

CEE Bankwatch Network comments on the draft Regional Energy Strategy, 07.06.2012 version

Main comments

- The draft focuses too exclusively on short-term goals. It needs to be expanded to include the 2050 perspective and clear greenhouse gas emissions reductions targets are needed in line with the EU's goals to reduce by 80-95 percent by 2050.
- *All three scenarios entail growth* in CO₂ emissions until at least 2030. This is in serious conflict with the EU's 2050 decarbonisation goals.
- The energy efficiency and renewable energy targets outlined are much too low, and the energy demand growth predictions too high to be sustainable. Other ways to manage the growth in energy demand need to be given consideration.
- Demand-side energy efficiency has huge potential in the region but is hardly given consideration in the strategy, in spite of the possibilities it offers to reduce investment costs in generation and transmission.
- As it will be extremely challenging for the region to meet its own energy needs as outlined by the strategy, the Energy Community should not support projects primarily aimed at the export of electricity to the EU.
- The criteria outlined for selecting priority projects automatically disadvantage renewable energy and energy efficiency by concentrating on cross-border projects, and enable the selection of projects which conflict with decarbonisation goals.
- The criteria also need to include screening for compliance with *all* EU legislation including procurement and state aid legislation as well as all environmental legislation including the Directive on Strategic Environmental Assessment and the Water Framework Directive (in the case of hydropower).
- The strategy does not examine why the situation in the last ten years has failed to produce meaningful steps forward in terms of investments in renewable energy and energy efficiency.
- The strategy does not examine who the main actors are in the energy sector in the region, and how the money could be found for its planned investments.

Detailed comments

Introduction p.3

“The need to reduce our carbon footprint, and at the same time, to meet the increasing level of energy that we use, requires new technological solutions, the modernization of the energy sector and more dialogue with neighbours.”

The paper correctly identifies reducing our carbon footprint as a major priority and challenge. However, it needs to be emphasised that this requires almost complete decarbonisation of the energy sector by 2050, it is not just a question of reducing CO₂ emissions by just a few percent.¹ Demand-side energy efficiency needs to be given much more attention in the paper.

In addition, we should not aim to meet ever-increasing levels of energy usage, but rather managing energy demand should be an integral part of the strategy.

“The Strategy aims at giving an overview of the current situation and the possible future of the energy sector in the Energy Community, providing the framework for facilitating investments in the energy

¹ See “A Roadmap for moving to a competitive low carbon economy in 2050, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions”, 08.03.2011, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0112:FIN:EN:PDF> and the “Energy Roadmap 2050, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions”, 15.12.2011, http://ec.europa.eu/energy/energy2020/roadmap/doc/com_2011_8852_en.pdf

systems, promoting energy security for the entire region (as well as for each Contracting Party)."

Energy security needs to be defined. The usual definition 'security of supply' is insufficient to guarantee real, long-term energy security and is often incompatible with decarbonisation goals, as it concentrates primarily on imported oil and gas.

"It strives both to integrate national priorities into a larger vision and also to highlight the opportunities for synergies which can benefit several Contracting Parties with minimum costs if applied on a national level, allowing investment opportunities to be better exploited."

This approach would be legitimate if the national level priorities had been defined with adequate public and expert input and if they took the 2050 perspective into account. However this is not the case. The new Serbian energy strategy is only now under development; the Croatian energy strategy did not take into account almost any of the public comments received, uses highly inflated growth figures, is woefully unambitious in its energy efficiency and is even poorer quality than the draft was; Bosnia and Herzegovina does not even have an energy strategy on the level of the whole country and the 2006 draft of the Albanian energy strategy was never approved. The Ukrainian energy strategy approved in 2006 is now under revision, and the draft is being widely criticized by civil society, the EU delegation and the US government², for being based on exaggerated rates of economic growth, very unambitious goals for renewable energy share, and inconsistency with a number of Ukraine's international obligations, including those towards the Energy Community. For this reason, the regional energy strategy needs to be much more visionary and in line with long-term EU goals than national priorities are, and needs to be subject to much wider consultation than has been the case so far.

"The Energy Strategy of the Energy Community is following the same principles as that of the European Union's "Energy 2020"..."

The EU's 2020 policy has some very useful content, however it is too short term to frame energy policy around due to the long lead in time and long lifetime of most energy infrastructure, especially as several years have already passed since its introduction. This strategy needs to be based around the 2050 decarbonisation perspective.

p. 4 *"Also, the end of the Kyoto era is leading to greater uncertainty concerning future carbon costs."*

While it is true that there is now greater uncertainty around carbon costs, there is more and more scientific certainty about the need to cut greenhouse gas emissions drastically. It is now widely agreed that emissions need to be cut by 70 percent globally by 2050³. This means that developed countries need to completely decarbonise their energy sectors.

Objectives of the Energy Community Strategy, p.4

The objectives presented here are missing several crucial elements:

- Decarbonisation is not mentioned at all. The third goal does mention taking into account environmental concerns, but the changes needed in the energy sector by 2050 if climate change is to be kept within 2 degrees celsius are too great to be consigned to a sub-topic of a sub-topic in one of the points.
- Energy efficiency is mentioned only as one kind of investment. It needs to be given greater priority.
- It is not sufficient to encourage investments in the energy sector, as required in Objective 2. These investments must be compatible with a decarbonisation agenda, contribute to reducing energy poverty and be in line with all EU legislation including the Water Framework Directive, the Strategic Environmental Assessment Directive, state aid legislation and procurement rules.
- Objective 3 is a reasonable goal in itself, but it frames energy security too much in terms of

² Joint letter by the head of EU Delegation to Ukraine, U.S. Diplomatic Mission in Ukraine and World Bank Country Director for Ukraine, Moldova, Belarus from 25 September, 2012.

³ Meinshausen, M. et al. (2009) Greenhouse-gas emissions targets for limiting global warming to 2° C, *Nature*, 458, 1158-1162 and Allen, M.R. et al. (2009) Warming caused by cumulative carbon emissions towards the trillionth tonne, *Nature*, 458, 1163-1166.

security of supply, which is ultimately unsustainable and incompatible with decarbonisation. More emphasis needs to be put on greater energy efficiency (to reduce energy poverty and the demand for energy) and on the use of new renewables (to reduce the need for imported fuel and to address climate issues). It should be taken into account throughout the whole strategy paper that nuclear is not a sustainable energy source, nor in most cases does it ensure energy independence, thus its development should not be given any support within the framework of the Energy Community.

Actions related to energy infrastructure, p.6

“Electricity and gas interconnection capacity shall be increased, based on the recommendations derived from the ENTSO-E Ten Year Network Development Plan (TYNDP) and ENTSO-E Regional Investment Plan, and respectively, the ENTSO-G TYNDP” and p.7 “Network connections between EU and non-EU countries will be duly taken into account.”

The ENTSO-E Ten Year Network Development Plan prioritises no less than four electricity interconnectors across the Adriatic Sea, designed to import electricity from the Western Balkans to Italy. This may help Italy to fulfil its 2020 renewable energy targets⁴ but it does not help the Western Balkans to secure a sustainable energy future. Although interconnections between countries are a standard, accepted way of stabilizing electricity supplies, caution needs to be applied when the country producing the electricity does not have adequate environmental standards in place, does not apply meaningful public participation procedures, does not have adequate safeguards against corruption, and has not developed its own renewable energy resources. Such imbalances turn the widely accepted practice of cross-border electricity transfer into what can more appropriately be termed an “energy grab”, with a number of environmental, social and economic consequences that are left to be dealt with by present and future generations. Export of renewable energy from the Balkans to Italy will hinder the Balkans' transition to renewable energy by allowing some of the best sites (or, in some cases, those which should not be developed at all due to environmental considerations) to be developed for export to Italy.

It also allows for 'carbon leakage' – export to the EU of dirty energy by those countries which are not yet part of the EU. Regional leaders are often willing to accept such plans due to the income they will bring the countries, however this income is not likely to be sufficient to offset the disadvantages of the investments (both for local people and for the countries' inability to later meet EU requirements on renewable energy and CO₂ reductions). Such a situation is true for Ukraine as well – the Ukrainian government is very much interested in selling “cheap” nuclear and coal-based electricity to EU countries, while current electricity prices are far from reflecting the full value chain– generation, transmission, distribution, supply, consumption and utilization of spent nuclear fuel.. Expanded electricity trade⁵ with EU would become technically possible after joining ENTSO-E and already now is stimulating the construction of interconnection capacities (such as a new high-voltage transmission lines from existing nuclear power plants). Three transmission lines,⁶ part of the ‘second backbone’ transmission corridor are at different stages of design and construction, and all of them are financially supported by European IFIs (EBRD or/and EIB). The construction of new high-voltage transmission lines is closely related to the extension of operation of old nuclear units beyond their design lifetime.

“A set of policy measures will be proposed to the Permanent High Level Group, by the Task Force by mid 2013; these may involve accelerated and coordinated permit granting and licensing procedures...”

⁴ By 2020, according to its EU targets, Italy's share of renewable energy in gross final energy consumption must reach 17 percent. By 2009 it had managed just 8.9 percent. According to the country's Renewable Energy Action Plan, taking the efficient scenario as a reference point, this means that in 2020 the final consumption of renewable energy must be 22.62 Mtoe. Italy plans to import 6 TWh per year from Montenegro and other Balkan countries and an additional 3 TWh from Albania alone. (Italian Ministry for Economic Development: Italian National Renewable Energy Action Plan (in line with the provisions of Directive 2009/28/EC and Commission Decision of 30 June 2009), 30 June 2010, p.5)

⁵ Currently Ukraine is exporting electricity to Europe only from Burshtyn energy island which is synchronized with the European grid
⁶ 330 kV Adjalyk-Usatovo, 750 kV Novoodeska-Artsyz and 750 kV Zaporizhia-Kakhovska

While there are clearly many cases of inefficient permitting procedures that need to be reduced, especially for small renewable energy installations, extreme caution must be applied here. Licensing procedures for new energy installations in south east Europe are in any case fraught with allegations of irregularities, corruption and circumventing the law, so any acceleration of these must concentrate on aspects which will not have any negative consequences for environmental assessment and public participation in the licensing procedures.

p.7 "Infrastructure projects of regional interest will be defined, with the aim of stimulating those investments that contribute to enhancing security, reliability and quality of energy supply, increasing energy efficiency, and promote environmental sustainability, as well as increasing the use of renewable energy sources."

The Energy Community's previous lists of projects of regional interest have contained some unsuitable projects, some of which have not even been in line with EU legislation. This appears to have been because of the criteria used to select them. We see the following issues with the previous criteria:

- It did not include screening for compliance with EU law. In some ways this is understandable, because some of the projects had not yet passed all the stages of project development subject to EU legal requirements, however those which have, and which have breached legislation, should in no way be rewarded by being included in a list of regional priority projects.
- Because of the idea that only large projects have regional significance, there were no new renewables projects included, at least in most of the lists. This meant that the prioritization, far from serving to promote new renewable energy, in fact made it invisible and promoted business as usual investments in large-scale, often environmentally unsustainable, energy sources.
- It did not take climate issues into account at all, and as a result promoted a number of coal power plants, in spite of the fact that by 2050 all countries in the region will have had to completely stopped using fossil fuels for energy production in line with EU long-term goals.

Therefore any new list of priority projects should include the following criteria:

- The projects must be in line with a 2050 decarbonisation agenda.
- The projects must be screened for compliance with EU law in the project development procedure so far. This must include procurement legislation, state aid legislation, the Water Framework Directive (important for hydropower) and SEA legislation (an SEA must have been carried out on the plan or programme of which the project forms a part).
- The concept of 'regional importance' needs to be re-thought so that it includes new renewables projects and large-scale energy efficiency projects.

Actions related to environmental protection, p.8

We agree with the proposed actions, however it is crucial that the greenhouse gas emissions reductions are defined *before* any list of priority projects is produced.

In addition, timelines for ensuring the implementation of the EU acquis on the Water Framework Directive and Strategic Environmental Assessment need to be added.

Action related to protection of customers, p.9

We agree with this point, however a timeline needs to be established in order to ensure its implementation.

Planned new capacity by 2020 p. 13 and Annex 1 – Energy Community growth scenarios and targets p.33

“Only between 2012 and 2020 (or 2021), the installed generation capacity in the Western Balkans and Moldova is forecasted to grow by 13.23 GW, which represents an increase of approx 64 % from 2009 capacity. To this, Serbia contributes with 25%, and each of the others with approximately 10%, with the exception of Moldova (4%).”

How much of this 64 percent is actually needed to cover domestic demand? Given the ambitiousness of the plans, the extremely high costs, and the unlikelihood of them being implemented, the Energy Community should promote the prioritization of covering the region's own energy supply rather than exporting.

(p.13 + more detail in Annex 1) *“The additional generation capacity mix, without Ukraine included, continues to be dominated by lignite (at 45%) followed by hydropower (39%), natural gas (9%), and other renewable energy (7%). New gas power plants are foreseen mainly in countries with a current gas market (Croatia, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Moldova and Serbia); Albania, where there is no gas supply at present, is the only notable exception for significant new gas fired capacity.*

With Ukraine included, hydro generation will be predominant (42%) in the new generation, followed by coal fired plants (32%), nuclear 10%, gas 6% and other renewable energy, 10% in the planned additional generation mix.”

The Energy Community cannot accept these plans as they are. Coal plants built now will still operate in 2050, in conflict with the EU's decarbonisation goals, while having only 10 percent of energy generated by new renewables will make it extremely difficult to catch up with EU goals when these countries join the EU. The Energy Community needs to exercise increased leadership in bringing the countries of the region in line with long-term EU energy policy by insisting on high renewable energy targets and on refraining from the construction of new coal plants.

New electricity interconnectors p.14 and Annex 1 Table 7

As the Table is unreadable it is impossible to comment on it. However as noted above, the Energy Community should not promote interconnectors aimed at exporting electricity to the EU from the Western Balkans. The region will have enough problems ensuring sufficient electricity infrastructure to meet its own needs and to meet the EU's renewable energy targets without being contractually obliged to export some of the electricity produced there.

Natural gas and crude oil infrastructure, p.14 and Annex 1 Table 13

Given the need to decarbonise the energy sector, the Energy Community should not promote new oil and gas infrastructure. In addition the studies regarding the AMBO pipeline and the Pan-European Oil Pipeline are now several years old and the economic crisis has rendered them even more outdated, thus the need to construct them has not even been justified in economic terms.

SWOT analysis, p.15

“The current, relatively low energy consumption per capita, gives an indication that the region has a good growth potential.”

This again shows the idea behind the strategy that a growth in energy consumption is desirable. However energy consumption cannot go on growing indefinitely. The region's strength is therefore not that its consumption can grow, but that its consumption can be kept at a similar level to the current one or in some cases can be reduced with appropriate investments into energy efficiency.

Weaknesses: This section is missing four important issues:

- Planning of energy infrastructure in the region is carried out in a very old-fashioned way, with the emphasis on large, centralised forms of power production. Many of the large infrastructure projects were designed during Socialism/Communism and do not necessarily reflect the current priority needs of the countries' energy sector development but are being pursued "by inertia". New ideas regarding the benefits of decentralised energy production and new forms of renewable energy are not being absorbed fast enough
- Decision-makers, where they acknowledge the problem of climate change at all, see it merely in terms of the EU's 2020 targets, not as an imperative that puts the whole future of life on earth at risk. Their efforts to address it are therefore extremely tokenistic and done without thought as to what long-term changes are needed.
- Planning is also done without listening to input from a wide range of stakeholders, which severely limits its quality. (The carrying out of cursory consultations is not the same as taking on board some of the resulting input).
- Energy supply in the region, as with other industries, is plagued by corruption and nepotism, costing taxpayers and energy users large amounts of wasted money.⁷

Threats: One important threat is missing from the analysis:

- Some countries (eg. Ukraine) are not fulfilling their obligations towards harmonizing national legislation with obligatory EU Directives and Regulations⁸ in a timely and thorough manner. There is a serious risk that Ukraine will not be able to meet the requirements of Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants by January 2018⁹ and some companies are already calling for an extension of the deadline. If such an extension was granted it would be a dangerous precedent for other countries to demand the same thus diminishing the Energy Community's role in promoting the increased sustainability of the energy sector.

Energy Community energy demand scenarios and investment needs, p.16 and Annex 2, Table Annex 2-1, p.65, and **Results of the scenario analysis**, p.18

The assumptions about energy demand growth and renewable energy targets for 2020 are taken from the *Updated Calculation of the 2020 RES Targets for the Contracting Parties of the Energy Community, March 6, 2012*, and an energy efficiency target of 9% savings by 2020 relative to the 2009 reference year is proposed. However, a closer look at the investment needs and results in tables 14a and 14b on p.18-21 show that **in each scenario, CO2 emissions are still rising in 2030**. This cannot be acceptable. Most of the countries in the region are likely to be EU members by then, and as the EU Council of Ministers accepts that the EU needs to reduce its greenhouse gas emissions by 80-95 percent by 2050, the Energy Community parties need to adopt this goal too. This is obviously impossible to achieve if emissions are still rising in 2030.

Due to the crucial importance of stabilizing the climate as a precondition for the continuation of the existence of our societies, the strategy needs to take decarbonisation and the achievement of 80-95 percent reductions as its starting point, not as an optional extra that unfortunately will not be reached in this case.

⁷ The arrests at EPS in Serbia in 2011 and the ongoing investigations regarding former Croatian Prime Minister Ivo Sanader and the privatisation of INA were just two examples of a series of scandals hitting the industry in recent years in the region.

⁸ As concluded by an independent Ukrainian experts' report in April 2012: http://ua-energy.org/upload/files/Ukraine_first%20year%20in%20Energy%20Community.pdf

⁹ http://www.icps.com.ua/eng/key_issues/energy/6471.html

Thus, any renewable energy and energy efficiency targets which do not set the region on a trajectory towards 80-95 percent emissions cuts by 2050 are too low and need to be changed.

The Strategy in general is oriented towards the generating/distributing part of the market and refers to consumption only in the section on investments in energy efficiency. In order to achieve full decarbonization of the economy by 2050 the Energy Community needs to take steps to manage consumption, as the growth of demand is constantly referred to as a reason to increase capacities. Energy Community members should take obligations on managing their own consumption, and establishing a cap on CO2 emissions in accordance with EU climate targets.

1 Methodology and criteria for identification of projects of Energy Community interest, p.22-25

I. Contribution to the implementation of Regional Energy Strategy's objectives:

- Involves, and is developed with, the cooperation of at least two Contracting Parties, or between a Contracting Party and an EU Member State
- Cross-border infrastructures
- Projects with significant cross-border impact.

Comment: These sub-criteria automatically disadvantage renewable and energy efficiency projects and promote large-scale centralised production or transportation systems that are likely to be fossil-fuel (or in the case of Ukraine also nuclear) based. Thus the criteria are in conflict with the promotion of renewable energy and energy efficiency. They should instead refer to the EU's renewable energy, energy efficiency and decarbonisation goals and targets.

II. Contribution to regional market integration, and enhanced competition:

- Enhancement of cross-border capacity (in both directions)
- New links between markets
- Reduction of market concentration and facilitating access for new market entrants.

III. Security of supply (i.e. through diversification of supply sources, supplying counterparts and routes, or by using the lowest cost of available resources, while taking into account all externalities .

Comment: Energy security should not be understood as security of supply but rather as real, long-term security through efficient use of energy and the utilisation of environmentally acceptable local renewable resources.

IV. Contribution to sustainable energy development

- Facilitation of the development of renewable energy sources
- Facilitation of replacing old and low efficient technologies
- Facilitation of reaching national carbon targets and reducing GHG emissions
- Improving efficiency in primary energy transformation and in energy use
- Contribution to economic development

- Economic, social and environmental viability
- Socio-economic benefit.

Comment: The goal of meeting national GHG reduction targets and reducing emissions is important, but it is crucial that a) the targets are sufficient to meet the scientifically required reduction for developed countries and b) projects contribute to absolute reductions not only efficiency increases (whose benefits may be undermined by greater overall energy consumption).

'Contribution to economic development' should be deleted as a criterion, as any kind of activity including cleaning up oil spills contributes to economic development, but does not prove the activity's advantages compared to other possible activities.

Similarly, 'socio-economic benefit' can be claimed for any project. Thus the criterion needs to be rephrased 'greater socio-economic benefit than other project alternatives'.

V. Maturity of the project

- Progress in realisation (feasibility study, EIA, FID, permits and licenses)
- Length of project realisation
- Support from governments / local communities
- Experience of project promoter.

VI. Commercial strength of the project

- Bankability
- Level of public funding needed.

Comment: An additional criterion needs to be that actions carried out towards developing the project so far have been done in line with all EU legislation, including procurement and state aid legislation, the SEA Directive and the Water Framework Directive.

In line with the existing practice in the EU, the proposed eligible project categories are broken down by sectors of electricity, natural gas and oil. Taking into account the Energy Community specificities, power generation is included as eligible (this category does not appear in the EU working groups).

The following categories of projects could be considered of regional significance and enter the priority project list:

Power generation:

- New generation capacities (including bundling of different projects or adding new units to existing facilities), which have a proven/underpinned impact of providing sufficient reserve capacity/flexibility/system stability for an XY condition in at least 2 Contracting Parties (this needs a disruption simulation)

Comment: Again, the insistence on a cross-border aspects puts renewable energy at a disadvantage and should be abandoned. New fossil-fuel or nuclear based generating capacities should not be supported by the Energy Community.

- Modernization, retrofitting of existing power plants which have a proven/underpinned impact of providing sufficient reserve capacity/flexibility/system stability for an XY condition in at least 2 Contracting Parties, allowing for more efficient and environmentally safe production (metric: the efficiency of the PP increases by X, Y, Z%).

Comment: Retrofitting of existing power plants that extends their lifetime or expands their capacity contributes to an overall increase of greenhouse gas emissions, and therefore should not be supported by the Energy Community.

Electricity transmission:

- High-voltage lines (overhead lines for minimum 220 kV; and underground and submarine transmission cables, if they have been designed for a voltage of 150 kV or more)
- Electricity storage facilities
- Smart meters and ancillary equipment
- Equipment for the safe, secure and efficient operation of the system.

Comment: Transmission lines designed mainly for export, such as the planned undersea cables between Montenegro and Italy and Albania and Italy or Novoodeska-Artsyz transmission line in Ukraine must not be promoted by the Energy Community. Transmission lines that are clearly in support of expansion of existing or new nuclear power plants (like Zaporizhia NPP-Kohovska line in Ukraine) should not be supported. Other transmission lines should only be supported if they do not run through protected natural areas.

Gas transmission:

- New transmission pipelines and related equipment (metering and compressor stations) for the transport of natural gas that form part of a network which mainly contains high-pressure pipelines, excluding high pressure pipelines used for upstream or local distribution of natural gas, with emphasis on bi-directional capacity
- Equipment for the safe, secure and efficient operation of the system
- Enhancing the capacity of existing transmission pipelines
- Refurbishment of existing pipelines.

Gas storage

- New underground storage facilities
- Expansion of existing underground gas storage facilities.

LNG CNG facilities

- LNG and CNG terminals (reception, storage and re gasification facilities).

Oil:

- Refinery improvements for facilitating improved fuel quality
- Storage facilities to contribute to the security stockholding obligations

- Pipelines used to transport crude oil.

Comment: In view of the EU's decarbonisation agenda and the urgency of the climate change issue, the Energy Community must not support the construction of oil pipelines.

Conclusions and recommendations, p.26

Given our concerns about the assumptions behind the strategy and the scenarios used, it is unsurprising that the conclusions are also missing some key points in our opinion. Namely:

- 2050 climate targets are not given the central place they deserve and therefore the renewable energy and energy efficiency targets are too low, while the expectations of investments into fossil-fuel infrastructure are too high. Following this strategy will make it impossible for the countries to meet the scientifically required 2050 greenhouse gas reductions targets.
- Thus policies to manage demand growth will also need to be put in place, rather than just attempting to meet the expected demand.
- Demand-side energy efficiency is not given the emphasis it deserves.
- There is too great a reliance on market reforms and gas. These alone will not bring the necessary changes in the sector in the region.