

Petr Hlobil

From: Kostovski, Stefan <KostovsS@ebrd.com>
Sent: 13 February 2023 11:22
To: Gligor Radečić
Cc: Pippa Gallop; Petr Hlobil; Fidanka Bacheva-McGrath; EBRD Civil Society; Gray, Alicia; Annayeva, Bossan; Lawrence, Paul; Jakeli, Mariam; Jeter, Jeff; El Mokadem, Ahmad; Buzasu, Cristina; Batty, William
Subject: RE: Comments on the Greece-North Macedonia Interconnector and Sveti Nikole-Veles Section [OU]

OFFICIAL USE

Dear Gligor,

Thank you very much for your letter detailing your concerns on the proposed regional gasification project.

Firstly, the Bank is committed to promoting environmentally sound and sustainable development, and to openness and transparency in all of its operations and activities. To that end, the EBRD has robust procedures for project consideration and approval, and in addition to reviewing the national EIAs, relevant units of the Bank review a significant amount of information pertaining to potential projects as part of the process of contemplating EBRD participation, including documents that may not necessarily be in public domain, due to commercial, or security sensitive information: these are provided to the Bank on confidential terms. The Bank staff also review available information, pertaining to the Project to ensure they have a balanced and comprehensive picture of the project within the context of the national and regional development plans and strategies. When gaps are identified, additional studies and surveys are requested to be commissioned.

The Project is consistent with, and is considered an essential part, of the NECP and enhanced NDC (April 2021) which targets a 51% gross reduction in GHG emissions (81% net reduction) by 2030 versus 1990 levels. The new Macedonian energy strategy (and NECP) relies heavily on variable renewable energy sources (2.2 GW wind and solar) and a secure natural gas supply will allow for stable power generation and a secure and reliable power supply, as more renewables are added to the system. Thus, the Project will contribute to the alignment of North Macedonia's power sector with the objectives of the Paris Agreement.

The current energy mix is coal/oil heavy, and large sections of households/individual rely on heating with solid fuels (firewood and coal – c.65%). Residential heating, mostly with biofuels, coal and heavy oil is key contributor to air pollution in the country and has a dominant share in emissions, while the industrial sector contributes around 20% of NOx emissions and 8% of the country's GHG emissions. As a result, cities in North Macedonia are often in the top 10 most polluted cities in the world (Skopje, Tetovo, Kicevo, Kumanovo etc). Electricity generation relies heavily on coal and heavy oil based thermal power plants.

EBRD has commissioned studies on the current energy sector arrangements, possible downstream implication and consistency with a net zero economy by 2050, with the support of an independent specialist. This builds on the existing NECP strategies and simulates a net zero transition for power generation, industry commerce and household sectors. It also shows the expected downstream uses for gas investments and the economic costs and benefits of the transition. These studies indicate that gasification has positive impacts on GHG and air quality: i) for supply of natural gas to facilitate the transition from coal, including the closure of the existing coal based Thermal Power Plants in Bitola and Oslomej and to back up renewables ii) a shift from coal to the gasification of households and industry iii) displacement of inefficient individual heating in the commercial and residential sectors which are responsible for the extreme air pollution; and (iv) displacement, in the industrial sector, of petroleum products (mainly in the food industry, building materials industry and other manufacturing) and solid fuels (mainly in the metallurgy) and part of inefficient use of electricity.

In terms of GHG emissions, expectations are that gasification will lead to significant reductions in air pollution, and GHG emissions, by enabling the switch to cleaner fuels in populated industrial areas of the country. This is also supported by energy efficiency measures with improved end-user efficiency / reduced energy loss, in particular for heating. The most significant expected net benefits are that gasification i) enables the substitution of fuel-wood with gas, rendering significant air quality improvements, and ii) allows the early phase-out of oil products in commercial buildings and a wider portion of the industry than that which could be reached by only deploying transmission infrastructure. It also contributes to North Macedonia's energy security by enabling a more diversified energy mix.

Carbon lock-in risks have also been assessed from technical, economic and institutional perspectives. Overall, our conclusion is that these gas investments are unlikely to displace low carbon alternatives or to prevent or delay the introduction of renewable energy or low carbon solutions. The Project is designed and constructed to transport up to 100% hydrogen from the outset and is designed and operated to meet the new EU Methane Strategy in terms of monitoring, reporting and abatement of methane emissions. North Macedonia has also joined the Global Methane Pledge.

With regard to the access of communities in North Macedonia to the natural gas, please note that the EBRD is supporting the Government of Macedonia in the tender for the gas distribution project as part of a Public Private Partnership (PPP), which will award a contract/concession to a private partner to construct and operate a new natural gas distribution network across the country. The gas distribution project will complement the investments in the gas transmission grid and enable the expected improvements in air quality as a result of displacement of polluting fuels used in the residential and industry sector. E&S requirements have been included in the tender documents, in accordance with national and EBRD Performance Requirements and amongst others, the private partner will need to develop and disclose an ESIA and other associated documentation in accordance with these requirements. In case the private partner will seek financing from EBRD, the project will go through our normal E&S appraisal process.

With regard to the selection of route alternatives and assessment of potential impacts associated with this project, including biodiversity impacts, please note that the national EIA process was preceded by detailed Feasibility Studies and Routing reports. Such studies have considered a number of routes based on a comprehensive set of criteria, including technical, financial, environmental implications, etc. The routing studies considered, inter alia, existing geo-hazards, complex terrain or hydro-morphology, avoidance to the extent possible of protected areas, proximity to existing infrastructure, etc. The selection of the route was based on the balance of selecting a reasonably shorter technically feasible route, avoiding any areas that would jeopardise the stability of pipeline and significantly alter the landscape, for example, due to the need to create mountain terracing or slope alteration and thus potentially trigger major environmental impacts, such as landslides, erosion, significant change of hydrological regime, etc. Then the most feasible alternatives were further assessed in the EIA comparing the extension and magnitude of all potential impacts of available route alternatives. In instances when it is not possible to avoid all protected areas, the impacts are mitigated through a variety of measures, such as, for example, choosing the route that minimises the overlapping of the pipeline route with the boundaries of protected areas, seasonal construction limitations during sensitive seasons, narrowing the construction corridor to minimise the impacts, using horizontal directional drilling instead of open cut crossing, etc. In addition, pre-construction biodiversity surveys will be conducted to rule out presence of any protected species in the pipeline construction area. All works in the vicinity of protected areas will be supervised by qualified personnel. All these measures are specified in the Biodiversity Action Plans.

Last but not least, we note that both an Environmental and Social Impact Assessment and Stakeholder Engagement Plan (SEP) have been disclosed in relation to this project. Both documents, which comply with the EBRD's standards, remedy any shortcoming of the national EIA disclosure process, and have been disclosed since October 2022. Implementation of the SEP is ongoing, as part of which concerns regarding the potential environmental impact of this project can be raised, and managed.

Should you have any further questions, we are at your disposal.

Best regards,

Stefan Kostovski

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