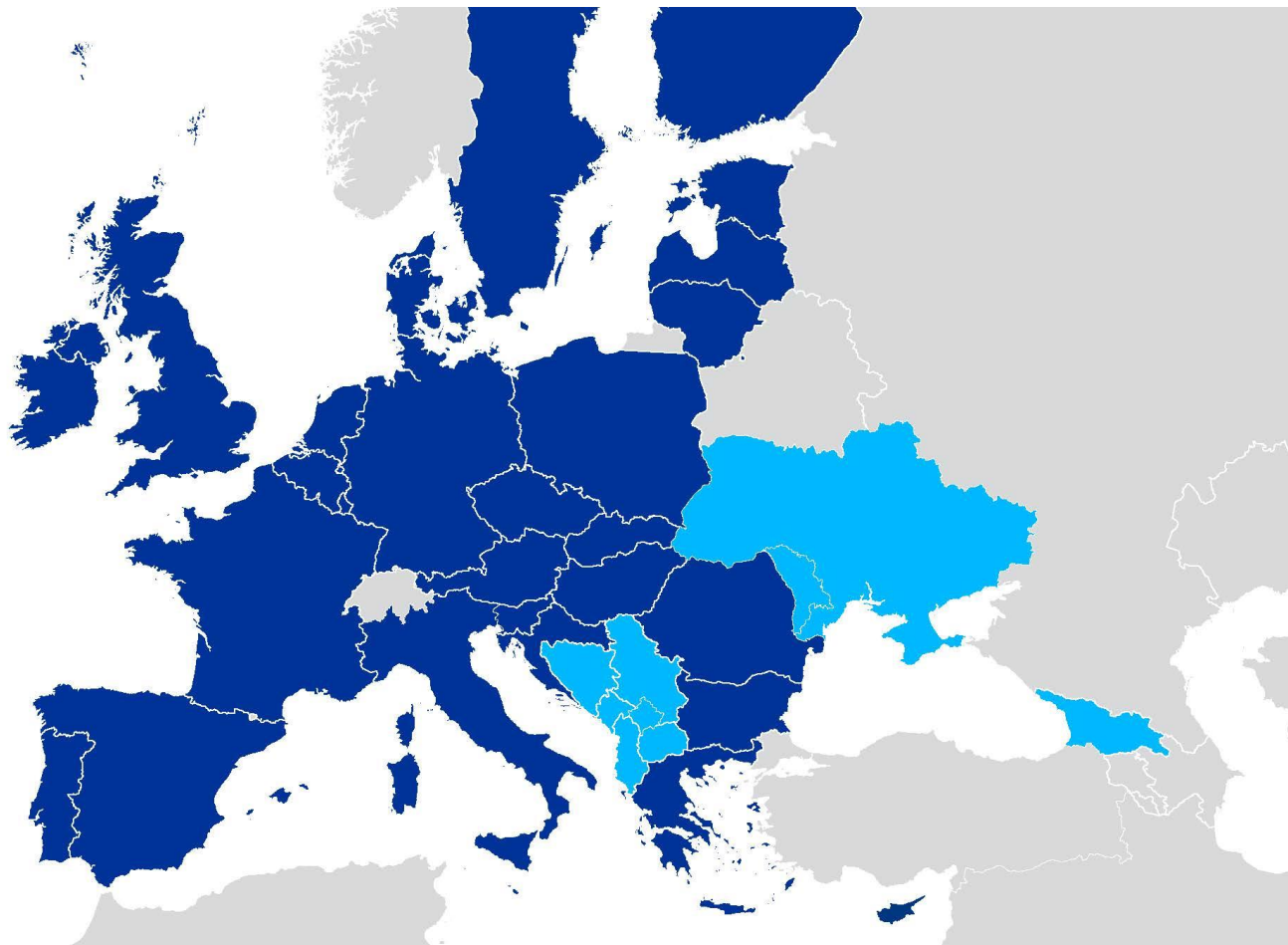




Western Balkans and Ukraine: EU's Role in Modernization through higher Climate Ambition

Brussels 22 November 2018



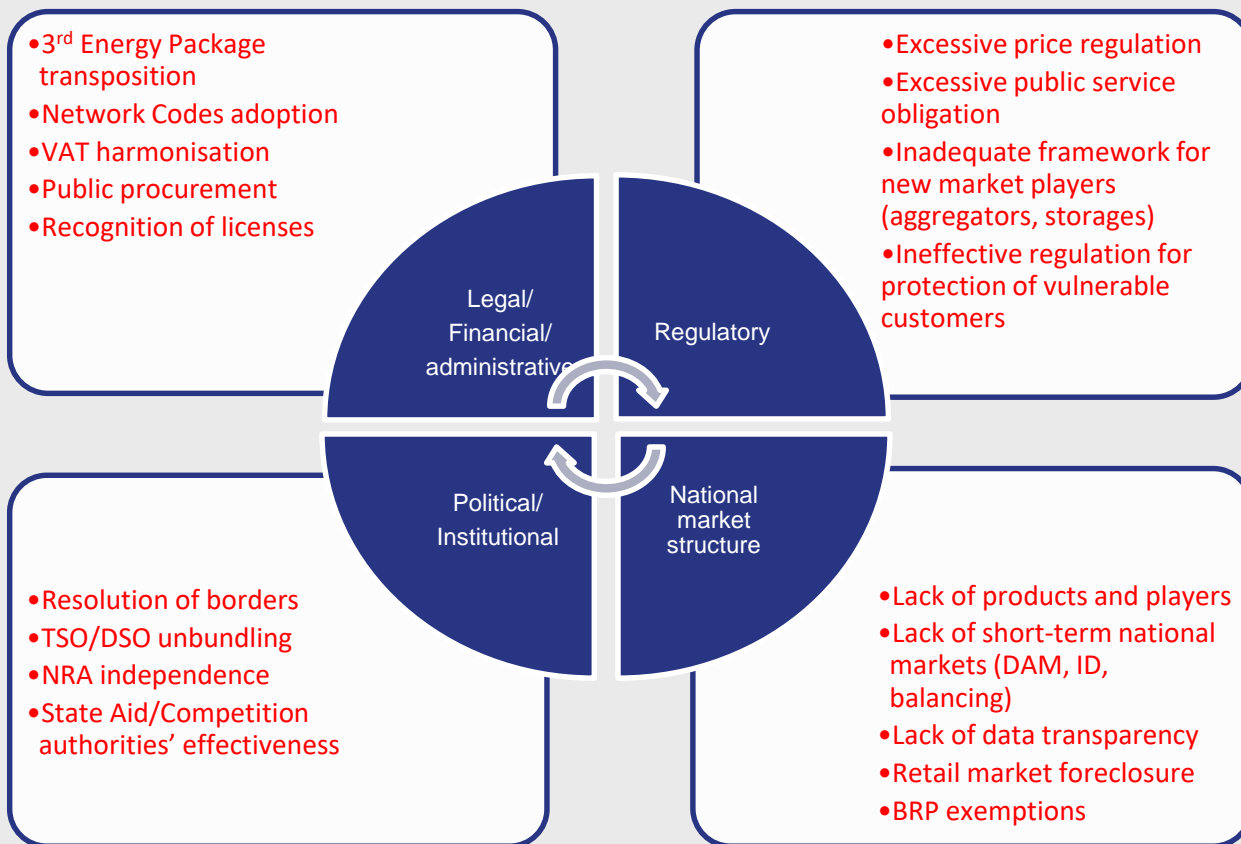
Internal energy market

Is it really?

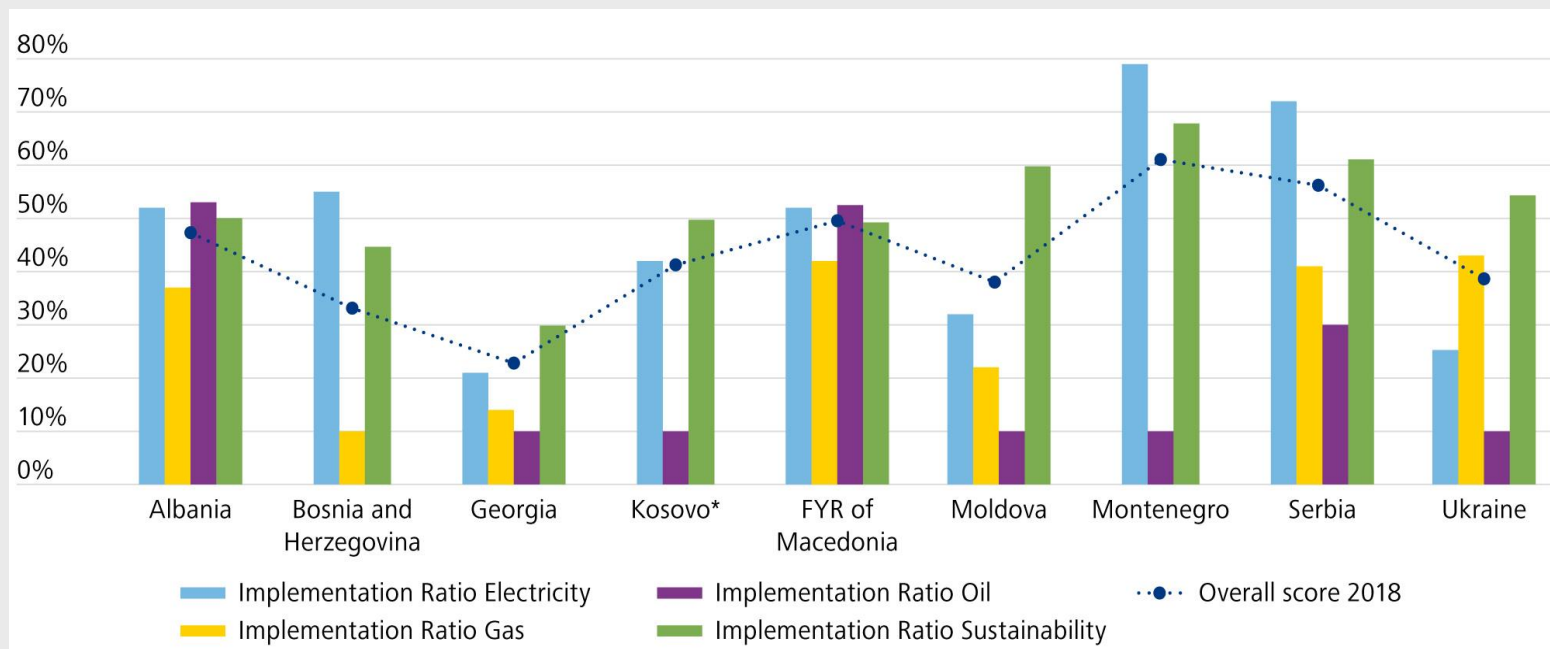
Critical issues in WB and UA– needed action

- ***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***
- ***Expensive feed-in tariffs, resistance to auctions***
- ***Underestimated state aid***
- ***No job transformation policy, no hope for fossiles***

Vicious circle of challenges to open the market



Implementation indicator



Benefits of cross border trading

(integrated Vs isolated markets)

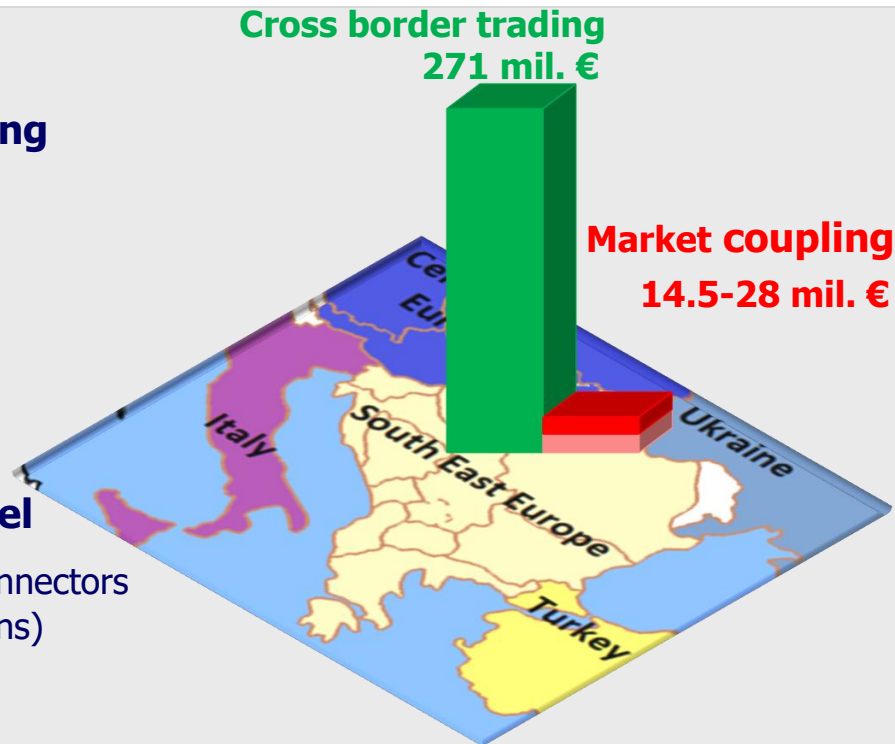
271 mil. € on annual level

Benefits of market coupling

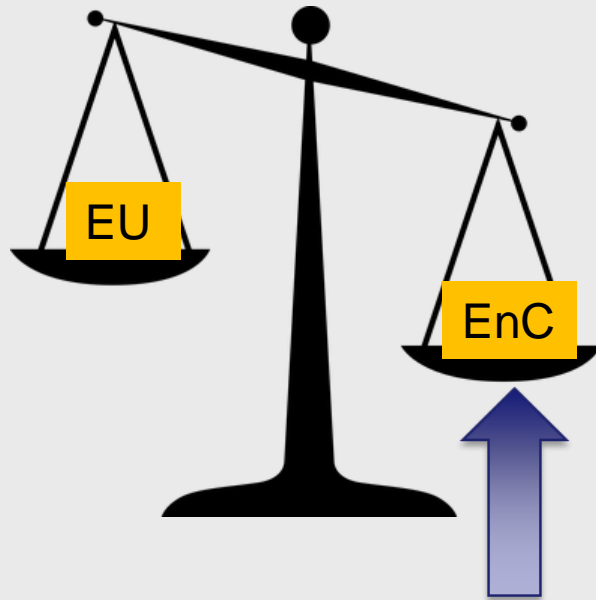
In range of:

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

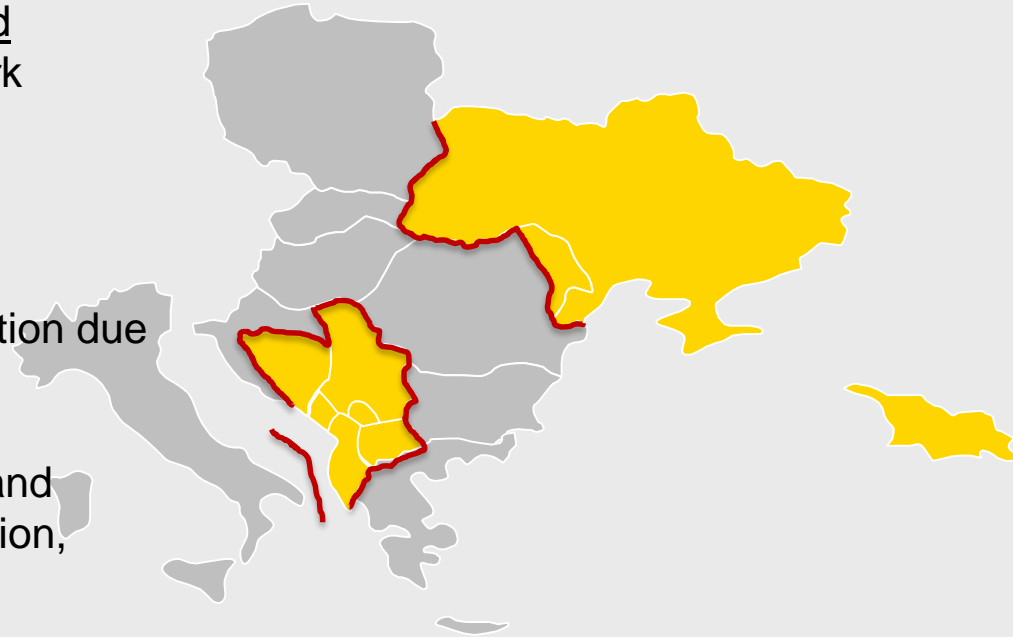


- No liquid markets
- Higher risk premium
- Years of low regulated prices and non investment create security problems and energy intensity

Rule of law
Donors coordination
Conditionality

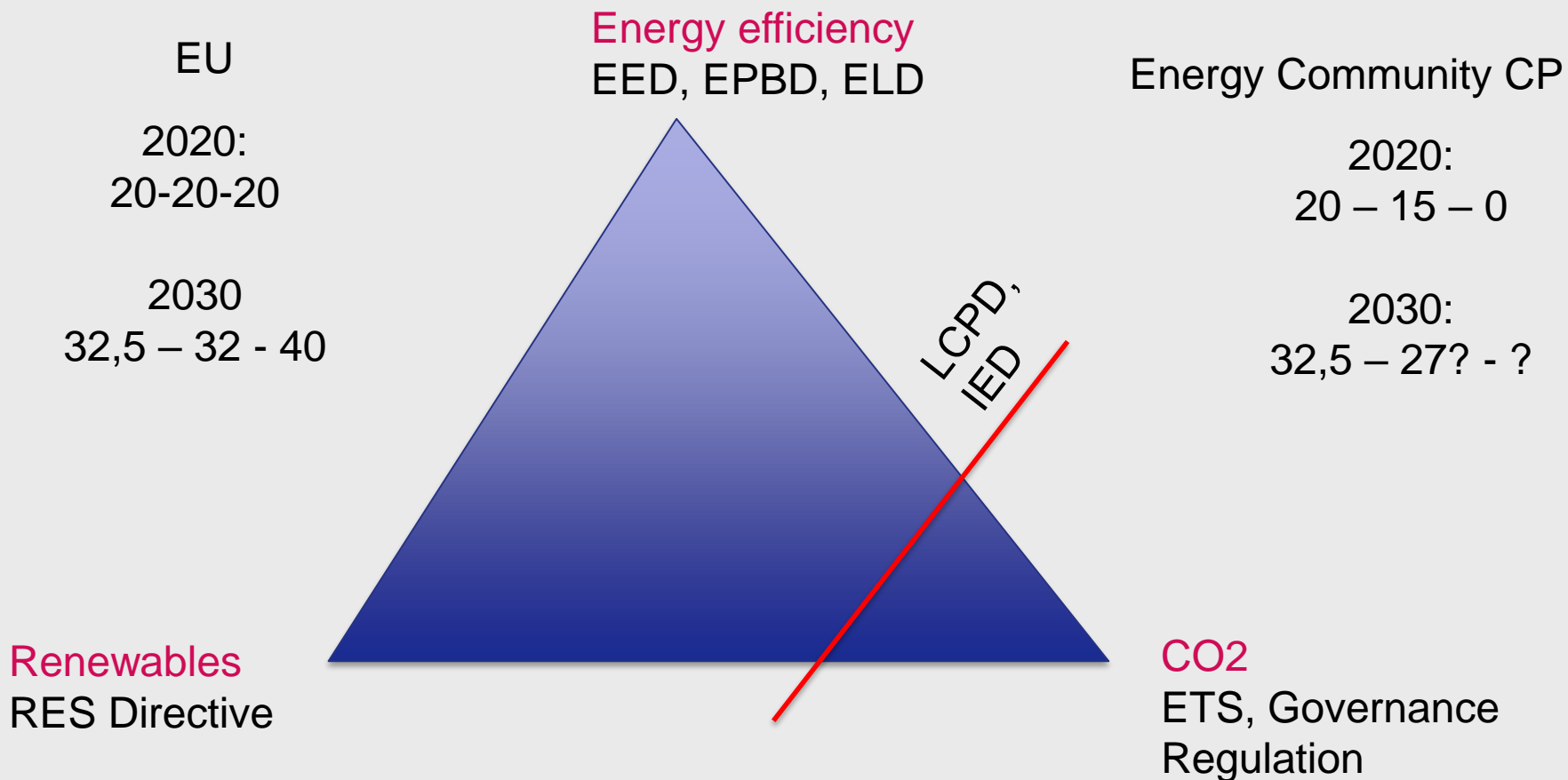
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- For EU MSs Contracting Parties are „third countries“, thus implementation of network codes only voluntary
- No cross border cost allocation
- SoS Regulation – postponed implementation due to same non-solved interfaces
- Missing acquis: VAT Directive,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

Missing acquis to stabilize the holly triangle



CARBON PRICE DEVELOPMENTS IN THE EU ETS



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

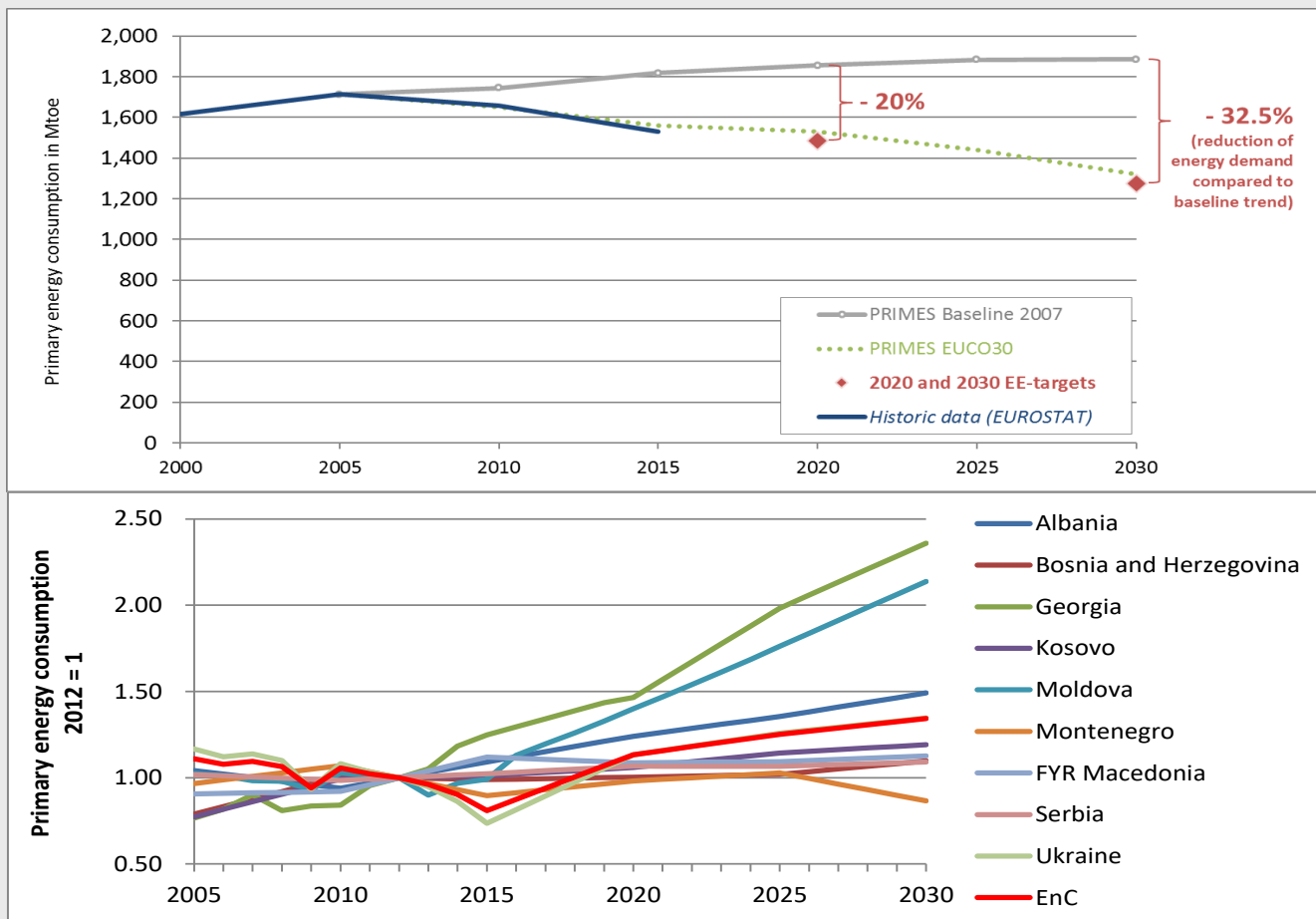
*In the past years, prices on the European carbon market did not have a significant impact on new investments in the energy sector. This is changing → **new ETS regime** with improved stability measures leading to **higher prices level***

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)

EE 2030 target – way of designing it

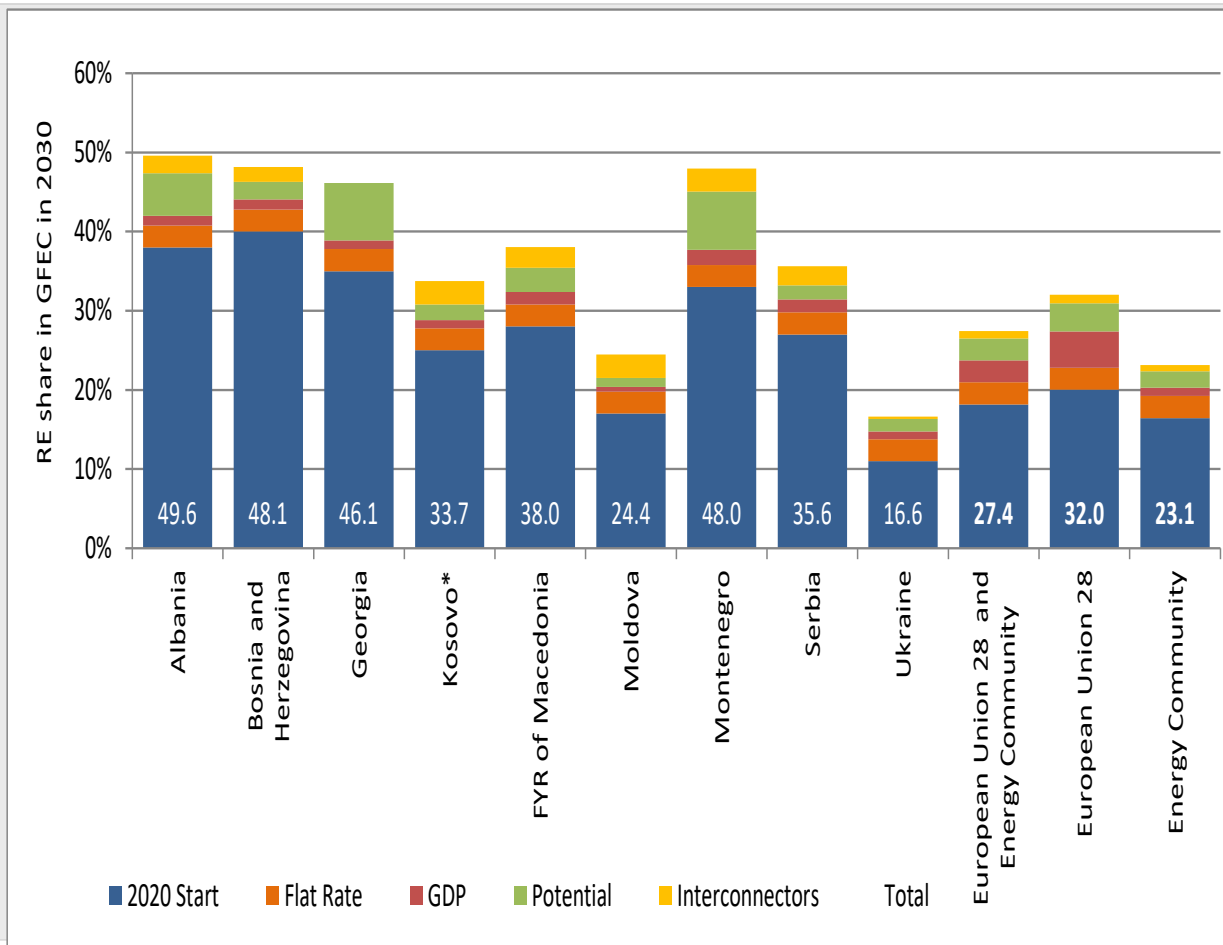
The primary energy consumption according to the historical development extrapolated by the modelled PRIMES Reference Scenario for the WB6.

All data are normalized to the year 2012. (Eurostat, 2018; NTUA, 2012; NEEAPs)

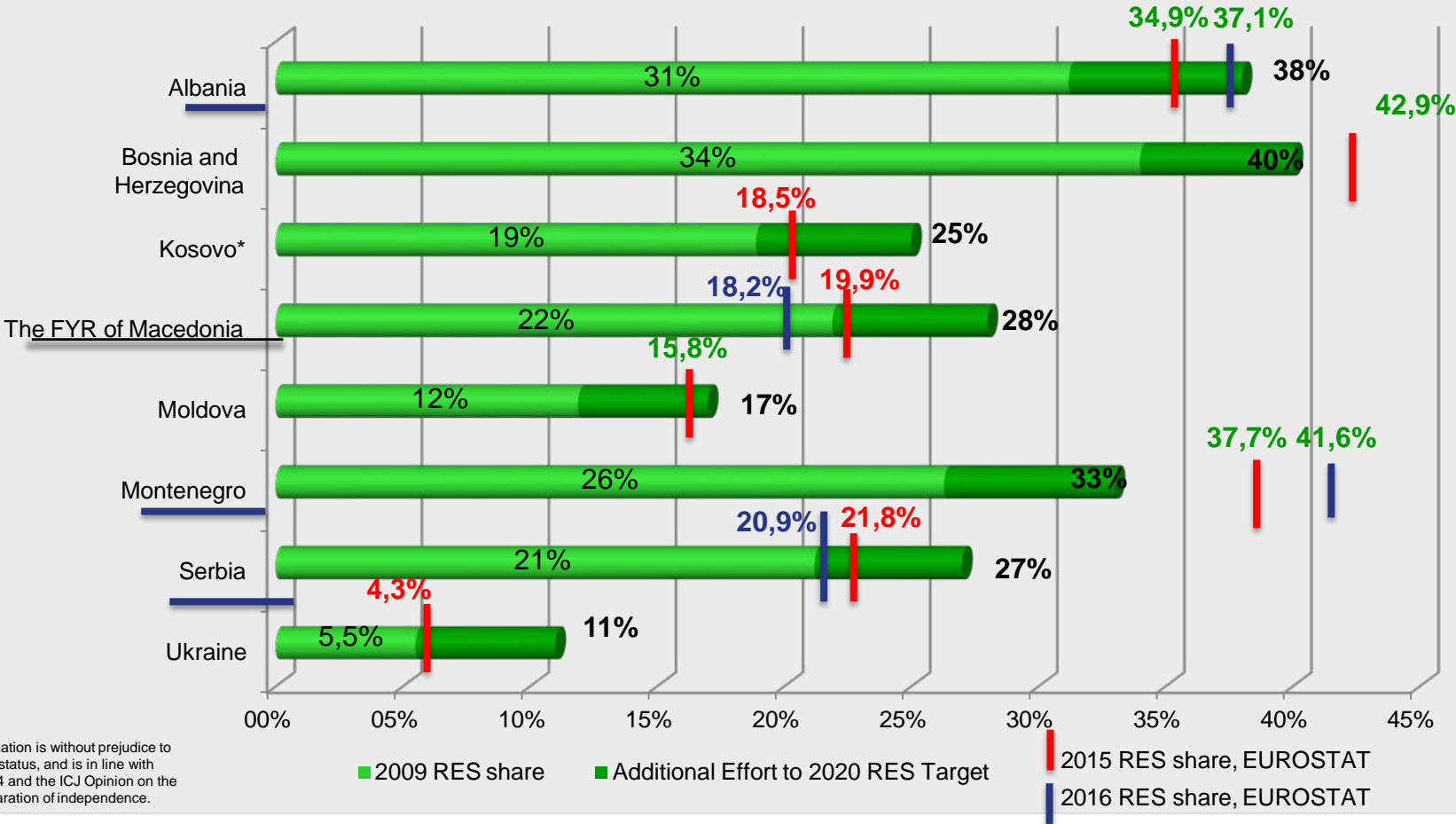


Possible RES target in 2030

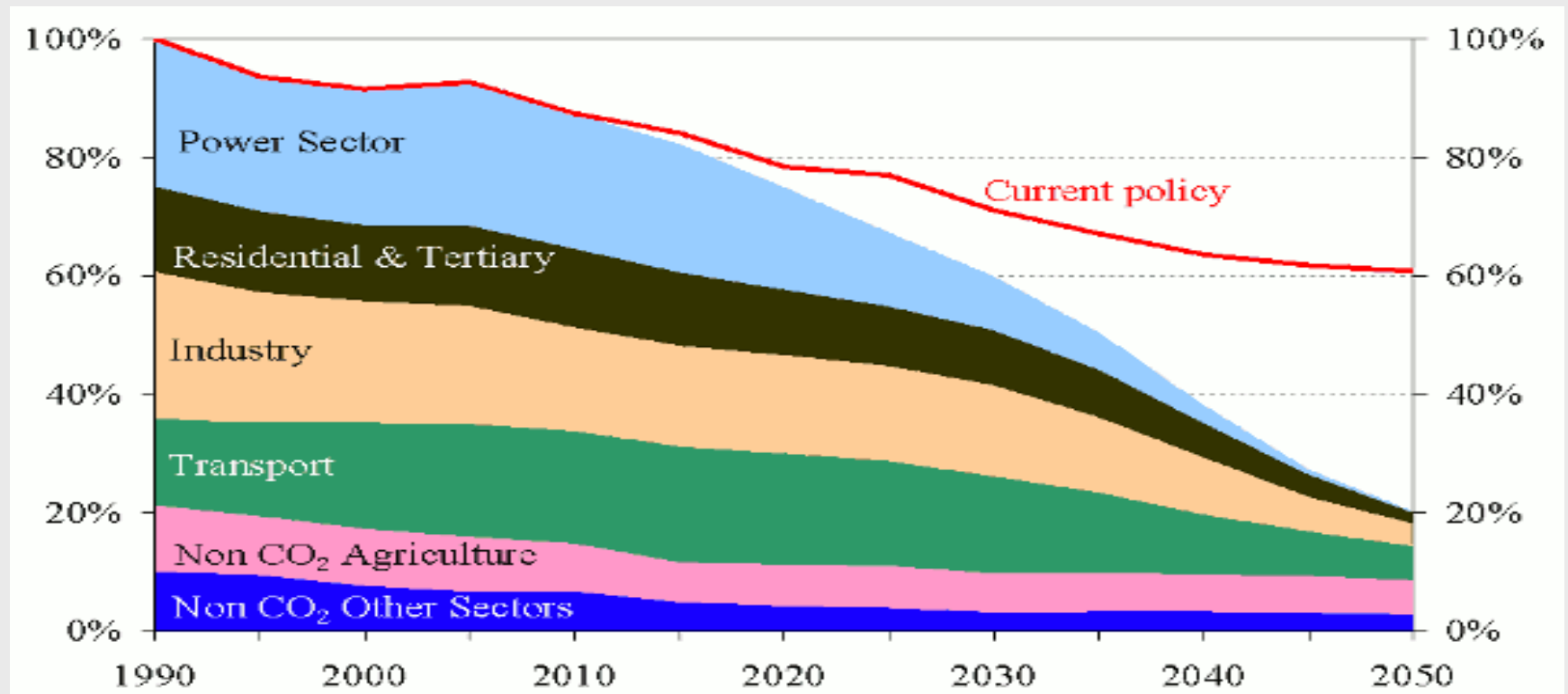
2030 RE Targets for all CPs and the EnC region according to the proposed target setting approach (i.e. a flat rate & GDP based approach).
(Source: EUROSTAT, 2018; IEA, 2018; IMF, 2018; NTUA, 2012; own calculations)



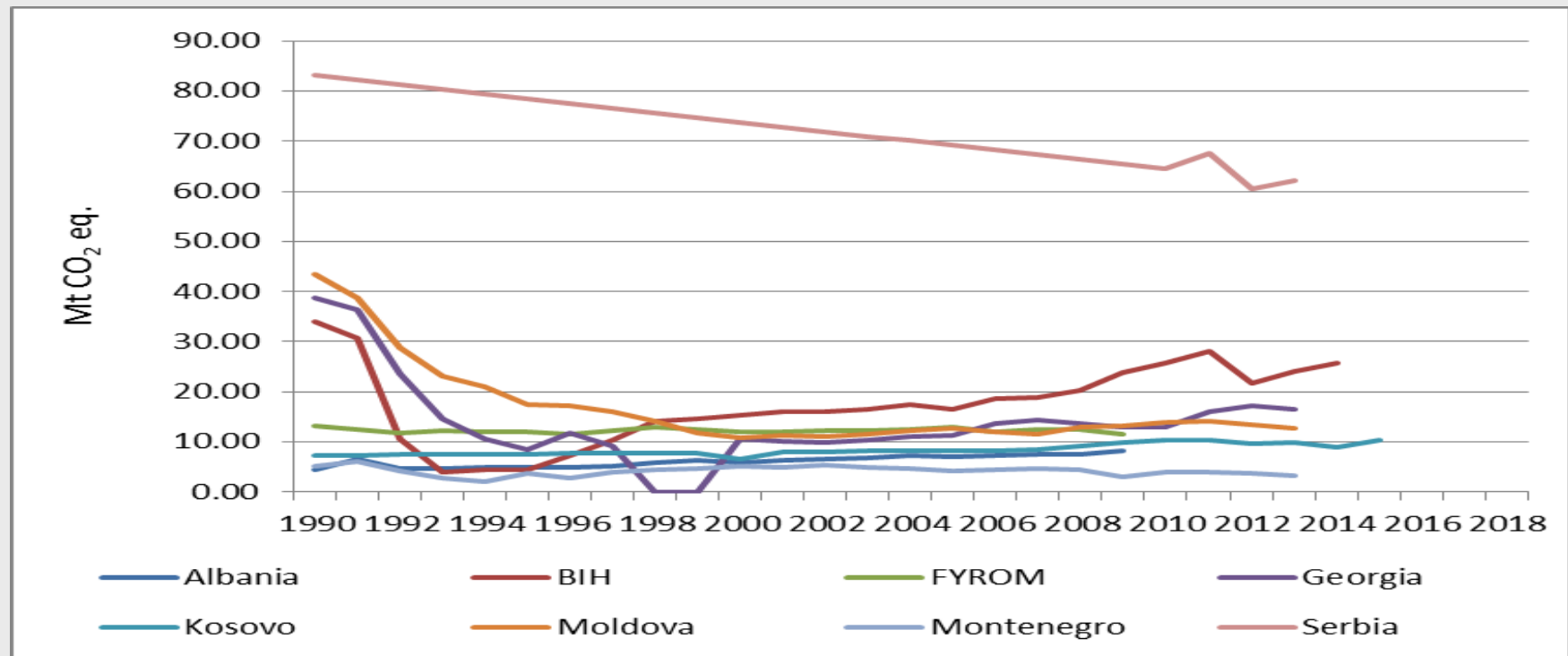
RES Target Progress I



Long term GHG reduction pathway of the EU



Emissions profiles of the EnC Contracting Parties



Fair methodology for Contracting Parties

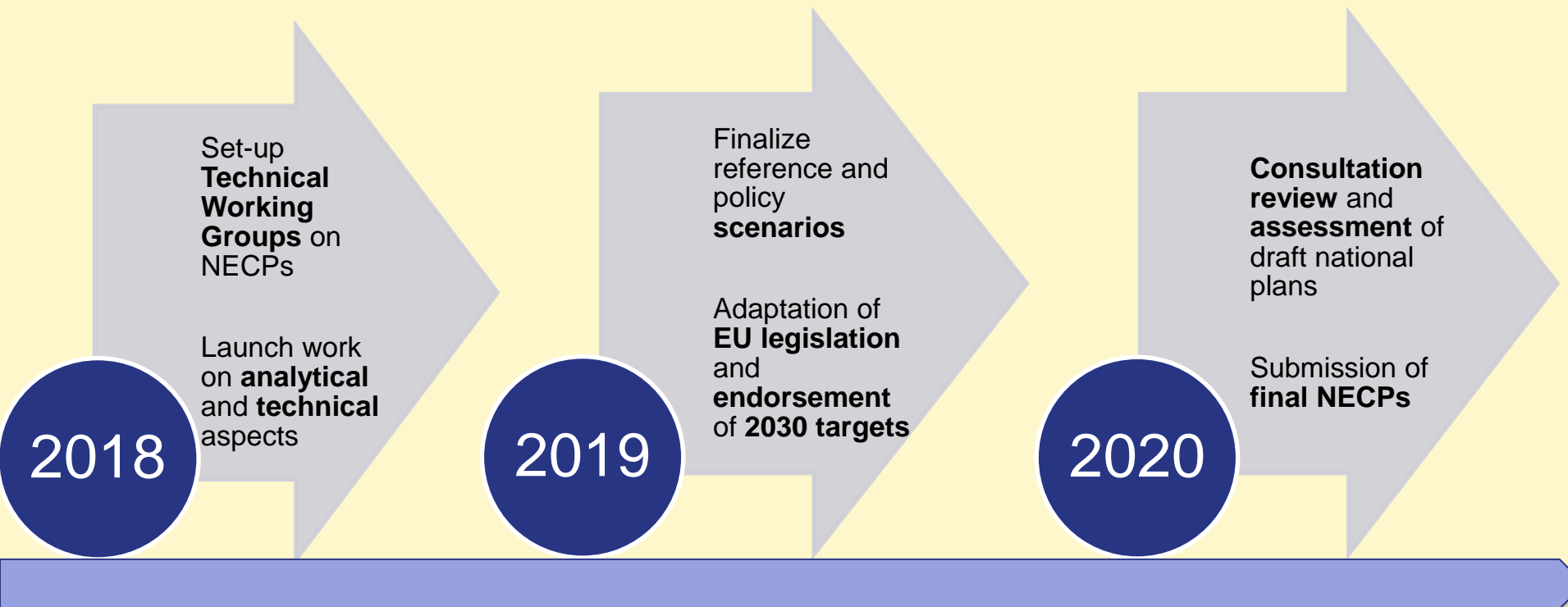
Full application of the EU rules would exclude emission increases for any CP over the period 2021-2030 compared to 2005.

GDP levels of the CPs much lower as compared to EU MS - disproportionally high burden for CPs

To be considered-GDP related effort using the targets resulting from the 2020 and the 2030 non-ETS frameworks as maximum and minimum effort. This may consist in using the highest and lowest national target resulting from the 2020 and 2030 EU methodology as start and end point for establishing a linear GDP-target correlation (a linear function would be created between +0.0% for Montenegro (2030 non-ETS approach) and +20.00% for Kosovo*(2020 non-ETS approach).

This would result in a gradient in national ambition levels moving from the more strict 2030 methodology based targets to the less ambitious 2020 methodology based targets.

NECPs PROCESS AND TIMELINE - EnC



Dates	Step
<i>29 November 2018</i>	Approval of General Policy Guidelines at the Ministerial Council
<i>November 2018 - May 2019</i>	Energy and Climate Committee and its Technical Working Group continue to work on a methodology and definition of 2030 targets that adequately reflects a similar EU ambition level
<i>May - July 2019</i>	Drafting adaptations of the Energy Efficiency Directive, Renewable Energy Directive and Governance Regulation
<i>November 2019</i>	Approval of adapted Energy Efficiency Directive, Renewable Energy Directive and Governance Regulation with 2030 targets for Contracting Parties

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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%

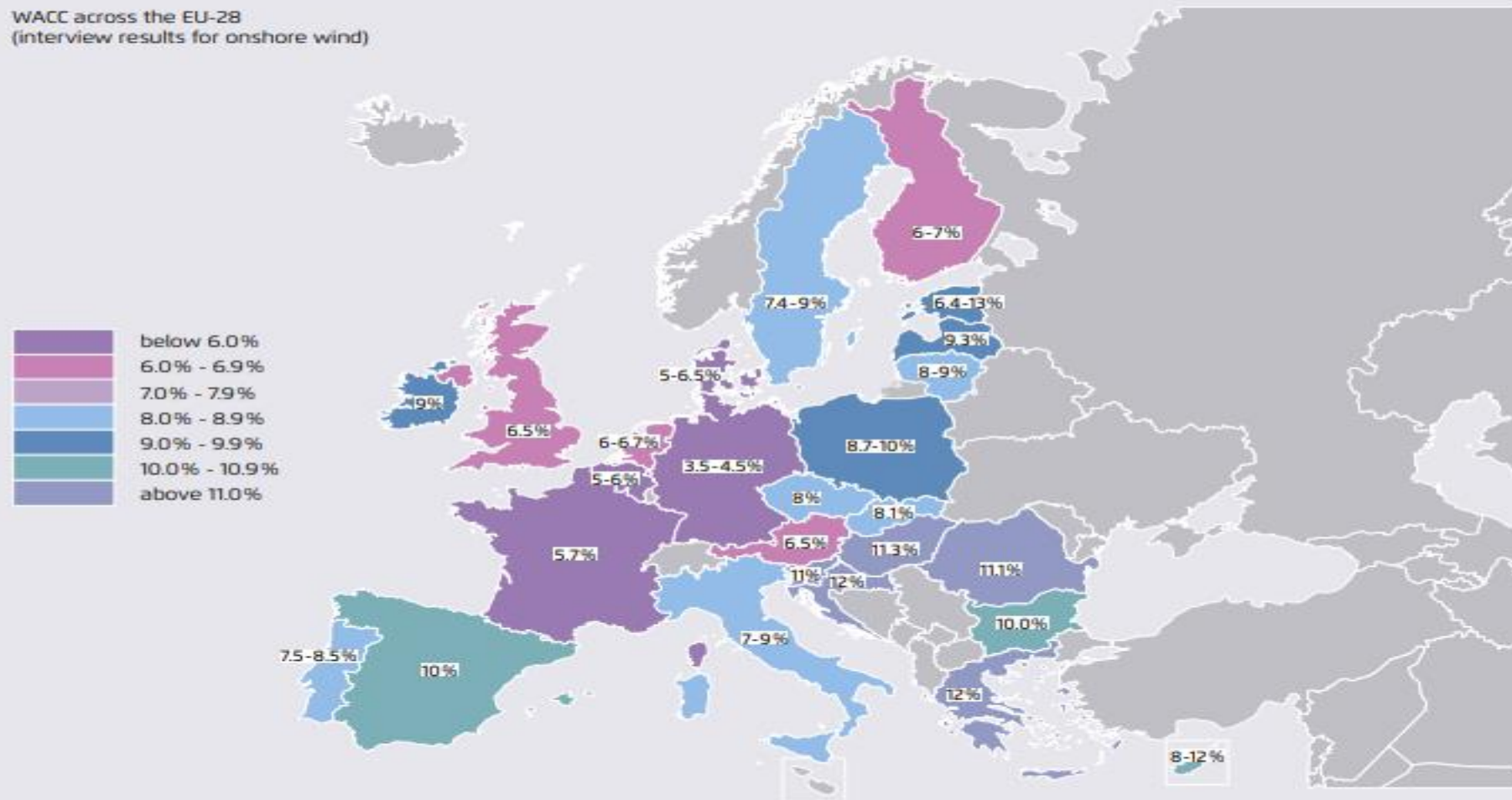
Source: adapted from ‘Fossil Fuel Subsidies in the Western Balkans’, UNDP, 2011 and REN 21 “Renewable Energy Status Report”, UNECE, 2017

- *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.*

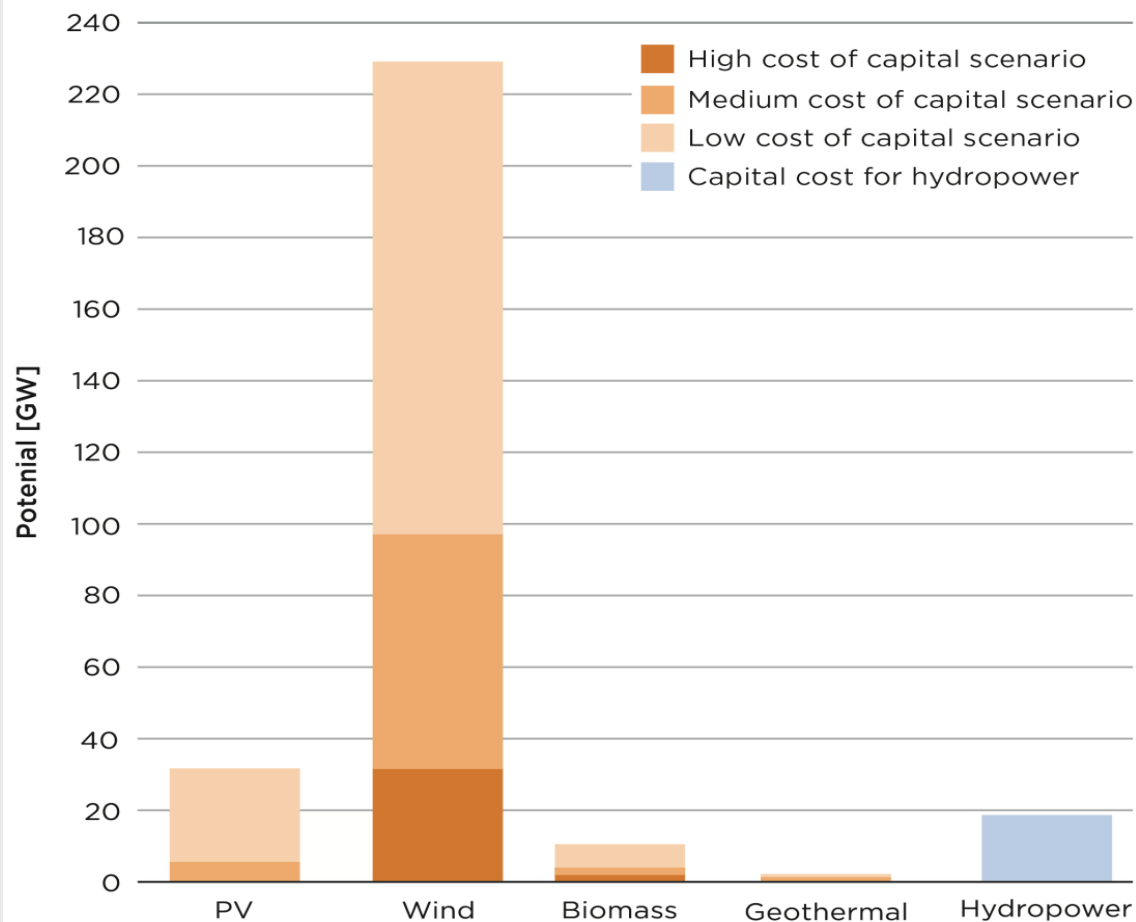
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WACC across the EU-28

(interview results for onshore wind)



Impact of cost of capital in CESEC region



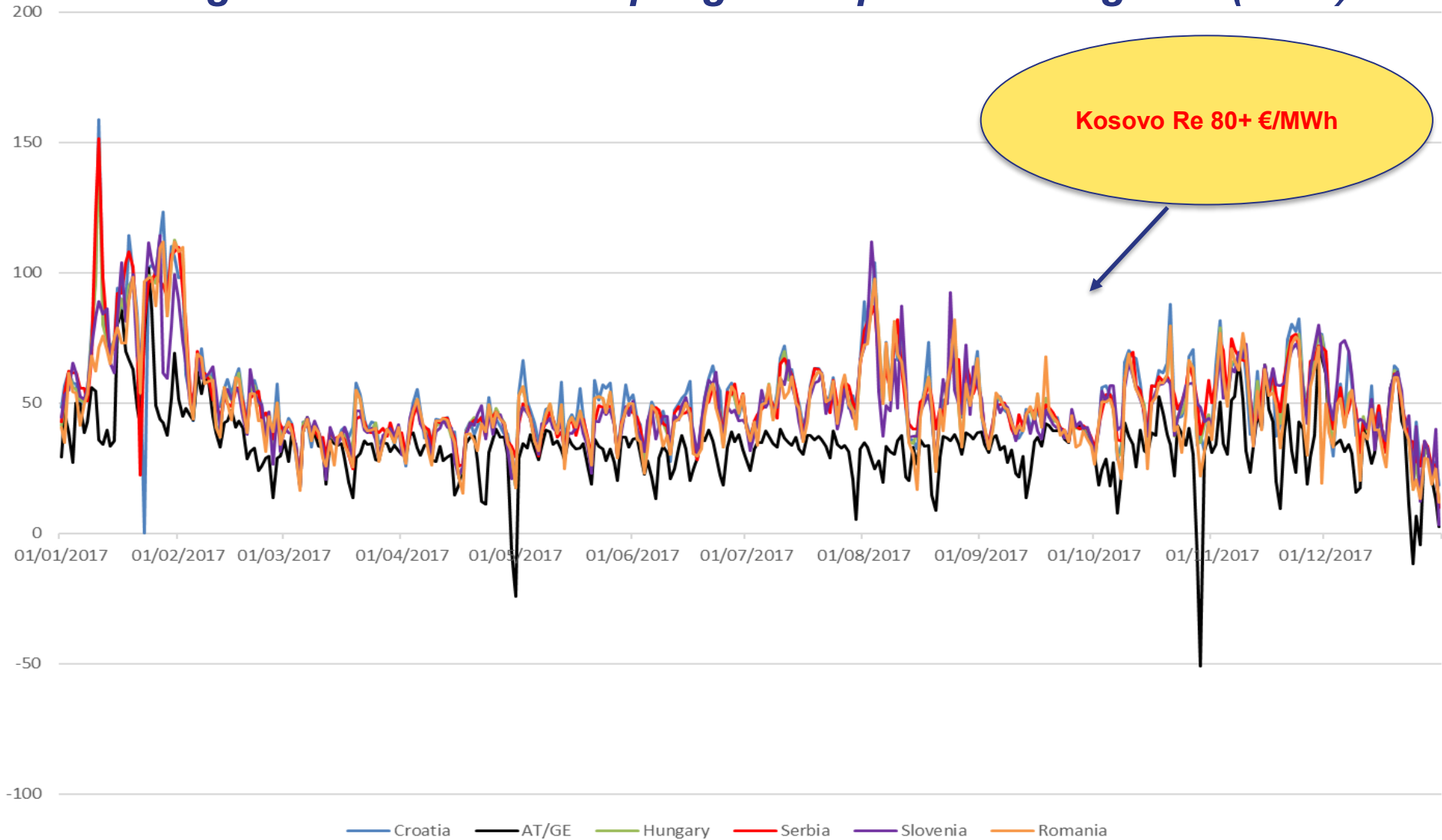
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Support for Renewable Energy in the WB6

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_mirat_uara 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



- 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

- 1. Energy Community Treaty amendments***
- 2. New acquis – ETS Directive, Governance regulation, State aid and Competition Directives, VAT Directive,....***
- 3. Pan-European Risk Management Scheme***
- 4. Involve Contracting Parties in EU platforms (Coal Regions in Transition etc.)***
- 5. Donor coordination***
- 6. Condition financial assistance by respecting the rule of law***



*Thank you
for your attention!*

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