



OMNIA
THE PLURAL OF ENERGY


Energy Crisis in WB6

How high energy prices have uncovered stalled sector reforms

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Agenda

- 
- What would be needed for energy crisis resilience?

 - High energy prices to display lacking energy crisis resilience in WB6

 - Energy import dependence

 - What has happened and how did governments react?

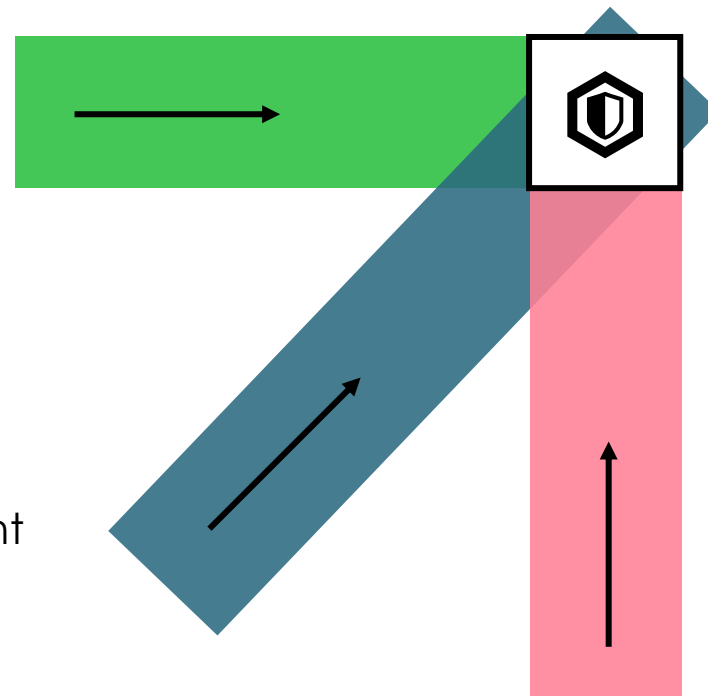
 - Reasons for poor energy crisis resilience in WB6, today and in the future

 - What can IFIS do and what does that mean for WB6 energy crisis resilience?

What would be needed for energy crisis resilience?

Can do:
institutional capacity, capable
companies, legal & regulatory
framework

Want to:
political will to create resilient
structures

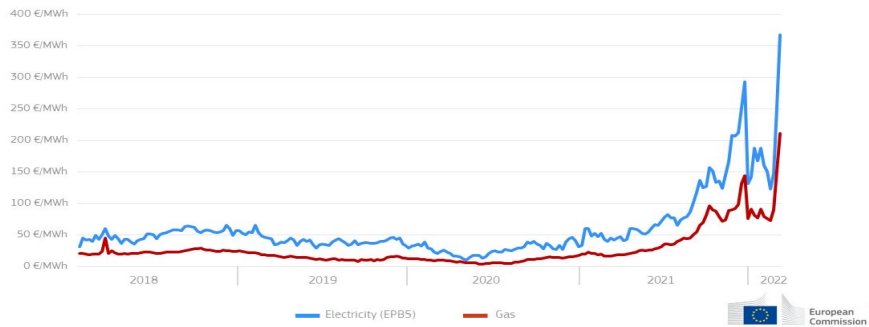


Energy crisis resilience:
Capability to master crisis through
means to prevent or react to
critical developments

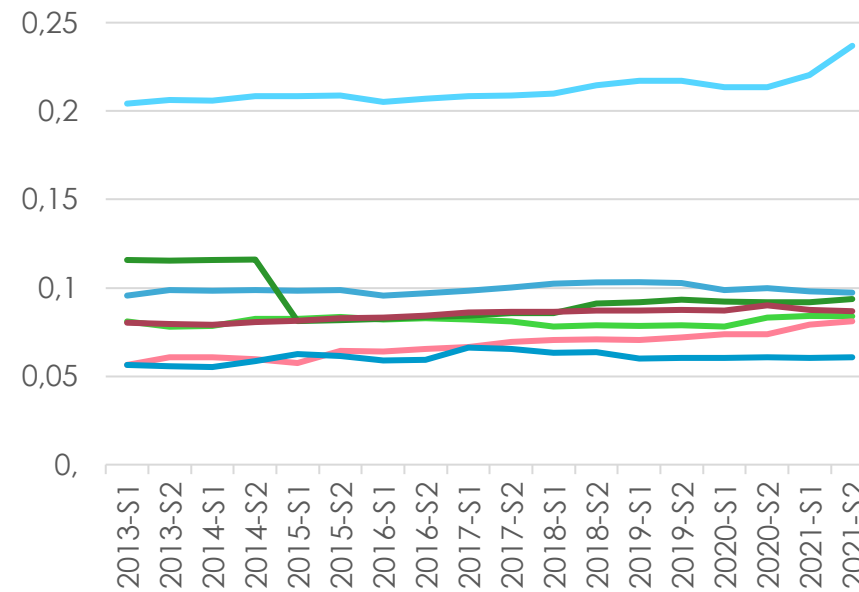
Can afford:
sufficient endowment with
finance and right perception of
affordability

In most of the Western Balkan economies high energy and commodity prices have triggered an energy crisis

EU Wholesale electricity / gas price

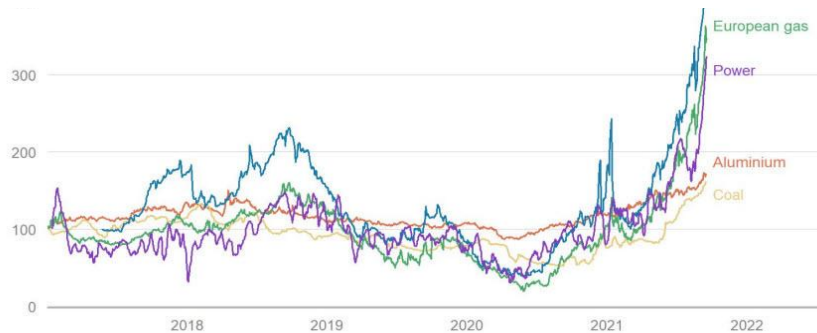


Average household electricity prices EU & WB6, ct/kWh



EU household prices could react to wholesale developments

Selected commodity prices

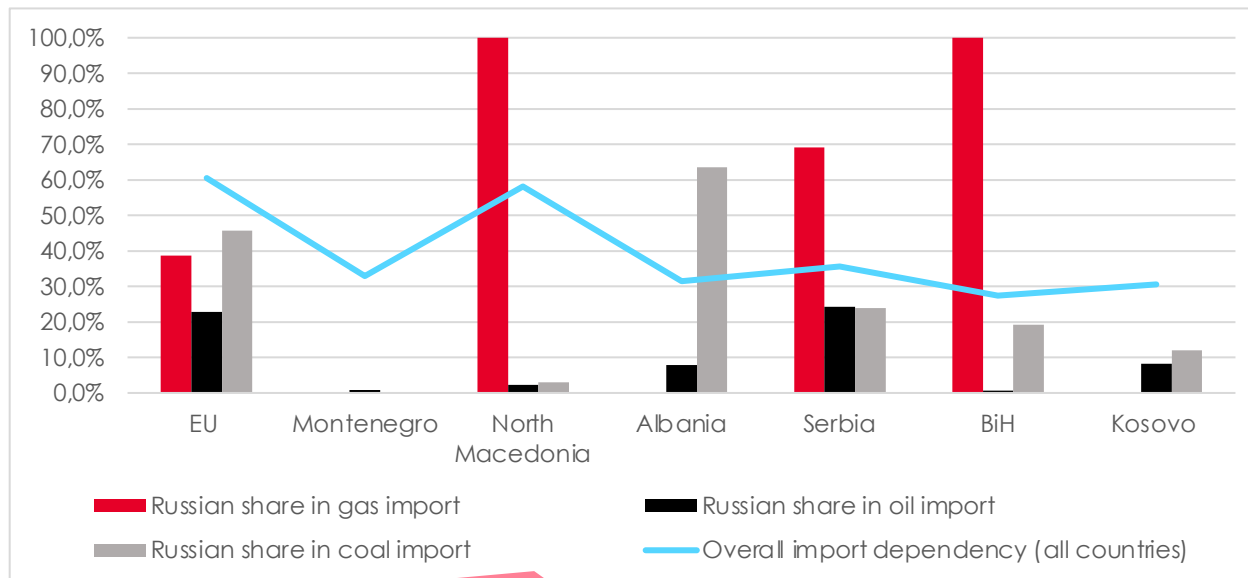


In the WB6 prices are largely frozen and will only be increased as a last resort

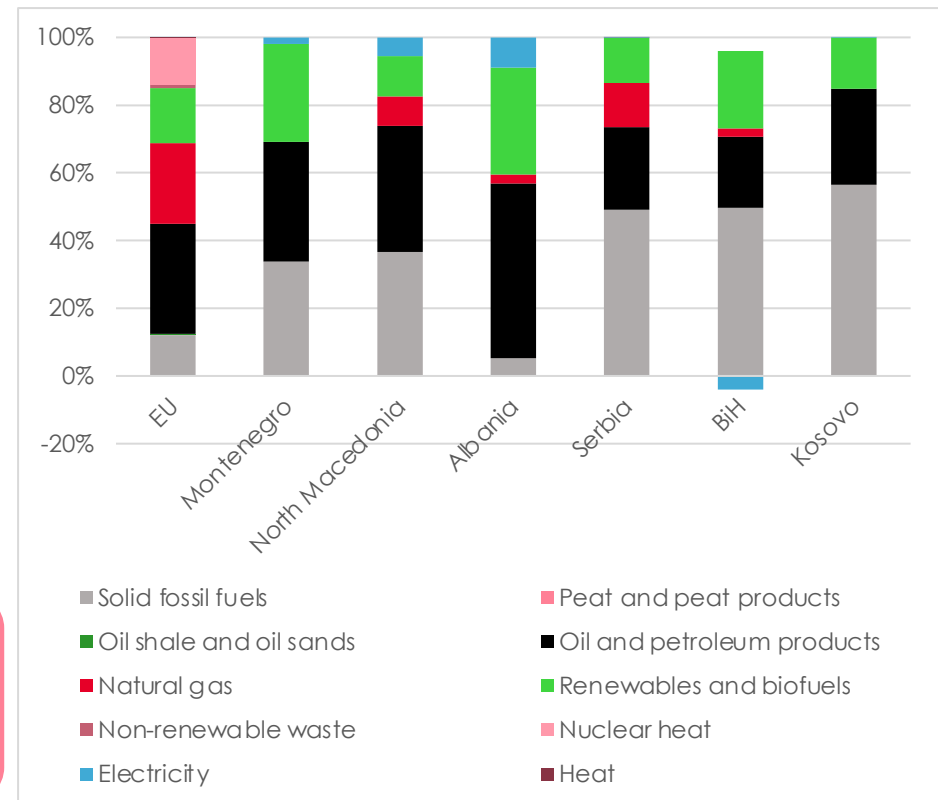
- EU
- North Macedonia
- Serbia
- Kosovo
- Montenegro
- Albania
- Bosnia and Herzegovina

WB6 are significantly depending on energy imports (incl. from Russia) and cannot easily change this

Energy import dependency, 2020



Total energy supplied, 2019/2020



WB6' import dependency is structured differently and on average lower than EU's, but to change that is more complicated as room for manoeuvre is smaller, even more so where countries do not work together and rely on each other

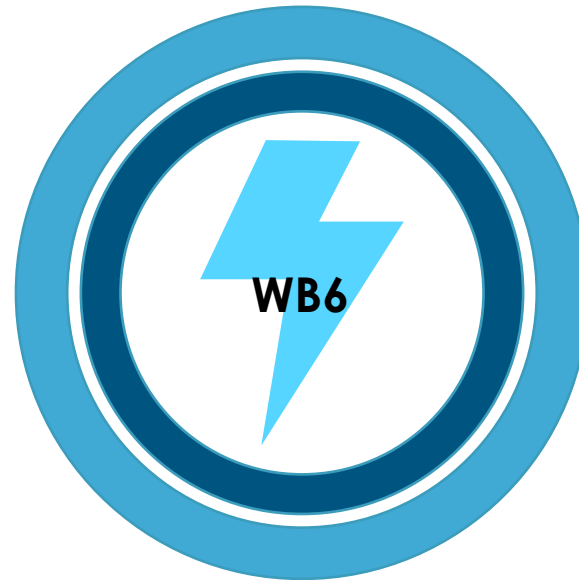
Energy crisis in WB6: What has concretely happened?

Net importing countries, Albania, North Macedonia, and Kosovo, are most **impacted by the high import prices**, whereas producers from net exporting countries, namely Bosnia and Herzegovina, reported high revenues.

Governmental support payments amounted to ~500M€ since the start of the crisis

Albania, Kosovo, and North Macedonia declared a state of emergency and decided on direct financial **support to consumers through the incumbent supply companies.**

The **costs of energy imports** in WB6 **increased by a factor ~3** since mid-2021, due to non-competitive procurement procedures more than for EU countries, but large-scale tariff increases were not observed.



Some of the most severely impacted incumbent suppliers are close to bankruptcy

Only Kosovo and North Macedonia have **increased the universal supply electricity tariffs slightly**. Serbia and Albania did this for larger consumers.

Poorly designed **balancing markets were abused** by energy suppliers, like in Kosovo, Albania, or North Macedonia.

Grid operators were also impacted, which implies that **network charges** are likely to **increase in the next tariff period.**

What have WB6 governments done to react?

Various WB6 countries took short-term measures and ad-hoc actions to react to price hikes:



Increased coal import and electricity production from it // phase-out was delayed by 4 years, suppliers abused the balancing system, tariffs were slightly increased in 2022, unregulated withdrawals from EU grid occurred, cold reserve was re-activated.



Formally “open” market supply prices were frozen, price increases for some customers as of 2022.

Banned crypto-mining, industrial production halted or left electricity bills unpaid, unregulated withdrawals from EU grid occurred, direct state subsidy provided, tariffs were increased as of 2022.



No action taken.



No measures taken, but grid tariffs expected to rise.

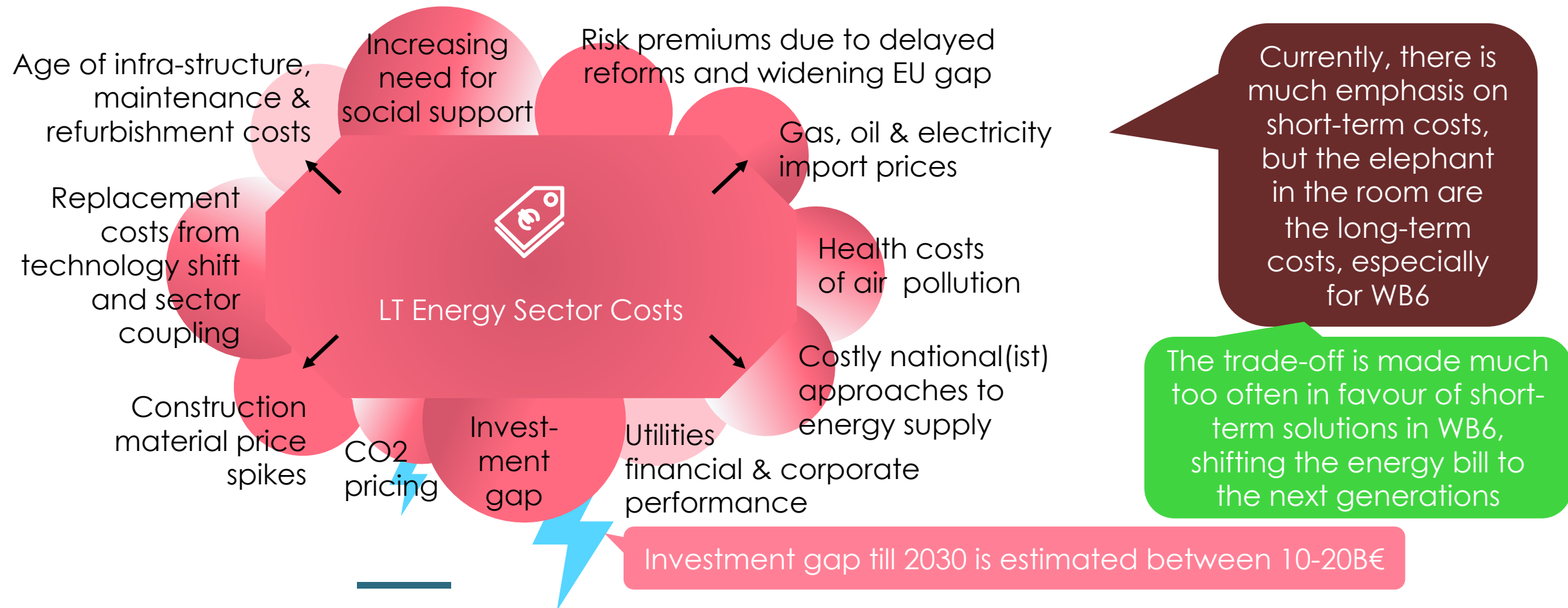
Procured a floating heavy-oil power plant to hedge against import prices, plan to revitalise a gas power plant, grid operator tariffs are expected to increase.



The reasons for current limitations in WB6 to respond to energy dependency and energy crisis are multifaceted

| | | |
|--|---|--|
| Under-developed national competitive markets | No automatic mechanisms to respond to price shocks | Lacking of cost-reflective tariff structures |
| No sector inherent capability to refinance price increases | Politically capped consumer prices | Hampered EU and regional market integration |
| Underinvestment & bleeding of infrastructure for decades | <u>REASONS FOR WB6'</u> <u>POOR ENERGY CRISIS RESILIENCE</u> | Strong & structural energy import dependency |
| Stretched state budget | Bad payment discipline & thick mesh of cross-subsidies | Short-termism of energy policy-making |
| Non-standard procurement practices | Lacking of flexible social support schemes | Energy utilities politically steered |

The situation is, however, getting worse in WB6 despite and because of ad-hoc measures due to failed reforms of the past



What can IFIs do?

Investment facilitation

Mission: work against LT sector cost increases though realising infrastructure investments in order to avoid a widening of the investment gap



Strategy: finance RES, grid, hydrogen/P-to-X, capacity building, market operation IT

Complementary action

Enabling renewables through grid operation and expansion

Allow for market-based ways to qualify investments as bankable

Promote local implementation and regulation capacity

Promote realising "early" investments in new technologies

Complementary policy

Dedicated & well-targeted social support schemes

Liberalisation, market opening and competitive structures

Faster market integration and more reliance on neighbours

Mitigate political risks and fight corruption to lower risk premium

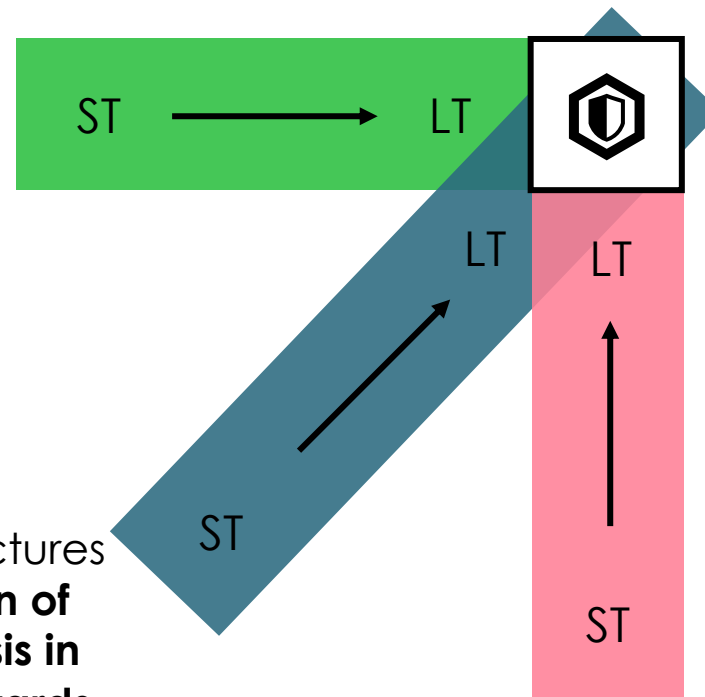


Energy transition will, by and large, promote energy crisis resilience, but the faster this happens and the more emphasis is put on complementary actions and policy, the better for WB6

What does that mean for WB6 energy crisis resilience?

Can do:
 institutional capacity, capable companies, legal & regulatory framework facilitate **through international cooperation to reverse brain drain and reform capacity for LT focussed reforms**

Want to:
 political will to create resilient structures **through LT thinking and pricing-in of opportunity costs, the current crisis in WB6 is a great chance to shift towards more LT decision-making**



Energy crisis resilience

A complex **joint WB6 and IFI undertaking**, especially where also in the we do not have all the answers yet

Can afford:
 sufficient endowment with finance and right perception of affordability **through closing the affordability gap and allowing for sector-internal refinancing**



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