

SET Plan 2016- Central European Energy Conference X, Bratislava, 2nd December 2016
Thank you for your attention!

www.energy-community.org
**IPs**

*IPs GR-Al and Al-IT will be relevant by the time of NCs implementation*