

Brussels, 14 October 2011

Conclusions from the joint PHLG and ECRB meeting

- (1) The PHLG is implementing the agreed Conclusions of the Ministerial of 6 October. The Commission made it clear that those Contracting Parties that want to advance on the development of gas-fired power stations and gas infrastructures implementing the Gas Ring concept should be allowed to do so. By the next PHLG, the interested Contracting Parties should be determined, as well as the preferred mechanism for implementation.
- (2) The Commission reiterated its determination, within the context of the Energy Community, to assure that Parties to the Treaty implement Treaty Annex II on time, in line with the commitments made in the Treaty itself, and in line with the commitments set out in the legislation in question.
- (3) The Joint PHLG / ECRB noted the considerable challenges in meeting environmental commitments and the expected impact on power generation including de-commissioning of a substantial part of the existing coal-fired power plants and security of supply.
- (4) The Commission updated the meeting on the Southern Gas Corridor. The Commission noted that in the case of all pipeline projects (in alphabetical order: ITGI, Nabucco, SEEP, TAP), there was considerable scope to access gas. The Commission noted that the expansion of sources of supply from traditional gas sources should not be prevented though this would not diversify supply and transit risks. The Commission noted that security came from diversity of supply, interconnections, commercial & regulatory flexibility, and that there was not necessarily a direct connection between large transmission investments and security of supply.
- (5) Generation expansion can be delivered in many ways, but the method discussed in depth was the provision of gas-to-power generation. Invited speakers outlined some of the issues related to successful gas-to-power markets, including stability of demand and payments, interconnection, scale and delivery-of-gas scheduling. The experiences of countries that had undergone reform were discussed.
- (6) Representatives of SOCAR and of Shah Deniz Consortium outlined the opportunities for gas supply from Azerbaijan to the region. The gas could be potentially available in 2017 from the stage two of Shah Deniz field but some volumes owned by SOCAR could be made available to the region already earlier. The PHLG / ECRB took note of the interventions of producers of gas, in which these representatives made it clear that in the right circumstances and with the right commercial frameworks (yet to be defined) that there could be gas supplied.

However, it should not be implied that commitments were being made within the meeting.

- (7) The Commission underlined its political support for an expansion of gas-to-power as a means of bridging the generation gap in the region.
- (8) The Commission underlined that it is not necessary that all countries act together, but that the countries willing to go forward should not be restrained from doing so, especially if they would wish to co-ordinate amongst themselves.
- (9) The PHLG/ECRB took note of the concerns expressed by IFIs and private energy companies about fundamental issues constraining private investment in the Energy Community: tariffs/subsidies; market opening; access to cross-border transmission links; and reliable legal/regulatory framework. Substantial progress in addressing these fundamental issues is needed for any of the gas-to-power / gas ring options discussed in the meeting to succeed in attracting private investment.
- (10) The Commission made a presentation of available options on co-funding, which was accompanied by presentation of available tools by IFI's:
 - (a) EU pre-accession funds could be used to support energy infrastructures (for commercially non-viable projects). Power generation projects in view of their expected commercial viability, are less likely to qualify for co-funding than transmission infrastructure projects. The Commission stressed that it was a "demand-driven" programme therefore it was for the governments to set the priorities and apply for funding accordingly. The pot of money being limited, funds can be allocated only when the sector is identified among the priorities agreed between the Commission and the government, and the government put forward proposals in this respect. Without governments' priority given to energy infrastructures, the funds cannot be channelled to energy projects in the region.
 - (b) The Connecting Europe Facility infrastructure funding programme which is proposed by the Commission for the 2014-2020 framework is expected to contribute to costs of energy infrastructure projects identified as European priorities. It is proposed that projects outside the EU shall not be excluded from a potential co-funding, provided that they are essential to the implementation of the priority corridors and areas set in the guidelines regulation proposed in parallel.
 - (c) IFIs would be willing to consider a wide range of instruments: (i) debt and/or equity financing for private power companies/consortium; (ii) debt financing for public sector power and gas utilities; and (iii) partial risk guarantees to backstop obligations of public power and gas utilities. The World Bank also expressed willingness to manage technical assistance for activates complementing those finance by WBIF.
- (11) The Commission expressed its availability to bring together the producers, the purchasers and the Parties to select the best way forward. In reference to the Shah Deniz gas allocation process, the Commission stressed that it did not want to interfere with any commercial discussions that may be currently ongoing.

However, the Commission also stressed its availability to discuss on bilateral basis any issues any Contracting Party would like to bring for discussion.

- (12) The PHLG / ECRB agreed on the following steps:
- (a) Those Contracting Parties who wish to move rapidly forward and explore possibilities from new gas fired generation, are invited to express their interest in writing to the Secretariat by 15 November 2011. The interested parties shall appoint a contact person.
 - (b) For those Parties identified under (a) to decide on the procedural approach with the assistance of the Secretariat and the Commission by the upcoming PHLG
 - (c) To include systematically in the Agenda of PHLG meetings and ECRB plenary meetings an information point on the follow up of the development of gas to power programme and Gas Ring infrastructure