

DRAFT
Minutes of the 3rd meeting
of Gas Group
(referred to as Group)
Thursday June 30th 2016, 9:30-18:00

1. Introduction

The Energy Community Secretariat (Secretariat) welcomed the participants and opened the meeting, announcing the Chair in the person of Ms. Catharina Sikow-Magny, European Commission.

2. State of play of the process. Results of the public consultation. New project submissions.

Secretariat reported on the public consultation results: no comments were to ECS.

3. Decision making process on the PEI selection

EC representative explained that after the group agrees on the preliminary list, this will be submitted for opinion to ECRB and ACER and after that, to the PHLG, that will recommend it to the Ministerial Council for adoption.

4. Methodology and its application – Q/A

REKK presented the overview of the project assessment methodology: the input data used for the modelling, the assumptions, the reference scenario, the cost benefit categories, etc. The results of the socio-economic modelling are then used in the multi-criteria analysis. DNV GL has presented the multi-criteria assessment methodology.

Taking into account the fact that methodology have been agreed by the group on the 2nd joint electricity and gas groups meeting, there were no comments or remarks by group members.

Questions:

Kosovo* NRA has asked what WACC has been applied for each project during the assessment.

REKK has explained that WACC is used in the financial assessment of projects, when the project viability is assessed from the project promoters'/investors' point of view. In the PEI assessment, the task is to assess whether a project is socio-economically viable from societal point of view. For such an assessment the Social Discount Rate (SDR) concept is used. In this case the SDR is set at 4%, just like in the case of the CBA Methodology of the ENTSOs.

MANU has added that the WACC plays a role when the investment CAPEX is accepted into the RAB and the rate of return is defined by the regulator. The project promoters, investors conduct private analysis based on this information, but the current exercise is public analysis.

5. Results of the cost benefit analysis – Net Present Value and Multi criteria Analysis – Q/A

REKK presented Net Present Value results of the submitted project list. DNV presented final multi-criteria assessment results.

Compared to the distributed presentation, REKK has also confirmed that the HU-UA Gas_14 project could not be modelled to fully represent the benefits of the project, as there is an existing interruptible capacity on the HU-UA border, which already generates benefits. Although REKK has estimated that if firm capacity was introduced, it would grant further Security of Supply benefits (ca. 26 mEUR), which would increase the NPV of the project into slightly positive range.

Below detailed discussions have emerged on the explanation of individual results where REKK has given detailed methodological answers on the individual result related questions, which have been understood.

Questions, Comments:

FGSZ - HU has confirmed that according to its opinion, new firm capacity should have been considered as completely new capacity on the HU-UA border. FGSZ has also asked if tariff sensitivity in the region has been also done in the context of the modelling exercise. If not, FGSZ would advise to do so.

REKK has re-confirmed the Security of Supply benefit of the project. REKK has also explained that tariff sensitivity has been done in the context of another exercise, for the CESEC group, but indicated that the CESEC exercise has been based on different assumptions and with a different scope. Further individual detailed assessment of a single project can be done bilaterally, by project promoters.

GAMA - MK has noted that according to its opinion the results do not seem logical for market integration results in MK. In MK all projects showed negative results for market integration, while in Albania and Kosovo* high market integration benefits can be observed. In those countries currently there is no gas market or networks. In MK there is currently only 100 km of pipeline, so, according to GAMA's opinion, at least one project in MK should have market integration positive result.

REKK has warned against a simplistic interpretation of aggregated results and has explained in detail what is happening in each result category for the projects in MK. REKK has confirmed that, because of the nature of new gas markets, NPV results are overestimated in such cases.

Montenegro TSO Bonus has expressed its concerns about the results of IAP not producing benefits.

REKK has explained that IAP is very costly and will have a very small flow, as TAP is already represented in the reference scenario. The assumption for the modelling was that TAP is connect to IAP. This is the reason why price differences do not drive flows.

Kosovo* NRA has asked about the results of the projects AL-KO (Gas_13) and SR-KO (Gas_12). **REKK** replied that Gas_13 outcompetes the Serbian connection, because TAP gas is cheaper than gas shipped to KO and Albania, from Serbia. If both projects are there, Gas_13 is used.

Serbian NRA has requested to include such explanations in the final report by the consultants for each project, where REKK summarizes the main reasons for the results and provides explanation. **REKK** has confirmed that it will be done.

MER - MK has noted that Demand data in the calculations are different from those submitted by the promoter. Thus they would like to ask the re-evaluation of the results of the MK projects, as this could have positive impact on the project. MER has also expressed concerns about the results of the simulation for MK-GR (Gas_04b).

REKK answered that they have received a lot of different input data (demand) from MK and asked for an agreed final one. REKK has used the last data received from the Ministry. Sensitivities have also been made on demand, which should encompass the uncertainty in the demand development of the region.

REKK has further elaborated that for the MK-GR (Gas_04b) it is not the demand data that causes the problem, but the cost of the project, which brings negative results in Bulgaria. But, in Greece and MK, this shows positive benefits.

Albanian Ministry has also expressed its concern about the progress of the IAP project because both IAP Project and Albania Kosovo Gas Pipeline Project (ALKOGAP Project) are very important for the country. The Ministry has also informed The Group that Western Balkan Investment Framework (WBIF) has already approved a grant of approximately 2.5 million EUR for the Preliminary Design of the Albanian & Montenegrin section. Also, on 07 May of this year, the Energy Ministers of IAP project met in Budva and agreed to establish a Project Management Unit, which will handle the next steps of this project.

Kosovo* NRA has noted that name of project Gas_12 Serbia- Montenegro is not reflecting the physical pipeline end which appears to be in Pristina. This makes inconsistent with the scope of modelling and the results are not reflecting the full investment costs, beyond the pipeline in Serbia.

6. Presentation of the Proposed PECl and PMI list

The Secretariat has presented the proposed preliminary list of PECl/PMI projects.

7. Decision making of the gas group

The list has been approved, apart from the status of Gas_16 IAP and Gas_03 HR-BH.

Following statements on IAP have been made:

Bonus Montenegro:

- > The project had a PCI and PECl status in 2013, then PMI and now no status is proposed
- > IAP is the only project to bring gas to Montenegro
- > IAP routing has been diverted from optimal routing (consumption centres within Montenegro), in order to optimize the route to Croatia
- > Studies made in past years would be not be used in case IAP route or lengths would be modified.
- > The project-specific results of IAP may be shared with Bonus

Ministry of Economy, Montenegro:

- > Montenegro itself do not dispose of the necessary financial means to realize the project on its territory.

Plinacro, Croatia:

- > Plinacro has confirmed, that they have intention to build on the territory of Croatia. It is not confirmed, whether the Gas_03 (HR-BH South) project would be realized without IAP.

REKK:

- > The results are different compared to the previous PECl and the first PCI selection, as the basic assumptions of the study have changed, especially with the fact that TAP is being constructed and thus is represented in the reference scenario in the study. Earlier, TAP and IAP were competing to serve the markets of Albania and Montenegro. But currently as TAP is represented within the reference scenario and so price formation is more preferential on the south, IAP would not generate flows, even with KRK LNG being built.

Noting all the above and considering that the most important issue is to provide access to Montenegro to gas, European Commission has proposed the inclusion of a project Albania-Montenegro on the PECl list. This project could also be deemed as first step of IAP, in case fundamentals change in favour of such a pipeline.

Ministry from Montenegro requested time to discuss this proposal internally, and come back with a decision on this.

Preliminary list of PECl
Project name
Gas_09 Serbia-Bulgaria Interconnector
Gas_13 Albania Kosovo Interconnector
Gas_11 Serbia-FYR of Macedonia Interconnector
Gas_16 IAP Section Albania-Montenegro Interconnector - TENTATIVE

Preliminary list of PMI
Project name
Gas_14 & Gas 15 Development of Poland Ukraine reverse flow or Hungary Ukraine reverse flow new firm capacity - Competing PMI
Gas_10 Serbia-Croatia interconnector

Gas_01 & Gas_02 & (Gas_03) Bosnia and Herzegovina - Croatia interconnector - To clarify with BH Gas and BiH which one should remain on the PMI list (conditioned by IAP)

Gas_04B Greece-FYR of Macedonia Interconnector

8. Regulation 347/2013 – Permitting in the EU

DG ENER presented Major trends in applying the permit granting rules and in publishing the manual of procedures in EU member states.

Secretariat informed group members that it published and send to the PHLG members Explanatory notes on the Implementation of EU Regulation 347/2013 - MC decision 2015/09, Part I: The permitting process.

Also, Secretariat informed group members that proper questionnaire has been sent to PHLG members as well and the deadline for the reply expired on 19th June 2016. Till now Secretariat received only feedbacks from three CPs: BA, KS* and MK. Questionnaire should give Secretariat insight on the current practices in the CPs related to the permit granting process, public participation, priority status of the projects as well as plans related to the establishment of the One stop shop, as defined in the Regulation.

9. Conclusion and next steps

As stated under point 3., preliminary PECE/PMI electricity list it will be submitted for the opinion to the ECRB and ACER and further sent for adoption to PHLG and MC.

Decision on the project Gas_16 – IAP Montenegro – Albania section will be taken, after the feedback of Montenegro.

The Decision on BiH – Croatia interconnector (Gas_01 &02 and 03) will be taken after consultations with BH Gas.