

Preparation: [REDACTED], A3

Scene setter:

You are meeting the Trans Adriatic Pipeline delegation, which consists of senior representatives of TAP, BP and SOCAR. You met with [REDACTED] at the margins of the Southern Gas Corridor Advisory Council in Baku on 4 February, and later on 21 April and 15 June in Brussels. The President of the European Commission and President Ilham Aliyev signed on 18 July a new Memorandum of Understanding on a Strategic Partnership in the Field of Energy with a commitment to double the capacity of the Southern Gas Corridor to deliver at least 20 bcm annually by 2027.

TAP is the key piece of infrastructure shipping Azerbaijani gas from the Turkish border to Italy. It operates under a special regulatory regime which obliges them to proceed to market tests. Almost all of its present capacities (10 of 10.5 bcm) have been allocated long term.

This meeting is an opportunity to continue the discussion on the state of play regarding a possible expansion of the pipeline [REDACTED]

[REDACTED] that could serve to ship gas to new customers in the Western Balkans, especially Albania, and to Moldova. Its expansion would require simultaneous upgrade of TANAP and South-Caucasus pipelines.

Key messages


Context

- The EU and the world are facing a **climate and energy crisis**, aggravated by Russia's invasion of Ukraine. Russia's actions have exacerbated the already tight global energy markets, creating security of supply risks around the world and causing prices to surge.
- With the **REPowerEU Plan**, the EU will keep working to phase-out Russian energy imports and strengthen its energy security while accelerating a green and just energy transition. TAP and gas from Azerbaijan are outlined in this communication as a strategic priority.
- The Commission signed with Azerbaijanis Government a **new Memorandum of Understanding on a Strategic Partnership in the Field of Energy** with a commitment to double the capacity of the Southern Gas Corridor .

TAP Development

- Congratulate and thank TAP on the commitment to deliver at least 20 billion cubic metres to the EU annually by 2027. 12 billion cubic meters of natural gas are expected to be delivered in 2022 through the Trans Adriatic Pipeline.
- [REDACTED]
- At the Advisory Council, various stakeholders in the Western Balkans confirmed their interest for **additional supplies to support their energy transition**. Serbia and North Macedonia seem to be the most advanced in this process, but Albania and Montenegro were also keen.

Western Balkans

- In terms of context, Western Balkans committed to **climate neutrality by 2050**. In order to achieve that, while keeping the power grid stable and the economy developing, they need to decommission their coal power plants. **Gas can certainly play an important transitional role** there, provided it comes from diverse and reliable sources, and as part of a long term plan for energy transition.
 - The **Memorandum of Understanding** between the EU and the government of Azerbaijan, signed on 18 July 2022, will strengthen this option. It provides the possibility to ship Caspian natural gas to the Western Balkans, with a view to supporting the conditions for the expansion of the Southern Gas Corridor to increase diversification of supply for the region in accordance with commercial and market demand.
- TAP's possible **interconnection to the Western Balkans** would need in our view to respond to market dynamics and meet certain conditions, e.g.:
 - be based on a binding market test and be market-driven, including in terms of private investment. The most recent news we received is a delay in the market test till January due to some uncertainties among involved parties. *Inquire about the reasons related to the delay.*
 - rely on future-proof infrastructure that can be switched to hydrogen;
 - be aligned with the European Green Deal and the decarbonisation roadmap in the Western Balkans based on National Energy and Climate Plans (NECPs) of the Western Balkans.
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EU Energy Platform

- EU leaders have agreed that Member States will work together on the voluntary joint purchase of gas, LNG and hydrogen and the activities under the EU Energy Platform will also be open to the Western Balkans and the three associated Eastern Partners – Ukraine, the Republic of Moldova, Georgia.
- Regional groups aiming at implementing quick fixes for better energy cross-border flows already started working. The first one was the South-East Europe regional task force, which already agreed on an action plan. Along EU MS, Serbia, North Macedonia, Moldova and Ukraine are members.
- The EU Energy Platform aims to help the EU, its members and neighbours to open up access to alternative sources of gas and secure additional resources.

Possible questions:

- Do you see opportunities for potential additional gas supplies without capacity extension for winter 22/23? Gas is needed in Europe at short notice.
- Do you already have some intelligence on possible interest for new capacities on TAP, e.g. in Italy?
- Could you please elaborate on the effects of the war in Ukraine on the capacity expansion process and gas deliveries in Europe?
- What is the reason for postponing the TAP market test to January next year? What is the most realistic scenario for the outcome of the TAP market test, and its possible impact for the Western Balkan region? When do you expect to take the Final Investment Decision and what are the prerequisites for such decision?
- What are the financial instruments for the TAP expansion which are now being considered?

Defensive points

What can we expect from the Western Balkan countries in terms of gas demand?

- Deciding on energy mix is a Treaty prerogative of EU Member States. This is even more valid for the Western Balkans, where the Commission has no role in prescribing energy mixes. Nonetheless, we have secured the commitment of our partners in the region to become climate neutral by 2050 – which now needs to translate into concrete decarbonisation pathways.
- In the Energy Community setup, the Commission will propose 2030 energy and climate targets for adoption by the Contracting Parties. Those targets would give a good indication, along the National energy and climate plans, on the future demand.
- The EU offers financial support to many technologies supporting the energy transition: renewable power generation, energy efficiency, and natural gas projects. We are therefore ready to provide assistance to selected gas projects provided they fulfil the overall conditions and match the common climate objective we have.

Do you foresee EU funding for gas infrastructure, despite the exclusion of such projects from the Trans-European Networks for Energy Regulation?

- While the new Regulation is just being formally adopted, the geopolitical context changed very substantially with the invasion of Ukraine. However, the new TEN-E Regulation does not include any provisions regarding identification of gas projects as Projects of Common Interest (PCI) and subsequently financial support from the Connecting Europe Facility (CEF).
- The Commission is looking into all possibilities available. Annex 3 of the REPowerEU plan, adopted in May, puts forward a number of gas infrastructure projects identified as necessary to contribute to our objective to cut down to zero dependence on natural gas. The expansion of TAP capacity and the Interconnector Greece Bulgaria are listed in Annex 3. For further information, see Background information on REPowerEU and TAP.
- Regarding possible funding of those projects, there is a possibility for MS to include them in their revised RRF plans. The negotiations on the REPowerEU chapter under the Recovery and Resilience Facility (RRF) are still ongoing and likely to conclude before the end of 2022. MS concerned have not so far express an interest in including the expansion of TAP capacity in their revised Recovery and Resilience Plans.

Background

Current state of play of TAP gas supply to EU (recent email exchange with TAP)

TAP has transported **more than 12 billion cubic meters of gas to Europe** (through 2021 and early 2022). Over 9,5bcm were delivered to Italy, over 1,5bcm were delivered to the Greek market, and part of it to Bulgaria. In 2021, more than 17.5% of natural gas imports to Greece came from TAP. In 2022, 12 bcm are expected to be delivered through the Trans Adriatic Pipeline, reaching its full capacity.

[REDACTED]

[REDACTED]

[REDACTED]

Capacity expansion process: market test with timeline, state of play, preliminary news

Based on the demand expressed, TAP prepares a project proposal, that will be submitting binding bids. Based on those bids (requested capacities only up from 5 years), the accumulated demand is assessed in an economic viability test (the tariff cannot increase, can only be reduced). In the [draft project proposal](#) published in January, there is a "Minimum Expansion", with only the addition of one compressor unit (15 MW) at the existing Kipoi compressor station in the EU.

[REDACTED]

For this to happen, there needs to be enough binding bookings to pass TAP's Economic Viability Test.

- TAP is planning a new binding phase **January 2023** (initially July) and will have another one in 2023. The objective is to have the minimal expansion by this time already – which would imply gas transport contracts to be signed by the end of the year.
 - **In 2023**, a new public consultation would be launched with new non-binding requests, leading to approval by regulators of the proposal and another binding test.
 - The binding phase is planned for **January** now. They underlined that a discussion on financing would need to follow shortly. The expansion levels are independent one from the other. Moreover, each of those initial scenarios can be tuned depending on market requests.
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

REPowerEU and TAP

Energy infrastructure plays a role across a number of areas of activity in REPowerEU, such as:

- diversifying gas supplies (higher LNG imports and pipeline imports from non-Russian suppliers, higher levels of biomethane and hydrogen),
- increasing the share of renewable energy sources and electrification, and
- overcoming bottlenecks to the full use of the EU's LNG capacity.

Annex 3 of the REPowerEU Action Plan adopted in May, puts forward gas projects assessed as necessary for projects completing internal market in energy, having a strong cross-border dimension and contributing to the objective to replace gas coming from Russia. For South East Europe two gas projects are identified, the expansion of the TAP capacity and the expansion of the Interconnector Greece Bulgaria (IGB) from 3bcm/year to 5 bcm/year.

To put together the list of gas projects in Annex 3, and in line with the requirements of the REPowerEU Communication of 8 March, the Commission asked ENTSOG to perform an assessment of additional natural gas infrastructure needs, ensuring a complete replacement of Russian gas. The Commission has requested that ENTSOG takes into account demand reductions in line with the EU's ambitions as set out in the Fit-for-55 package (-27% at EU level from 4 000 to 2900 TWh/y) and possibilities for diversification through hydrogen and biomethane (136 TWh H₂ and 280 TWh Biomethane).

For the needs' identification, the Commission requested that ENTSOG considers two groups of infrastructure projects ("layers") for the assessment on top of the existing infrastructure as of 1 January 2023: Layer 1 consisting of natural gas projects that are certain to be accomplished (including some PCIs) and Layer 2 consisting of new LNG terminals most likely to go forward and the expansion of Trans-Adriatic Pipeline (TAP).

The Commission also requested that ENTSOG assesses the benefits for a series of infrastructure projects put forward by Member States. PCIs on the 5th Union list were not subject to the assessment per se, unless closely linked to other projects, as they have already been identified through the TEN-E policy as projects essential for the diversification of supplies and completion of the internal market.

For **South Europe region**, gas projects identified are the expansion of **TAP** and the expansion of the **Interconnector Greece Bulgaria (phase II – expanding capacity from 3bcm to 5bcm)** capacity

State of play of energy transition plans and gas demand in the Western Balkans

Some countries progressed with their national energy and climate plan. North Macedonia has adopted its National Energy and Climate Plan (NECP) covering decarbonisation, energy efficiency, security of supply, the regulation of the internal energy market and research, innovation and competitiveness in the sectors of energy and climate change. Only **Albania** and **Kosovo** submitted their draft, while the remaining Western Balkans countries (Bosnia and Herzegovina, Montenegro, and Serbia) still need to publish them. As per the Governance Regulation, final National energy and climate plans must be adopted by the end of 2023.

The Commission is **finalising a study to set the basis for 2030 energy and climate targets in the Energy Community** and on the 12th April Commissioner Simson launched the negotiations at an Energy and Climate Committee.

In March **Kosovo decided to move away from a project of a gas-fired power plant** and shifted a Millennium Challenge Corporation grant to a battery electricity storage facility. This would put into question our EIP project of connecting to MK.

Following a Memorandum of Understanding signed last year with ExxonMobil and Excelerate Energy, **Albania** is accelerating its preparations to proceed with investments in a regasification facility and the expansion of a gas-fired power plant. Excelerate proposes an integrated gas supply project of the following three components

- 1) **Vlora LNG Terminal (in AL) with 5 bcm/a capacity**
- 2) **Vlora-Fier Pipeline connection to AL demand (power plant, potentially other type later on) and**
- 3) **connection to TAP**

AL doesn't have a gas market at the moment, but it has plans to develop its gas market via the TAP connection. AL gas demand could reach 1-1,5 bcm/a in the foreseeable future, any LNG regasification capacity beyond this volume can have a regional relevance.

What happened since the Southern Gas Corridor Advisory Council in Baku (4th of February 2022)

Commissioner Várhelyi met with Azeri counterparts on a number of occasions, as well as with the Western Balkans leaders and EBRD President in London. Our understanding is that partners remain largely committed to the projects.

At the last Western Balkans Investment Framework call for projects in December 2021, **none of the EIP gas interconnectors applied for funding.**

There is a **growing interest in possible gas deliveries from Azerbaijani – and other sources, to Moldova.** The latter consumes around 3bcm/a, is entirely dependent on a Gazprom contract and is very precarious both in terms of finance and security of supply.

MoU on a Strategic Partnership in the field of Energy between the EU and AZ

On 18 July 2022, President Ursula von der Leyen and Commissioner Kadri Simson met with President Ilham Aliyev and Azeri Energy Minister Parviz Shahbazov to strengthen the existing cooperation

between the EU and Azerbaijan. The two Presidents signed a new Memorandum of Understanding on a Strategic Partnership in the Field of Energy.

Other information

Interconnector Greece-Bulgaria (enabling Azerbaijani and LNG gas to reach Bulgaria and possibly Serbia)

The projected capacity will be up to 3 bcm/y in the direction from Greece to Bulgaria. Depending on market interest and neighbouring gas transmission systems capacities, the pipeline is designed for increasing its capacity up to 5 bcm/y for following up the market evolution thus allowing physical reverse flow (from Bulgaria to Greece) with the additional installation of a compressor station.” The BG market is around 3.5bcm/a so there is space to transit gas further. Start of operation: 1 October 2022.

Interconnector Bulgaria-Serbia (enabling Azerbaijani and LNG gas to reach BG and possibly SR)

The 62 km interconnector will allow for the transfer of up to 1.8 Bcm/year of gas in the direction Bulgaria-Serbia and 0.15 bcm/year in the reverse direction. Likely start of operation: SR claims to be ready by Oct 2023 (as works have started), but BG indicates 2023. Both sides face delays, but the BG side is particularly worrying (with three pending court cases).

Interconnector Greece-North Macedonia (enabling LNG to reach MK, which already invested in the new LNG terminal in EL, or possibly AZ gas from EL to MK)

The Final Investment Decision has not been taken yet. The interconnector initial capacity will be 1.5 billion cubic metres per year, with the possibility of expanding to 3 bcm per year. To be compared with some 0,3bcm of current consumption in the country (with plans to increase with a new gas-fired plant replacing a coal one). No final investment decision taken yet, possible entry into operation in 2024.

Western Balkans panorama:

Bosnia and Herzegovina

- **current electricity mix:** 62% coal, 36% hydro
- **gas market:** 0.25 billion cubic meters / year (100% of Russian origin, coming through a single connection) NB An agreement has been signed with Serbia in March 2021 to extend Balkan Stream pipeline to BiH/Republika Srpska indicating that the pipeline should be finished in five years.
- **related EIP gas priority projects:** Ionian-Adriatic Pipeline and HR South interconnection

Kosovo

- **current electricity mix:** coal 95%, hydro 4%, wind and solar 1%
- there is **no gas market** today
- **related EIP gas priority projects:** North Macedonia-Kosovo based on the ongoing works on the North Macedonia-Greece interconnector

Serbia

- **electricity mix:** 68% coal, 26% hydro, 2% natural gas, 2% wind
- **gas market:** 2 billion cubic meters / year (87% of Russian origin, coming through a single connection – although it would be soon in competition with another link to Bulgaria, which is supported by the EU)
- **related EIP gas priority projects:** North Macedonia-Serbia

North Macedonia

- **current electricity mix:** 50% coal, 20% hydro, 17% natural gas, 2% wind&solar, 1% oil
- **gas market:** 0.25 billion cubic meters / year (100% of Russian origin, coming through a single connection, although the project with Greece is advanced)
- **related EIP priority projects:** North Macedonia-Kosovo, North Macedonia-Serbia Gas Interconnection
- **state of the NECP for gas:** draft submitted to the Energy Community with a clear view of developing interconnector to Serbia, Kosovo and Greece. NB on the last project: cost estimated at MEUR 58,2, EIB, as the lead IFI provided a loan in the amount of MEUR 28,9, and in 2019 the EU approved the WBIF INV grant with an amount of MEUR 12,7.

Albania

- **current electricity mix:** almost 100% hydropower
- there is **no gas market in the country**, but Albania is progressing on building an exit point from the TAP and signed agreements to develop LNG facilities
- **related EIP priority projects:** Ionian-Adriatic Pipeline
- **state of the NECP for gas:** draft presented to the Energy Community with indications on gas as follows: share of the natural gas in total primary energy sources supply foreseen at 5.1% in 2025 and 8.5% in 2030, in 2040, the potential consumption of natural gas for electricity generation could be around 770 million m³, while the projected consumption at the country's refineries could be around 89.2 million m³.

Montenegro

- **current electricity mix:** 56% hydro, 41% coal, 3% wind
- there is **no gas market in the country**, but Montenegro outlined some ambitions for installing up to 400MW gas-fired power plants
- **related EIP priority projects:** Ionian-Adriatic Pipeline

Annex: Expansion scenario table

Station	Minimum Expansion	Limited Expansion	Partial Expansion	Full Expansion
GCS00	- Install 1x15MW CU - Facilities/utility upgrade	- Install 2x15MW CU - Facilities/utility upgrade	- Install 2x15MW CU - Install metering/ filtering units - Facilities/utility upgrade	- Install 3x15MW CU - Install metering/ filtering units - Facilities/utility upgrade
GCS01	No Work	No Work	No Work	- Install 3x25MW CU - Install metering/ filtering units - Facilities/utility upgrade
ACS02	No Work	No Work	- Install 4x25MW comp. units - Install metering/ filtering units - Facilities/utility upgrade	- Install 4x25MW CU - Install metering/ filtering units - Facilities/utility upgrade
ACS03	No Work	- Install 2x15MW CU - Restage existing 3 CU - Facilities/utility upgrade	- Install 2x15MW CU - Install metering/ filtering units - Facilities/utility upgrade	- Install 2x15MW CU - Install metering/ filtering units - Facilities/utility upgrade
IPR01	No Work	No Work	- Install metering/ filtering units - Facilities/utility upgrade	- Install metering/ filtering units - Facilities/utility upgrade
Costs (MEUR)	114*	388*	730*	1020*
Timeline Published	45 months	60 months	65 months	65 months
Total technical entry capacity	40.5 MSm3/day (approx 14.2 BCMY)	42.9 MSm3/day (approx 15 BCMY)	50.4 MSmpu3/day (approx 17.6 BCMY)	60.2 MSm3/day (approx 21.1 BCMY)