

UPDATE OF THE SECURITY OF SUPPLY STATEMENTS

Guideline

I. LEGAL BACKGROUND

Article 29 of the Treaty Establishing the Energy Community calls the Contracting Parties to adopt security of supply statements starting one year after the entry into force of the Treaty. The Statements shall be communicated and updated every two years. In particular the statement should cover at least:

- a) diversity of supply
- b) technological security
- c) geographical origin of the imported fuels

This obligation relates to *network energy* which, under the Article 2 of the Treaty, encompasses **electricity sector** and **gas sector** falling within the scope of EU Directives 2003/54/EC and 2003/55/EC respectively. The Decision 2008/03 of the Energy Community Ministerial Council extended this definition to the oil sector falling within the scope of the EU Directive 2006/67/EC, implicitly introducing obligation for the Contracting Parties to adopt security of supply statements for the **oil sector** with the corresponding coverage.

In addition, Article 11 of the Treaty together with the Energy Community Ministerial Council Decisions 2007/06 and 2008/03 outline the scope of the (extended) *acquis communautaire on energy* applicable under the Treaty, such as:

1. For the electricity sector:

- EU Directive 2003/54/EC;
- EU Directive 2005/89/EC;
- EU Regulation (EC) 1228/2003;

2. For the gas sector:

- EU Directive 2003/55/EC;
- EU Directive 2004/67/EC;
- EU Regulation (EC) 1775/2005;

3. For the oil sector:

- EU Directive 2006/67/EC

In parallel, the new EU Directive 2009/119/EC of 14 September 2009 of imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products was adopted. Thus –

in addition to the currently applicable Directive 2006/67/EC of 24 July 2006 on the same topic, the EU legislative order on the issue of oil stocks was further developed.

These acts constitute the legal platform under the Treaty related to security of supply.

Additional criteria may arise from the *acquis* and adopted measures related to renewable energy, energy efficiency / demand management and the environment, which should be included in the Statement as much as they are applicable to security of supply.

Out of the possible internal references, the Contracting Parties are expected to consult and reflect the relevant criteria from their official policy documents such as regional and state-level energy development strategies and plans, spatial plans, periodical energy balances, investment programmes and investment incentives, as well as development plans and priority projects of the relevant undertakings in the energy sector.

The first round of security of supply Statements was adopted by the Contracting Parties and submitted to the Secretariat in June 2007. By July 2009 the Contracting Parties submitted updated Statements and a Review was presented by the Secretariat to the PHLG on the Meeting in September 2009.

According to the obligation under the Treaty the next round of updated Statements on security of supply is due by the end of July 2011.

II. ELECTRICITY SECTOR

1. Legal Obligations on Security of Supply

Article 4 of the Directive 2003/54/EC requires monitoring and reporting on Security of Supply in the electricity market in particular of:

- a) supply/demand balance on the national market,
- b) level of expected future demand,
- c) envisaged additional capacity being planned or under construction,
- d) quality and level of maintenance of the networks,
- e) measures to cover peak demand, and
- f) measures to deal with shortfalls of one or more suppliers;

According to the same Article, it is a responsibility of the Contracting Parties to ensure monitoring of security of supply issues. The Contracting Party may consider it appropriate to delegate this task to the regulatory authorities.

Article 7 of the Directive 2005/89/EC refer to the reporting requirements on security of supply in the electricity sector stipulated in Article 5 of the Directive 2003/55/EC with additional demand for covering the overall adequacy of the electricity system to supply current and projected demands, in particular to cover:

- g) operational network security – in particular addressing the applicable issues covered by Article 4 of the Directive;
- h) projected balance of supply and demand for the next 5 years – in particular addressing the applicable issues covered by Article 5 of the Directive;

- i) prospects for security of electricity supply for the period between 5 and 15 years from the date of the report;
- j) investment intentions of TSOs and any other party for the next 5 years or more regarding cross-border interconnection capacity;
- k) the principles of congestion management, as set out in Regulation (EC) 1228/2003, from the standpoint of their influence on the investment intentions in cross-border capacity;
- l) existing and planned transmission lines from the standpoint of their influence on the investment intentions in cross-border capacity;
- m) expected patterns of generation supply, cross-border exchanges and consumption, including demand management measures, from the standpoint of their influence on the investment intentions in cross-border capacity;
- n) regional, national and European sustainable development objectives including projects forming part of the Axes for priority as set out in Annex I to the Decision 1229/2003/EC from the standpoint of their influence on the investment intentions in cross-border capacity;
- o) Investments related to building of internal lines that materially affect the provision of cross-border interconnection capacity;

According to the same Article the TSO shall consult, when appropriate, with the neighboring TSOs. The necessary means for access to the relevant data should be facilitated to the TSO and relevant authorities by the Contracting Party, including means for ensuring non-disclosure of confidential information.

2. Obligations for Reporting

The Treaty requests an update of the security of supply Statement for the electricity sector every two years.

Article 4 of the Directive 2003/54/EC, as further enforced by the Directive 2005/89/EC imposes to Contracting Parties the obligation to communicate a report on security of supply for the electricity sector in the same timeframe.

Pursuant to the above, the reporting obligation on the security of supply will be reached in most efficient way by updating, adopting and communicating the security of supply statements for the electricity sector every two years, covering all the requirements from the three respective acts.

The Secretariat shall monitor the submission and review the updated Statements and monitor the implementation of Directive 2005/89/EC together with the other *acquis* stipulated by the Treaty.

3. Structure of the security of supply Statement

The following is the minimum set of questions which should be addressed in the security of supply Statement for the electricity sector:

Overview - diversity of the electricity supply;

Overview - technological security of electricity system, quality and maintenance of electricity networks;

Overview - geographical origin of imported fuels / primary sources for generation (overview) – hydrocarbons, gas, hydro-potentials (including water-basins, prospects for their utilization and dependence on hydrology);

Description of the role (basic competences / powers / obligations) in the electricity sector, at least of the:

- policy authorities (government, ministries, agencies, local government);
- regulatory authorities;
- competition and other related authorities;
- network / market operators;

Instruments / measure to compensate shortfalls of one or more suppliers; emergency measures in case of sudden crisis of the supply;

Description of the environment for investment in new infrastructure (electricity generation / network capacity), in particular with respect to:

- Tendering procedures for new capacity – responsibilities, rules, transparency;
- Authorization criteria and procedures (for large / small units), role of long-term planning, ownership rights;
- Incentives for investment in new capacities (generation / direct lines) – feed-in tariffs, other explicit payments, exemptions, capacity / PPA options, connection rights, treatment of losses, balancing and ancillary services,

Current level and structure of electricity consumption [GWh], and projected electricity demand for the period of the next 5 years (i.e. 2011 – 2015);

Current level and pattern of electric power peak demand [MW], and expectations for the period of the next 5 years (i.e. 2011 – 2015) – including system balancing instruments;

Installed generation capacity [MW] – current level and structure by energy source, state of utilization and availability, current fuel mix for generation (including share of renewable energy / biomass and CHP);

Planned commissioning / refurbishment / retirement of generation capacity – prospects for the next 5 year period (i.e. 2011 – 2015), including overview of net (changes) of generation capacity in the fuel mix, in particular:

- net (new) coal-fired capacity;
- net (new) oil-fired capacity;
- net (new) gas-fired capacity;
- net (new) large hydro capacity;
- net (new) renewable energy capacity (small hydro, wind, solar, biomass);
- net CHP capacity (electricity / heat);

Forthcoming generation projects in the next 5 years (i.e. 2011 – 2015) – planned installed capacity [MW], primary energy, basic technical data, investment costs including planned environmental measures and prospects for utilization, with respect to:

- projects currently in the process of construction;
- authorized projects in process of seeking investment;
- priority projects in different phases of preparation;

Planned supply pattern [GWh] aimed to balance the forecasted demand in the next 5 years (i.e. 2011 – 2015) – including indigenous sources and market arrangements (imports / exports), load shedding, demand management and energy efficiency;

Forecasts of the demand pattern in the period between 5 and 15 years (i.e. 2015 – 2025) and planned measures for security of electricity supply in this period;

- Operational network security (transmission / distribution) – competences, rules and obligations, reserved capacity for operational security, capacity contracts, dispatching and ancillary services, losses, quality of service indicators, curtailments, monitoring;
- Investment intentions of the transmission system operator (or any other party) in interconnection / internal network capacity, for the next 5 years (i.e. 2011 – 2015), including:
 - principles / rules of congestion management (coordination with other operators);
 - existing / planned transmission lines and supporting infrastructure;
 - expected patterns of cross-border exchange, demand management measures, measures to overcome possible internal congestion in cross-border exchanges;
 - compliance with sustainable development projects (national, EU-projects)
- Access to information to be provided by the network operators for the needs of the market participants and investors in new generation capacity

In addition, a regulatory report on the electricity market should be included, addressing (at least) eligibility criteria, level of market opening and applied switching, market concentration and monitoring instruments, network tariffs (transmission / distribution), transparency of data and its role in development / implementation of investment projects.

The proposed structure is, however, non exhaustive and Contracting Parties may include other relevant information.

III. GAS SECTOR

1. Legal Obligations on Security of Supply

Article 5 of the Directive 2003/55/EC requires monitoring and reporting on Security of Supply in the gas market in particular of:

- a) supply/demand balance on the national market,

- b) level of expected future demand and available supplies,
- c) envisaged additional capacity being planned or under construction,
- d) quality and level of maintenance of the networks,
- e) measures to cover peak demand, and
- f) measures to deal with shortfalls of one or more suppliers;

According to the same Article, it is a responsibility of the Contracting Parties to ensure monitoring of security of supply issues. However the Contracting Party may consider it appropriate to delegate this task to the regulatory authority.

Article 5 of the Directive 2004/67/EC refer to the reporting requirements on security of supply in the gas sector stipulated in Article 5 of the Directive 2003/55/EC with additional demands, in particular to cover:

- g) the competitive impact of the measures taken pursuant to Articles 3 and 4 of the Directive 2004/67/EC with regard to the policies for securing gas supply and security of supply for specific customers, applicable to all gas market players;
- h) the levels of storage capacity;
- i) the extent of long-term gas supply contracts concluded by companies established and registered on their territory, and in particular their remaining duration, based on information provided by the companies concerned, but excluding commercially sensitive information;
- j) the degree of liquidity of the gas market;
- k) the regulatory frameworks to provide adequate incentives for new investment in exploration and production, storage, LNG and transport of gas, taking into account Article 22 of Directive 2003/55/EC as implemented by the concerned Contracting Party.

2. Obligations for Reporting

The Treaty requests an update of the security of supply Statement for the gas sector every two years.

Article 5 of the Directive 2003/55/EC, as further enforced by the Directive 2004/67/EC imposes to Contracting Parties obligation to communicate a report on security of supply for the gas sector on annual basis.

Pursuant to the above, the reporting on the security of supply issues will be reached in most efficient way by updating, adopting and communicating the security of supply statements **for the gas sector every year**, covering all the requirements from the three respective acts.

The Secretariat shall monitor and review the updated Statements and monitor the implementation of Directive 2004/67/EC together with the other *acquis* stipulated by the Treaty.

3. Structure of the security of supply Statement

Pursuant to the above criteria, the following is the minimum set of questions which should be addressed in the security of supply Statement for the gas sector:

Diversity of supply (gas)

Technological security

Geographical origin of imported fuels (gas)

Current levels of gas consumption [bcm] and expectations for the next three years (i.e. 2011-2013)

Currently available production, storage and import capacity [bcm] for the next three years (i.e. 2011-2013).

Forthcoming production, storage, transmission and interconnections investment for the next three years:

authorised

actually in process of construction

- Quality and level of the maintenance of the networks
- Measures to
 - cover peak demand
 - deal with shortfalls of one or more suppliers
- Defined roles and responsibilities of the different gas market players (role of regulatory or other authorities inclusive) in achieving security of supply general policies
- Minimum non-discriminatory and transparent security standards
- Specific customers (for example households) protection measures
- All potential cooperation measures with other Contracting parties, EU Member States and other neighbouring countries
- Competitive impact on all gas market players of the set of measures designated to secure supply
- Levels of storage capacity (injection, withdrawal rates etc)
- Extent of long-term gas supply contracts concluded by companies established and registered on their territory, and in particular their remaining duration, based on information provided by the companies concerned, but excluding commercially sensitive information, and the degree of liquidity of the gas market
- The regulatory incentives for new investment in exploration and production, storage, LNG and transport of gas, taking into account Article 22 of Directive 2003/55/EC as far as implemented by the Contracting Party concern.

The proposed structure is, however, non exhaustive and Contracting Parties may include other relevant information.

In the general description of the ongoing supply-demand situation with the indicators included, a reference should be made to TSO projections where available.

Additional information may provide supplier of last resort requirements with respect of security of supply as well as requirements related to the availability of storage for public service reasons.

Finally the *regulator* should report on any progress in major infrastructure projects and in particular important interconnection projects between or within Contracting Party, as well as with other neighbouring countries, including the regulatory framework under which they will operate.

IV. OIL SECTOR

1. Legal Obligations on Security of Supply

The European Council, in its Action Plan (2007 to 2009), entitled 'Energy Policy for Europe', underlined the need to enhance security of supply for the European Union (EU) as a whole and for each Member State, *inter alia*, by reviewing the Union's oil stocks mechanisms, with special reference to the availability of oil in the event of a crisis.

The Council Directive 2009/119/EC OF 19 September 2009 imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products envisages that the indigenous production of oil can in itself contribute to security of supply and might therefore provide justification for oil-producing Contracting Parties to hold lower stocks than other Contracting Parties. It therefore follows that the stockholding obligation for certain Contracting Parties should be set on the basis of inland oil consumption and not on the basis of imports.

Overall, Directive 2009/119/EC requires from the EU Member States the following:

- a) Specific Stocks must be catalogued in terms of volume and location;
- b) A statistical summary of Specific Stocks must be submitted to the Commission monthly;
- c) A statistical summary of Commercial Stocks must also be submitted to the Commission monthly;
- d) Commercial statistical summaries must be aggregated to protect commercial confidentiality;
- e) Annual register of stocks shall be kept and continually updated;
- f) A monthly summary of commercial stocks shall be sent to the Commission;
- g) Commercially sensitive confidentiality will be maintained;

The availability of oil stocks and the safeguarding of energy supply are essential elements of public security for Contracting Parties and for the Energy Community.

To help enhance security of supply in the Energy Community, the stocks, known as 'specific stocks', purchased by the Contracting Parties and constituted on the basis of decisions taken by the Contracting Parties should correspond to actual needs in the event of a crisis. They should also have separate legal status to ensure full availability should such a crisis occur.

Given the need to increase the level of control and transparency, emergency stocks that are not specific stocks should be subject to increased monitoring requirements and, in certain cases, Contracting Parties should be required to notify measures governing the availability of emergency stocks and any changes in the arrangements for maintaining them.

In order to enhance security of supply, provide the markets with fuller information, reassure consumers about the state of oil stocks and optimise the way in which information is transmitted, provision should be made for possible subsequent amendment or clarification of the rules for the preparation and submission of statistical summaries. With the same objectives in mind, the preparation and submission of statistical summaries should also be extended to stocks other than emergency stocks and specific stocks, with those summaries to be submitted on a monthly basis.

Biofuels and certain additives are often blended with petroleum products and when blended or intended to be blended with those products, it should be possible to take them into account both when calculating the stockholding obligation and when calculating the stocks held.

2. Obligations for Reporting

Each Contracting Party shall keep a continually updated and detailed register of all emergency stocks held for its benefit which do not constitute specific stocks. That register shall contain, in particular, information needed to pinpoint the depot, refinery or storage facility where the stocks in question are located, as well as the quantities involved, the owner of the stocks and their nature,

By the 25th February each year, each Contracting Party shall send to the Secretariat a summary copy of the stock register referred to the above paragraph showing at least the quantities and nature of the emergency stocks included in the register on the last day of the preceding calendar year.

Contracting Parties shall also send the Secretariat a full copy of the register within 15 days of a request by the Secretariat

The Treaty requests an update of the security of supply Statement for the oil sector every two years. However, the reporting on the security of supply issues will be reached in most efficient way by updating, adopting and communicating the security of supply statements for the oil sector **on annual basis**.

The Secretariat shall monitor and review the updated Statements and monitor the implementation of Directive 2009/119/EC together with the other *acquis* stipulated by the Treaty.

3. Structure of the security of supply Statement

Pursuant to the above criteria, the following is the minimum set of questions which should be addressed in the security of supply Statement for the oil sector:

Overview - diversity of the crude oil/petroleum products supply;

- Domestic supply of crude oil and petroleum products
- Import of crude oil and petroleum products
- Export of crude oil and petroleum products
- Petroleum products consumption in a year
- Stockholding of crude oil and petroleum products
- Presence of Biofuels in oil market as an alternative

Overview - technological security of oil system, quality and maintenance of oil and petroleum products networks (crude oil and petroleum products pipeline, terminals and ports)

Oil infrastructure data

- Refinery installed and operating capacities
- Refinery storage capacities of crude oil, intermediate and finished products
- Crude and product pipelines capacities (installed and operating)
- Crude and product pipeline routes
- Storage capacities of LPG, motor gasoline, Jet Fuel, motor diesel, gasoil and residual fuel oil

Refinery upgrade programme and investments in order to increase production of petroleum products and advance progress toward meeting EU specifications on products quality

European and domestic standards used for the petroleum products

Increase of oil efficiency in all sectors (in particular) - Transport, Residential and Power Generation

Overview - geographical origin of imported energy products as defined in Section 4 of Annex B to Regulation (EC) No 1099/2008

Import export capabilities of crude oil and petroleum products through pipelines, road tankers, rail and ship/ports

The proposed structure is, however, non exhaustive and Contracting Parties may include other relevant information.

V. CONCLUSIONS

The Secretariat considers that the security of supply statements contribute to facilitating security of supply measures at regional level. They will add value to regional strategy goals. Moreover, they will also assist in identifying shortfalls of the existing infrastructure or related issues and allow formulating the regional priority projects. On this ground, the Secretariat invites the PHLG to consider the following conclusions:

- The Security of Supply Statement of each Contracting Party needs to be updated along the indicated structure and submitted to the Secretariat by the end of July 2011. Moldova and Ukraine are invited to submit their Statements in the timeframe outlined in their respective Accession Protocols;
- The Security of Supply Statements shall address electricity, gas and oil sectors;
- Starting with 2011, the Security of Supply Statement for the gas sector shall be submitted annually. Statements for the electricity and oil sectors shall be submitted every two years;
- The ministry responsible for energy of each Contracting Party is responsible for development and submission of the (updated) Security of Supply Statements to the Energy Community. Parties are invited to include at least the regulatory authorities and network operators in drafting of the Statements. It is expected the Statement to be approved by the Government of the Contracting Party before submission.