

Meeting Report

7th Workshop of Eastern Partnership Energy Regulatory Bodies

14-15 June 2018, Budapest

"Security of Supply and Solidarity"

The 7th workshop of the Eastern Partnership energy regulatory bodies took place on 14-15 June 2018 in Budapest, Hungary. It was co-organized by the European Commission and the Council of the European Energy Regulators (CEER) and was hosted by the Hungarian Energy and Public Utility Regulatory Authority (MEKH). The audience included regulatory authorities from the EU and the partner countries as well as ministry representatives and other bodies. The list of participants as well as the agenda is attached to the minutes.

The overall objective of the workshop was to assess the concept of security of supply (SoS) and solidarity and to place the emphasis on measures necessary to ensure energy security at regional level. Discussions focused on the benefits of energy markets integration and strengthened solidarity; ongoing reform projects in the Eastern Partner countries; the political, social and economic aspects of security of supply; and challenges as to strategic planning and governance structures.

The workshop was complemented by a field trip on the second day to the Natural Gas Transmission Plant in Vecsés, FGSZ.

The agenda, the minutes and all presentations held during the workshop are publicly available on the following websites:

- <https://www.ceer.eu/7th-eap-workshop>
- <https://ec.europa.eu/energy/node/2710> - "meetings"

Workshop, 14 June 2018

Participants were welcomed by **Mr Nyikos**, Vice President for International Affairs from the Hungarian Energy and Public Utility Regulatory Authority and **Ms Schiller-Probst** from the Directorate-General for Energy of the European Commission. Mr Nyikos considered the Eastern Partnership workshop as a very constructive framework, where national regulatory authorities (NRA) can exchange experience and best practices, and was looking forward to fruitful discussions. Ms Schiller-Probst referred to the current negotiation process within the EU on the outstanding legislation implementing the Clean Energy for all Europeans which prominently covers energy security and solidarity shifting from a national to a regional governance structure in the energy field.

In his keynote speech **Mr Boltz** provided an extensive introduction into the topics of security of supply (SoS) and solidarity. After setting the scene by explaining the different existing

definitions and dimensions of SoS and solidarity, he placed the emphasis on the regulatory framework and the effect it has on real-life. Although very important legislative acts have been put in place in the recent years (due to several black outs Europe faced during the last 15 years), the practical implementation of solidarity is highly political and therefore challenging task. Nonetheless, the implementation of the solidarity principle is of utmost importance and creates benefits for all parties involved. Mr Boltz also shed light on the changing risks and challenges regarding SoS and solidarity which regulatory authorities and governments will face in the future, for instance the increasing risk of cyberattacks. Concluding, Mr Boltz underlined that controlling measures at national and regional level should only be taken in cases of market failure. To ensure the highest level of SoS transparency, availability of information and coordination at regional level are of utmost importance.

Mr Buschle from the Energy Community Secretariat examined the principle of solidarity in the energy policy of the EU and the Energy Community. While outlining the development of SoS and solidarity activities in the past he pointed out the importance of the existence of concrete legislative acts in this field. In the light of this the principle of solidarity was first mentioned in the Energy Community Treaty. Mr Buschle further discussed the challenge of making solidarity operational and highlighted difficulties for implementing this principle. As Mr Boltz, he concluded that solidarity measures should be considered as an exemption to market rules only in cases of emergency.

In his presentation **Mr Pangani** highlighted the need to tighten cooperation between Eastern Partner countries and the Energy Community Regulatory Board (ECRB). He emphasized that although different legal frameworks exist all share the same goals, face similar challenges and are governed by the similar policy instruments. To ensure SoS he further underlined the need of building new interconnectors.

After a brief introduction of the Council of European Energy Regulators (CEER) **Mr Šik** analyzed the role and challenges of NRAs resulting from the 3rd energy package and the Clean Energy for all Europeans package. Well developed markets can deliver the desired security of supply at least costs based on market-based solutions for SoS. It is important that energy follows price signals as long as possible before resorting to interventions. Mr Šik considered the implementation of the 3rd package as a prerequisite for well-functioning SoS mechanisms. He further presented the CEER guidelines on solidarity, focusing on the implementation of the solidarity mechanism, the price setting mechanism and the reallocation of gas volumes for solidarity.

Azerbaijan: Mr Akhundov informed participants about the recent establishment of the Azerbaijani energy regulator (AERA) and its first activities. As one of the main objectives of AERA he mentioned the establishment of the regulator's law which is being prepared with the support of the EBRD and shall be consistent with the EU model of energy regulation. He further highlighted the crucial role of reforms and tariff setting which are needed to get the Azerbaijani legislative system closer to EU practice.

With regard to SoS and solidarity **Mr Ammayev** from SOCAR pointed out that thanks to high internal gas production, the internal energy security remains at a high level. He also highlighted the crucial role the Southern Gas Corridor will play for Azerbaijan and EU SoS by delivering natural gas from the countries around the Caspian Sea Basin to European energy markets.

Belarus: Ms Sakun highlighted in her presentation the strategically important position of Belarus with regard to SoS. The electricity generation in Belarus can cover the internal demand and due to the increasing electricity export to its neighbors Belarus plays an increasing important key role as a transit country. She further informed participants about the ongoing cooperation with Belarus' neighbors (Ukraine, the Baltic states and Russia) at regional level regarding security of supply. Belarus is keen on enhancing energy sovereignty, increasing the diversification of suppliers and types of energy sources as well as developing further energy efficiency measures.

Georgia: After a brief introduction of the Georgian legislative framework, **Mr Shengelia** presented the emergency and solidarity mechanisms in place. In particular, he presented the BSTP-BSRI Black Sea Balancing Market Integration study, which includes recommendations to regulators on implementing measures to ensure SoS. Sharing of reserves proves to be a good and successful example on how to enhance SoS at regional level. In addition there is a need to diversify suppliers and routes as well as to increase energy efficiency measures in the electricity sector (which are already envisaged in the newly drafted national energy efficiency action plan). Regarding the gas sector he pointed out the increasingly crucial role of storage and the need to renew old pipelines to increase their reliability.

Moldova: Mr Seracuta outlined, that Moldova remains a state with a low rate of energy independence, being highly dependent of imported energy (74% of total energy consumption). For the country's energy security SoS plays therefore a crucial role. He further presented the legal requirements relating to SoS of the different actors involved: while ANRE monitors the import of electricity, establishes the conditions for the export (to ensure the security of the electricity supply) and ensures that regulated prices and tariffs provide incentives to increase energy efficiency and SoS, the government approves the legal SoS framework and ensures the security of supply of the state. Therefore, it is the government, who is entitled to impose public service obligations and other SoS measures. One general objective of the national energy strategy (2013-2030) is to develop competitive markets and their regional and European integration.

Ukraine: Ms Solomakha identified three main elements of energy security, which play a crucial role in Ukraine: reforms, investment and European integration. She presented the international obligations of the Ukraine both in gas and electricity regarding SoS, such as the implementation of the EU acquis. Furthermore, she highlighted the SoS related principles and rules in place for the gas and electricity sectors and described the role of the regulator in monitoring SoS. By ensuring stability and predictability of the regulator body, creating a transparent and non-discriminatory regulatory framework, facilitating permit granting

procedures and monitoring the market, the Ukrainian regulator plays a crucial role in ensuring SoS. The dependence on imports, the insufficient level of interconnections, the lack of market signals and the cyber-attacks were identified as the highest risks to SoS.

After a short presentation of the Energy Regulators Regional Association (ERRA) **Mr Ots** presented two case studies which demonstrated the different challenges European regions are facing in relation to SoS and solidarity. While one case study illustrated the recent developments in Central and South-East Europe, the other case study analyzed the current situation in Finland and the Baltics.

The Central and South East European countries are characterized by limited gas source diversity. In contrast to other European regions, the gas demand has been growing rapidly in the last years and will continue to increase significantly in the near future. For them, the diversification of gas sources will therefore be of utmost importance.

Until 2014 the region of Finland and the Baltics was fully dependent on gas supply from Russia, but succeeded in reducing this dependence, inter alia due to the implementation of the third energy package, and the construction of an LNG terminal and pipeline connections with neighboring countries. An additional important element helping enhancing energy security is several large underground storage facilities. As a lesson learned from the developments in the Baltics is that markets need a critical size to be able to fully function. Therefore, Mr Ots promoted the creation of common regional markets.

Ms Samsel's placed the emphasis on the implementation of the [Security of Supply Regulation which came into force in 2017](#). The regulation led to a shift from a national to a regional approach, foreseeing cross-border measures, regional cooperation based on risk-based groups as well as the Commission in the role as the facilitator. The regulation further includes explicit solidarity mechanisms as well as an improved exchange of information and transparency. She briefly explained the solidarity principle amongst EU member states and highlighted the challenges and opportunities this principle brings along.

Ms Nutu from the Eastern Partnership Civil Society shed light into the topic from a consumer perspective. Based on case studies of Romania and Moldova, she advocated a zero tolerance on exemptions from EU rules (when it comes for instance to building pipelines such as the Nord Stream 2 or the OPAL) and called for a continued strong reform process. As important bottlenecks she identified the unfinished transition to market economy and weak institutions in several countries. She also expressed concerns regarding the dominant role Russian energy companies are playing regarding transmission networks in several Eastern Partner countries.

Wrap up: Mr Šik and Ms Schiller-Probst summarized the main take-away from the workshop as follows: Integrating energy markets benefits SoS and strengthens solidarity (example: Nordic gas market); Eastern Partner countries are undertaking ambitious reform projects and over the last few years good progress has been made (e.g. setting up regulatory authorities, tariff reforms, progress on unbundling, electricity sector transformation); SoS is a political, social and economic issue and all three aspects need to be taken into account in respective

activities; challenges to be tackled remain such as linking short and long term objectives and strategies, create national and regional solidarity mechanisms which include the phasing out of subsidies. The cooperation and exchange of lessons learned through people-to-people contacts at all levels be it on the challenges the EU is facing or national experiences of Eastern partners was considered being an important signal of solidarity within the Eastern Partnership.

Field Trip, 15 June 2018

Participants visited the Natural Gas Transmission Plant in Vecsés, FGSZ, close to Budapest. **Mr Kovacs**, Head of Network and Balancing of the FGSZ gave an overview of the development of the Hungarian natural gas system, the role of FGSZ as an important gas hub of this system, the different gas entry points in Hungary as well as their capacities and their interaction, their role for continuous secure gas supply, the development of a strategic gas stock, the challenge of future gas source diversification including possibilities for LNG, reverse flows to Ukraine and interconnectors to the direct neighbours.

The visit of the site included an exhibition of the Hungarian oil and gas museum parts of which are located in the premises of the FGSZ, the measurement systems of the three gas pipelines, the switch between transmission and distribution pipes and the biggest odorant warehouse of Hungary.