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**
- **Expensive feed-in tariffs, resistance to auctions**
- **Underestimated state aid**
- **No job transformation policy, no hope for fossiles**
Vicious circle of challenges to cross-border cooperation

- Lack of products and players
- Lack of short-term national markets (DAM, ID, balancing)
- Lack of data transparency
- Retail market foreclosure
- BRP exemptions

- Resolution of borders
- TSO/DSO unbundling
- NRA independence
- State Aid/Competition authorities’ effectiveness

- Excessive price regulation
- Excessive public service obligation
- Inadequate framework for new market players (aggregators, storages)
- Ineffective regulation for protection of vulnerable customers

- 3rd Energy Package transposition
- Network Codes adoption
- VAT harmonisation
- Public procurement
- Recognition of licenses

- Financial/administrative
- Regulatory
- National market structure
- Political/institutional
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

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

Renewables
RES Directive

CO2
ETS, Governance Regulation

2020:
20 – 15 – 0

2030:
?

LCPD, IED
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)

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

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>7-8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>BiH</td>
<td>9-10%</td>
<td>37%</td>
</tr>
<tr>
<td>FYR of Macedonia</td>
<td>8-9%</td>
<td>18.7%</td>
</tr>
<tr>
<td>Kosovo*</td>
<td>35-36%</td>
<td>N/A</td>
</tr>
<tr>
<td>Montenegro</td>
<td>10-11%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Serbia</td>
<td>7-9%</td>
<td>34.7%</td>
</tr>
</tbody>
</table>

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

WACC across the EU-28 (interview results for onshore wind)

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

Potential [GW]

- High cost of capital scenario
- Medium cost of capital scenario
- Low cost of capital scenario
- Capital cost for hydropower

Energy Community Secretariat

Agora, Vienna 16 Nov 2018
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# Support for Renewable Energy in the WB6

<table>
<thead>
<tr>
<th>Contracting Party</th>
<th>PV</th>
<th>Wind</th>
<th>Biomass</th>
<th>Hydro</th>
<th>Biogas</th>
<th>Waste</th>
<th>Geothermal</th>
<th>PPA</th>
<th>Links</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Albania</strong></td>
<td>10</td>
<td>7,6</td>
<td>-</td>
<td>5,63</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15 yrs.</td>
<td><a href="http://www.ere.gov.al/doc/Tarifate_e_mirat_uaranga_ERE_Prill_Dhjetor2017.pdf">Link</a>; <a href="http://www.ere.gov.al/doc/VENDIM_NR.12_0_2017.pdf">Link</a></td>
</tr>
<tr>
<td><strong>BiH- FBiH</strong></td>
<td>27,2 - 15,78</td>
<td>17,86 - 7,1</td>
<td>16,1 - 11,61</td>
<td>14,84 - 6,33</td>
<td>36,37 - 14,26</td>
<td>-</td>
<td>-</td>
<td>12 yrs.</td>
<td><a href="http://www.ferk.ba/_ba/images/stories/2017/prilog_1_odluka_gc_bs.pdf">Link</a></td>
</tr>
<tr>
<td><strong>BiH- RS</strong></td>
<td>FiT</td>
<td>15,06 - 10,3</td>
<td>8,45</td>
<td>21,53 - 11,55</td>
<td>7,87 - 6,36</td>
<td>12,28</td>
<td>-</td>
<td>15 yrs.</td>
<td><a href="http://www.reers.ba/sites/default/files/FeedInPrices_RES_290616.pdf">Link</a></td>
</tr>
<tr>
<td></td>
<td>FiP</td>
<td>11,07 - 6,32</td>
<td>4,21</td>
<td>8,1 - 7,32</td>
<td>3,63 - 2,12</td>
<td>-</td>
<td>-</td>
<td>12 yrs.</td>
<td><a href="http://ero-ks.org/2016/Vendimet/V_810_2016_eng.pdf">Link</a></td>
</tr>
<tr>
<td><strong>Kosovo</strong>*</td>
<td>13,64</td>
<td>8,5</td>
<td>7,13</td>
<td>6,747</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12 yrs. except hydro 10 yrs.</td>
<td><a href="http://shpp.moepp.gov.mk/Upload/Document/EN/uredba-zapovlasteni-tarifi.pdf">Link</a></td>
</tr>
<tr>
<td><strong>Montenegro</strong></td>
<td>12</td>
<td>9,61</td>
<td>13,71 - 12,31</td>
<td>10,44 - 6,8</td>
<td>15</td>
<td>9</td>
<td>-</td>
<td>12 yrs.</td>
<td><a href="http://www.oie-res.me/index.php?page=uredbe-i-pravilnici">Link</a></td>
</tr>
<tr>
<td><strong>Serbia</strong></td>
<td>14,6 - 9</td>
<td>9,2</td>
<td>13,26 - 8,22</td>
<td>12,6 - 7,5</td>
<td>18,33 - 15</td>
<td>8,57</td>
<td>8,2</td>
<td>12 yrs.</td>
<td><a href="http://www.mre.gov.rs/doc/efikasnost-izvori/Uredba%20o%20podsticajnim%20merama%20ENG20092016.PDF">Link</a></td>
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Convergence of prices in the SEE: HUPX, OPCOM, SEEPEX

August 2017 Average

DE/AT DAM 30 €/MWh
SEEPEX 60 €/MWh

Moving towards market coupling - SEE price convergence (2017)

Kosovo Re 80+ €/MWh
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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!

www.energy-community.org