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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

ON THE IMPLEMENTATION OF THE TRANS-EUROPEAN ENERGY NETWORKS PROGRAMME IN THE PERIOD 2002-2006

Pursuant to Article 16 of Regulation 2236/1995/EC

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1. Introduction

The Commission is submitting the "Trans-European Energy Networks (TEN-E) Programme 2002-2006 Implementation Report" to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions pursuant to Article 16 of Council Regulation (EC) No 2236/95¹ of 18 September 1995, laying down general rules for the granting of Community financial aid in the field of trans-European networks (hereafter the "TEN Financial Regulation").

This report addresses the TEN-E projects co-financed under the TEN-E budget in the period 2002-2006 (studies and works). The concrete progress achieved in the implementation of TEN-E priority projects in the survey period is also examined.

The period under review was governed by the guidelines for trans-European energy networks as adopted in 1996² (hereafter the "1996 TEN-E guidelines") which cover the years 2002 and 2003, the guidelines for trans-European energy networks as adopted in 2003³ (hereafter the "2003 TEN-E guidelines") which cover the years 2004 to 2006, and the TEN Financial Regulation as adopted in 1995 which covers the whole period 2002-2006. The legal framework change occurred in 2003 has been taken into account in this implementation report.

The most important feature in this period was the accession of ten new Member States in 2004. In order to fully integrate the new European Neighbourhood policy, revised guidelines for trans-European energy networks⁴ have been adopted on 6 September 2006.

The Commission considered important to address infrastructure issues in the Strategic European Energy Review (SEER) asked for by the European Council of March 2006. A communication on a Priority Interconnection Plan⁵, based on the TEN-E guidelines as adopted in 2006, was presented on 10 January 2007 as part of the SEER package.

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OJ L228, 23.9.1995, p. 1–7

Decision No 1254/96/EC of 5 June 1996, OJ L161, 29.6.1996, p. 147

³ Decision No 1229/2003/EC of 26 June 2003, OJ L176, 15.7.2003, p. 11

⁴ Decision No 1364/2006/EC of 6 September 2006, OJ L262, 22.9.2006, p. 1

⁵ COM(2006) 846

2. LEGISLATION APPLICABLE IN THE PERIOD 2002-2006

2.1.1. TEN-E guidelines

The first European Community guidelines for trans-European energy networks were adopted in 1996⁶. These guidelines identified the list of potential eligible projects for EU co-financing as well as the criteria for their eligibility. The initial list of projects of common interest potentially eligible to Community financial support has been amended twice, in 1997⁷ and in 1999⁸.

In 2003, the TEN-E guidelines⁹ have been revised in the context of a package of Commission proposals on Energy Infrastructure. The revision was subject to an Extended Impact Assessment.

Of key importance was the completion of a selection of projects on the priority axes which are of cross-border nature or which have significant impact on cross-border transmission capacity.

The revision of the guidelines has therefore modified and completed the list of projects of common interest previously defined in the Annex of the 1996 guidelines (as amended in 1997 and 1999) and identifies 12 axes for priority projects. These axes take account of the connections that are required for the efficient functioning of the internal market and to reach a high level of security of energy supply. The challenges for electricity and gas networks are different as follows:

- i) The existing capacities of the electricity interconnections were considered as insufficient in the view of the further increase of exchange and trade. Consequently, in March 2002 at the Barcelona European Council, the heads of state and government agreed to set an indicative target for Member States, according to which the capacity of electricity interconnections for each country should be equivalent to at least 10% of the country's installed production capacity by 2005.
- ii) Concerning natural gas, due to the depletion of indigenous resources within the EU an increasing dependence on gas imports in the next 20-30 years is anticipated. Within the TEN-E policy, a realistic target was to set up an additional gas import capacity of 70 Billion Cubic Meter by 2013, from sources in Russia, North Africa, the Caspian Sea region and the Middle East. The main suppliers of natural gas at present are Norway, Russia and North Africa. In the future, the Caspian Sea, the Middle East and the Gulf region will become additional important suppliers thanks to the development of Liquefied Natural Gas (LNG) carried by boat. These sources define the natural transit routes and the need for LNG terminals and regasification capacities.

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Decision No 1254/96/EC, OJ L161, 29.6.1996, p. 147

Decision No 1047/97/EC, OJ L152, 11.6.1997, p. 12

⁸ Decision No 1741/99/EC, OJ L207, 6.8.1999, p. 1

Decision No 1229/2003/EC, OJ L176, 15.7.2003, p.11

2.1.2. TEN Financial Regulation

As far as energy was concerned, the TEN Financial Regulation as adopted in 1995 was amended by Regulations (EC) No 788/2004¹⁰ and 807/2004¹¹ of 21 April 2004 of the European Parliament and the Council. It sets the conditions under which TEN-E projects identified in the TEN-E guidelines are eligible for co-financing. In particular, it specifies the funding rates for studies (up to 50 % of the study cost) and for works (up to 10 % of the project cost).

Article 5 of the TEN Financial Regulation as amended by Regulation (EC) No 807/2004 represented a real progress, since a higher financing rate for works up to 20% was allowed for projects located on priority axis as defined in the 2003 TEN-E guidelines. It nevertheless remained conditional on implementation rules which required simplification, and constrained by limited budgetary resources.

3. PROGRESS WITH SPECIFIC PROJECTS

The progress of projects of common interest as defined in the Annex of the 1996 TEN-E guidelines up to 2003, and in Annex III of the 2003 TEN-E guidelines from 2003 onwards, has been reported in the report on the implementation of the guidelines for trans-European energy networks in the period 2002-2004¹² published in 2006 and in the study "Implementation of TEN-E projects (2004-2006), Evaluation and Analysis"¹³, which was carried out in 2006 by independent experts for DG Transport and Energy.

In the period 2002-2006, 57 electricity projects of common interest and 23 gas projects of common interest¹⁴ have been completed. Out of these 80 projects, 68 were located on a priority axis as defined in the guidelines adopted in 2003. These results are summarised in Table 1.

Table 1	1: Projects o	f common interest	t finalised in t	the period 2002-2006.
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	2002	2003	2004	2005	2006	2002-2006
Electricity	15	21	6	9	6	57
Priority projects	14	20	6	9	5	54
Gas	4	4	3	9	3	23
Priority projects	2	3	1	7	1	14
TOTAL	19	25	9	18	9	80
Priority projects	16	23	7	16	6	68

Out of the 80 projects completed in the survey period, 17 have been co-financed under the TEN-E budget (between 1995 and 2006). A detailed list of the finalised projects of common interest in the period 2002-2006 is presented in Annex.

OJ L 138, 30.4.2004, p. 17

OJ L 143, 30.4.2004, p. 46

¹² COM(2006) 443 and SEC(2006) 1059 Commission Staff Working Document, 7.8.2006

The final report is available on http://ec.europa.eu/ten/energy/studies/index_en.htm

The projects of common interest considered in this paragraph and Table 1 are those specified in Annex III of the 2003 TEN-E guidelines, which modify and complement the list of projects of common interest specified in the 1996 TEN-E guidelines

4. FINANCING THE TEN-E

4.1. Private sector

Transmission System Operators' (TSOs) own resources are the main financing sources of the implemented projects. Exact or meaningful figures for TSOs' total investments on trans-European energy networks projects are difficult to obtain, especially for projects for which no TEN-E funding has been requested.

4.2. Member States financing

Member States in most cases do not participate directly in financing projects of trans-European energy networks since these projects are mostly implemented by TSOs.

4.3. TEN-E funding programme

TEN-E funding of trans-European energy networks represents in most cases a rather limited share of the total cost. The role of TEN-E financing is to act as a catalyst to lever other investment sources and/or to facilitate the implementation of the project through the TEN-E label.

From 2002 to 2006, the Commission received 132 applications for TEN-E funding, 72¹⁵ of which have benefited from financial support: 42 concerned electricity projects and 30 gas projects. Moreover, 3 out of 72 funding decisions concerned works (2 in the electricity sector, and one in the gas sector); the other funded projects related to studies. Detailed information on selection process is presented in Table 2.

Table 2: Details on the selection results for awarding TEN-E funding in the period 2002-2006.

period 2002-2000.						
	2002	2003	2004	2005	2006	2002-2006
Proposals received	28	37	35	18	14	132
Electricity	13	24	15	12	10	74
Studies	10	14	13	10	10	57
Works	3	10	2	2	0	17
Gas	15	13	20	6	4	58
Studies	11	12	17	6	3	49
Works	4	1	3	0	1	9
Funding decisions issued	12	13	18	16	13	72
Electricity	6	7	10	10	9	42
Studies	6	7	9	9	9	40
Works	0	0	1	1	0	2
Gas	6	6	8	6	4	30
Studies	6	6	8	6	3	29
Works	0	0	0	0	1	1

In the period 2002-2006, support under the TEN-E budget line of a total amount of about 93.726.000 € was awarded (see Table 3). This amount was spent for 57% on the gas sector and 43% on the electricity sector. This amount has been spent for 94 %

The list of funded projects is available on http://ec.europa.eu/ten/energy/studies/index_en.htm

on the co-financing of studies (up to 50 %) and for 6 % on the co-financing of works (up to 10 %).

Detailed information on TEN-E commitments in the period 2002-2006 is presented in Table 3.

Table 3: TEN-E commitments in the period 2002-2006 (M€)

		2002	2003	2004	2005	2006	2002-2006
TEN-E Budget		21,0	21,62	21,5	21,5	21,55	107,170
Commitments		14,505	18,498	20,106	20,585	20,032	93,726
Electricity		3,427	6,133	10,205	9,042	11,223	40,030
St	udies	3,427	6,133	9,199	6,042	11,223	36,024
V	Vorks	0	0	1,006	3,000	0	4,006
Gas		11,078	12,365	9,901	11,543	8,809	53,696
St	udies	11,078	12,365	9,901	11,543	7,089	51,976
V	Vorks	0	0	0	0	1,720	1,720

In 2002, most of the proposals received were rejected in the selection process because of the lack of compliance with the eligibility criteria, the lack of maturity and/or of proposal completeness. As a consequence, only 70 % of the available budget could be committed.

In 2003, the TEN-E support for selected projects represented almost 100 % of the available budget. However, because of the withdrawal by a promoter of one of the selected projects, only 86 % of the available budget could be committed.

In 2004, the TEN-E support for selected projects amounted to 21.484.260 €, representing nearly 100 % of the available budget. Nevertheless, a proposal selected in 2004 has also been withdrawn by the applicant and 94 % of the available budget could be committed.

In 2005, 96 % of the available budget could be committed.

In 2006, a limited number of proposals have been received, of which one was not compliant with the eligibility criteria. The eligible proposals all passed the evaluation process and the related TEN-E support amounted to 20.032.000 € As a consequence, only 93 % of the available budget could be committed.

Concerning the amount spent for priority projects as defined in the 2003 TEN-E guidelines and selected for funding in the period 2004-2006, nearly 61% of the available budget was awarded to projects located on priority axis and 39% was awarded to projects of common interest. The electricity and the gas networks received respectively 47% and 53% of the budget which was spent on priority projects, and respectively 55% and 45% of the budget which was spent on projects of common interest.

The TEN-E programme mainly focuses on the co-financing of studies, at an early stage of projects development which presents higher withdrawal or cancellation risks by the would-be promoters of projects. An increase of the TEN-E budget would allow extending the co-financing of projects to a later development stage (construction phase), particularly where ensuring security of supply is at stake.

4.4. European Investment Bank (EIB) loans

Since the start of the trans-European networks initiative in the 1990s, trans-European networks remain an important lending priority for the EIB.

The EIB loans related to energy infrastructure cover projects included in the guidelines for trans-European energy networks¹⁶ as well as energy infrastructure projects which are not but comply with the criteria as specified in Annexes I and II of the TEN-E guidelines. The EIB loans signed in the period 2002-2006 amount to 831 M€for the electricity sector and 2.185 M€for the gas sector. Some 36 % of the total amount was awarded to priority projects, nearly 50 % was awarded to projects of common interest and about 14 % to other TEN projects not listed in the Annex III of the TEN-E guidelines but located on priority axis as defined in Annexes I and II of the TEN-E guidelines (see Table 4). These loans supported large cross-border projects (electricity interconnectors, gas supply pipelines), expansion and/or reinforcement of transmission networks including storage and LNG terminals.

Table 4: EIB signed loans for energy infrastructure of trans-European interest in the period 2002-2006 (M€)

	200217	2003	2004	2005	2006	2002-2006
Electricity (amounts)	50	140	0	615	26	831
TEN Priority projects	0	0	0	125	0	125
TEN Projects of common interest	50	140	0	330	0	520
Other TEN projects	0	0	0	160	26	186
Gas (amounts)	155	273	1.272	277	208	2.185
TEN Priority projects	0	230	705	0	22	957
TEN Projects of common interest	0	43	500	277	186	1.006
Other TEN projects	155	0	67	0	0	222
TOTAL AMOUNTS	205	413	1.272	892	234	3.016
TEN Priority projects	0	230	705	125	22	1.082
TEN Projects of common interest	50	183	500	607	186	1.526
Other TEN projects	155	0	67	160	26	408

4.5. Cohesion Policy

Energy infrastructure receives significant support from Structural Funds. A significant fraction of this support is often dedicated to energy infrastructure in general, including distribution networks, and not exclusively to interconnectors. In the period 2000-2006, Cohesion Policy direct financial support for energy infrastructures (production and delivery) amounted to $\leq 293.283.755$ under Objective 1 and $\leq 26.306.822$ under Objective 2.¹⁸

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The TEN-E guidelines considered in this paragraph and Table 4 are those published in 1996 for projects supported in 2002 and those published in 2003 for projects supported in 2003 and beyond

No projects supported by the EIB in 2002 were located on priority axis as defined in the TEN-E guidelines adopted in 2003

SEC(2007)1456, Commission Staff Working Document annex to the Report from the Commission "18th Annual Report on Implementation of the Structural Funds (2006)

4.6. Financing infrastructure in third countries

4.6.1. PHARE

The cross-border cooperation programme implemented under the PHARE programme in the Countries of Central and Eastern Europe financed actions including improvement of infrastructures and the provision of local water, gas and electricity supplies and measures in the fields of energy and transport aimed at the development of trans-European networks.

4.6.2. *CARDS*

Covering the period 2002-2006, a Regional Strategy and Country Strategies for Albania, Bosnia and Herzegovina, Croatia, FYROM and the F.R. of Yugoslavia were decided end of 2001. One of the specific regional cooperation objectives of the CARDS regional strategy was "to re-integrate the SAP [Stabilisation and Association Process] countries into the European infrastructure networks, namely for transport, border management and energy" by assisting them "in developing coherent strategies for infrastructure with an international dimension in transport and energy."

This framework may be seen as a preparatory measure to integrate the countries - in the process of accession - in the TEN-E networks and to ensure coherence between the EU network and the neighbouring countries.

4.6.3. ISPA

The intervention areas of the Instrument for structural policy for pre-accession for candidate countries from the Central and Eastern Europe in the period 2000-2006 did not include energy policy.

4.6.4. TACIS

During the period 2000-2006, the TACIS programme covered Countries from Eastern Europe and Central Asia and expenditures for infrastructures networks, in particular pipelines and energy transmission networks¹⁹.

4.6.5. MEDA

The MEDA programme covered Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey and the occupied territories of Gaza and the West Bank and expenditures for the upgrading of economic infrastructures, including the sector of energy²⁰.

The Community support under the MEDA programme to the creation of the Euro-Arab Mashreq Gas Market (EAMGM) in 2005 amounted to 6 M€ The EAMGM contributes interalia to the completion of key connecting infrastructures in the region (Arab Gas Pipeline and others) and promotes the use of gas. The participating

¹⁹ Council Regulation (EC) No 99/2000 of 29.12.1999, OJ L12, 18.1.2000, p. 1-9

²⁰ Council Regulation (EC) No 1488/96 of 23 July 1996, OJ L189, 30.7.1996, p. 1-9

Countries are Egypt, Jordan, Lebanon and Syria. This project is scheduled to be completed end of 2008.

MEDA and TACIS have been replaced by the new European Neighbourhood and Partnership Instrument from 2007 onwards.

5. **EVALUATION**

5.1. Mid-term evaluation

In 2004, a mid-term evaluation²¹ of the TEN-Energy programme for the period 2000-2006 has been carried out for the Commission by independent experts.

The two main objectives of the mid-term evaluation was to evaluate the impact of studies and projects funded by the TEN-E Programme and to issue practical recommendations to improve the overall efficiency of the Programme.

The evaluation concluded on a positive impact of carrying out the projects already identified in the TEN-E Guidelines adopted in June 2003 and highlighted key topics for the new Guidelines:

- the cohesion by the integration of the energy networks of the new Member States;
- the environment by facilitating the connection of the renewable energy productions;
- the energy internal market by increasing the capacities of exchange;
- the security of energy supply by increasing capacities and by diversifying the sources and the routes:
- the cooperation with the neighbouring countries.

Based on the recommendations made in the evaluation report, following actions were taken:

- reinforcement of the relations with the Member States in order to better understand their needs and policies on energy networks;
- further concentration of Commission funding on the projects with the highest importance (projects of European interest and priority projects);
- strengthening the cooperation with other related instruments, i.e. Structural funds, EIB, etc. in order to join internal synergies and to fully profit from the TEN-E network as a reference network.

5.2. **Ex-post evaluation**

The ex-post evaluation of projects co-financed by the TEN-Energy programme for the period 2000-2006 will be performed for the Commission by independent experts

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²¹ mid-term Evaluation final available report on http://ec.europa.eu/ten/energy/studies/index en.htm

in 2008 in accordance with Article 15 of the Council Regulation (EC) No 2236/95²² of 18 September 1995, laying down general rules for the granting of Community financial aid in the field of trans-European networks.

5.3. Monitoring of the funding decisions

The monitoring of the contracts and decisions is mainly based on the beneficiary obligation to report on the progress of the co-financed study or works, and to duly justify any request of amendment of the contract or decision.

28 prolongation requests relating to 20 out of the 72 funding decisions drawn up in the period 2002-2006 have been sent to the Commission and 26 (11 Electricity and 15 Gas) have been accepted by the Commission. The main reasons for delays were the following: delays in permitting procedures, market evolutions which may lead to strategy modifications, activities transfers to a new beneficiary in compliance with Directive 2003/55/EC²³ and Directive 2003/54/EC²⁴, the need to overcome technical difficulties and corporate changes.

6. EXTERNAL RELATIONS

The revisions of the TEN-E guidelines which occurred in 2003 and 2006 reinforced the external dimension of the trans-European energy networks by increasing the connections to accessing and neighbouring countries. In particular, the 2006 revision took stock of the need of fully integrating new Member States and the accession and candidate countries into those guidelines and to adapt further, as appropriate, those guidelines to the new neighbourhood policy of the European Union.

The TEN-E Guidelines therefore provide the prioritisation of new pipelines from the gas fields in Russia, Algeria and the Caspian Sea to the EU, complemented by LNG terminals and underground gas storage. They also focus on electricity links between the Mediterranean Member States and the Southern Mediterranean Countries, in particular by synchronous connection to the Union for the Co-ordination of the Transmission of Electricity (UCTE) system, by increasing connections with South-East Europe including links to Turkey, and by better connecting the Baltic States to the Central-Eastern and Northern Europe markets.

The EU-Russia Energy Dialogue was launched in 2001 with the purpose to foster EU-Russia relation in the field of energy. The main achievements of the EU-Russia Energy Dialogue have been published in several progress reports²⁵. In 2006, three thematic groups have been established to deal with: i) energy efficiency, ii) energy market development and iii) forecast and scenarios. Within the group on energy market development, a subgroup on energy infrastructure has been created to deal with energy links between Russia and the European Union. In particular, the implementation of projects of common interest for Russia and the EU is examined. Further, a study examining the possibility of a synchronous link between the UCTE

²² OJ L228, 23.9.1995, p. 1–7

OJ L 176, 15.7.2003, p.57-78

OJ L 176, 15.7.2003, p. 37-56

The progress reports are available on http://ec.europa.eu/energy/russia/joint_progress/index_en.htm

system and the Baltic States and further the Russian IPS/UPS system is financially supported under the 2004 TEN-E budget line and followed-up in the frame of the above-mentioned subgroup.

Ukraine and Moldova have jointly applied for full membership of the UCTE. A special technical committee within the UCTE has been established to prepare a study on the measures Ukraine and Moldova will need to take to connect to the European electricity system.

7. OTHER UNION POLICIES WITH A TEN-E DIMENSION

7.1. Environment

The TEN-E priorities reflect the conclusions of the Stockholm European Council of 23 and 24 March 2001 concerning the development of the infrastructure needed for the operation of the energy market. A special effort should be undertaken to achieve the objective of making greater use of renewable energy sources as a contribution to a sustainable development policy. It is emphasised that the EU environmental legislation has a substantial influence. In particular, the Birds²⁶ and Habitats²⁷ Directives, the Environmental Impact Assessment (EIA)²⁸, the Strategic Environmental Assessment Directive (SEA)²⁹ and the Water Framework Directive³⁰ have to be complied with.

The authorities in the Member States are responsible for the planning and authorisation procedures and have to ensure compliance with environmental legislation and the final decision is taken by the local authorities.

In the allocation of the TEN-E budget, a special attention is paid to the conformity of co-financed actions with Community environmental legislation. In particular, depending on the nature of the actions proposed for funding, environmental documents were requested such as:

- Information on actions likely (or not likely) to have significant negative effects on Natura 2000 sites (Natura 2000 certificates);
- Non-technical summary of the Environmental Impact studies carried out for the action;
- Information on consultations with environmental authorities, the public concerned and, if applicable, with other Member States;

Pending their – positive - analysis by the Commission services, TEN-E funding was approved.

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²⁶ Council Directive 79/409/EEC of 2 April 1979, OJ L 103, 25.4.1979, p. 1-18

Council Directive 92/43/EEC of 21 May 1992, OJ L 206, 22.7.1992, p. 7-50 Council Directive 85/337/EEC of 27 June 1985, OJ L 175, 5.7.1985, p. 40-48

Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001, OJ L 197, 21.7.2001, p. 30-37

Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000, OJ L 327, 22.12.2000, p. 1-73

7.2. Research and Development

The European Union supports energy research and development under different funding programmes, such as the Framework Programmes (FP) and the "Intelligent Energy – Europe" Programme. These programmes encourage also some trans-European energy networks objectives such as an increased security and diversity of energy supply. Under FP6, covering the period 2002-2006, several studies including a TEN-E dimension were supported, as for example:

- IRED Integration of Renewable Energy Sources and Distributed Generation into the European Electricity Grid (FP6)
- FENIX Flexible Electricity Networks to Integrate the Expected "Energy Evolution" (FP6)
- ENCOURAGED Energy Corridor Optimisation for the European Markets of Gas, Electricity and Hydrogen (FP6)

In addition, the "Intelligent Energy – Europe" Programme supported projects like:

- RESPOND Renewable Electricity Supply Interactions with Conventional Power Generation, Networks and Demand
- TRADEWIND Wind Power Integration and Exchange in the Trans-European Power Markets.

7.3. Competition

When awarding TEN-E funding, a special attention is paid to the compliance of selected gas pipelines projects with the Third Party Access regime as defined in the gas Directive 2003/55/EC³¹, and particularly with Article 22. A Third Party Access regime is also applicable to electricity projects, as specified in the electricity Directive 2003/54/EC³².

OJ L 176, 15.7.2003, p.57-78 OJ L 176, 15.7.2003, p. 37-56