Western Balkans and Ukraine: EU’s Role in Modernization through higher Climate Ambition

Brussels 22 November 2018
Internal energy market
Is it really?
Critical issues in WB and UA – needed action

- Resistance to establish electricity market
- Legal gap between EU and Energy Community CPs
- Fossil fuel subsidies vs. RES subsidies
- High country risks – high capital costs
- Expensive feed-in tariffs, resistance to auctions
- Underestimated state aid
- No job transformation policy, no hope for fossiles
Vicious circle of challenges to open the market

- Lack of products and players
- Lack of short-term national markets (DAM, ID, balancing)
- Lack of data transparency
- Retail market foreclosure
- BRP exemptions

- Resolution of borders
- TSO/DSO unbundling
- NRA independence
- State Aid/Competition authorities’ effectiveness

- Excessive price regulation
- Excessive public service obligation
- Inadequate framework for new market players (aggregators, storages)
- Ineffective regulation for protection of vulnerable customers

- 3rd Energy Package transposition
- Network Codes adoption
- VAT harmonisation
- Public procurement
- Recognition of licenses

- Legal/Financial/administrative
- Regulatory
- National market structure
- Political/Institutional
Implementation indicator

![Graph showing implementation indicators for various countries.](graph.png)
The main finding is that the gains from market coupling implementation are considerable in absolute terms, and at least an order of magnitude larger than the costs; still, it should be recognized that they are rather modest compared to the total value of wholesale turnover.
Challenges for the beginning of second transition in the EnC

- No liquid markets
- Higher risk premium
- Years of low regulated prices and non-investment create security problems and energy intensity

Rule of law
Donors coordination
Conditionality
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Legal gap between EU and Energy Community CPs

- For EU MSs Contracting Parties are „third countries“, thus implementation of network codes only voluntary
- No cross border cost allocation
- SoS Regulation – postponed implementation due to same non-solved interfaces

Cases: BG ban on export of electricity 2017, CO2 leakage, state aid in planned Kosovo C and Tuzla 7 coal power plants
Missing acquis to stabilize the holly triangle

**EU**
- 2020: 20-20-20
- 2030: 32,5 – 32 - 40

**Energy efficiency**
- EED, EPBD, ELD

**Energy Community CP**
- 2020: 20 – 15 – 0
- 2030: 32,5 – 27? - ?

**Renewables**
- RES Directive

**CO2**
- ETS, Governance Regulation

**LCPD, IED**
In the past years, prices on the European carbon market did not have a significant impact on new investments in the energy sector. This is changing → **new ETS regime** with improved stability measures leading to **higher prices level**

**Carbon price** need to be incorporated also in the power sector of WBs (e.g. carbon tax or ETS) → global climate shift is already making it difficult to attract financing or insurance for TPP with high carbon footprint. Power companies in the WBs are currently faced with this challenge (e.g. Kosovo, BiH, Serbia)

Source: M. Voogt, Using carbon pricing to support coal transition in the WB, 2018
The primary energy consumption according to the historical development extrapolated by the modelled PRIMES Reference Scenario for the WB6.

All data are normalized to the year 2012. (Eurostat, 2018; NTUA, 2012; NEEAPs)
2030 RE Targets for all CPs and the EnC region according to the proposed target setting approach (i.e. a flat rate & GDP based approach).
(Source: EUROSTAT, 2018; IEA, 2018; IMF, 2018; NTUA, 2012; own calculations)
RES Target Progress I

Albania: 31% 38% 42,9%
Bosnia and Herzegovina: 34% 40% 42,9%
Kosovo*: 19% 18,5% 25%
The FYR of Macedonia: 22% 15,8% 28%
Moldova: 12% 17%
Montenegro: 26% 33%
Serbia: 21% 20,9% 21,8% 27%
Ukraine: 5,5% 11% 2015 RES share, EUROSTAT 2016 RES share, EUROSTAT

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.
Long term GHG reduction pathway of the EU
Emissions profiles of the EnC Contracting Parties
**Fair methodology for Contracting Parties**

Full application of the EU rules would exclude emission increases for any CP over the period 2021-2030 compared to 2005.

GDP levels of the CPs much lower as compared to EU MS - disproportionally high burden for CPs.

To be considered-GDP related effort using the targets resulting from the 2020 and the 2030 non-ETS frameworks as maximum and minimum effort. This may consist in using the highest and lowest national target resulting from the 2020 and 2030 EU methodology as start and end point for establishing a linear GDP-target correlation (a linear function would be created between +0.0% for Montenegro (2030 non-ETS approach) and +20.00% for Kosovo*(2020 non-ETS approach).

This would result in a gradient in national ambition levels moving from the more strict 2030 methodology based targets to the less ambitious 2020 methodology based targets.
NECPs PROCESS AND TIMELINE - EnC

2018
Set-up Technical Working Groups on NECPs
Launch work on analytical and technical aspects

2019
Finalize reference and policy scenarios
Adaptation of EU legislation and endorsement of 2030 targets

2020
Consultation review and assessment of draft national plans
Submission of final NECPs

Resulting RE share net increase between 2020 and 2030 for all CPs and the EnC region according to the proposed target setting approach (Source: EUROSTAT, 2018; IEA, 2018; IMF, 2018; NTUA, 2012; study own calculations)
### NEXT STEPS

<table>
<thead>
<tr>
<th>Dates</th>
<th>Step</th>
</tr>
</thead>
<tbody>
<tr>
<td>29 November 2018</td>
<td>Approval of General Policy Guidelines at the Ministerial Council</td>
</tr>
<tr>
<td>November 2018 -</td>
<td>Energy and Climate Committee and its Technical Working Group continue to work on a methodology and definition of 2030 targets that</td>
</tr>
<tr>
<td>May 2019</td>
<td>adequately reflects a similar EU ambition level</td>
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## Fossil fuel subsidies in the WB6

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>7-8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>BiH</td>
<td>9-10%</td>
<td>37%</td>
</tr>
<tr>
<td>FYR of Macedonia</td>
<td>8-9%</td>
<td>18.7%</td>
</tr>
<tr>
<td>Kosovo*</td>
<td>35-36%</td>
<td>N/A</td>
</tr>
<tr>
<td>Montenegro</td>
<td>10-11%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Serbia</td>
<td>7-9%</td>
<td>34.7%</td>
</tr>
</tbody>
</table>

Fossil fuel subsidies

• Direct financial transfers – grants to producers; grants to consumers; low-interest or preferential loans to producers.

• Preferential tax treatments – rebates or exemption on royalties, duties, producer levies and tariffs; tax credit; accelerated depreciation allowances on energy supply equipment.

• Trade restrictions – quota, technical restrictions

• Energy-related services provided by government at less than full cost – direct investment in energy infrastructure; public research and development.

• Regulation of the energy sector – demand guarantees and mandated deployment rates; price controls; market-access restrictions; preferential planning consent and controls over access to resources.

• Etc.
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Cost of capital estimations for onshore wind projects in Europe in 2014

WACC across the EU-28
(interview results for onshore wind)

DIA-CORE (2016) “The impact of risks in renewable energy investments and the role of smart policies”
Impact of cost of capital in CESEC region

- High cost of capital scenario
- Medium cost of capital scenario
- Low cost of capital scenario
- Capital cost for hydropower

Potential [GW]

- PV
- Wind
- Biomass
- Geothermal
- Hydropower

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## Support for Renewable Energy in the WB6

<table>
<thead>
<tr>
<th>Contracting Party</th>
<th>PV</th>
<th>Wind</th>
<th>Biomass</th>
<th>Hydro</th>
<th>Biogas</th>
<th>Waste</th>
<th>Geothermal</th>
<th>PPA</th>
<th>Links</th>
</tr>
</thead>
<tbody>
<tr>
<td>BiH- RS</td>
<td>FiT</td>
<td>15,06 - 10,3</td>
<td>8,45</td>
<td>21,53 - 11,55</td>
<td>7,87 - 6,36</td>
<td>12,28</td>
<td>-</td>
<td>15 yrs.</td>
<td><a href="http://www.reers.ba/sites/default/files/FeedinPrices_RES_290616.pdf">http://www.reers.ba/sites/default/files/FeedinPrices_RES_290616.pdf</a></td>
</tr>
<tr>
<td></td>
<td>FiP</td>
<td>11,07 - 6,32</td>
<td>4,21</td>
<td>8,1 - 7,32</td>
<td>3,63 - 2,12</td>
<td>-</td>
<td>-</td>
<td></td>
<td><a href="http://www.reers.ba/sites/default/files/FeedinPrices_RES_290616.pdf">http://www.reers.ba/sites/default/files/FeedinPrices_RES_290616.pdf</a></td>
</tr>
<tr>
<td>Serbia</td>
<td>14,6 - 9</td>
<td>9,2</td>
<td>13,26 - 8,22</td>
<td>12,6 - 7,5</td>
<td>18,33 - 15</td>
<td>8,57</td>
<td>8,2</td>
<td>12 yrs.</td>
<td><a href="http://www.mre.gov.rs/doc/efikasnost-izvori/Uredba%20o%20podsticajnim%20merama%20ENG20092016.PDF">http://www.mre.gov.rs/doc/efikasnost-izvori/Uredba%20o%20podsticajnim%20merama%20ENG20092016.PDF</a></td>
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Moving towards market coupling - SEE price convergence (2017)

- Kosovo Re 80+ €/MWh
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Name them (fossil subsidies), don’t fame them
1. Make electricity regional – liberalize national markets
2. Kick EU to unite internal energy market with acquis area
3. Name them, don’t fame them! – fossil fuel subsidies
4. Make RES also financially sustainable – lower cost of capital
5. Save taxpayers’ money 1 – replace feed-in tariffs with auctions
6. Save taxpayers’ money 2 – fight against state aid
7. RES and energy efficiency as an opportunity

8. RULE OF LAW
1. **Energy Community Treaty amendments**


3. **Pan-European Risk Management Scheme**

4. **Involve Contracting Parties in EU platforms (Coal Regions in Transition etc.)**

5. **Donor coordination**

6. **Condition financial assistance by respecting the rule of law**
Thank you for your attention!

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