

3rd PECE/PMI Gas and Oil Group Meeting

Energy Community Secretariat, Vienna
9:30 – 17:15 14 February 2018

1. Introduction

- Energy Community Secretariat (ECS) welcomed the participants and reiterated the schedule of the PECE/PMI process, leading up to the Ministerial Council approval of the PECE/PMI list in October 2018. The Secretariat proposed to merge the April and June meetings in May 22 or 23. This way there will be enough time to conclude the project analysis and send it to the group before the final meeting. It is planned to accept the draft preliminary list during this meeting and forward it to the PHLG.
- The Secretariat has emphasized again the importance of providing data for the projects by the promoters and submitting data by the countries.

2. Presentation 1 – White Stream and Trans-Caspian Pipeline

- Mr. Shota Kvantaliani from GOGC presented the White Stream and Trans-Caspian pipelines, as these presentations did not take place during the previous meeting due to time concerns.

3. Presentation 2 – Country and Project Data Submissions - REKK

- REKK presented the demand figures as submitted by the countries. It was emphasized that the demand data will set the scene for the project assessment, thus it is important to show sensitivity of the project benefits to country demand data.
- REKK has shown the SEERMAP study results, which shows a different picture about the possible role of the gas demand in the electricity sector in the Balkan Region.
- REKK has presented the submitted oil and gas projects on map and summarized the associated costs.
- Project eligibility criteria was presented based on the adopted/adapted Regulation 347/2013.
- Gas_04A project is currently not eligible, as BG TYNDP explicitly denies the necessity of the connection to FYR of Macedonia – Consent from Bulgaria needed.
- Gas_11 FYR of Macedonia – Serbia project currently not eligible, as data is missing on the Former Yugoslav Republic of Macedonia side.
- Gas_12 Montenegro - Serbia project's title is not consistent with the project content. The project proposal does not contain any information on the pipe in Montenegro. Based on the discussion, it was concluded that data on the Montenegrin side is not yet available, consequently the project is not mature enough to be analysed. Nevertheless the project as submitted could be analysed, if the consent letter will be available from Kosovo* and the project title is clarified. Serbia and Kosovo* are to agree on the submission (consent letter) and the data provided in the proposal.
- Gas_18 Romania-Moldova: The flow direction is not consistent in the two submissions. RO claims one directional, MD claims bi-directional. MD and RO to clarify and notify ECS and REKK.
- The oil projects Oil_01 and Oil_02 has been clarified that they are not interdependent, although there are synergies. Eventual costs in Slovakia for tank farms should be considered in the analysis for Oil_02
- Project cost data was verified by REKK based on the ACER 2015 investment benchmark report. Some cost questions have been clarified by the promoters.
- REKK has presented the capacities as submitted by the promoters. Data was confirmed.
- Correction was made for the Dumrea UGS in Albania. Also the interpretation of the submission was clarified and it was agreed that both options will be analysed separately.
- Proposed project clustering was presented by REKK.
- Gas_03 Croatia – Bosnia – Herzegovina project will be analysed with and without IAP.

- TCP to be analysed together with additional capacity in Azerbaijan and Georgia – *clarification ongoing with the parties.*
- AGRI and White Stream to be analysed together with additional capacity in Azerbaijan and Georgia and Trans-Caspian pipeline– *clarification ongoing with the parties.*
- TANAP and SCPX to be part of the reference scenario, as they are under construction.
- Reverse flow on Trans-Balkan shall be modelled allowing reverse flow between TR-BG, BG-RO.

Conclusions and Actions needed:

- Albania to submit demand data split based on demand to be supplied from TAP and IAP projects separately. This is necessary to assign demand directly to IAP project and not use all Albanian demand in the reference scenario supplied by TAP.
- Bosnia and Herzegovina to submit demand associated with the project Gas_02 and the rest of the county. The data should represent the demand in the western Cantons after gasification based on Gas_02.
- Ukraine to submit country data – Country Questionnaire from the Energy Community website – see below. So far, no country data received from Ukraine. In case it is not submitted, the data from the previous PECE/PMI assessment will be used. <https://www.energy-community.org/regionalinitiatives/infrastructure/selection/2018.html>
- Gas demand data split [gas demand for electricity (X) and gas demand for everything else (1-X)] is necessary from all Contracting Parties to be submitted by the Ministries to enable the model iteration. (MN, BiH already submitted), **by latest 1 March**
- Daily peak demand estimate to be submitted if available by Ukraine, FYR of Macedonia, Montenegro, Moldova, Albania.
- Consent letter and project data on BG side are necessary from BG promoter for the project Gas_04A FYR of Macedonia – Bulgaria. MER to ask for it.
- Data submission is necessary for the project Gas_11 Former Yugoslav Republic of Macedonia.– Serbia, from Former Yugoslav Republic of Macedonia.
- Injection capacity to be submitted for the Dumrea UGS in Albania, by Albanian Ministry of Infrastructure and Energy.
- Gas_12 should be clarified by Srbijagas/ Ministry of Mining and Energy and Kosovo* MoE, to be eligible for analysis and PECE label as submitted. Kosovo* should send a consent letter to Serbia and to the Secretariat.
- Gas_18 Romania – Moldova to clarify the bi-directionality of the project. In case no other information arrives, the project will be considered bidirectional.
- Gas_03 Croatia – Bosnia – Herzegovina project requires cost submission for the missing pipeline section in Croatia, from Plinacro, for the scenario when it is analysed without IAP,
- Cost data to be submitted for the Trans-Balkan project Reverse Flow TR-BG and BG-RO section. DG Energy to check if data available based on CESEC.

4. Presentation 3 – Finalization of Open Methodological questions – REKK

- Georgia will be modelled in the European Gas Market Model – EGMM. This is the most sophisticated solution for Georgia, meaning that it will be analyzed in the same detail and sophistication as all other countries.
- Iteration between the Gas and Electricity model will be used to determine consistent gas demand in the electricity sector and gas market prices.
- Modelling for non-gasified markets will not consider the cost of gasification apart from the interconnector pipeline as submitted for assessment and no discount factor will be applied to decrease the social welfare presented by the model after gasification.
- ECS and the Consultant have explained that because gas demand appears in the sectoral gas model as new primary energy demand in the country, it generates social welfare *as if* there was no other energy source used before the new gas demand and as if the new gas did not replace some of the existing energy sources. Although some genuinely new primary energy demand will appear thanks to the gasification, a significant part of the primary energy demand will be switched from existing fuels. This phenomenon results in an eventual overestimation of social benefits due to the assumption that all new gas demand is new primary energy demand. In principle, for more accurate presentation, the ratio of new primary energy demand and fuel switching should be estimated and for fuel switching only the positive externalities should be considered as benefit. As there is no imminent and quick solution for taking this into account and as *all* projects (gasification, or extension of gas network) are assessed with the same methodology, due to consistency and comparability reasons, the project assessment methodology is agreed to be left unchanged. In the final result table, the Consultant will draw the attention of decision makers on these shortcomings of the assessment, by inserting a *comment* column.

- Gas demand sensitivity analysis and model iteration between the gas and electricity models will be carried out to mitigate the above described risk and help the Group in taking an informed decision, during the PECEI/PMI list approval.
- DG Energy highlighted that energy efficiency measures are of significance when pursuing the Energy Union goals and shall be considered by the policymakers of the Contracting Parties, when considering future energy and gas demand.
- The Benefit/Cost ratio was agreed to be used in the Multi-Criteria assessment for ranking purposes instead of the Net Present Value. NPV will still be presented in the final results for information purposes.
- It was agreed to consider both Ukrainian supply disruption and Southern Gas Corridor supply disruption with 5%-5% weight respectively in the project assessment and so in the NPV and B/C calculations.
- The Multi-Criteria Assessment weights have been agreed to be B/C ratio: 60%; Import Route Diversification Index: 12%; System Reliability Index: 18%; Project Maturity: 10%
- As proposed by the group during the December 2017 meeting, it was agreed that when presenting the final results, the Consultant will provide the Project Promoters with Excel sheets on results of modelled corner years (2020, 2030, 2040, 2050)
- The Consultant has presented the methodology to create the Reference scenario for each year, along with the reference input data. Data source for input data was presented along with aggregated demand supply, oil price and infrastructure assumptions. The data and the assumptions were not commented upon.
- In case available, the Consultant would welcome guidance from DG Energy on oil project assessment methodology to ensure consistency.

Conclusions and Actions needed:

- Gas demand data split [gas demand for electricity (X) and gas demand for everything else (1-X)] is necessary from all Contracting Parties to be submitted by the Ministries to enable the model iteration. (MN, BiH already submitted), by latest 1 March.
- DG Energy to send to ECS and the Consultant Oil PCI Assessment methodology if possible.

5. Next Steps

- In line with the Conclusion Sections above, countries and project promoters to provide data input and eligibility clarification/ data submission, **no later than 1 March 2018**.
- The Gas Group meeting in April is cancelled and new date of the meeting is 23rd May.
- Energy Community Secretariat to send the SEERMAP report along with the minutes to the Group
- Oil qualitative methodology will be included in the Draft Final Report.