

ANNUAL REPORT ON THE ACTIVITIES OF THE ENERGY COMMUNITY 2014

This Annual Report on the Activities of the Energy Community outlines key Energy Community activities and achievements in the period from 1 September 2013 to 1 September 2014 following the requirements of Article 52¹ of the Energy Community Treaty. Over this period, the Energy Community Contracting Parties and institutions have worked intensively towards implementation of the Treaty *acquis*, as reflected in detail in the Annual Implementation Report 2014.

a. This Year's Highlights

1. An Energy Community for the Future – Report of the High Level Reflection Group

In October 2013, the Energy Community Ministerial Council decided to extend the duration of the Energy Community Treaty for a period of ten years, until 2026. On this occasion, Ministers also launched a process of reforming the organisation by establishing a High Level Reflection Group tasked to assess independently the adequacy of the institutional set up and working methods of the organisation to the achievement of the objectives of the Energy Community Treaty, taking into consideration the evolution of this organization over the past years and its extended Membership, and to make proposals for improvements to the Ministerial Council in 2014.

Prof. Jerzy Buzek, former President of the European Parliament and Prime Minister of Poland, was appointed as the Group's Chairman. Ms Vesna Borozan, Mr Walter Boltz, Mr Fabrizio Donini Ferretti, Mr Volodymyr Makukha and Mr Goran Svilanović were designated as members of the Group. The Group's final report² was published on 11 June 2014.

The Group agreed that the Energy Community process suffers from certain shortcomings including, inter alia, the lack of implementation of the legal commitments entered into by the Contracting Parties in real terms; weak enforcement mechanisms; and lack of flexibility in the use of the Treaty. Based on these findings, the Group made concrete reform proposals to be implemented and adopted by the competent Energy Community institutions.

Public consultation with stakeholders was an important part of the High Level Reflection Group's work. An online public consultation took place on the basis of a questionnaire. 38 individual responses were received from representatives of NGOs, governments, industry and civil society. In March 2014, a public hearing took place in the European Parliament, which was attended by over 150 participants.

¹ Article 52: The Ministerial Council shall submit an annual report on the activities of the Energy Community to the European Parliament and to the Parliaments of the Adhering Parties and of the Participants.

² <http://www.energy-community.org/pls/portal/docs/3178024.PDF>.

Summary of Key Proposals of the High Level Reflection Group

Additional measures to create a Single European Energy Market. The Group recommends that the current Energy Community *acquis* should be widened to include inter alia additional rules on competition, State aid and public procurement in the energy sector and new environment *acquis*. Moreover, Energy Community institutions should be better linked to EU energy institutions created by the Third Energy Package – ACER, ENTSO-E and ENTSO-G. At the same time, the Group concluded that EU rules need to be better adapted to the socio-economic situation of the participating non-EU countries. It also recommended strengthening and expanding Title IV of the Treaty, which allows for designing true pan-European energy governance for a Single European Energy Market.

A toolkit to increase investment flows. The Group recommends the introduction of risk mitigation schemes for investments, such as an Energy Community Risk Enhancement Facility providing investment guarantees or insurance products and an entity allowing for demand aggregation for imported gas. The Group also suggests the harmonization of permitting procedures and criteria in order to enhance transparency and shorten the duration of such procedures.

Stronger enforcement. The Group proposed for the current dispute settlement procedure to be gradually replaced by a Court of Justice and financial sanctions to be introduced, as in the EU. Moreover, the court should also be accessible directly by individuals and companies, as having access to a vigorous and independent judicial system is also fundamental for investors.

More funding. Increased funding should be made available in bilateral and multilateral support, including from international financial institutions and the EU, for technical assistance and investments, especially for Projects of Energy Community Interest. All funding should be conditional on compliance with the Energy Community obligations.

A more flexible membership structure. The Group believes that the Energy Community should be open to those countries willing and able to apply the rules. No geographical limitations should be set. The Energy Community should declare a strategic interest in Eastern Partnership countries, Switzerland, Norway and Mediterranean countries. A more flexible structure should be introduced allowing for new members to commit to a certain core set of EU rules with the possibility to “opt-in” to implement rules pertaining to additional policy areas and improved enforcement procedures and easier access to financing.

Increased transparency. The Group recommended that the role of civil society and business in the institutions should be strengthened by granting them an observer role in the Permanent High Level Group.

2. A Competitive and Integrated Energy Market – Implementing the Third Package for Electricity and Gas

Given the approaching deadline of 1 January 2015 to transpose the Third Energy Package in the Energy Community, the Secretariat has provided extensive technical assistance and support to the Contracting Parties. Special focus was given to the three main features of the Third Package, namely the unbundling of transmission system operators and access to network infrastructure, independence of national regulatory authorities and protection of vulnerable consumers. The Secretariat has organised focused workshops, conducted country missions to all Contracting Parties and was actively engaged in the drafting of new energy laws. Preparing for the incorporation of the Third Package Network Codes in the Energy Community, the Secretariat has prepared the EU Network Codes on congestion management procedures and capacity allocation mechanism in gas transmission systems for adoption in the Energy Community.

At the same time, the Secretariat intensified its enforcement activities related to non-implemented elements of the Second Package. A number of new cases were initiated, and the first-ever case (against Bosnia and Herzegovina) was referred to and decided by the Ministerial Council in October 2013. Unfortunately, the Ministerial Council's decision remained without consequences. The Secretariat also mediated negotiations between the transmission system operators of Kosovo* and Serbia, as well as the settlement of an investment dispute in Albania.

3. Towards a Regional Electricity Market

Following intensive efforts by the Energy Community, the Coordination Auction Office in South East Europe (SEE CAO) was established on 27 March 2014. The SEE CAO is expected to become operational in the second half of 2014, starting with monthly allocation periods. The Energy Community Regulatory Board has been leading the work on regional auction rules as the key next step.

Other initiatives to support the establishment of a functioning regional electricity market include the launch of the Energy Community Regional Balancing Initiative, which aims to establish balancing market integration, and a Market Coupling Simulator, the first publically available software providing a comprehensive simulation of market coupling processes and roles. The Energy Community Distribution System Operators (DSOs) and Market Operators for electricity have set up informal, member-driven working groups supported by the Secretariat as another means of facilitating market integration.

In order to increase data transparency and make electricity market information more precise and comparable, the Secretariat has prepared EU Regulation 543/2013 on submission and publication of data in electricity markets for adoption in the Energy Community.

4. Working to Boost Investment – The PEI Projects

One of the Energy Community's key objectives is to attract infrastructure investment into the region. Almost EUR 40 billion until 2020 is required to diversify existing energy resources and replace ageing power plants in the region. As a next step in the implementation of its Energy Strategy, the Energy Community adopted a list of 35 "Projects of Energy Community Interest" (PEIs) at the Ministerial Council meeting in October 2013. Fourteen electricity generation, nine electricity infrastructure, ten gas infrastructure and two oil infrastructure projects were selected due

to their importance for the development of cross-border trade and energy markets in the region, following an extensive public consultation.

The list translates into over 5 000 megawatts of new capacity to be installed, over 1 600 km of electricity lines, 2 500 km of gas pipelines and over 600 km of oil pipes, accruing to a staggering volume of investments of approximately EUR 13.5 billion. The projects may benefit from investment incentives and enhanced regulatory conditions, once EU Regulation 347/2013 on guidelines for trans-European energy infrastructure will be adopted in the Energy Community. The Secretariat has proposed its adaptation to the needs and realities of the Energy Community.

5. Enlarging our Family – Opening of Accession Negotiations with Georgia

Extending the EU internal energy market and a stable regulatory and market framework is the mission of the Energy Community. Negotiations with Georgia to accede to the Energy Community were launched in February 2014. Georgia is expected to join the Energy Community by the end of 2014, following acceptance by the Ministerial Council and ratification. Georgia's membership will move the Energy Community's borders to the Caucasus.

6. Secure Energy Supply

The Energy Community Security of Supply Coordination Group has continued to improve mechanisms and tools to raise the overall preparedness for dealing with gas and electricity supply crisis. In May 2014, the Energy Community Security of Supply Electricity Subgroup was activated in order to facilitate communication and mutual assistance at regional level in response to the tragic consequences of flooding in Bosnia and Herzegovina, Serbia and Croatia. The Energy Community Distribution System Operators coordination platform was used to coordinate emergency assistance to Distribution System Operators in the affected regions.

In September 2013, the Secretariat published a study on the security of gas supply, whose key recommendation is the adoption in the Energy Community of EU Regulation 994/2010 on measures to safeguard security of gas supply. The EU Regulation sets higher standards for risk assessment procedures, emergency planning and regional mechanisms to respond to disruptions. The Regulation, adapted to the situation in the Energy Community, has been endorsed by the Permanent High Level Group.

7. The Energy Community Regulatory Board

The Energy Community Regulatory Board (ECRB)³ contributed to the establishment of a single energy market in the Energy Community and beyond by providing regulatory support to the establishment of a Coordinated Auction Office and other elements of regional electricity wholesale market development and work on regulatory aspects of the Gas Ring and enhancing transparency in the electricity markets. In 2013, the Board for the first time provided coordinated input to the public consultations related to the Third Package Network Codes and Framework Guidelines for electricity and gas. The Board also continued putting strong emphasis on customer protection, including consumer awareness of energy market liberalisation and treatment of vulnerable customers.

³The ECRB published a separate annual report on its activities in 2013 - <http://www.energy-community.org/pls/portal/docs/3104035.PDF>.

8. Cooperation with our Partners

The Energy Community works actively with a number of international as well as regional organisations and donors in order to maximize synergies. Among our partners, we can count on technical assistance and investment programmes supported by EU through the Western Balkans Investment Framework (WBIF), INOGATE, the World Bank, the European Bank for Reconstruction and Development (EBRD), GIZ, the U.S. Agency for International Development (USAID), the European Investment Bank and KfW. The Energy Community Secretariat actively cooperates with other EU and international organisations, including the Regional Cooperation Council, EUROSTAT, the International Energy Agency and specialized organisations of the United Nations.

The types of cooperation are diverse. Examples during the reporting period include the “*Regional Energy Efficiency Programme*”, supported by WBIF and managed by EBRD in close cooperation with the Energy Community, which is focussed on transposition of the Energy Performance of Buildings Directive and improvement of energy efficiency in public procurement. Following the Energy Community’s launch of its own association of Distribution System Operators (DSOs) for electricity in March 2014, the Secretariat has struck a partnership with USAID to collaborate with its Southeast Europe DSO Working Group on issues of common interest.

The Energy Community Regulatory Board cooperates regularly with its counterparts around the globe – the Energy Regulators Regional Association (ERRA), the Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER) to ensure a streamlined understanding of energy market regulation. The European Network of Transmission System Operators for Electricity (ENTSO-E) and the European Network of Transmission System Operators for Gas (ENTSO-G) are our key partners for the implementation of the Third Energy Package and related Network Codes.

b. Events

In the reporting period, the Energy Community organised more than 60 official events, which attracted around 2,000 participants. These ranged from smaller workshops and taskforce meetings to large scale, high level conferences such as the 2013 Investment Conference – “*The Sustainable Energy Supply Challenge*”, which attracted more than 110 key stakeholders, and the second “*Vienna Forum on European Energy Law*”, which was attended by more than 140 participants. The Secretariat also organised the second meeting of “*The Friends of the Energy Community*”, which annually brings together Parliamentarians from the Contracting Parties, to increase awareness of Energy Community obligations and discuss topical issues.

c. Communication Tools

The Secretariat has continued to use its website and news/publication subscription services as a key communication tool with stakeholders. In 2013 there was a 35% increase from the previous year in the number of distinct individuals who visited the Energy Community website. The Secretariat published 101 news items/press releases in 2013. This represents a 58% increase from the previous year. Individual news subscribers almost doubled from 2012 to 2013. Moreover, the Secretariat maintains excellent relations with journalists and experts’ commentary frequently feature in the media.

In the reporting period, the Secretariat launched three online discussion platforms for members of its Competition Network, Energy Efficiency Coordination Group and Distribution System Operators

for Electricity. Based on the results of the “*Energy Community Reputation Survey 2013*”, the Secretariat adopted a new corporate design manual for internal and external communication and increased the dynamics of the Energy Community website.

d. Studies, Projects and Publications

During the reporting period, the Secretariat funded the production of an Energy Community Market Coupling Simulator software and continued to finance technical assistance on oil stockholding policy. The Secretariat published six studies:

- “*Implementation of the Regulation (EU) 994/2010 Concerning Measures to Safeguard Security of Gas Supply in the Energy Community*”;
- “*Development and Application of a Methodology to Identify Projects of Energy Community Interest*”;
- “*Implementation of the Energy Statistics Acquis*” (2 studies);
- “*Need for Modernisation of Large Combustion Plants in the Energy Community*”; and
- “*Impact Assessment of Directive 2012/27/EU on Energy Efficiency*”.

In addition, the Secretariat published the “*Energy Community Strategy*” and the “*Projects of Energy Community Interest*”.

e. Staff

In the reporting period, the Energy Community employed 24 permanent staff members holding 15 nationalities at its Secretariat in Vienna. Moreover, four interns, two secondees and one research fellow from the Energy Community member and observer countries gained valuable knowledge at the Secretariat and contributed to its work.

f. Energy Community Budget 2013

The Energy Community’s revenue consists of members’ contributions; donations from the Republic of Austria; bank interest and other income (amounting to less than 1% of the total budget). The EU is by far the largest contributor, accounting for almost 95% of the contributions.

The final budget for 2013 amounted to 3,516,261 EUR. Approximately 7% of the final budget was unspent and returned to the contributors.

FINAL BUDGET 2013 (in EUR)

