ENERGY COMMUNITY INVESTMENT CONFERENCE
SUSTAINABLE ENERGY SUPPLY CHALLENGE

Key messages

1. The Conference today addressed one of the most challenging topics of the present times: sustainable energy supply.

2. **European Commission** recalled in its opening speech: *The need to promote investments was one of the reasons for building up the Energy Community and has been present throughout the History of this organisation; today, ensuring sustainable investments has become an urgent task if we want to guarantee the security of energy supply in the region and in the whole Europe in the years to come",* as well as the Ministerial Council endorsement of the list of projects of Energy Community Interest (PECI).

3. **Energy Efficiency**: EBRD gave a new perspective to meeting the energy demand: by investing in energy efficiency and harvesting the significant potential that the Energy Community has. Between 1974 and 2010, energy efficiency was the largest energy resource. Cumulative avoided energy consumption due to energy efficiency in 11 IEA countries amounted to over 1 350 EJ (32 billion toe). Energy efficiency contributed 63 exajoules (EJ) (1400mtoe) of avoided energy use in 2010 larger than the supply of oil (43 EJ), electricity or natural gas (22 EJ each).

   Two-thirds of the economic potential to improve energy efficiency remains untapped in the period to 2035. Energy efficiency is capable to contribute significantly to meet the energy demand, if fully implemented.

4. **Gas future in Europe, as well as in the Energy Community: a few key messages**

   - **Eurogas:**

   - Gas can and should contribute to a low carbon economy
   - Gas offers a fast and efficient way to reduce CO_2 emissions
   - Gas is the ideal partner for renewables
   - Gas has an important continuing role to offer in the household sector and transport, including maritime
   - European policy should acknowledge and confirm the role of gas, thus sending political signals for a stable long-term investment

   - **The 10-point plan**

   - Implement the internal energy market
   - Set a binding emissions reduction target
   - Co-ordinate EU action
   - Maintain but amend the ETS
   - Ensure that non-ETS sectors share the burden
   - Ensure a technology neutral approach
   - Phase out support schemes for mature RES

- Improve energy efficiency
- Remove market distortions
- Support global efforts against climate change

- **Eurelectric: on gas fired power generation**

- The lack of true market environment remains the stumbling block for investment into the region
- The need to switch from coal to gas remains high in order to reduce CO2 emissions, local pollution, modernize and diversify the power mix.
- However it is even more difficult now with general deterioration of the situation for the electricity generation sector in Europe as whole.
- Investors need clear and long-term signal which will channel funds to electricity generation and technologies. This also can work for the Energy Community contracting parties under the condition of functioning market.
- Investments in gas fired generation for Western Balkans can happen under the condition of increased prices for electricity, affordable prices for gas and increase in export of electricity to markets with higher prices. The experience of regional electricity markets integration in the EU shows that prices tend to converge to the highest price level among the coupling countries.
- Electricity residential prices (without taxes) in Western Balkans region in general remain at much lower level than in the European Union member states. At the same time the prices for industrial consumers (without taxes) are higher than the EU average prices. Such cross-subsidization prevents investments into the sector. It doesn't contribute to the competitiveness of the economies in general.
- Where governments are really concerned with high retail prices, they should tackle high VAT on power and gas.
- The national policy makers need to inform citizens regarding prices in a transparent manner: non-recovered costs will be paid elsewhere e.g. via slowing down of GPD growth, increase in states budget deficits and building up debts for future generation to pay.
- There is a growing need for improved governance and support to ensure efficient regulatory policy in the concerned area.

- **Private investors: What we should achieve?**

- Re-launching a sector which has been one of the backbones of European industry in the past decades, by making investment decisions easier and ensuring that an EU-wide optimum is achieved: without energy/power availability no GDP increase is possible.
- Electricity prices to become cost-reflective throughout Europe, leaving subsidies (if still considered necessary) to the end-user side and making them totally transparent. The supply side should not be biased by subsidy schemes.
- Markets to become more integrated
- The progressive development of RES (which is a good thing per se, if the indirect drawbacks do not outbalance the advantages) will make more and more energy available; however the intrinsic distortion caused by the RES being remunerated on capacity and the conventional generation on energy should be overcome
- The introduction of a capacity market (together or in lieu of an energy market) should be considered.

- Promoting (and not hindering) PPPs for the deployment of new investments in transition Countries,

- Allowing long term contracts (e.g. PPAs) between investors and local utilities in Transition Countries

- Supporting multi-lateral financing schemes, which are essential for capital-intensive projects like those in power generation, in an era when access to capital for companies is problematic.

5. **Affordability or energy prices, policy measures and infrastructure investments:**

▪ The World Bank's report the "Balancing Act - Cutting Energy Subsidies While Protecting Affordability":

- "*focusing on a new wave of reforms, one characterized by the gradual reduction of subsidies to the energy sector and stepped up investment in demand management and protection for the poorest groups, can help countries tread this difficult path while realizing fiscal savings*."

▪ Private Public Partnership: IFI Coordination Office:

- Look realistically at constraints on the Western Balkan countries
- Always go back to basics in project selection and prioritisation
- Reinforce capacities in Western Balkan countries to handle PPPs , building on EPEC's assessments
- Think through very carefully allocation of risks
- Pursue a « pipeline of projects » approach
- Develop a regional PPP policy.