

SUMMARY OF THE SUBMITTED ANSWERS TO THE CONSULTATIONS QUESTIONS

Public consultation on the development of the Regional Energy Strategy of the Energy Community

Consultation period:	From 02/04/2011 to 23/04/2012
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In line with the Energy Community Secretariat's commitment to transparent and interactive policymaking, this document aims at providing an overview and general impression of the answers submitted to the Secretariat in the context of the public consultation on the Regional Energy Strategy. The statements and opinions expressed in the document do in no way necessarily reflect those of the Energy Community Secretariat and the Task Force on Regional Energy Strategy.

In general:

The Secretariat received 30 contributions on the public consultation on the Regional Energy Strategy of the Energy Community. The contributions were submitted in 5 stakeholder categories, namely:

- public authorities (9),
- industry (11),
- consultancies (3),
- NGO (4), and,
- citizens (3).

Besides one unknown country of origin, the stakeholder contributions originate from

- Austria (4),
- Belgium (4),
- Bosnia Herzegovina (2),
- Croatia (1),
- Ireland (2),
- former Yugoslav Republic of Macedonia (10),
- Serbia (2),
- Spain (2),
- Switzerland (1), and,
- Ukraine (1).

Two further contributions (former Yugoslav Republic of Macedonia) were delivered after the deadline. The stakeholders submitted their contributions in English, Macedonian, and in German.

Summary of the answers to the Consultation questions:

1. Question: What are the most important challenges, which the region as a whole is facing in terms of moving towards secure, sustainable and competitive energy?

The answers reconfirm that security of supply, sustainability and energy efficiency, as well as the regulatory and market risks pose the key challenges in the region.

It was stated that, *“the over-riding challenge confronting the Energy Community (EC) is to establish appropriate, reliable and sustained conditions essential to attract and facilitate the required investment.”* Lack of sufficient infrastructure / interconnectors in combination with inadequate market opening and excessive government intervention make the region quite risky for investors. One of the key problems appears to be the *“lack of true commitment to build up a functioning regional energy market.”* Other challenges include reducing monopolistic market positions, as well as, the rate of corruption especially in decision making and strategic planning.

Under the heading security of supply, imported fossil fuels, single source of gas supply, and insufficient gasification of the Western Balkan appear to be the biggest challenges. *“The development and increased usage of indigenous sources of energy is one of the important parts of the solution, but this needs to be maintained on a sustainable basis”*. Another important challenge is the need to decouple *“electricity, gas and district heating prices from social politics in harmonized steps for the whole region”*. To this end, there is a call to *“strengthen independence, increase powers of national energy regulators and establish a comprehensive cross-border regulatory framework by 2015.”* It is also necessary to *“tackle issues relating to household end-users, including non-payment, energy poverty, lack of social safety net.”*

2. Question: What are the strengths and opportunities that make the region attractive to investors?

There is potential for economic growth in the region. Before the financial crises, the region had a track record for generally higher economic growth rates than the rest of Europe. Moreover, the region *“lies on the path of the Southern Gas corridor which is essential for the future security of supply of the entire EU.”* In response, today’s low natural gas penetration brings growth opportunities in the future.

The region’s energy supply mix is heavily dependent on coal and oil. In short, a shift to cleaner fuels is evident and unavoidable. The fact that the region is highly dependent on a single source of gas supply prompts for further diversification. In this context, several contributors refer to the big renewable energy potential in the region (hydro, biomass, solar, wind). Also, the implementation of different kind of energy efficiency measures is seen as a potential opportunity. It was acknowledged that *“this is at the moment not strength of the region at all, but that is what makes it such large opportunity.”*

3. Question: What concrete and measurable objectives would you include in the Strategy (max. 5 objectives with a description of not more than 200 words per objective)?

The following 10 top objectives appeared in several stakeholders contributions. They relate closely to the key outstanding issues/challenges: secure, sustainable and competitive energy:

1. Enhance security of supply through necessary investments in generation and transmission capacities in both electricity and gas;
2. Wholesale market opening and integration with EU market;
3. Gradual opening of national markets in accordance to relevant EU Directives and efforts in decreasing various risks for investors;
4. Decreased reliance on imported fossil fuels;
5. Gasification and diversification of gas supplies;
6. Efficient carbon pricing to promote sustainable energy;
7. Targets for renewable energy integration post 2020;
8. Improvement of energy efficiency (both supply and demand side);
9. Timely implementation of required environmental measures, particularly CO2 emission reduction;
10. Establish stronger inter-governmental cooperation and coordination in the development of the regional

infrastructure.

Whilst some stakeholder defined the objectives at municipal or national level, there were others with far-reaching and very pan-European objectives. When developing the grid, there is a need for a *“proper regional approach, in particular on the building of interconnectors.”*

4. Question: **What concrete actions would you see to achieve the drafted objectives (not more than 10 actions, with a description of not more than 100 words per action)?**

The actions were proposed in different levels, varying from municipal, to national and region level. In most cases, the proposed actions correlate with the stakeholder’s interest group.

As regards Treaty implementation, a proposal was made to introduce an implementation performance *“ranking of the Energy Community member states”*. Moreover, the *“Energy Community Secretariat should have its authorized representative in each member state”*. Furthermore, a public platform of the Energy Community could be launched. It would *“gather independent experts and civil society organizations”* and act as *“a third party in the assessment of energy market reforms”*. There were also several stakeholders who proposed training and awareness raising campaigns. To this end, the Energy Community should *“establish joint strategy for local energy management, establish and set operational local/regional EE agencies”*.

In the area of security supply, *“diversification of supply by building regional gas and oil storage sites and LNG terminals”* should be promoted. This should be done in *“close co-operation with countries such as Norway, the Ukraine, and Turkey, as they are an important link in the security of supply for the region”*. In case of electricity, the Energy Community should *“develop a common grid model and coordinated capacity calculation method in the South-East European (SEE) region in line with the European electricity target model, for short-term and long-term timeframes.”* There should be *“a single regional office for coordinated long-term auctions based on harmonized auction rules.”*

As regards sustainable energy, there was a call for *“clear and collaborative roadmap for renewable, energy efficiency and carbon targets”*. To this end, it is proposed that *“by 2015 every country in the region revises its National Energy Strategy to take account of the need for decarbonisation by 2050”*. Alternatively, *“a public financing scheme for deep energy renovation of housing and public buildings is launched in every country with the assistance of IFIs, EU funds, national budgets and other relevant source of finance”*. It is also suggested to establish *“public financing programmes for EE and RES (e.g. Energy Development Fund) with obligatory participation of the civil sector (in the creation, work and monitoring of the programme/fund).”* Furthermore, there is a call for *“all subsidies for fossil fuels to be phased out as soon as is practically possible”*.

All in all, a *“sector Inquiry should be carried out to spot the main structural problems. The measurable goals and accompanying action plans should be aimed at removing or relaxing structural barriers.”*

5. Question: **In order to achieve a sufficient level of market integration, security of supply and to improve the environmental situation in the Energy Community related to renewable energy and energy efficiency, significant investments are needed. In your view, what are the main barriers to necessary investments and how could they be removed in order to reach these goals?**

Several stakeholders make reference to the fact that *“governments artificially keep the prices low”*. *“At the moment the most significant barrier to new investments in the energy infrastructure in the region is the existence of regulated prices for energy, which are set well beyond the market level and fail to meet the principle of cost reflectivity”*. The energy sectors are burdened by *“long term depressed energy prices, especially electricity prices, and lack of incentives to save.”*

The prevailing institutional setting also poses a barrier. To this end, *“the main barrier is significant level of various risks for primarily private investments (political, regulatory, sizes of markets, transit capabilities, cross border activities)”*. *“Administrative barriers should be simplified (one counter system, possibility to apply electronically,*

etc.); the costs should be defined; the revision of feed-in tariffs and period of guarantee should also be defined (who, when) in the law". The region is burdened by an unfavorable industrial infrastructure which results in high energy intensity. Also, the "unfavorable structure of the energy types (generation, import and consumption) from an environmental and economic aspect" poses a barrier to investment. Other factors include, the "missing financial resources, missing financial instruments," as well as, "missing monitoring of the cash flow used to finance investments".

There is a lack of "coherent strategies at national and/or super-national level". In the case of renewable energy, the "main barriers are excessively complex permitting processes combined with a lack of thorough planning and examination of the sustainability of renewables plans". The main barrier for energy efficiency is the "lack of funds (for household insulation, for example) and unfavorable legal set-ups for making decisions on the level of multi-occupancy residential buildings, but also in many cases issues such as lack of awareness or lack of co-operation between inhabitants of a certain block of housing are also a large problem".

6. Question: In terms of investments, how should energy projects (infrastructure, renewables, energy efficiency, power generation etc.) be financed?
- What should be the balance of public and private involvement and who should be involved (governments, municipalities, energy companies, financial investors, other private investors, donors, international organizations etc.)?
 - What should be the forms of financing (grants, loans, project bonds, tariffs etc.)?

It is evident that financial burden should be shared by public and private actors. It is argued that, "the financing of energy projects in a region with low GDP and underdeveloped markets, must be conducted through cooperation among various stakeholders ranging from IFIs, governments, private undertakings with the adequate political support from the EU and the Energy Community".

A stable, reliable legal framework is the precondition. "The regions' governments should pass realistic and sustainable enabling legislation. Then they should leave it alone - nothing deters investment more than lack of visibility / reliability / changes of law". Several contributors propose that the role of the state should be reduced to its minimum. "In terms of EU experience, there is always a mixture of financing projects via either loans or grants, depending on their profitability/commerciality, or lack of it. We also think that the more room that is left for market mechanisms to work, the better." There is a call for "total ban on long-term contracts where the government-owned "national champion" buys electricity or natural gas at non-market price".

Most of stakeholders support differentiation between the diverse energy sources. Support for sustainable energy should be prioritized. In case of renewables and energy efficiency, "tariffs should be the primary mechanism for fund raising with some green loan supports through banking system for SMEs and domestic level." To this end, governments should "accept the need for "Direct Agreements". Alternatively, they might put in place government backed RE [renewable energy] purchasing agencies if the Direct Agreement scenario raises concerns over "government guarantees" that "enrich foreigners". It is also proposed that the region should "welcome long-term "energy-bonds" and project financing with a focus on RES and energy efficiency. Each member state should contribute to the development of the necessary infrastructure". Furthermore, "one effective way to level the playing field... and to divert public [funds] to where they are really needed would be to stop all subsidies for fossil fuels in the region". Alternatively, "no public money and/or any support for fossil fuels and nuclear programmes should be provided in any form".

"From a Regulatory perspective, investment incentives should be considered in tariff regimes, taking into account the requirement for cost reflectivity and the necessity for affordability of energy prices for domestic customers in a context characterized by energy poverty."