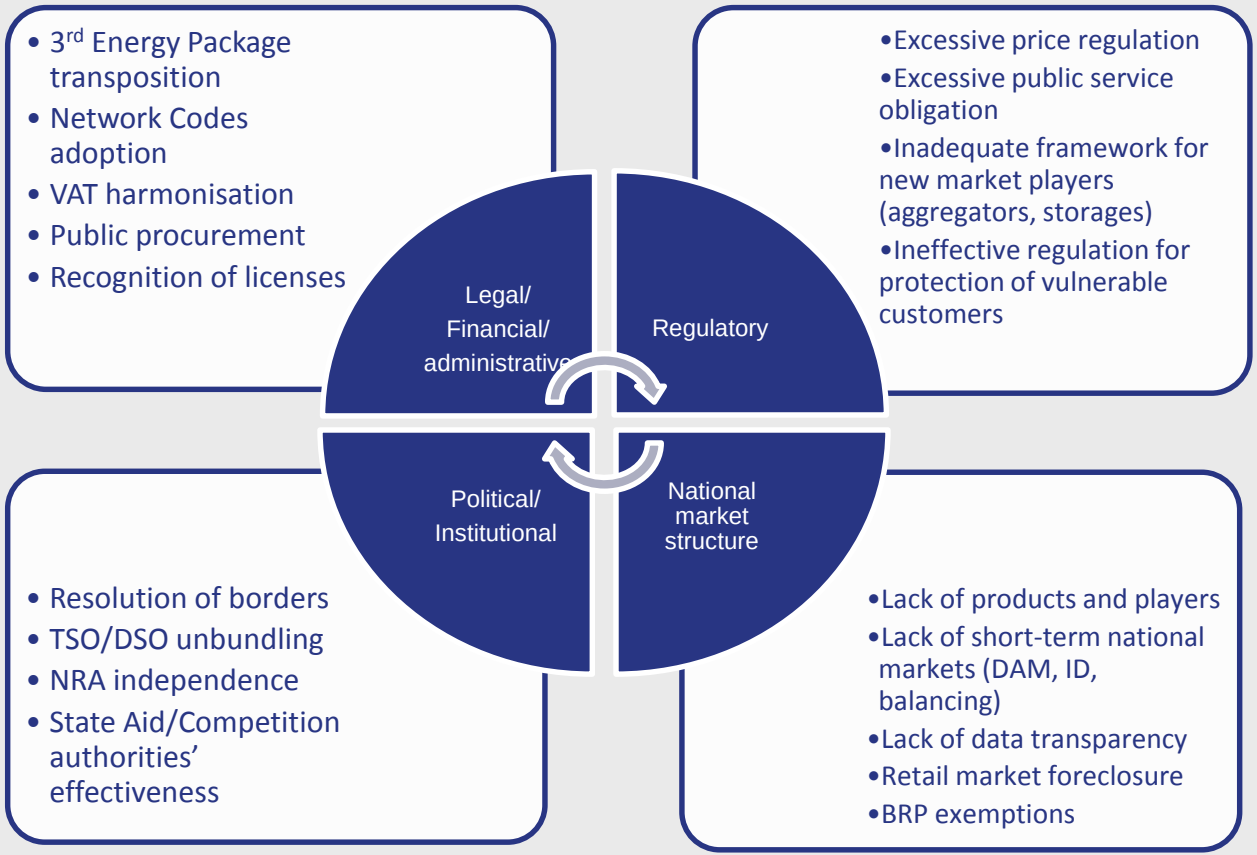
Energy Community at the Crossroads

Janez Kopač, Director

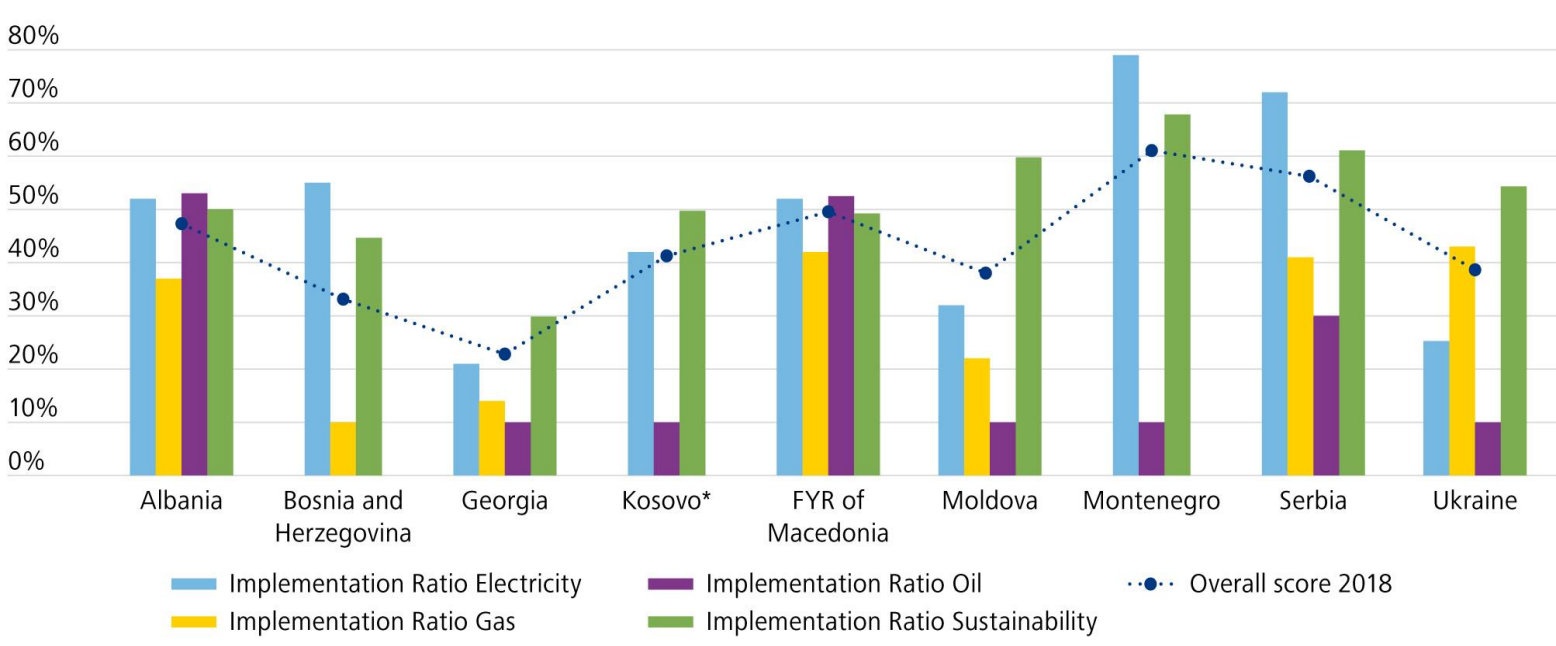
Critical issues – needed action

1. Resistance to establish electricity market
2. Legal gap between EU and Energy Community CPs
3. Fossil fuel subsidies vs. RES subsidies
4. High country risks – high capital costs
5. Expensive feed-in tariffs, resistance to auctions
6. Underestimated state aid
7. Action needed

Vicious circle of challenges to cross-border cooperation



Implementation indicator



Impact on social welfare – SEE region 2016

Benefits of cross border trading

(integrated Vs isolated markets)

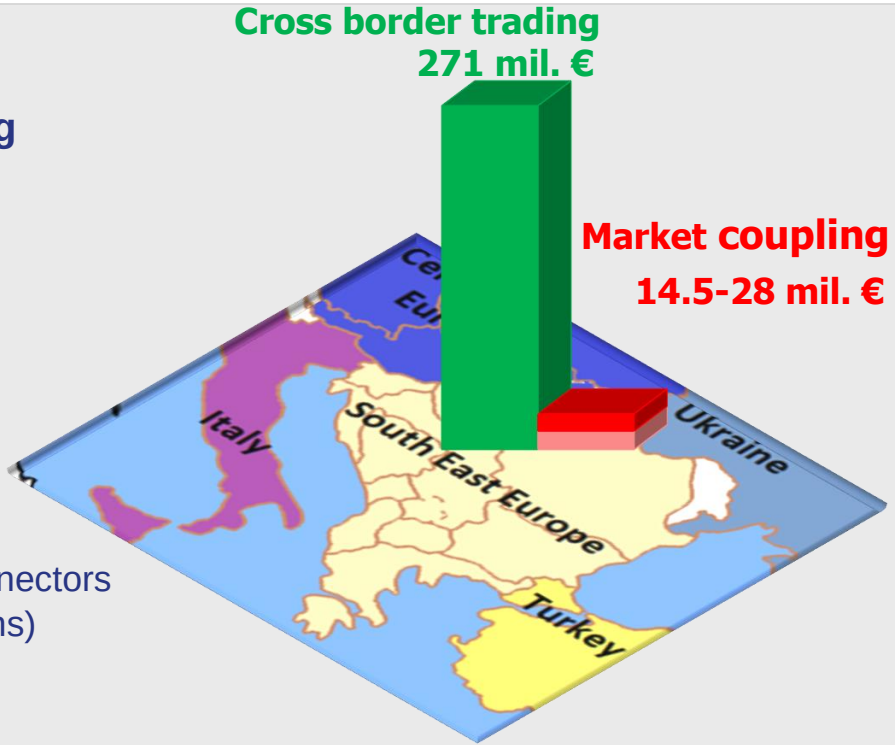
271 mil. € on annual level

Benefits of market coupling

In range of:

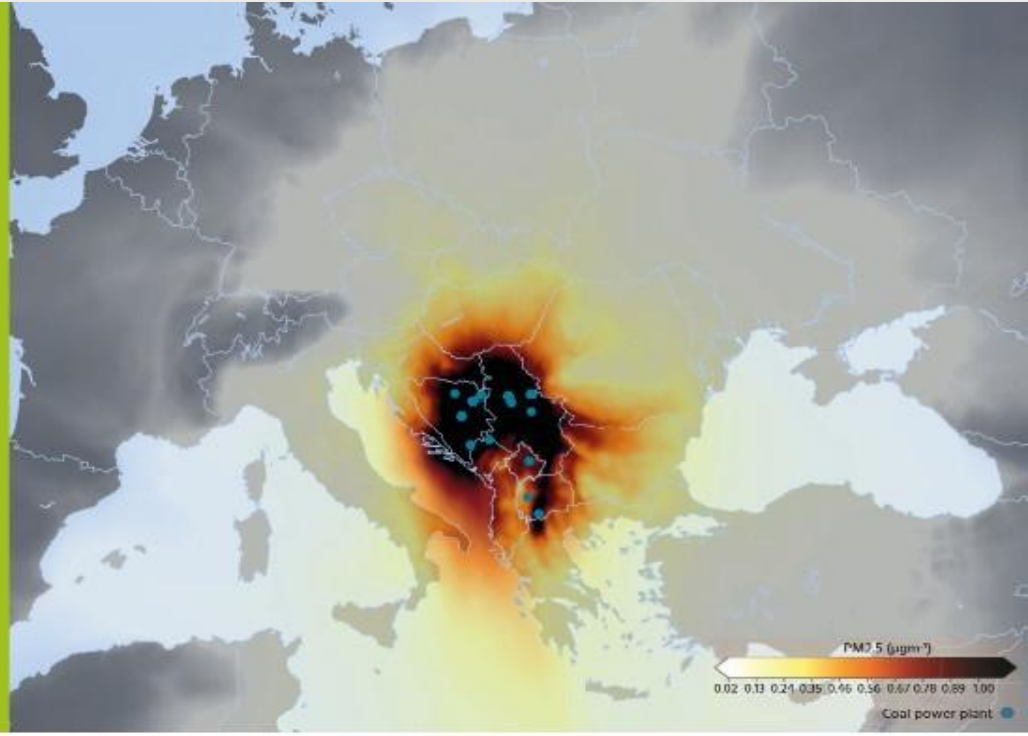
14.5 - 28 mil. € on annual level

(for 10%-20% more efficient interconnectors utilization compared to explicit auctions)



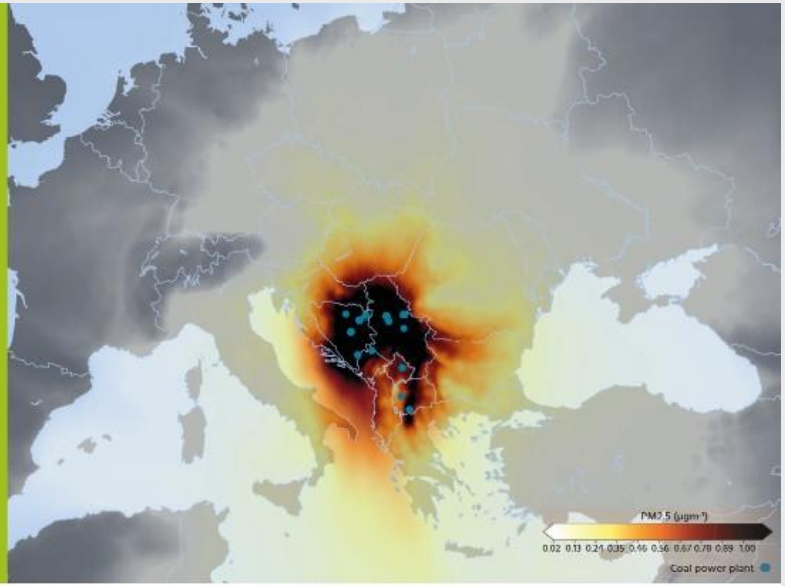
The main finding is that the gains from market coupling implementation are considerable in absolute terms, and at least an order of magnitude larger than the costs; still, it should be recognized that they are rather modest compared to the total value of wholesale turnover

- Transboundary pollution problem!
- EU member states already fail to keep air quality standards
- Additional harmful pollution travelling into the EU from five neighbouring Western Balkan countries
- Most impacted EU neighbouring countries, but far away too

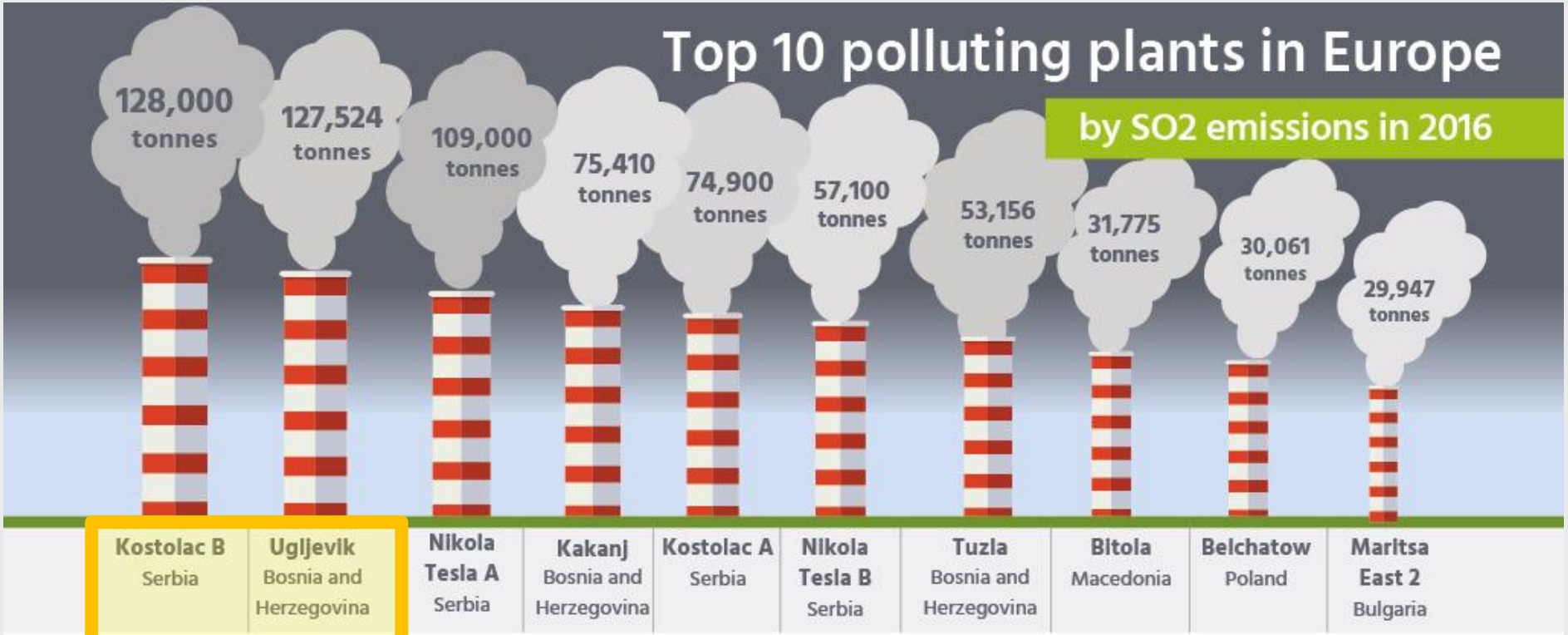


PM 2,5

Modelled pollutant exposure to particulate matter (PM2.5) caused by the 16 coal power plants in the Western Balkans in 2016, annual mean



HEAL · CAN Climate Action Network Europe · sandbag smarter climate policy · CEE Bankwatch Network · Europe Beyond Coal



HEAL

CAN CLIMATE ACTION NETWORK Europe

sandbag smarter climate policy

CEE Bankwatch Network

EUROPE BEYOND COAL

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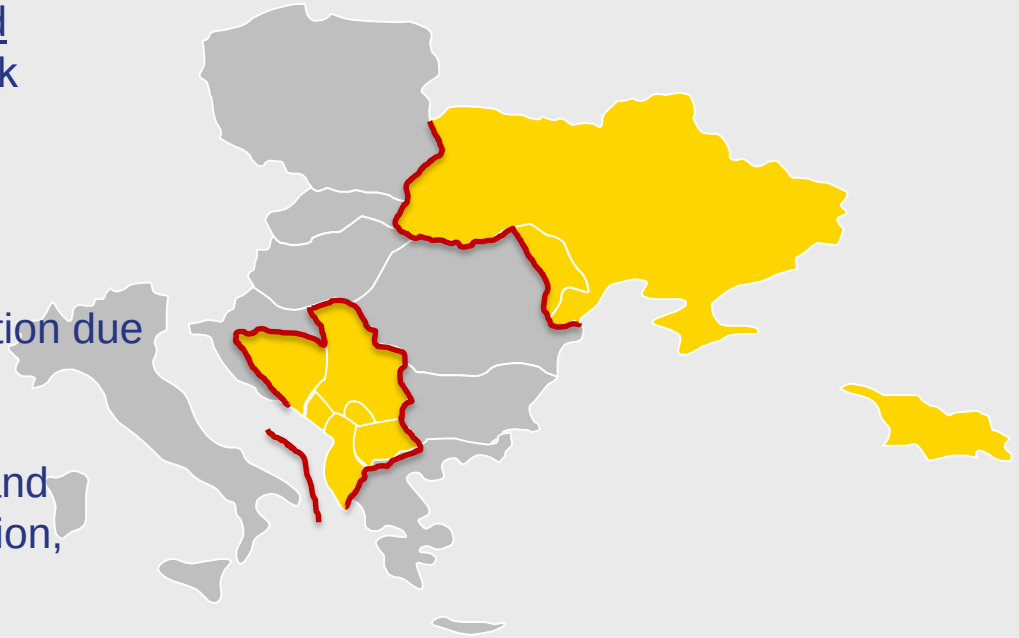
Legal gap between EU and Energy Community CPs

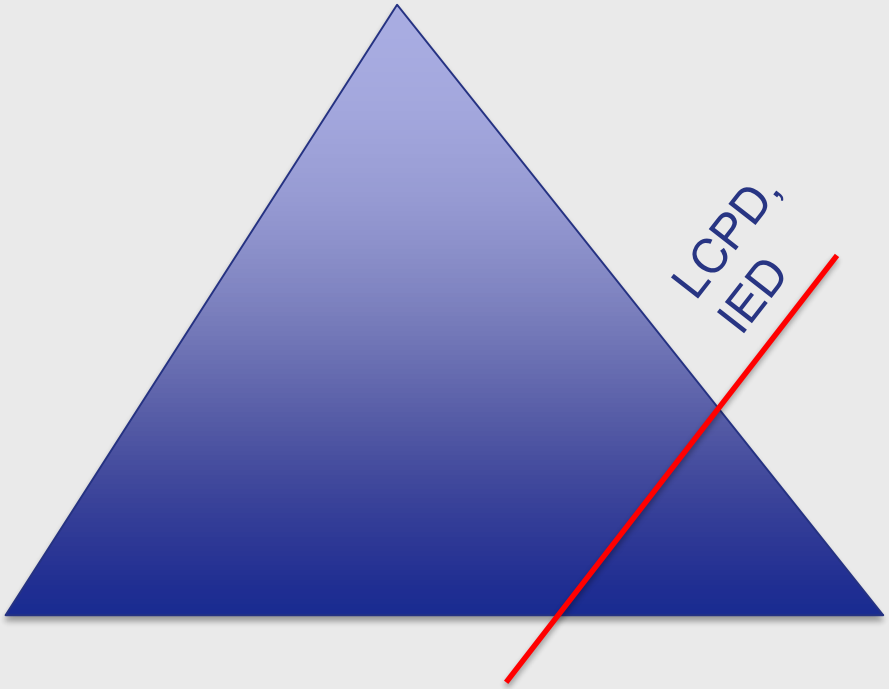
- For EU MSs Contracting Parties are „third countries“, thus implementation of network codes only voluntary
- No cross border cost allocation
- SoS Regulation – postponed implementation due to same non-solved interfaces
- Missing acquis: VAT Directive, State aid and Competition acquis, Governance Regulation, SoS Regulation, ETS Directive



Cases: BG ban on export of electricity 2017, CO2 leakage, state aid in planned Kosovo C and Tuzla 7 coal power plants

Challenges of policy integration – second transition

Energy efficiency
EED, EPBD, ELD



2020:
20 – 15 – 0

2030:
?

Renewables
RES Directive

CO2
ETS, Governance
Regulation

CARBON PRICE DEVELOPMENTS IN THE EU ETS

Source: M. Voogt, Using carbon pricing to support coal transition in the WB, 2018

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)

Carbon pricing

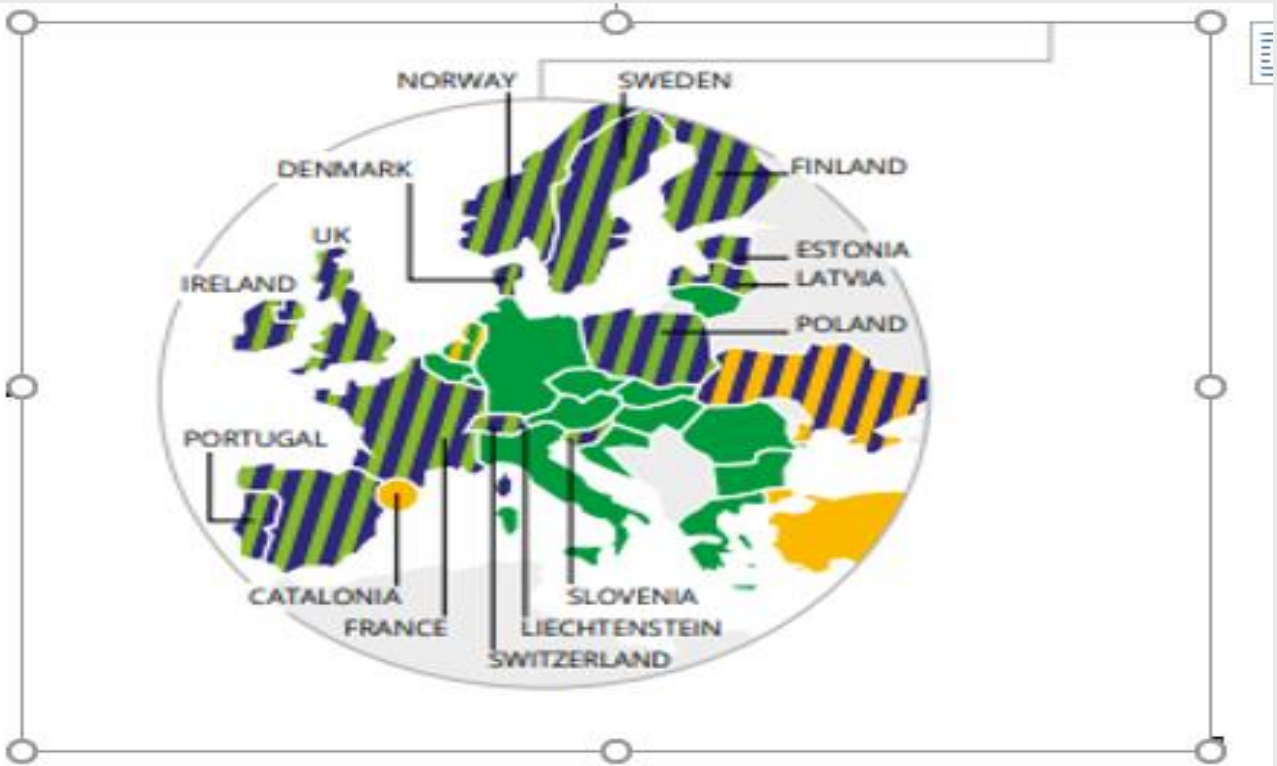
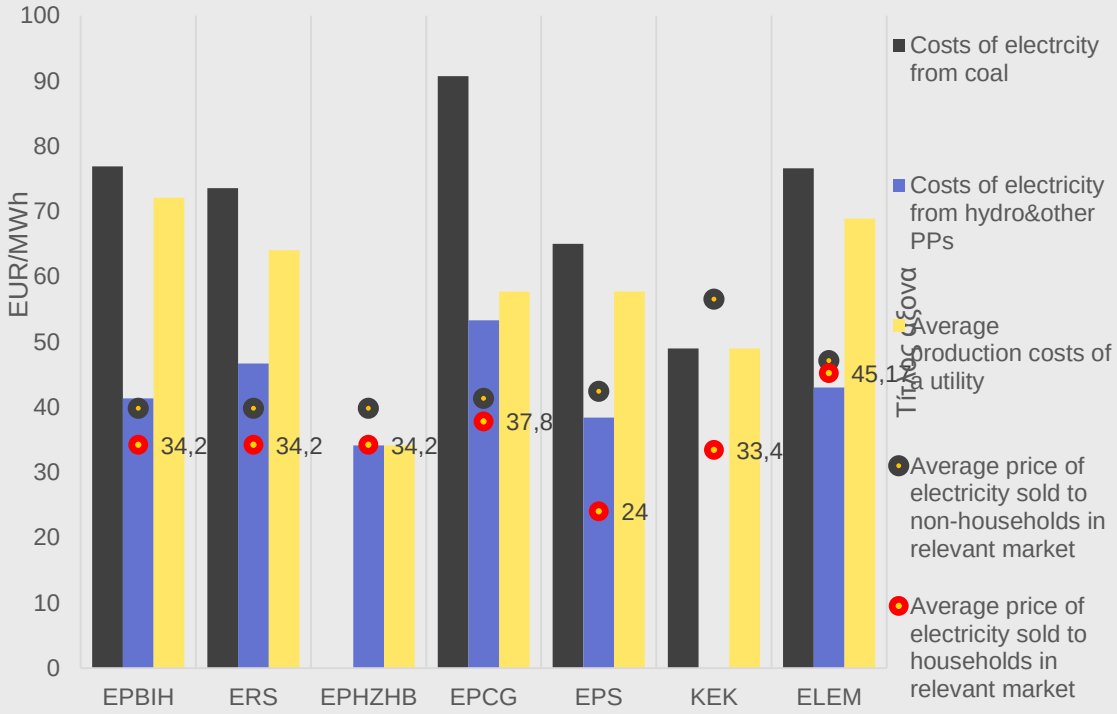


FIGURE 1 FROM: WORLD BANK GROUP: "STATE AND TRENDS OF CARBON PRICING 2018"

Estimated full costs of production of electricity and selling prices



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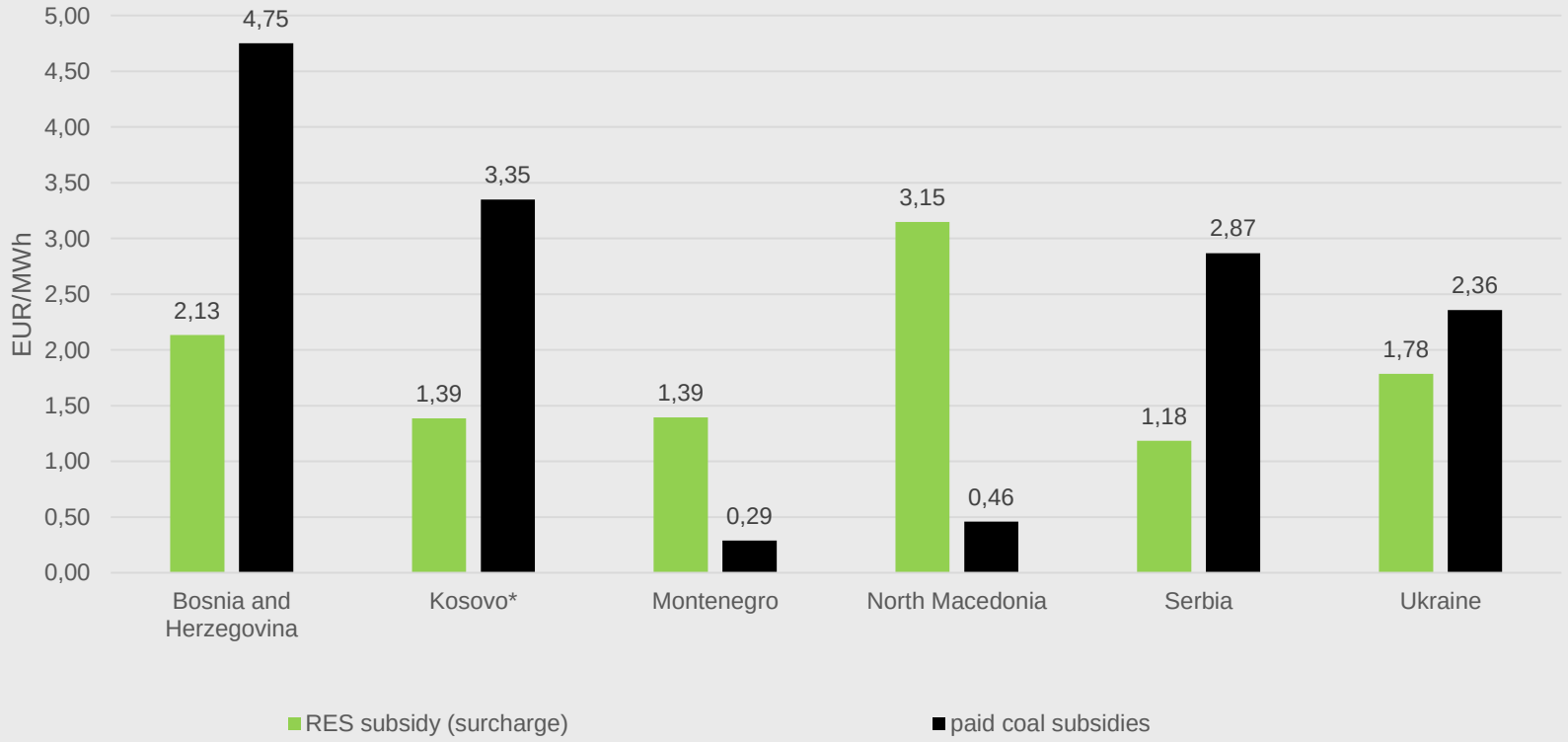
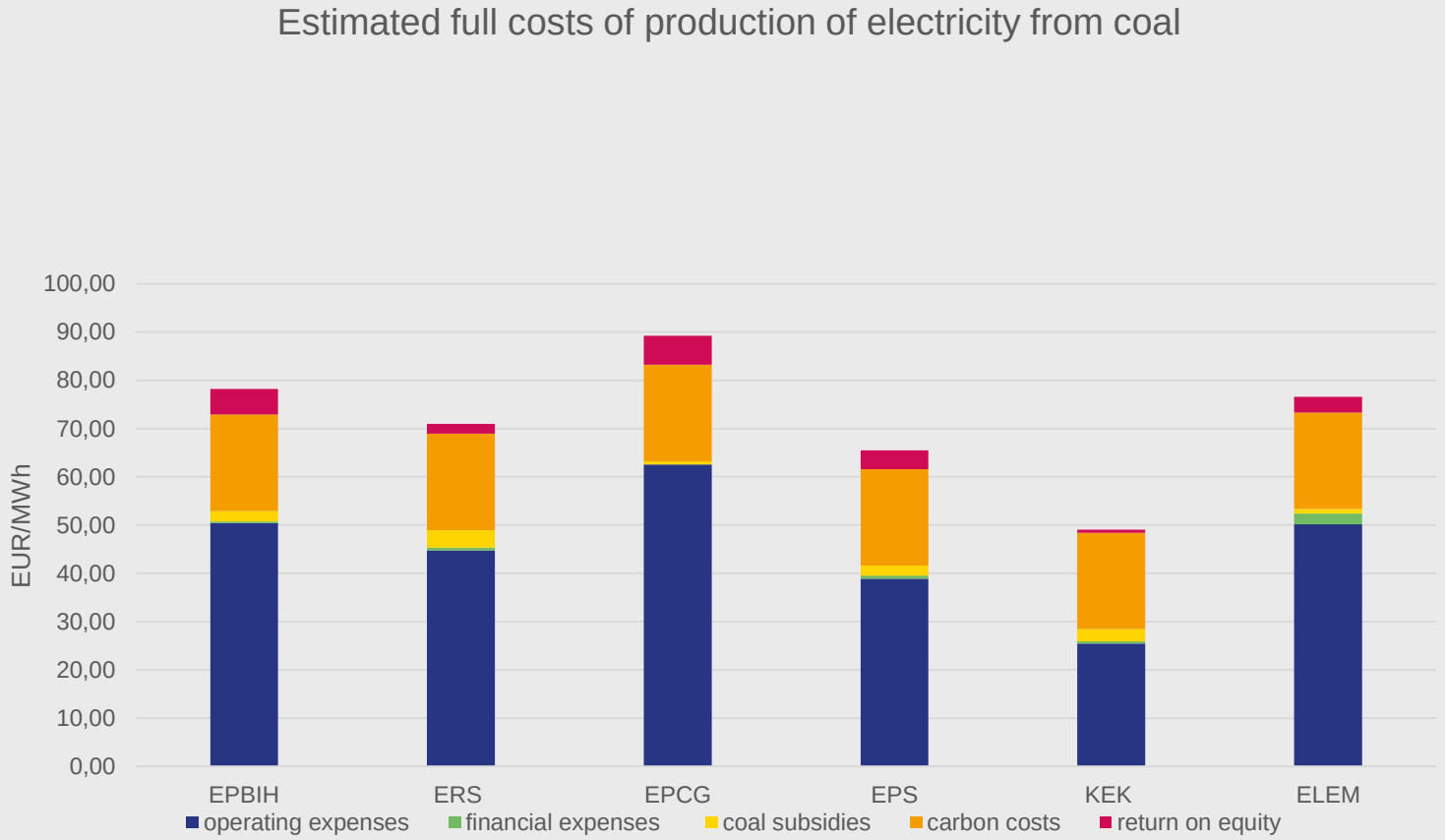
Paid subsidies for RES and coal in the end users prices in 2017



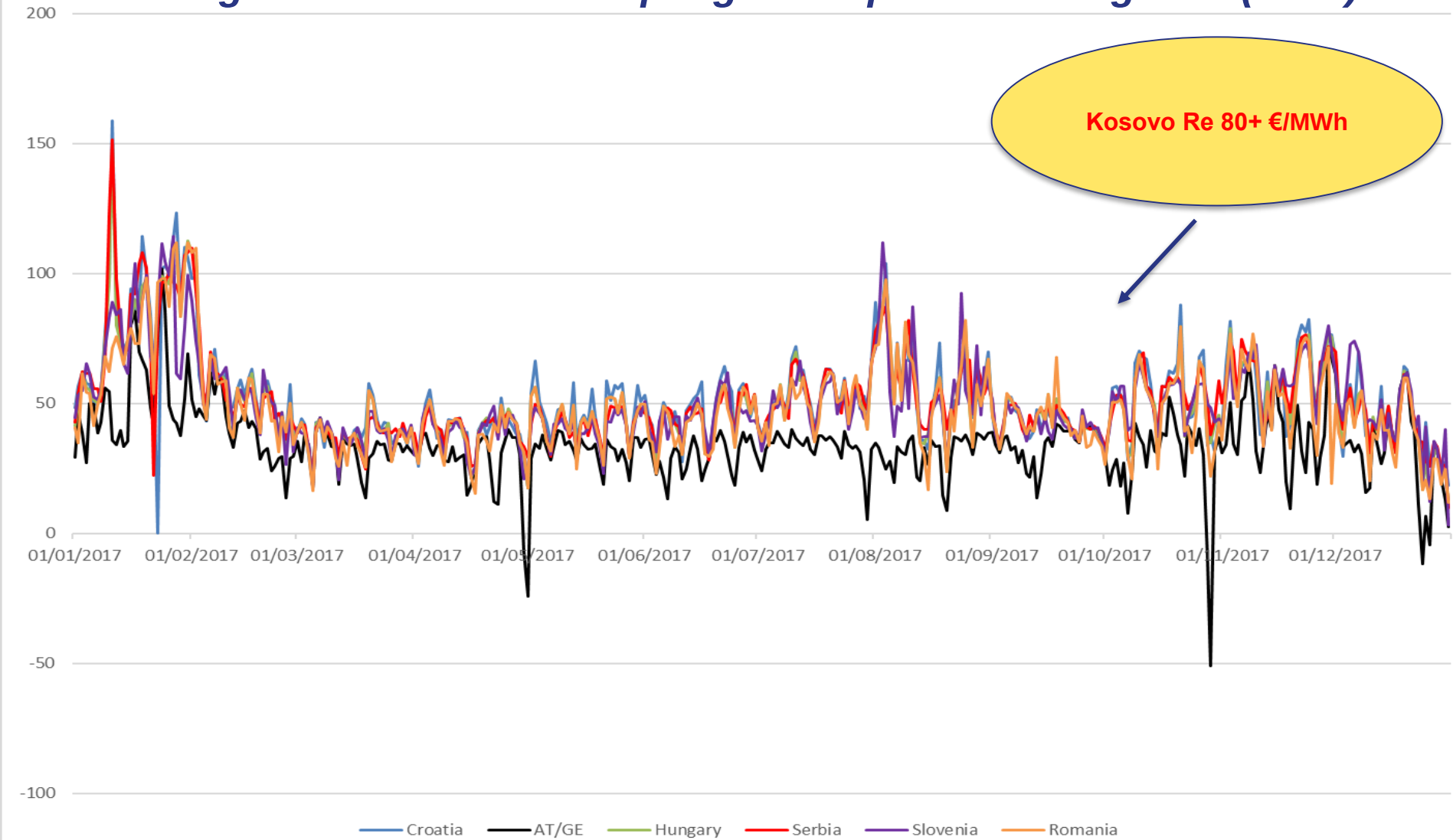
Estimated full costs of production of electricity from coal



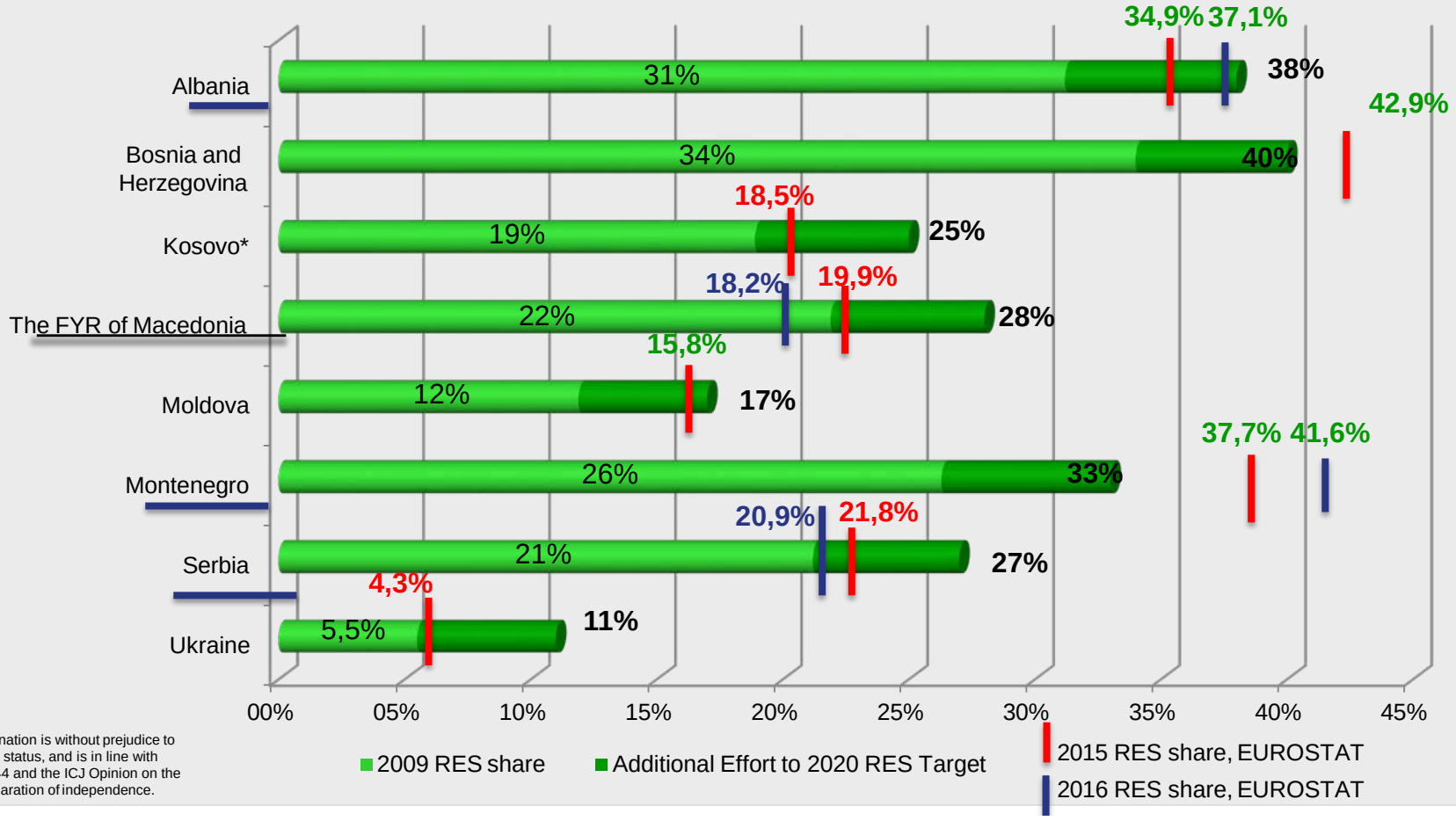
Needed price increase to cover all costs and avoiding cross subsidization

Contracting Party	Final price charged to household 2017	Production costs not covered	Adjusted final price for household	Expected price increase
	EUR/MWh	EUR/MWh	EUR/MWh	%
Bosnia and Herzegovina	86,3	26,69	112,99	31%
Montenegro	99,4	36,63	136,03	37%
North Macedonia	81,5	23,73	105,23	29%
Kosovo*	68,6	15,60	84,20	23%
Serbia	69,1	33,71	102,81	49%

Moving towards market coupling - SEE price convergence (2017)



RES target progress



* 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.

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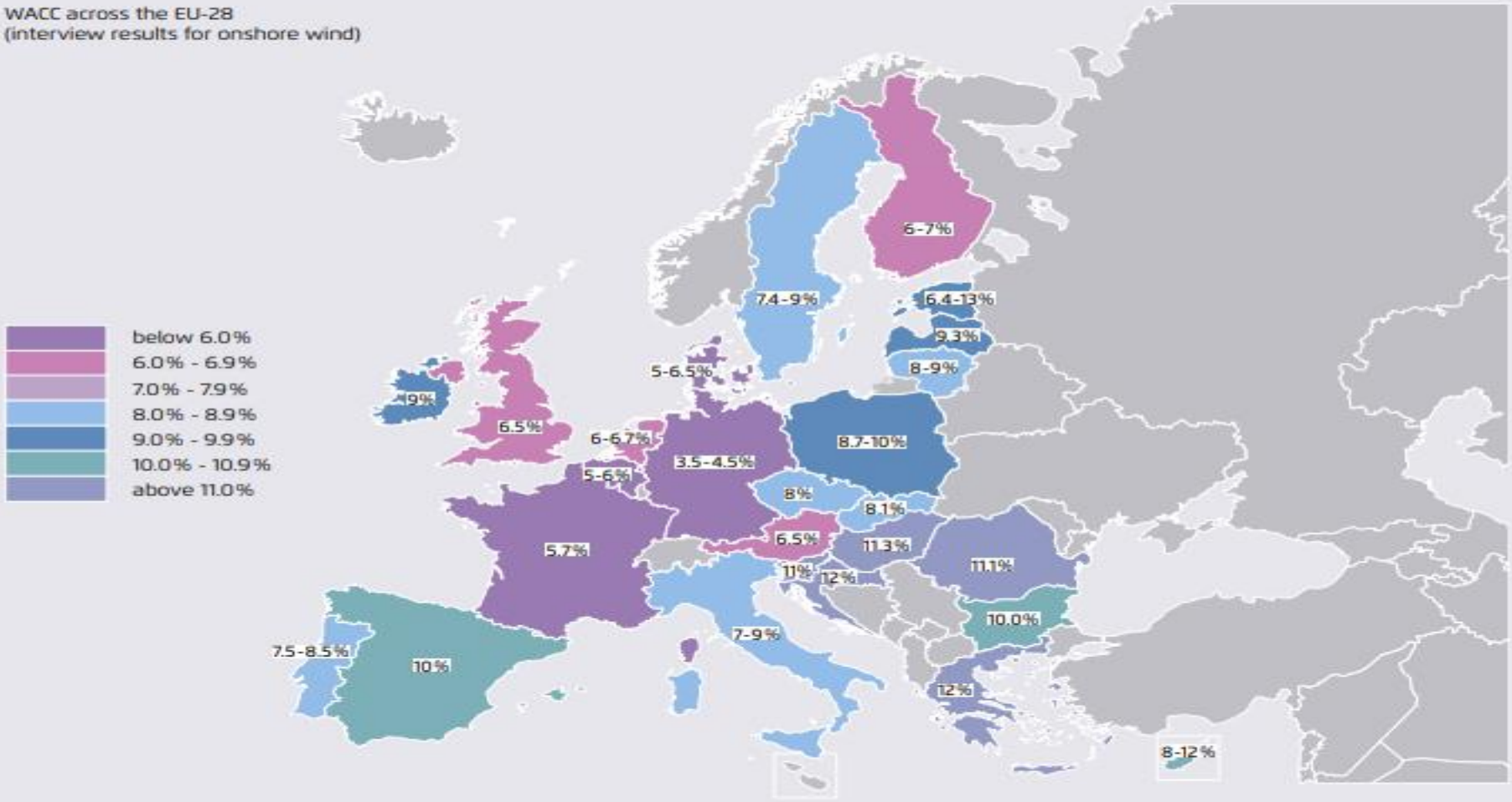
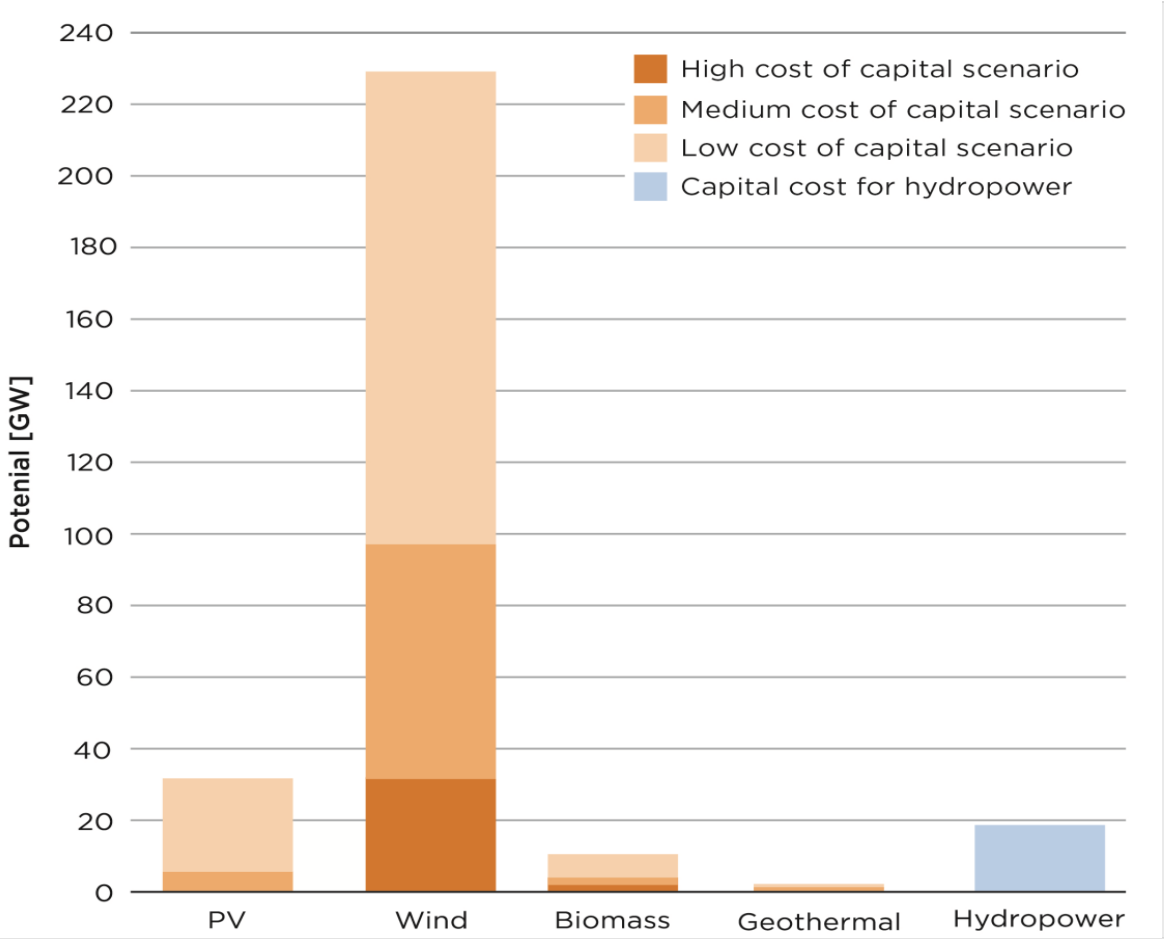
Cost of capital estimations for onshore wind projects in Europe in 2014 Figure 2



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



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Support for Renewable Energy in the WB6

Contracting Party		PV	Wind	Biomass	Hydro	Biogas	Waste	Geothermal	PPA	Links
Albania		10	7,6	-	5,63	-	-	-	15 yrs.	http://www.ere.gov.al/doc/Tarifate_e_miratuara_nga_ERE_Prill_-_Dhjetor2017.pdf; http://www.ere.gov.al/doc/VENDIM_NR.120_2017.pdf
BiH- FBiH		27,2 - 15,78	17,86 - 7,1	16,1 - 11,61	14,84 - 6,33	36,37 - 14,26	-	-	12 yrs.	http://www.ferk.ba/_ba/images/stories/2017/prilog_1_odluka_gc_bs.pdf
BIH-RS	FiT	15,06 - 10,3	8,45	21,53 - 11,55	7,87 - 6,36	12,28	-	-	15 yrs.	http://www.reers.ba/sites/default/files/FeedInPrices_RES_290616.pdf
	FiP	11,07 - 6,32	4,21	8,1 - 7,32	3,63 - 2,12	-	-	-		
Kosovo*		13,64	8,5	7,13	6,747	-	-	-	12 yrs. except hydro 10 yrs.	http://ero-ks.org/2016/Vendimet/V_810_2016_eng.pdf
FYR of Macedonia		16 - 12	8,9	15	12 - 4,5	18	-	-	15 yrs. - PV, biomass, biogas; 20 yrs. – wind, hydro	http://shpp.moepp.gov.mk/Upload/Document/EN/uredba-za-povlasteni-tarifi.pdf
Montenegro		12	9,61	13,71 - 12,31	10,44 - 6,8	15	9	-	12 yrs.	http://www.oie-res.me/index.php?page=uredbe-i-pravilnici
Serbia		14,6 - 9	9,2	13,26 - 8,22	12,6 - 7,5	18,33 - 15	8,57	8,2	12 yrs.	http://www.mre.gov.rs/doc/efikasnost-izvori/Uredba%20o%20podsticajnim%20merama%20ENG20092016.PDF

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Actions

1. Make electricity regional – liberalize national markets
2. EU has to unite internal energy market with acquis area
3. Stop State aid to coal
4. Introduce carbon pricing
5. Introduce auctions for RES support
6. EU should expand its risk mitigation mechanism to EnC Contracting Parties
7. RULE OF LAW

Europe 16 000 BC - no one country from 3SI would have sea

How Earth Would Look If All The Ice Melted - too much of seas

How Earth Would Look If All The Ice Melted

Thank you
for your attention!

www.energy-community.org