

# A Roadmap to Enhanced Regional Energy Policy: Cooperation in South East Europe

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## Abstract

Regional Energy Policy Cooperation has now gained political traction in the EU as a tool to advance the EU's energy objectives. Cooperation and coordination is meant to facilitate the convergence of markets and policies, so while the creation of one EU Internal Energy Market remains the goal, regional cooperation is the tool with which to achieve that goal. Cooperation could become the stepping-stone towards the completion of the Internal Energy Market within the European 2030 climate and energy framework and beyond.

The Energy Union concept recognises the importance of regional integration. For South East Europe, regional energy policy cooperation is seen as a means to address region-specific challenges such as security of supply, energy imports dependence, affordability, but also to build trust. South East Europe's hitherto untapped or underutilised potential for renewable energy, hydro – also for storage – and the huge potential for energy efficiency improvements offer a great opportunity to solve the region's challenges.



This paper was written within the framework of the “Regional Energy Policy Initiatives”, a project by the Centre for European Policy Studies' Energy Climate House. It explores the potential of regional approaches to European energy policies to improve the effectiveness of EU energy policy objectives in South East Europe and the EU at large. For more information, please, [click here](#).

The project was launched in January 2015 and has since published a Policy Proposal alongside numerous briefings and notes for a series of meetings, which were held by CEPS Energy Climate House or in which it contributed. The results of discussions on the Policy Proposal and the various meetings are synthesised in this Roadmap to enhance regional energy policy cooperation in South East Europe.

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# A Roadmap to Enhanced Regional Energy Policy Cooperation in South East Europe

Anna Dimitrova, Christian Egenhofer and Arno Behrens\*

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## 1. Introduction

One of the new elements introduced by the Energy Union is the concept of regional energy policy cooperation.<sup>1</sup> Coordination and cooperation between neighbouring countries is regarded as essential to a functioning Energy Union by European Union institutions. Several areas of potential cooperation are mentioned in the Energy Union Package: preventive and emergency plans for energy crisis response; energy system adequacy assessments; regional action plans for electricity interconnections; regional cooperation groups and operational centres for cross-border electricity and gas flow management.

In order to facilitate the technical implementation of the Energy Union, the European Commission recommends new regional market arrangements for short-term markets in gas and electricity and the integration of the operations of transmission system operators (TSOs). The European Council Conclusions on the Energy Union of March 2015 confirmed the political commitment to “developing a more effective, flexible market design which should go together with enhanced regional co-operation, including with neighbouring countries.”<sup>2</sup>

Energy cooperation in South East Europe can rely on the experience of previous EU initiatives such as the Pentalateral Forum in Central and Western Europe or the Baltic Energy Market Interconnection Plan (BEMIP). Both focus on the integration of national energy markets in order to improve security of supply and competitiveness.

The lessons from the Pentalateral Forum and BEMIP have not been missed in South East Europe. The European Commission makes the case that better market integration would address the region’s security of supply issues by improving the resilience of the energy system. It would also enhance the sustainability of the energy system by better exploiting existing energy efficiency and renewable energy potentials.

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<sup>1</sup> European Commission (2015A).

<sup>2</sup> Council of the European Union (2015). The European Commission’s communication on market design (15.07.2015 COM(2015) 339) also details the potential role of regional cooperation in renewables deployment; gradual regional energy markets integration; Energy Union governance, external European energy policy; regional security cooperation on both electricity and gas supply; and assessing generation adequacy on the regional level.

To maximise political momentum, the regional approach to EU energy policies was operationalised in Central and South East Europe through the Memorandum of Understanding signed on 10 July 2015 by the members of the Central and South Eastern European Gas Connectivity (CESEC) High Level Group.

## **2. Regional Energy Policy Cooperation in South East Europe: CESEC and beyond**

### *Central and South East Europe Gas Connectivity (CESEC) High Level Group*

The most recent initiative, the Central East South Europe Gas Connectivity (CESEC) High Level Group is a regional initiative that brings together 15 EU and Energy Community countries<sup>3</sup> to tackle the most pressing issue of security of gas supply – system resilience and suppliers’ diversification. It aims to accelerate the completion of an integrated gas market.

Established in July 2015 and chaired by the European Commission, it focuses on gas infrastructure links and associated regulatory and technical issues with the principal objective of increasing security of gas supplies and competitiveness in the region. CESEC, with its unambiguous geographical definition, has the potential to become the leading SEE institution for regional cooperation. It might assume a similar role to the High Level Group on Baltic Interconnections that led to the creation of the Baltic Energy Market Integration Plan (BEMIP). Ultimately, its role may go beyond natural gas interconnectivity. CESEC’s Memorandum of Understanding allows for expansion of the initiative’s mandate beyond gas to the electricity and heating and cooling sectors, and thus manifests the ambition to become an umbrella for general regional cooperation in South East Europe.

CESEC could bridge the gaps left by other institutional frameworks in the region. Guided by the European Commission, it could coordinate existing initiatives and activities. In reality, this is already the case, for example for the infrastructure projects that are under way. The dialogue between governments within CESEC might also increase trust and confidence among countries. As such, CESEC could play the role of a ‘hegemon authority’, which brings together all existing initiatives; it has the potential to take the past and existing initiatives further, even if they have not managed to establish real regional energy policy cooperation they have been instrumental in preparing the ground for regional cooperation within the Energy Union framework and CESEC.

Within CESEC, three technical sub-groups<sup>4</sup> covering the three infrastructural corridors in SEE (South-East, Central-East and Adriatic) have been created to identify specific projects of importance to security of supply. The Memorandum allows for a similar cooperation

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<sup>3</sup> CESEC is chaired by the European Commission. The following states have signed the Memorandum of Understanding: Austria, Bulgaria, Croatia, Greece, Hungary, Italy, Romania, Slovakia, Slovenia, Albania, Bosnia and Herzegovina, FYROM, Serbia, Moldova and Ukraine.

<sup>4</sup> European Commission (2015b).

structure to be established on electricity and heating and cooling, once the natural gas infrastructure objectives of the current Action Plan have been met.

The CESEC is not starting from scratch. There have been and are numerous European and regional initiatives in South East Europe, which offer potential – in parallel or beyond CESEC – to develop cooperation platforms. Attempts to foster regional energy policy cooperation in South East Europe date back to 1999, with the South East European Cooperation Process. Progress has been limited, however, partly due to the lack of a shared vision, different energy policy objectives and embedded mistrust among key actors in the region.<sup>5</sup> Many past and current initiatives offer valuable lessons.

### *Energy Community (EnC)*

A crucial building block is the Energy Community<sup>6</sup> Treaty – an international organisation – that aims to extend the EU’s internal energy market to South East Europe and the Black Sea region. Signed in 2006, in addition to the EU it includes the countries of Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo\*, Moldova, Montenegro, Serbia, and Ukraine.<sup>7</sup> The Energy Community ensures that CESEC countries operate under one set of market rules when it comes to energy, i.e. those of the EU. The objectives of the Energy Community are very much the same as those of CESEC: to attract investment in power generation and energy networks to ensure stable and continuous supply; create an integrated energy market that allows for cross-border trading; to enhance security of supply by cross-border integration; improve the environmental situation and boost competition at regional level to exploit economies of scale. The Energy Community is broader than CESEC, however; in addition to gas, it covers electricity, renewable energy, oil, energy efficiency, environment and competition.

While the Energy Community has quickly established itself as a useful forum for debate, capacity building, and exchange of best practice, progress on its core objective: implementation and enforcement of internal energy market legislation has been slower. An achievement has been the creation of Energy Community priority projects (PECI), which complement the Projects of Common Interest PCIs.

### *European Network of Transmission System Operators for Electricity (ENTSO-E)*

ENTSOE<sup>8</sup> represents European transmission system operators. The organisation produces the Ten-Year Network Development Plan (TYNDP), which is a basis for identifying the

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<sup>5</sup> Schiff & Winters (2002).

<sup>6</sup> South East Europe is named The 8<sup>th</sup> Region and covers Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Kosovo\*, Bulgaria, Greece, Hungary, Romania, Slovenia and Italy. Turkey is involved as an observer.

<sup>7</sup> Armenia, Georgia, Norway, and Turkey are observers. In 2014, the European Commission launched official talks on full membership with Georgia.

<sup>8</sup> Within the structure of ENTSO-E, South East Europe is defined as Continental South East, covering Italy, Slovenia, Croatia, Hungary, Romania, Bulgaria, Bosnia and Herzegovina, Serbia, Montenegro, FYROM, Greece, Albania, Kosovo,\* Turkey).

Projects of Common Interest (PCIs). In addition, it assesses generation adequacy and develops network codes.<sup>9</sup> In its TYNDP for the Continental South East region ENTSO-E stresses the need for regional governments to accept PCIs as priorities. It also highlights the region's regulatory barriers to infrastructure investment.<sup>10</sup> Via its continental South East region ENTSO-E covers the energy networks of the Western Balkan states, EU members in SEE and Turkey.

### *European Network of Transmission System Operators for Gas (ENTSO-G), 2009*

ENTSO-G is the gas equivalent to ENTSO-E, in charge of designing a TYNDP for natural gas infrastructure and monitoring the resilience of EU gas infrastructure, e.g. through carrying out stress tests.

CESEC can help this process by political endorsements, for example by identifying 'top' priority projects in its Action Plan. Ideally, both Projects of Energy Community Interest (PECIs) and PCIs are aligned and cover the whole of SEE.

Currently, South East Europe is covered by two Gas Regional Investment Plans (GRIP) – the Central Eastern Europe and the Southern Corridor. Neither of the above geographical groupings includes the Western Balkan countries or Turkey. An attempt to redress this omission is made under the technical sub-groups of CESEC.

### *Agency for the Cooperation of Energy Regulators (ACER)*

ACER is the EU's body for cooperation of regulators on cross-border issues.<sup>11</sup> ACER already applies a regional approach through its Regional Initiatives, which include a South South-East Regional Initiative<sup>12</sup> focusing on both electricity and gas. Projects focusing on interoperability in the South South-East Regional Initiative will be discontinued due to the lack of significant progress by the end of 2014.<sup>13</sup> The principal reason was poor cooperation between the TSOs and the limited budgets of national regulating authorities. The projects of the Visegrad 4 members (Czech Republic, Hungary, Poland and the Slovak Republic) are ongoing.

ACER has been successful in improving coordination between national regulatory agencies. The Energy Union Package nevertheless acknowledges that ACER's enforcement powers are limited and tries to address this.<sup>14</sup> Whether or not this can be achieved is as yet unclear.

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\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

<sup>9</sup> ENTSO-E (2014).

<sup>10</sup> ENTSO-E (2015).

<sup>11</sup> European Commission (2015c).

<sup>12</sup> ACER (2014b). ACER's South South-East Regional Initiative includes Austria, Bulgaria, Croatia, Cyprus, the Czech Republic, Hungary, Greece, Italy, Poland, Romania, Slovakia and Slovenia. As of 2015 it also includes the Energy Community Treaty Signatories.

<sup>13</sup> ACER (2014a).

<sup>14</sup> European Commission (2015a).

### *Council of the European Energy Regulators (CEER)*

CEER is a non-profit organisation designed to discuss and analyse EU regulatory issues.<sup>15</sup> While CEER has worked on regional initiatives, its work on vulnerable customers and energy poverty is more important for SEE.<sup>16</sup> In SEE energy market liberalisation is hampered, at least according to the political discourse, by the fear that liberalisation and price convergence across national markets will increase prices and the number of vulnerable customers. Resolving the energy poverty issue is particularly important for the SEE region.

### *South East Europe Coordination Auction Office (SEE CAO)*

SEE CAO<sup>17</sup> was established in 2012 under the leadership of the Energy Community. It covers Greece, Croatia, Montenegro, Bosnia and Herzegovina, Albania, Kosovo\* and Turkey. Its aim is to facilitate cross-border electricity trade by allocating cross-border transmission capacity between the seven participating TSOs.<sup>18</sup> Absent from this EnC-led project are the TSOs from four other SEE countries, part of ENTSO-E's Regional Group South-East Europe: Bulgaria, FYROM, Romania and Serbia.

### *South Eastern European Power Exchange (SEEPEX)*

With SEE CAO offering a platform for cross-border capacity trading, a regional Belgrade-based power exchange SEEPEX<sup>19</sup> partnering with European Power Exchange EPEX SPOT was launched on 17 February 2016 coupling day-ahead power markets in the region. In the meantime, Croatia's CROPEX and Bulgaria's IBEX partnered with Nord Pool to launch their own national day-ahead exchanges in January 2016. Bosnia and Herzegovina is yet to make a decision on which exchange to join. Romania, Slovakia, the Czech Republic, Hungary and Poland have already coupled their day-ahead markets through the Power Exchange Central Europe. SEEPEX anticipates coupling with Hungary's market and thus accessing the Power Exchange Central Europe. All these initiatives show that there is considerable interest and momentum towards market liberalisation.

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<sup>15</sup> CEER official website: [www.ceer.eu](http://www.ceer.eu)

<sup>16</sup> Customers' energy vulnerability is a general term that refers to the inability of consumers across Europe to afford adequate energy use and meet their energy needs. As a European definition has not yet been devised, this term is used to describe consumers experiencing energy poverty or fuel poverty. A frequently used definition of energy vulnerability considers households that spend more than 10% of their total income on energy services to be vulnerable customers.

<sup>17</sup> Discussions on launching SEE CAO were started in 2012 under the leadership of the Energy Community. It was formally established in 2014 and covers Greece, Croatia, Montenegro, Bosnia and Herzegovina, Albania, Kosovo\* and Turkey.

\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

<sup>18</sup> See the CAO official website: [www.seeca.com/history](http://www.seeca.com/history)

<sup>19</sup> SEEPEX was launched by Serbia, Montenegro, and Macedonia in February 2016.

### *South East Europe Cooperation Process (SEECP)*

SEECP was a precursor of the Stability Pact for South East Europe in 1999, which in 2008 became the Regional Cooperation Council. It aimed to build trust and partnerships between war-torn states in the Balkans and bring peace and economic stability – goals that are similar to those of the European Coal and Steel Community. It envisages a rotating presidency.

SEECP includes a committee dedicated to economy, infrastructure and energy, which drafted a common South East Europe 2020 Strategy.<sup>20</sup> The Strategy identifies five broad areas for common action on energy: “develop and implement measures to increase efficient use of energy, inform and empower consumers, develop financing instruments for energy infrastructure, complement regional cooperation and create well-functioning SEE energy market”.<sup>21</sup> However, no concrete political action or specific projects were developed through this platform.

SEECP offers a forum for discussions for national parliaments, however, allowing for information-sharing on policy and implementation. The rotating presidency supports a sense of equal ownership.

### *The way ahead: a greater role for regional cooperation in the governance of the Energy Union*

In October 2014, the European Council agreed a 2030 climate and energy policy framework, including EU-wide targets and policy objectives for the period between 2020 and 2030. As part of a governance system to implement this new framework, the European Council in November 2015 agreed for each member state to adopt a ‘National Energy and Climate Plan’ (‘National Plan’), to report on progress towards all five pillars of the Energy Union, including towards the 2030 targets agreed in 2014. A particular focus of these plans will be the achievement of the 2030 renewables target, which is binding at EU but not at member state level. Since there will be no binding national renewables targets post-2020, the European Council encouraged regional cooperation in the planning and implementation of the National Plans, including exchanges, consultation, coordination on draft national plans and the sharing of experiences and best practices. Regional cooperation should also be seen in the context of the existing cooperation mechanisms envisaged in the Renewable Energy Directive (2009/28/EC), even if they have not been taken up.

Infrastructure will play a key role. A first result of improved coordination is a 1,000 MV submarine cable connecting Serbia, Montenegro and Bosnia and Herzegovina. Construction has started, with the link scheduled to become operational in 2017.<sup>22</sup> In addition, the CESEC

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<sup>20</sup> Regional Cooperation Council (2013).

\*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

<sup>21</sup> Ibid.

<sup>22</sup> Tomovic (2016).

list of ‘top’ priority projects receives specific guidance and assistance to facilitate access to financial resources.

### 3. Moving Forward

For South East Europe regional cooperation has the potential to build an effective security of supply strategy and to improve the resilience of energy systems. A key component of this is to increase the cross-border trade of gas and electricity, including interconnections. While some decentralisation is important to allow for region-specific solutions, in the absence of an EU framework to offer guidance it is not self-evident that regional initiatives are automatically in line with EU energy and climate objectives. European Commission guidance may be warranted to ensure that EU objectives such as the completion of the internal energy market and the 2030 targets will be achieved. An alternative approach could be to develop regional master plans, as has been the case with BEMIP, for example. CESEC could develop in both ways.

Both scenarios, i.e. the ‘European framework’ or the region-specific ‘master plan’ would need trust and political support for regional governance structures in South East Europe, which are currently missing. The following six measures will support mutual trust building and gradually help to develop robust governance.

#### *Voluntary opt-in to address geographical definition*

In the past, regional energy cooperation initiatives in South East Europe have been held back, *inter alia* because of political fragmentation and the inability to agree on a geographical definition. The establishment of the CESEC High Level Group has overcome this fragmentation, in part by choosing a broad geographical definition. However, this CESEC definition also has its shortcomings. With Ukraine and Moldova included in CESEC, the work of the group may be overburdened with issues specific to the energy sectors of these two countries.

While all the member countries of CESEC have an interest in natural gas, it is not clear whether other priorities will be shared too. To avoid CESEC operating at the lowest common denominator on issues beyond natural gas, a voluntary opt-in mechanism has been suggested that would allow CESEC and possibly other countries to join specific ‘thematic groups’ on various issues of concern, for example heating and cooling, but also energy poverty. This means that not all CESEC members would necessarily be involved in each of the thematic groups, but only those that volunteer to opt in. One could envisage extending the opt-in mechanism to Turkey or to any other country. A precondition for an ‘opt-in’ would need to be that all countries in a thematic group have identical obligations and rights and need to meet minimum requirements. These minimum requirements would need to be defined, but should be related to EU energy policy objectives to ensure that regional efforts are aligned with European priorities.

Several thematic group topics could be envisaged: response coordination to natural gas and electricity supply disruptions; electricity and natural gas markets integration and coupling;

electricity infrastructure development; cross-border cooperation on renewable energy; energy efficiency; and heating and cooling.

### *An Energy Union beyond EU borders: the external dimension of regional cooperation*

While CESEC and, more generally, the 'SEE regional initiative' is firmly embedded in the EU and Energy Community framework(s), activities in the region will impact on neighbouring countries. The issue of cooperation mechanisms with countries not belonging to the EU or to the Energy Community will therefore arise, notably with Turkey.

A step towards a 'mechanism for cooperation' is the adopted EU Energy Diplomacy Action Plan signed on 20 July 2015 as part of the Foreign Affairs Council Conclusions.<sup>23</sup> The plan includes a commitment by the EU to "develop specific proposals for common EU messages on energy diplomacy". Bringing this commitment to life will be essential to the governance of the external aspects of CESEC cooperation.

To date, National Plans under the governance of the Energy Union are obviously foreseen only by EU member states. But there is nothing to stop member states from drawing up regional plans with non-EU member states. A statement by European Commission Vice-President Maroš Šefčovič that Western Balkan states can become Energy Union members before becoming EU members at an Energy Community Conference held in Sofia in September 2015 signals a determination to seek the formal engagement of non-EU members in European energy cooperation initiatives.

### *Reinforcing SEE regional infrastructure planning*

SEE is already well interconnected but may need additional infrastructure to fill gaps in the regional network, i.e. the upgrade and maintenance of electricity interconnectors as well as natural gas interconnectors with reverse flow capacity. It is therefore important that future electricity and natural gas grid planning is based on some sort of common concept and is developed through cooperation on a national and regional level.

Ideally, this would be done by applying more top-down elements in infrastructure planning to better reflect European energy policy priorities in the Ten Year Network Development Plans (TYNDP) by ENTSO-G and ENTSO-E. An obvious area is to increase coherence between the lists of Projects of Common Interests (PCIs) and the Projects of Energy Community interest (PECIs)<sup>24</sup> and align them with CESEC priorities, for example by agreeing on a 'top' priority list of projects.

A somewhat neglected element in CESEC discussions is the security of supply benefit arising from better integration of electricity and gas. A study by Artelys, Elementenergy and

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<sup>23</sup> Council of the European Union (2015).

<sup>24</sup> ENTSO-G does not formally integrate the Western Balkans and Turkey into its infrastructure planning procedures, unlike ENTSO-E for electricity infrastructure. Another example of the divide between EU and Energy Community countries is the ENTSO-E's strategic North-South Interconnections East Electricity corridor, which covers EU member states from the Baltic region to the Aegean Sea, but excludes Western Balkan states.

Climact<sup>25</sup> shows that an integrated approach to critical natural gas and electricity infrastructure on the European level offers a more cost-effective solution to SEE countries. The study also shows that costs could further be reduced if infrastructure planning involved the deployment of energy efficiency measures.

### *Strengthening enforcement by a 'regional coordination centre'*

Lack of implementation and enforcement of EU laws is one of the biggest obstacles to regional integration, both for EU and Energy Community countries. In the Energy Union package of February 2015 the European Commission suggested enhancing the role of ACER. To date it is not clear what the EU will be able to agree upon. Without this enhanced role for ACER, the EU could consider a 'regional coordination centre' that would assist in the implementation of National Energy and Climate Plans, as per the proposals in the Energy Union Package.<sup>26</sup>

The role of the envisioned 'centre' could be to build capacity, notably in the area of internal market implementation but also energy efficiency, renewables, and district heating. The 'centre' would be regional and open to all those CESEC members that 'opt into' a thematic group.

A sign of progress in energy market liberalisation is the development of intra-regional electricity trade in SEE. Industrial consumers and other wholesale buyers proactively support the development of a regional market. Regional platforms often partner with larger platforms such as Nord Pool (in the case of Croatia's CROPEX and Bulgaria's IBEX) or with Power Exchange Central Europe (in the case of Romania, Slovakia, the Czech Republic, Hungary and Poland).

### *Aligning finance: incentivising regional cooperation*

A regional cooperation framework could provide for a gradual convergence of existing financing instruments<sup>27</sup> eventually making it easier to finance regional cross-border projects between EU and non-EU member states through a single financing instrument. As a side effect, this could re-enforce 'competition for finance' between countries and regions. A single financing instrument for small projects would need to address the issue of project aggregation, for example in energy efficiency, distributed generation or energy cooperatives.

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<sup>25</sup> Gaventa, Dufour & Bergamaschi (2016).

<sup>26</sup> European Commission (2015d) - Annex 2 makes reference to "regional cooperation to establish national plans".

<sup>27</sup> One such example is the Green for Growth Fund ([www.ggf.lu](http://www.ggf.lu)), supported by KfW Development Bank and the European Investment Bank, a fund, which is available to Western Balkan states, Ukraine, Moldova, Georgia, Armenia and Azerbaijan and Turkey but is not available to the EU member states in the region (Greece, Bulgaria and Romania). While EU member states do have access to parallel financing tools through their EU membership, this financing approach fails to take into consideration the needs of the region as a whole or to create an opportunity for cooperation on joint instruments.

### *Addressing energy poverty*

A recent report<sup>28</sup> has assessed levels of energy poverty in the region to be around 30% on average, with 25% of households falling into arrears on their energy bills. A Rapid Assessment of the Bulgarian Energy Sector performed by the World Bank in 2012 found that nearly 60% of Bulgarians are energy poor as they have to spend more than 10% of their family budget on electricity and heating bills. For example, both Romania and Bulgaria, which experience a high level of energy poverty, have initiated national processes to establish a set of criteria to identify customers at risk and to offer proportionate support. This is related to the fact that by the end of 2016 regulated prices should be phased out, which has aggravated fears of increasing electricity prices.

Energy poverty in the region is also partly related to the energy inefficiency of buildings, including ageing housing stock, poor insulation, and lack of individual metering, for example. Energy poverty has a significant impact on health and air quality. With lignite coal and fuel wood being the cheapest heating solution in rural areas, the air quality in SEE deteriorates significantly in colder periods.<sup>29</sup>

### *Governance: providing guidance and framework for regional cooperation*

There have been various attempts to enhance regional cooperation in SEE. The most notable ones being the Energy Community and SEECP. They apply different tools, including simple information-sharing such as in SEECP, or joint information and knowledge creation. Examples of the latter are ACER with its Regional Initiatives, ENTSO-E and ENTSO-G via TYNDP, the Regional Investment Plan and list of PCIs. The Energy Community assists in this via its thematic fora and Permanent High Level Group. A third level of regional cooperation would be common policies in selected areas. While common policies on energy related issues are not yet formulated in SEE, the CESEC initiative has the potential to identify priority areas for common policies. This is the case for the ‘top priority’ gas projects. The challenge now is to develop a credible implementation strategy.

Ultimately, this will require the development of some joint instruments. Examples here are PCIs and PECIs, if they are merged, and grid codes. SEEPEX and SEE CAO can also be seen as a nucleus for joint instruments. It is hoped that the ‘thematic groups’ based on the voluntary opt-in offer the scope and incentive for willing countries to develop such joint instruments.

## **4. Recommendations**

There is a unique political momentum in SEE, comprising both member states and Contracting Parties to the Energy Community, for substantial regional cooperation to achieve EU energy policy objectives, with an added impact on national and regional economic development. The Energy Union concept has largely created the context for new,

<sup>28</sup> Pye & Dobbins (2015).

<sup>29</sup> Atanasiu, Bogdan et al. (2014).

forward-looking, energy and climate cooperation in this part of Europe, with the CESEC format being at the core of joint undertakings. CESEC provides a platform for a more strategic approach beyond emergency responses only. There is a wealth of past experience – some successes, some failures – upon which CESEC can rely.

This Roadmap makes the following seven recommendations to take CESEC further:

1. Efforts to ensure the implementation and enforcement of EU law and international legal obligations including the Energy Community Treaty and conventions<sup>30</sup> and their reporting obligations should be reinforced.
2. CESEC could strengthen or set up ‘thematic groups’ on the key energy challenges of the region.
3. ‘Thematic groups’ should coordinate the drafting of National Energy and Climate Plans, and all other programmatic documents envisaged in the emerging new EU legislation, thereby taking into account their regional dimensions.
4. To avoid the lowest common denominator, the ‘thematic groups’ should consist of a ‘coalition of the willing’ member states, including relevant stakeholders such as from business and industry, civil society and professional business organisations.
5. Organisation and functioning of ‘thematic groups’ should be set out within a European Commission framework. Representatives of business and industry should have the right to present, by invitation, their views on the topics under debate.
6. The European Commission should support the formation of project development companies, trading platforms, professional associations and think tanks in the region to facilitate innovative project opportunities from non-governmental actors within and outside the ‘thematic groups’.
7. The establishment of a regional platform/business association of companies from SEE and other interested countries in the energy and energy-related sectors should be supported.

#### **Regional stakeholders have identified the following topics for thematic groups:**

- **Natural gas:** regional security of supply structures, including the linkages to electricity, further regional market integration and gas hubs, the role of regional producers.
- **Electricity:** further development of cross-border emergency responses, network planning, market integration and their barriers, regional power exchanges.
- **Hydro energy:** developing an integral water management model for South East Europe and drafting agreement on cross-border water resources.
- **Heating and cooling:** reform of district heating and modernisation of the sector upon a coordinated analysis of fuel choices through the cooperation of city authorities.
- **Energy efficiency:** exchange information and best practice, development of a CESEC energy efficiency strategy, cross-border aggregation of investment opportunities.
- **Renewable energy:** regional cooperation approaches and coordination of policy support, gradual withdrawal of financial support and transition to competitive operation, cross-border balancing of variable power generation including use of hydro storage.

<sup>30</sup> For example, Aarhus convention, Minamata Convention, UNFCCC, CLRTAP.

- **Deep Energy poverty:**<sup>31</sup> developing a CESEC approach to tackling deep energy poverty through coordinated introduction of financial support, full phasing out of production subsidies combined with targeted compensation, sharing of best practices within a European framework. The framework would facilitate the drafting of national action plans for deep energy poverty eradication focused to eliminate deep energy poverty by 2020.
- **Financing of energy-related infrastructure:** streamline available financing instruments for energy infrastructure and develop models for Public Private Partnership in energy projects to facilitate innovative projects, including CHP, urban and distributed energy, energy efficiency.

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<sup>31</sup> Deep energy poverty affects households that spend a disproportionately high share of their disposable revenue (more than 10%) for energy services and are not able to ensure a minimal level of health and comfort.

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